Written evidence submitted by Arnold Hay to the Pension Schemes Public Bill Committee (PSB64)

1 The relevance to me

1.1
I have a defined benefit (DB) pension that is the main part of my pension, apart from the state pension. I retired 20 years ago. My pension is now worth 56% of its value at retirement allowing for inflation.

1.2
I believe one of the main provisions of the bill for DB schemes (to allow well-funded DB pension schemes to share surplus funds with sponsoring employers) will make it even more unlikely that the current sponsoring employer of my pension will protect my pension from inflation. There should be a balancing clause in the bill that requires the employer to provide discretionary increases before surplus funds are taken out.

2 The pension I was promised

2.1
I worked for Digital Equipment Corporation (DEC) from 1978 to 1992. The DB pension scheme was regarded as very good. Although annual increases were discretionary, the company made it clear the intention was to provide regular increases to protect the value of the pension. DEC was a highly ethical company, and employees were confident their retirement income would be safe.

2.2
Until 2002 the discretionary increases awarded closely tracked inflation. I have included 2 documents that illustrate both the intention to provide increases (Appendices 1 and 2), and the increases that were actually paid (Appendix 3).

3 What happened in 2002

3.1
In 2002 Hewlett Packard Enterprise (HPE) became the sponsoring employer, and the regular increases stopped abruptly. Since 2002 HPE has awarded 3 discretionary increases, in 2004 (1%), 2008 (1%) and 2022 (3%). Inflation has increased by 86% between 2002 and 2025.

4 Why has my pension been eroded?

4.1
Prior to 1997 there was no statutory requirement to provide any indexation for DB pensions. If the pension scheme mentioned discretionary increases, they were paid if and when the employer wished to do so.

4.2
To the best of my knowledge, most UK employers have supported their pre-1997 employees by

paying reasonable discretionary increases. HPE and some other companies have chosen not to do so.

4.3
The Trustees of the DEC scheme have been sympathetic to the plight of these pre-97 pensioners, but they have no power to require HPE to do anything. The DEC scheme rules require the sponsoring employer to **consider** awarding a discretionary increase. Apart from the minimal 1%, 1%, 3% awards over the last 23 years, every year the company has announced that it has **considered** making a discretionary increase, but has chosen not to do so.

5 Why the Pension Schemes Bill needs amending

5.1
Some DEC pensioners who had every expectation of a comfortable retirement income are now living in poverty.

5.2
It is clear that they will continue to see their pensions being eroded further unless there is something in the Pension Schemes Bill that makes it more difficult for an employer like HPE to continue ignoring their plight.

5.3
The bill allows sponsoring employers to share surplus pension scheme funds. Arguably this is a positive disincentive for a company to make discretionary increases. It would be fairer to pensioners if the bill actually incentivised companies to award discretionary increases when economic conditions permitted.

5.4
At a minimum, the bill should include a requirement that for those schemes which only provide discretionary increases, the employer should award a discretionary increase before withdrawing surplus funds.

5.5
Preferably, the sponsoring employer should take account of what was promised to employees, and to the past history of pension increases.

6 Appendix 1 – Intention of the DEC pension plan

This extract from the DEC pension plan brochure stated that the Trustees' objective was to protect members against inflation. Unfortunately the scheme rules do not have any provision to allow the Trustees to do this if the employer does not wish it. This was never a problem until HPE became the sponsoring employer. The history of discretionary increases shown in Appendix 3 illustrates this.

Looking after the Digital Plan

The *Plan* from which benefits are paid derives its income from three sources: contributions from employees, Digital contributions and then earnings on investments. All these assets are held under Trust and are entirely separate from the finances of the Company.

The Trustees
Trustees are responsible for managing and administering the *Plan*. They meet from time to time to consider the investment of assets, the payment of benefits, the exercise of any discretion relating to the payment of death benefits and the management and administration of the Fund.

The investment objective of the Trustees is to protect and enhance the assets of the Fund in real terms, for the long-term benefit of the members.

The Trustees use the services of auditors, investment managers, legal advisers, benefit specialists and an independent actuary. The actuary places a value on the *Plan's* liability to pay benefits and advises on how these can best be met.

7 Appendix 2 – Funding for increases when calculating transfer out values

While DEC was the sponsoring employer, the funding of the plan included an allowance for discretionary increases. The following is an extract from a quote I received in 1995 for a transfer out from the DEC pension plan. It shows that there was an assumption that the plan would be funding discretionary increases long term. In practice, increases actually awarded were much greater than the funding level.

SUMMARY OF THE ASSUMPTIONS ADOPTED IN CALCULATING TRANSFER VALUES FROM THE DIGITAL PENSION PLAN

A Calculation Basis

Transfer values under the Plan are calculated using the assumptions set out below:

a	Interest – initial	Yield on 20 year high coupon Government Stock rounded up to the higher 1.0%. In all cases the yield to be used is that prevailing on the last working day of the month preceding the date of calculation.
	Interest – reinvestment	Tending towards 9% pa from the initial rate by 1/2% steps.
	Rate of interest underlying annuity at retirement	The overall rate of interest assumed in deferment allowing for reinvestment of income.
b	Revaluation of preserved benefits	Fixed rate revaluation on the GMP element at 7% pa. For leaver prior to 6 April 1988 this is 8.5% pa for leavers between 6 April 1988 and 5 April 1993 this is 7.5% pa. Statutory revaluation has been valued on non–GMP benefits at an assumed rate of 5% pa. For leavers prior to 1 January 1986 this is nil and for leavers between 1 January 1986 and 31 December 1990 this only applies to the non–GMP benefits accrued after 1 January 1985.
c	Increases to pensions in payment	Nil on the pre–88 GMP 3% on the post–88 GMP Non–GMP – discretionary pension increases in line with 50% of the increase in the Retail Prices Index (RPI). These discretionary pension increases are assumed to be 2.5% pa in the long term.
d	Retirement age	Members who left service before 1 July 1988 have been assumed to retire at age 65 for males and 60 for females. Members who have left service on or after 1 July 1988 have been assumed to retire at age 60 without reduction, subject to the comment in B(2) below.

8 Appendix 3 – Actual discretionary increases

8.1
This extract from an early retirement quote in 2004 shows the discretionary increases that had been awarded in the 10 years prior to HPE acquiring the company in 2002.

8.2
These discretionary increases from January 1990 to April 2001 totalled **42%.** Over the same period RPI inflation increased by a similar amount (**45%).**

8.3
From 2002 to 2025 when HPE was the sponsoring employer, discretionary increases totalled **5%**. CPI inflation increased by **86%** over the same 22 year period.

8.4
DEC did what was promised, HPE has ignored what had been promised.

Pension Increases (cont)

Your pension accrued before 5th April 1997, over and above any GMP, is reviewed annually and the Company has regularly been able to grant additional discretionary increases in the past. Details of the discretionary increases awarded over recent years are as follows:-

April 2001	1.5%	April 1994	1.25%
April 2000	2.0%	April 1993	1.7%
February 1999	4.0%	April 1992	4.1%
July 1997	2.5%	April 1991	10.0%
January 1996	3.0%	January 1990	5.8%

In accordance with current legislation, all of your pension earned after 5th April 1997 will increase each year by the annual increase in the Retail Prices Index (RPI), up toa maximum of 5% a year.

The Five Year Guarantee

The Plan will provide a lump sum if you die within 5 years after you start drawing your pension. This lump sum will be equal to the balance of outstanding pension payments due to the end of your first 5 years in retirement, less any pension payments for your spouse to the end of that period. For instance, if you died 2 years after retiring, you would have received 24 pension payments, leaving 36 instalments due to the end of the 5 year period. The lump sum would be equal to 36 instalments of your pension at the rate it was being paid on the date of your death, less 36 instalments of your spouse's pension.

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