

Dashed: the last hope for final salary pensions

The Government has denied companies a chance to slash their retirement scheme deficits. Simon Read reports

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Britain's gold-plated final-salary schemes received the last rites this week following a partial U-turn by the Government on the rate used to set contribution levels.

The Government had been expected to allow private-sector pension schemes to follow public-sector pensions in switching from the higher Retail Price Index (RPI) to the lower Consumer Price Index (CPI) measure of inflation. But instead of forcing schemes to make the switch, the Government has passed the buck to pension trustees.

A move to CPI would have saved companies £75bn at a stroke and could have proved crucial in dealing with the massive pension deficits many firms face. But two-thirds of private schemes specify RPI as the measure of inflation in their rules, and the Pensions minister, Steve Webb, clearly decided that the legislation needed to change that would be too complex.

He explained the partial U-turn by saying: "We do not believe Government should intervene to give pension schemes powers to change their rules if they do not already have such powers. We need to ensure that people can have confidence in their pensions."

But confidence in UK company pension schemes has long drained away, after years in which they were first closed to new members, then to existing members, and then shut down altogether.

This year alone has seen Aviva, Asda and Alliance Boots announce plans to axe their final-salary pension schemes. In the last 18 months there has been a massive move towards shutting down final-salary schemes: DSG International, Vodafone, Whitbread, IBM, Royal Mail, Morrisons, Trinity Mirror, Barclays and BP have all gone down that route.

One notable exception has been British Airways which, despite an estimated deficit in its two staff pension schemes of £3.7bn, earlier this year agreed a recovery plan with trustees committing the airline to maintaining annual contributions at their current level for up to 16 years, plus agreed annual increases in line with inflation. However that move was to ensure the deficit didn't hit the airline's planned merger with Spain's Iberia, which is now expected to go ahead in January.

Pension experts say the fact that many firms may be unable to switch from RPI to CPI will prove costly.

"Many schemes have RPI 'hard-wired' into their rules, and without the statutory override, which many in the industry were asking for, schemes will not be able to adopt this lower indexation standard except for the future," says pensions lawyer Jennie Kreser, partner at City law firm Silverman Sherliker.

"Any significant savings to help them mend the massive deficits they are facing will not be as great as they may have hoped. This might be what pushes them over the edge to cease accrual of benefits for members."