FACT SERVICE

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Government green paper on pensions

It ain't broke, but we still might tinker with it, might be a rough summary of the government's green paper on the regulation of defined benefit (DB) pension schemes.

Security and sustainability in defined benefit pension schemes, partly inspired by such events as the BHS scandal, is a wide-ranging overview of DB pension law and regulation aimed at addressing the concerns registered in this field.

It concludes, however, that while the system may not be operating optimally in all areas, there is not a significant structural problem with the regulatory and legislative framework.

The government is not persuaded that there is a general "affordability" problem for the majority of employers running a DB scheme. Consequently, it does not agree that across the board action is needed to transfer more risk to members, or indeed to reduce members' benefits in order to relieve financial pressure on employers.

Moreover, it believes that DB pensions are hard promises which should be honoured where sponsoring employers are able to do so.

TUC general secretary Frances O'Grady said: "Working people need pension reforms that will improve their living standards in retirement. That means keeping good workplace schemes open and improving the quality of others. It's encouraging that the green paper concludes that defined benefit pension schemes are affordable.

"We now need to make sure that reforms deliver greater security in retirement for working people, and not just higher returns for shareholders."

On employers contribution and affordability, TUC pension policy officer Tim Sharp, writing on the Touchstone blog, says "much time will be spent arguing about inflation uprating of benefits". The door has been left open for a "statutory override" to facilitate schemes switching from the Retail Prices Index (RPI) measure of inflation to the Consumer Prices Index (CPI) measure. It has been estimated that the switch could save employers/deprive pensioners of £90 billion.

The Unite general union urged the government to rule out allowing companies to switch pension increases from the RPI to the CPI without pension scheme members' consent.

Unite general secretary Len McCluskey said: "Giving companies the green light to arbitrarily switch the uprating of pension payments ... without consent could effectively equate to legalised pension theft."

LABOUR RESEARCH DEPARTMENT
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The government is clear that it is not persuaded of across-the-board changes that would reduce members' benefits. These are debts that should be honoured, it says. And undermining this principle would undermine trust. But it is willing to look at arguments for allowing under-pressure employers to make cuts without member consent.

Sharp said: "Yet there is little discussion of what sort of member consent would be needed if you are taking away the need to seek the consent of each individual to make a change to accrued benefits. Would the member voice be lost altogether? And who else would pay a price for such a cut: equity holders, debt holders, management? After all pensions are deferred wages, and this amounts to asking workers (and former workers) to hand back some of their wages to bail out the company."

Given that one motivation for a pensions review was the scandal over the BHS pension scheme, the green paper looks at member protection. The government considers whether the regulator should take a more proactive role in scheme funding and be more explicit about the level of risk it is appropriate for a scheme to take. On the issue of corporate restructuring, it has been suggested that the regulator would be more effective if it had powers to act proactively in order to prevent certain corporate activities.

The government view is that a blanket requirement on parties to obtain clearance from the regulator ahead of any planned corporate actions would be disproportionate. However, it has considered the case for the regulator to have "a clearance regime in certain specified circumstances".

In looking at current information gathering powers, options for change include the creation of a duty, applicable to all parties responsible for a scheme, to co-operate with the Regulator, and providing the Regulator with a power to interview relevant parties supported by a sanction for non-compliance.

The final section of the green paper considers the issue of scheme consolidation. Most DB schemes are small, and the data suggests that small schemes have higher administrative costs, are unable to benefit from the economies of scale available to larger schemes, and tend to have less effective governance.

The section considers the arguments for and against the aggregation of smaller schemes into one or more consolidation vehicles in order to reduce costs, improve investment options and governance. A number of consolidation models and their pros and cons are considered, together with the question of whether a move to greater consolidation should be a voluntary or compulsory act.

The government favours the case for greater voluntary consolidation and "compulsory consolidation would not be a proportionate response".

But as Sharp queries: "When it comes to merging schemes, do we want the strongest schemes to merge, or the weakest ones?"

The government, for its part, sets out its stall against its own so-called Superfund.

www.gov.uk/government/uploads/system/uploads/attachment_data/file/592766/security-and-sustainability-in-defined-benefit-pension-schemes-print.pdf

www.tuc.org.uk/economic-issues/pensions-and-retirement/pensions-consultation-must-help-more-workers-access-good

http://touchstoneblog.org.uk/2017/02/dbgreenpaper/

www.unitetheunion.org/news/unite-warns-of-pension-theft-as-government-floats-final-salary-pension-changes/

A 'Stern diet' for fat cat directors' pay

A major rethink of corporate governance is needed to improve chief executive (CEO) pay transparency and ensure company boards recognise their broader responsibility towards the workforce when decisions on executive pay and business investment are made.

That's the message from the CIPD personnel and development institute's and High Pay Centre's joint response to the government's green paper on corporate governance, which seeks views on how to curb excessive CEO pay and boost the employees' voice at board level.

The joint response points out that if FTSE 100 CEO pay continues to increase at the same rate for the next 20 years as it has for the last two decades, the average ratio between CEO and average pay would increase from about 129:1 to more than 400:1.

The pair's response, which marks the start of a formal partnership between the CIPD and High Pay Centre to advocate fairer and more ethical approaches to pay and reward, recommends that publicly listed companies:

- should be required to publish the ratio between the pay of their CEO and median pay in their organisation;
- should be required to have at least one employee representative on their remuneration committee;
- should be required to establish a standalone hu-

man capital development sub-committee chaired by the HR director with the same standing as all board sub-committees.

In addition, the government should set voluntary human capital (workforce) reporting standards to encourage all publicly listed organisations to provide better information on how they invest in, lead and manage their workforce for the long-term.

Stefan Stern, director of the High Pay Centre, said: "We need to change the nature of the conversation on pay at the top if we want to bring about better outcomes. This can be done by introducing the mandatory publication of pay ratios, and by bringing employee representatives on to the remuneration committee.

"Voluntary measures and modest reforms have been tried, but have not been effective."

www.cipd.co.uk/about/media/press/170217-executive-pay

Employers – don't miss out on talent

A simple step-by-step guide to open recruitment has been published by the Department for Work and Pensions.

The guide is aimed at employers in reviewing your recruitment practices to make sure they're open and fair for all candidates, including those from disadvantaged groups – helping them reach the widest possible pool of talent. These include the long-term unemployed, ex-offenders, care leavers, recovering addicts, homeless people, single parents and military veterans.

Greater diversity of life experiences brings with it a stronger workforce and a distinct competitive edge, according to the guide, which was written in partnership with the charity Business in the Community.

The guide says that evidence from business suggests that people from disadvantaged groups can become some of the best employees. These are people who will have overcome their own personal challenges, so can bring fresh ideas and solutions to problems. Businesses report that employees from these groups go the extra mile to secure results, stay with their employer for longer, have a strong commitment to the organisation and lower rates of absenteeism.

The benefits of open recruitment include:

- resolving skill shortages;
- increasing staff retention;
- a reduction in staff absence; and
- an upskilling of the existing workforce.

Christopher Stacey, co-director of Unlock, a charity which helps people overcome the disadvantages caused by their criminal convictions, welcomed the new guide. "It's a much-needed resource for companies looking at how to strengthen their workforce by making sure they're not missing out on talent pool that exists among people with criminal records," he said.

"From here we encourage the government to not only ramp up its work in supporting employers to be more open by providing practical hands-on support, but also by directly challenging those companies that we know have unfair and discriminatory policies and procedures."

www.gov.uk/government/uploads/system/uploads/attachment_data/file/587263/see-potential-employer-guidance.pdf
www.unlock.org.uk/unlock-welcomes-new-official-open-recruitment-employer-guide/

Argos repays £2.4 million to 37,000 staff

Catalogue retailer Argos is to provide back pay to 37,000 current and former store employees after they were found to have been paid below the statutory National Living Wage rate prior to December 2016.

The affected employees will receive a back-dated payment on 28 February 2017 to cover the unpaid wages. The back pay amounts to approximately £64 per employee, totalling almost £2.4 million.

The underpayment was discovered during a routine HM Revenue and Customs (HMRC) investigation following Sainsbury's acquisition of Argos last year. The cause of the underpayment was found to be related to the timings of colleague briefings, which often occurred before an employee's shift started, and due to security searches, which could happen after an employee's shift had finished.

Argos has since introduced new processes to avoid a repeat of the issue. In addition, Argos has proposed to give most Argos store staff a 2% pay increase, and increase the basic rate of pay for some staff aged over 25-years-old from £7.20 an hour to £7.66 an hour.

www.employeebenefits.co.uk/issues/february-online-2017/argos-back-37000-underpaid-staff/

Economic growth revised upwards

The UK economy performed better than previously thought at the end of 2016.

The second official estimate for growth in gross domestic product (GDP) puts growth at 0.7%, rather than 0.6% in the final quarter of 2016 compared with the previous quarter.

Darren Morgan, a spokesperson for the Office for National Statistics (ONS), said: "The economy grew slightly more in the last three months of 2016 than previously thought, mainly due to a stronger performance from manufacturing.

"Overall, the dominant services sector continued to grow steadily, due in part to continued growth in consumer spending, although retail showed some signs of weakness in the last couple of months of 2016, which has continued into January 2017."

In the final quarter of 2016, manufacturing output expanded by 1.2%, not the 0.7% previously thought. However, the main reason for the large revision upwards was the late arrival of information.

Despite the increase in manufacturing, production output was only posted quarter-on-quarter growth of 0.2% as there was a 7.0% contraction in oil and gas and mining.

Service sector growth was unchanged on the previous estimate of 0.8%.

The economy grew by 2.0% in the final quarter of 2016 compared with the same quarter a year earlier.

Nevertheless, the ONS has downgraded annual growth in GDP. It now says that last year the economy grew by 1.8% compared with previous year, a revision down from the previous 2.0% estimate.

www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/secondestimateofgdp/quarter4octtodec2016

Work fears of disabled people revealed

Disabled people fear losing their jobs and hide impairments to stay in work, according to the charity Scope.

Almost three out of five (58%) of disabled people feel at risk of losing their jobs and one in two (53%) have experienced bullying or harassment at work because of their impairments, according to new research by disability charity Scope.

The survey results were released just ahead of the closing date of the government consultation on work, health and disability, and highlight the issues disabled people face in work and the risks they face falling out of work.

The research also found that: one in five (21%) go as far as hiding their disability from employers; one in eight disabled people (13%) have been overlooked for a promotion; and one in four (24%) say their current employer is not supportive of their disability.

The government has made a commitment to halving the disability employment gap. Yet the employment gap between disabled people and the public has remained static at nearly 30 percentage points for the past decade.

www.scope.org.uk/About-Us/Media/Press-releases/February-2017/Disabled-people-fear-losing-their-jobs-and-hide-im

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