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GMB CONGRESS 100 PLYMOUTH 2017

# CEC Special Report on Pensions 2017

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# CEC Special Report: Pensions

## Background

It has been over 10 years since the last CEC Special Report on Pensions was passed at Congress 2001 followed by a CEC Statement in 2006. As can be imagined much has changed in the field of Pensions, Governments and legislation since that time. It is proposed that this short CEC Special Report on Pensions will update Congress on our policy, strategy and plans for the future of Pensions in the UK.

It is too early to foresee exactly how Brexit may affect the pension's landscape but we can be sure that employers will look to take advantage of any opportunity to further attack workplace pensions.

## Introduction

GMB is a driving force in pensions, consistently fighting to make sure our members get the best possible pensions both in their workplaces and from the state. The work done on pensions is driven by the GMB@Work ethos, arming our members with the know-how and confidence to fight for the pensions they want.

## Workplace Pensions

There is a continuing trend in Defined Benefit pension schemes towards closure and downgrading of benefits which grows every year.  Although the work of GMB and its sister trade unions has kept Defined Benefit pensions schemes open in the Public Sector, there has been less success in the private sector. At present less than 15% of Defined Benefit pension schemes are open to new starters and membership is down to less than 1.7 million workers in the private sector.

There are numerous reasons why Defined Benefit pension schemes are in demise. One of the biggest current issues is that the falling Gilt rate (caused by Quantitative Easing) which is eroding the discount rates of schemes. Discount rates are the rate that schemes expect assets to grow by, therefore determining how much money is needed now to pay pensions in the future. Falling discount rates are pushing up deficits and future service costs.

The permanent threat is the employer's willingness and ability to pay for a decent, secure retirement for their workers. GMB continues to see the prioritisation of shareholder greed over decent retirements of those who produce their profit.

The number of Defined Benefit pension schemes that are closed to future accrual continues to grow each year with around 35% of all schemes now completely shut. Not only are Defined Benefit pensions shut but we are seeing an increasing trend of employers wanting to shirk their responsibility in paying the pensions they have promised.

The advent of Automatic Enrolment has seen the number of workers brought in to workplace pensions continue to increase with over 11.6 million workers active in a workplace pension. Although this vast increase is a positive step GMB are seeing the average contribution to a scheme well below that which is required for a decent retirement, this is driven by employers using the legal minimum automatic enrolment rates. It is widely acknowledged across the pensions industry that to get a reasonable amount of pension to replace wages in retirement a 15% contribution to your pension between employee and employer would be required. The current average contribution into a Defined Contribution pension is 4%! This is clearly not enough to provide a decent retirement for GMB members. Although the contributions are set to rise within automatic enrolment this provides another challenge, to make sure we do not settle for the minimum contribution levels from employers.

Automatic Enrolment has eligibility criteria which GMB has consistently argued against. The eligibility criteria of earning over £10,000 and being aged 22, block the very people who automatic enrolment was designed to bring into workplace pensions.

## State Pension

Moving onto to the State Pension, in April 2016 significant changes to the state pension took place, with a move away from a two tier state pension system of Basic and State Second Pension (previously SERPS) to a single tier state pension. This change has caused unrest for a number of those close to state pension age due to the nature of how it was communicated by Government. This has led to large swathes of the population feeling hard done by due to poor communications especially Women. The change in itself should see people no worse off than before under the old system except the young, who would have been better off under the old system.

The Government have not done anything to deal with the continuing upset that is felt by the women who have had their pension age increased in 2011 without any communication and with short notice. In fact, despite exceptionally strong campaigning by the Labour and Trade Union movement, the government are adamant that the changes will be implemented regardless of the hardship they will cause.

A recent review of the State Pension Age by John Cridland has recommended the rise in the State Pension Age to 68 should be introduced earlier, between 2037 and 2039 and that there should be no further increases before 2047. Currently the increase in state pension age to 68 is due between 2044 and 2046. The report also suggests extensive range of end of career flexibilities in order to take into account the varying mortality rates in different regions, occupations and socio-economic classes. He does not believe the former should be introduced without the latter.

He notes the cost of the triple lock and suggests that the next government may consider scrapping in order to reduce its burden on GDP. The GMB remains of the view that age is an arbitrary determinant of life expectancy and locality, occupation and socio-economic status should also be taken into account when determining state pension age. On this basis we consider that the case for a further increase in the State Pension Age has not been made. GMB also considers the flexibilities suggested by the report are untested and that these should be introduced to assist the current rate of increases not just because those current increases are being accelerated again. The triple lock which is the method by which state pension is increased by either CPI, Average Earnings increases or 2.5% whichever is the greater, has been a very powerful tool in helping the state pension regain some of its lost value and we note that the Labour party has committed to retaining it throughout the next parliament if elected.

## Pension Pressures

There will continue to be pressure to reduce the value of pension provision and this will be exerted in many ways and the GMB will carry on its leading role of resisting. The pressure comes from Government and Employers seeing pensions merely as an expense that they would like to reduce.

We see growing pressures at every 3 yearly valuation of defined benefit pension schemes. Currently this is due to falling gilt rates which trustees have translated across into falling discount rates, pushing up deficits and future service costs. This increasing deficits and future service costs look to be another opportunity for employers to look to close valued defined benefit pensions schemes.

Another driver behind increasing costs within pension schemes is the amount of profit that is leaking out of workers' pension's pots into the City spivs pockets. Although every investor will charge an upfront fee for managing the investments of the schemes, there are a number of hidden costs investors charge schemes which they do not disclose and in most cases refuse to disclose upon request. Every £1 that is leaked from a worker's retirement into a fund manager's pinstriped pocket is a £1 too much and the employer has to make good this loss, putting extra pressure on schemes.

Defined Benefit pension schemes are affordable, that is not just GMB's conclusion but the current Tory Government's as well. However, the race to increase shareholder dividend each and every year see those employers who still have Defined Benefit pension schemes choosing shareholders over workers. GMB must fight this growing trend and make sure our members get a fair share of the profits they created.

The Pension Protection Fund (PPF) offers a great benefit to GMB members as lifeboat scheme for those whose employers become insolvent and the pension scheme is not fully funded. However, there is an increasing trend of employers wanting to pass their responsibility for workers' pensions on to the PPF. We must make sure that the PPF is not damaged or sunk by corporate greed.

Cuts to pension benefit used to be the sole domain of Defined Benefit pensions. However, we have seen the start of contribution rates in Defined Contribution schemes being reduced. Defined Contribution schemes have historically been less well funded and are much riskier for members than Defined Benefit pensions. The introduction of Automatic Enrolment and the minimum standard of pension has seen a lowering of employer's aspirations.
GMB needs to be at the forefront of improving Defined Contribution pensions which are now the most prevalent type of pension in the private sector. As we have done on pay issues we must never settle for minimum pensions for our members as we have never settled for minimum wage. We wish to see a rise in the minimum contribution levels in AE schemes, for contributions to be on all pay and a widening of access to include those earning less than £10,000 and those below 22.

Retirement with a Defined Contribution pension scheme is a complicated and expensive business. Annuity rates are cripplingly expensive leaving most people unwilling to purchase them. The rest of the Pension Freedoms now available leave GMB members guessing how much they need at different points of their retirement, resulting in most people overspending or underspending their retirement savings. The expensive options at retirement further emphasise the need for GMB members to fight for greater employment investment in their Defined Contribution pensions. It also requires that pressure is kept up on Government to continue to drive down costs and provide free guidance. It also dictates that we start to consider other ways that income could be provided to pensioners without the current level of corporate greed.

## Recommendations

GMB will continue to fight to protect our member's pension schemes. In addition we will:

### *Defined Benefit Pensions*

1. Continue to fight for the ongoing provision of Defined Benefit pension through workplace organisation

2. Work with GMB officers to identify trustees across the GMB, adding this identification to the membership system. Also, identifying and assisting GMB members to become trustees.

3. Support GMB trustees with training and guidance, to help them fulfil their role in questioning the expert advice given to them.

4. Work with our sister trade unions to highlight the transaction costs and the money leaking from pensions into the pockets of city spivs.

5. Argue for limitations on shareholder dividends until deficits are cleared and continue to highlight the prioritization of shareholders over workers' pensions.

6. Work with activists to remove the inequality within workplace pensions which have limited the survivor benefits of same sex couples.

### *Defined Contribution Pensions*

1. Launch an Auto-Enrolment campaign toolkit – we need to be at the forefront of shaping how auto-enrolment affects our members.

2. Map the pension schemes across GMB employers where we have recognition so we can develop plans for improvement

3. Continue to pressurise the Government for transparency in costs and the capping of corporate greed within Defined contribution pension schemes.

4. Continue support for the provision of free Government pension guidance.

5. Explore, where possible with our sister trade unions and the Labour Party the potential for new and innovative retirement products that could be provided by the state through National Savings and Investments that eradicate the corporate profit agenda.

### *State Pension*

1. Support the GMB Retired Members Association (RMA) in its work to defend the State Pension

2. Work with the Labour Party to make sure that state pension works for working people. This includes working to find innovative ways to combat the increasing State Pension Age for those in physically demanding occupations.

3. Work with the Labour Party to support the retention of the triple lock and the policy intention of making sure that state pension value is not eroded.

4. Assist Regions where needed in their work in supporting local WASPI groups to highlight the issue of the disproportionate impact that the 2011 State Pension Age increases had on women.

### *Education and Training*

1. Continue to offer activist pension training to every GMB Region

2. Continue to offer officer training to every GMB Region

3. Continue to deliver online training for pensions

4. Continue to keep GMB members updated with pension changes through regular communications and our website www.gmb.org.uk/pensions

5. Respond to Government consultations

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