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3 March 2009

Private and Confidential
Rt Hon Alastair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horseguards Road
London
SW1A 2HQ

Dear Chancellor

Recommendations from Hundred Group Pensions Committee.

I am writing to you on behalf of the Pensions Committee of the Hundred Group. This follows detailed consideration we have given to ways in which we feel that Government action in the pensions field could, in our view and in the current climate, be of material assistance to our Companies' financial positions.

Hundred Group Companies probably constitute some 40% of the market value of UK quoted companies and roughly the same percentage of the UK labour force. As such the effects of the present economic situation on us have a significant effect on the overall UK economic situation and thus we felt it important to consider whether there were any measures in the pensions field which could materially assist us.

With this in mind I am attaching a schedule which sets out our views. This is intended to pinpoint those areas where we feel that Government action could be of significant benefit to us.

As our suggestions straddle other Government Departments I am taking the liberty of sending a copy of this letter to the Secretary of State for Work and Pensions and secondly to Lord Mandelson.

We would be only too pleased to discuss our suggestions with you and your Officials and to provide further information supporting these suggestions if this would be of assistance.

We look forward to hearing from you.

E L S Weiss
Chairman, Pensions Committee.

The Hundred Group
of Finance Directors

Possible Representations to the Government on Pensions Issues

1. Encourage the Pensions Regulator to introduce further flexibility to recovery plans

Under current legislation, underfunded pension schemes are required to put in place a recovery plan setting out the contributions that will be made by the corporate sponsor to restore full funding. At present, the Pensions Regulator's statement on how it will regulate the funding of pension schemes indicates that a scheme will 'trigger' further investigation where the recovery period exceeds ten years or is significantly back-end loaded. In recent statements, the Pensions Regulator has indicated that it will retain this ten year trigger, but accepts that recovery plans may have to lengthen in the current economic climate.

Whilst the Hundred Group welcomes the pragmatic attitude of the Pensions Regulator, it believes that the Pensions Regulator could do more to recognise the very difficult situation in which pension schemes currently find themselves. In particular, extending the trigger on a temporary basis from ten to fifteen or twenty years would send a strong signal that the Pensions Regulator is aware of the extreme difficulties being faced by pension schemes. A further statement from the Regulator accepting that contribution holidays may now be acceptable to deal with short-term cash constraints would also be helpful. Any such concessions could be removed once the current financial situation has eased.

2. Consider reducing the level of PPF compensation

As corporate insolvencies rise, the cost of the PPF levy payable by surviving pension sponsors is likely to rise considerably. The Hundred Group urges the Government to consider whether the current level of PPF compensation remains affordable.

The Pensions Act 2004 gave the Board of the PPF the power to reduce increases to PPF compensation in both deferment and payment and also gave the Secretary of State the power to reduce the absolute percentage of compensation. Clearly these are not powers to be used lightly. However, the Hundred Group believes that current financial circumstances are sufficiently extreme for the use of these powers to be at least considered.

3. Consider providing temporary funding to the PPF

Under the current model, the PPF levy is bound to rise due to corporate insolvencies at precisely the time when companies are least able to afford it. The Government should therefore consider measures to reduce the impact of increased insolvencies on the levy.

The Hundred Group understands that the Government is reluctant to provide a permanent guarantee to the PPF. However, it would recommend that the Government instead give serious consideration to providing temporary supplementary funding to the PPF.

Under such a model, levy payers could continue to pay an affordable levy (for example, a levy based on the cost of providing compensation at a level of 70% of scheme pensions) whilst the Government would make up the difference between the affordable levy and the full economic levy. Such a measure could be put in place on a temporary basis only (for example for a period of five years) and would therefore be preferable from the perspective of Government to providing a permanent guarantee.

4. Increase tax relief on employer contributions

The Hundred Group believes that serious consideration should be given to increasing the rate of corporation tax relief on company contributions to pension schemes, at least on a temporary basis. This is a measure that should also benefit pension schemes (by encouraging companies to pay higher contributions sooner). This would be analogous to the decision to reduce the rate of VAT on a temporary basis and would fit well in the current package of fiscal stimulus measures.

5. Restore ACT relief

The Government will be well aware that the decision to remove ACT relief has been a considerable bone of contention over the last ten years. The Hundred Group would like to remind the Government that the relief was removed at a time when pension schemes were often in surplus, and where surpluses above a certain level were liable to fiscal penalties, and therefore the burden on pension schemes was not initially perceived as being too serious. Since then, the burden on pension schemes has increased progressively, so that the absence of ACT relief is now perceived as a massive cost on pension schemes and their sponsoring employers.

The Hundred Group would recommend that, just as the Government removed the relief at a time when schemes were in a relatively strong position, it should restore the relief in times of unprecedented difficulty for pension schemes.

6. Ensure the provision of adequate gilts

Pension schemes may have difficulty in finding gilts of sufficient quantity and quality to provide a match to their liabilities in order to pursue the most appropriate investment strategy for their pension scheme. The Hundred Group would encourage the Debt Management Office to consider issuing more gilts, including reconsidering issuing longevity instruments.

However, the Hundred Group also believes that the DMO could take effective steps to assist pension schemes without necessarily increasing the quantum of its debt issuance. For example, it could increase the proportion of longer-dated bonds it issues and/or increase the proportion of index-linked gilts. This would not affect the overall amount of gilt issuance, but would ensure that the shape of the debt fits more closely with the likely needs of pension schemes.

7. Consider removing the requirement for mandatory indexation

The Hundred Group notes that the UK is unique in providing compulsory inflation protection on defined benefits in both deferment and payment and recommends that the Government reconsiders its decision to retain mandatory indexation of pension benefits. Being able to withhold pension increases at times of particular economic difficulty could be a very valuable safety valve.

8. Address the unlevel playing field between public and private sector schemes

The Hundred Group remains concerned at the continuing disparity between pension provision in the private and public sectors. It is inappropriate for Government to continue to provide pensions in the public sector at current levels, whilst private sector schemes are struggling to survive.

9. Consider easing the restrictions on the refund of surplus to the employer

The Hundred Group has lobbied for several years for the rules on the refund of surplus to be relaxed. Such a move would encourage employers to make immediate contributions to their pension schemes, secure in the knowledge that, if these contributions led to over-funding when normal financial conditions are restored, these excess contributions may be refunded to the employer. The Hundred Group believes that now is an appropriate time to consider such a move in conjunction with the other measures which have been suggested above.