

Chairman's Annual Report for 2004

By the time you read this newsletter, you should have received a belated "PensionUpdate" from the Company. It contains a summary of the RO fund's financial report for 2003, which shows that by 31.12.2003 the value of the fund had risen to £693m. As usual the report paints a rosy picture of affairs, but it does not indicate that this level of funding still represents a £48m. deficit based on the 31.12.2001 actuarial review. 2004 has of course seen continued improvements in financial markets, but I anticipate that the Actuary will report another deficit when the results of his triennial review for 31.12.2004 are available in the summer. In saying this I do not wish to generate any anxiety about the security of your pension, I simply want to give a more realistic picture than that conveyed by the PensionUpdate.

You may recall that in July I wrote a letter to the company, trades unions and the trustees challenging them to address our grievances on consultation and the level of pensioner representation on the Trustee Board. The recent establishment of the Joint Pensioners Consultative Committee will provide us with a forum for raising our concerns but little progress has been made on the pensioner trustee issue. I have however recently met the lead non-industrial TU national officer and we are considering holding meetings involving TU national officers, TU nominated trustees and ROPA representatives.

2004 has been a busy year for ROPA's representatives. Bernard Potter has continued to represent us on the All Party Parliamentary Group on Pensioner Incomes and to liaise with other groups pursuing an increased standard of living for pensioners generally. In addition he organises the North West of England meetings for the Occupational Pensioners Alliance (OPA). Gordon Williams represents us at both OPA and the Independent Pensions Research Group (IPRG) and has established a number of valuable contacts (valuable in the sense that they give free expert advice). Norman Cowdrey has re-arranged our banking arrangements and Frank Spencer has

maintained our membership records. Frank Spencer, Rod Rawson and I have attended meetings of the Company's newly formed Pensioner Consultative Committee. I personally have taken up the job of pensioner trustee and, after 10 months, I am beginning to understand the workings of the Trustee Board better.

What is an actuarial review?

By law, occupational pension schemes must conduct a full independent actuarial review at least every three years. The actuary's main task is to assess whether the scheme is in deficit, or

surplus, and to determine how much needs to be contributed into the scheme over the next three years. A 'Contribution Rate' is then calculated, expressed as a percentage of the total payroll cost. This is usually shared between the Employer, and the Employee members. Currently the Contribution Rate for our scheme amounts to 25% in total, split 20/5 between

employer and employee.

The two main elements of the review are the valuation of the assets and the liabilities. The assets comprise various investments in shares, bonds, and property. Although the requirement of the Financial Reporting Standard 17 (FRS17) is to use market value at the date of the review, actuaries take a longer term view, taking into account likely changes in the stock markets and investment returns (dividends etc.). Assessing the liabilities is much more complex, and has to take into account many factors, including: life expectancy of individual members; forecasting future price inflation, increases in pensions, and increases in employee earnings. Estimates of life expectancy, for example have been increasing steadily over many years, but this has only very recently been taken into account, and updated tables used. One technical point, which we have made, thanks to the kind of expert advice referred to earlier, concerns the method of calculating the rate of contributions. Basically there is a deferred payment method, with ever increasing rates in years to come, and a standard rate method, that involves a higher rate now but no increases in the

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future. Contributors (the employer and employees) tend to go for the deferred method but when the scheme closes to new members (as ours has) the experts recommend a change to the standard rate method. The RO actuary has indicated a preference for the deferred method to be continued but, following our representations, has agreed to produce a schedule showing the difference in rates between the two methods both now and in years to come. We would prefer payment up front but expect the Company and employees to vote otherwise. No doubt they will say that a blue chip company like BAe can be relied upon to make good any future shortfall.

Joint Pensioner Consultative Committee

The Committee has now finalised its constitution and we shall use it to raise issues of concern to us. The 25 BAe Main Scheme and 2000 Plan representatives heavily outnumber us but, thanks to Frank Spencer's efforts on the constitution sub-committee, it was agreed that the Chairmanship would rotate between the three groups of representatives every three years. There are to be four meetings per year.

The Pensions Act 2004

You will note that the Bill has been enacted, although many of the provisions will not be enforced for some considerable time yet. These include the beneficial amendments prompted by the Occupational Pensioners' Alliance (to which ROPA is affiliated), such as the regulations concerning procedures to be followed in the election of Member Nominated Trustees, and the requirement for there to be 50% MNTs on Trustee Boards. Technically of course, the Royal Ordnance Scheme already has a 50:50 split of Company and Member Trustees, but the process of election may not comply with the Code of Practice to be issued. Pensioner Associations that fulfill certain criteria will have a part to play in the new set-up. Other important aspects of the Act are: the new Pensions Regulator; the Pension Protection Fund; new Wind-up Regulations; Scheme Specific fund actuarial valuation; and Transfer of Undertakings Protection of Employment (TUPE) measures. These are issues that affect us all. OPA and ROPA have built up quite a detailed knowledge of the Act, and are also prepared to put questions to the Company on matters of concern. Anyone with a particular question, please send it to our Secretary. If we do not have the answer 'in-house', we will seek to obtain it elsewhere.

Local Groups

Local groups are a useful way of keeping in touch with old colleagues, and providing interesting ways of spending your time. Several groups met for their annual Christmas Lunch,

including Radway Green, when 26 members of ROPA enjoyed a splendid lunch provided by a local college. Meeting some almost forgotten faces gave almost as much pleasure as the lunch. These groups are regarded as being very important to the well being of members of ROPA, which is why we provide funding for the initial costs of setting up of local groups. For details contact the Secretary.

All Party Parliamentary Groups (APPGs)

Further meetings of the APPG on Pensioner Incomes have held been since our last newsletter, dealing with two further subjects, "How do we pay for an improved State Pension", and "The Interaction between State, Occupational and Private Schemes". On the first of these, after speakers from the TUC, Age Concern, and the Institute of Actuaries had given their views, a consensus was reached that either higher taxation, working for longer, higher contributions by individuals, or a combination of all three would be required, although starting to save at an earlier age is also important. The conclusion of the latest meeting, in December, was that a basic state pension is necessary, with the addition of either a voluntary contributory element, or a contributory pension scheme, or private pension to provide the balance needed to ensure an adequate income in old age. Compulsory saving was discussed, strongly supported by the TUC, and opposed by employer's organisations.

Links

Our most productive 'link' currently is the Occupational Pensioners' Alliance (OPA), which now represents over a million occupational pensioners in 37 different associations throughout the country. (See: www.opalliance.org.uk) OPA has achieved Parliamentary and National recognition this year mainly through its persistent lobbying of specific MPs and Lords, who it has persuaded to put forward amendments to the Pension Bill (now the Pensions Act 2004) during its passage through the Commons and the Lords. Specifically, its achievements include:

- The number of Member Nominated Trustees will be raised from 33% to 50%.
- Pensioner members will have a role to play in the selection and nomination processes. (The first draft of the clauses could have meant that pensioners were excluded).
- Organisations (that fulfil certain criteria) representing pensioner members will be recognised officially for the first time.

It is extremely unlikely that any of these could have been achieved if we had all been

lobbying separately. The government is more influenced by a block of a million votes rather than a few here and there. OPA has also been busy making responses to the interim report of the Commission on Pensions and Long-term Savings (the Turner report) and also the interim Morris Review of the Actuarial Profession. The latter in particular has taken some of OPA's criticisms on board. OPA also intends producing an occupational pensioners' manifesto for the coming general election.

Regional OPA meetings continue to be held in the South East and the North West, and both groups recently featured a talk by Louise Inward, a lawyer by discipline, who is helping to determine policy at the new Pensions Regulator's office. Anyone wishing to attend a regional meeting should contact Bernard Potter for details.

The Independent Pensions Research Group has also made very detailed and authoritative submissions to both the Pensions Commission and the Morris Review.

The North West Pensioners' Association, to which ROPA is affiliated, continues to be active in lobbying on a wide range of subjects of concern to pensioners in general, and ROPA has agreed to support the Pensioners' Manifesto, a national initiative, which lists specific areas for improvement. These include: pensions, health and care, transport and mobility, neighbourhood and community and active citizenship. In total, it represents a 'wish list' that any government would find difficult to fund, but includes several

key items, such as restoring the link in increases in the State Pension to average earnings, that we would all support.

ROPA Membership

An annual subscription of £5 is now due for 2005. Would you please send your payment and the tear-off renewal application attached to our Treasurer, at the address shown. Membership of ROPA is seen by your Council as being extremely important, and we urge you to persuade any ex-colleagues you are in contact with to join.

ROPA is committed to protect our scheme benefits, seek improvements when possible and to making our views known at Company and Government level.

Annual General Meeting

This year's meeting will be held at the Radway Green Sports and Social Club, Alsager, at 11.00am on Wednesday 6th April 2005. Anyone wishing to attend should complete the tear off slip below and send it to the address shown, before 28th February 2005.

The Agenda, and directions to the venue will be issued in March. Members are reminded that formal motions to be proposed at the meeting must be submitted to the Secretary by 1st March 2005, signed by the Proposer and Seconder.

Brian Johnson

Bernard Potter

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Annual General Meeting

I would like to attend the meeting at Alsager on 6th April 2005.

Name.....
Address.....
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Please return to Mr. N. Cowdrey, ROPA Treasurer, 13 Burns Drive, Crewe, CW1 5JP.

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Subscription Payment for 2005

I enclose a PO / Cheque for £5 (payable to ROPA).

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I am happy to receive future reports (in pdf) from ROPA by E-mail. My E-mail address is -
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