



Pension Review

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A NEWSLETTER FROM AND FOR REUTERS PENSIONERS AND CONTRIBUTING STAFF

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- Pensions Advisory Service
- Pensions Regulator
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●Reuters, Scrooge-like, stands alone among the blue chips

REUTERS stands alone in splendid isolation, according to separate research by the Pension Review Group and the British Government Actuary, in not giving inflation-related increases to its pensioners for service before 1997.

Eighty FTSE 100 companies have responded to our survey. Eight have told us that they have no final salary schemes and five have declined to give information although, according to their annual reports, they fund their pension schemes on the basis that pensions rise broadly in line with inflation. All others, apart from Reuters, are providing increases.

Our pensions have lost 10.7 per cent of their value over the past four years and we face a depressing future of living on fixed incomes while prices rise and our retirement income stagnates with ever-decreasing purchasing power.

We continue to seek, thus far in vain, some sign that the Company will do the decent thing and make up the shortfall.



We have been exchanging correspondence with the Company - first Chairman Sir Christopher Hogg and now his successor Niall FitzGerald - about this for more than two years. We had hoped it would be a constructive dialogue leading to a resolution of all problems.

The only concession so far from the Company is an acceptance that the RPF is a defined benefit pension scheme and that Reuters is responsible for the past service deficit, which it says reached £115 million in December 2004. That is reassuring, although most of us assumed that this was the Company's obligation all along.

... continued on page 2

Pension Review is produced by the Pension Review Group of former employees of Reuters who are concerned about the performance and value of their pension fund.

Continued from page 1

The major outstanding issue is the restoration of annual increases in line with the Company's previous practice and the practice of other FTSE 100 companies.

Rather than continuing to exchange yet more letters, we have asked FitzGerald for a meeting with those responsible for the decision to stop annual pension increases. Our aim is the restoration of such increases for both RPF and SPS members.

We are also planning to submit a resolution to the Company's next AGM on April 27, 2006.

●PRG writes (again) to Reuters Chairman

Following are excerpts from a letter sent by the Pension Review Group over the signature of our Chairman John Freeman to Niall FitzGerald, Chairman of Reuters, on November 8:

“We are concerned that the reply you gave at the AGM to the question about pension increase practice among FTSE 100 companies was based on an informal, internal survey carried out by a firm of consultants in respect of their own clients and related solely to discretionary increases. At Reuters we have always been expected to check our sources and accuracy and to report factually and objectively...

“So that we, the shareholders and the Board can properly assess the value of this survey could you please ask Hewitts, the consultants who conducted it, to present a written report identifying the companies covered by the survey, the provision for increases in the Rules of their respective schemes and the increases awarded in each of the last five years.

[FitzGerald said at this year's Reuters AGM:
“Without wishing to swap statistics on the subject, there is a Hewitt study just about to come out (it has not yet been published) showing that more than half of the FTSE 100 companies are not currently giving increases to pensions in course of payment. I do not

say whether this is good or bad. Moreover, one has to be careful of these comparisons because it is not always apples and apples; some funds are defined benefit, some defined contributions, some hybrids, some a mixture of different kinds of funds.”]

RPF and SPS are both contracted-out final salary schemes so there is no point in comparing them against other types of plan. The results of our survey of FTSE 100 companies, in respect of final salary plans, whether closed to new members or still open - given on our website www.reuterspensioners.org.uk - show that Reuters is the only company not providing inflation-related increases for its pensioners in respect of pre-1997 service.

“It is disingenuous to make a distinction between discretionary and non-discretionary increases because at the end of the day it comes down to whether increases are given or not given and the commitment of the sponsoring Company to its pension plan,” we told FitzGerald.

1970s precedent

In a previous letter, FitzGerald laid the responsibility for pension increases with the Trustees and Managing Committees of RPF/SPS. But in the 1970s and 1980s, when inflation was running at very high levels, the Company provided the financial backing to ensure that increases in retirement could continue to be provided for pensioners. This precedent ensured that up until four years ago all pensions in payment had been increased in line with inflation for all pensioners since retirement date, a practice consistent with other FTSE 100 companies.

We reminded FitzGerald that in June the British Government Actuary's Department published its latest survey of UK occupational pension schemes. It is an extensive survey covering all aspects of pension provision. Questionnaires were sent to a randomly selected sample of more than 900 private-sector schemes drawn from the Pension Schemes Registry. The responses received covered 72 per cent of the membership of all schemes in the UK.

“In Section 4 of the Survey which covers the provision of pension increases, the results show,

and we quote,

'97 per cent of pensions in payment which accrued before April 1997 in excess of guaranteed minimum pensions received some increase in 2004.'

The weighted average was 2.8 per cent. The survey can be viewed and downloaded at www.gad.gov.uk

Factual, accurate, objective

"So we have our own survey of FTSE 100 companies which shows that all companies that have responded are providing increases for pre-1997 pensions and the GAD's survey which shows that 97 per cent of all schemes surveyed, covering 72 per cent of all UK pensioners in final salary schemes, provided increases in 2004. We offer this to you and the Board as a factual, accurate and objective view of practice in the UK to replace the internal, informal survey conducted by Hewitts where no published information is available for scrutiny."

Current members of RPF/SPS have been accruing pension since April 1997 with guaranteed increases in retirement of inflation up to five per cent per annum (reduced to 2.5 per cent per annum from April 1, 2005) without any extra contributions being paid. This has been achieved through past service surpluses subsidising future service pension costs.

"The RPF actuarial valuations of 1995 and 1998 carried explicit reserves for inflationary increases in retirement on all pension payments. The valuation of 2001 showed the reserve for discretionary increases on pre-1997 pensions as £94 million. We have been told that the latest valuation for 2004 shows a past service deficit of £115 million. The fact of the matter is that current pensioners have taken the hit for the deterioration in the funding position both in RPF and SPS. First and immediately, pension increases have stopped and secondly and affecting the longer term, the reserves held for pension increases have been used to shore up other areas of pension provision."

The September year-on-year inflation rate was published recently showing an increase of 2.7 per cent in the UK Retail Prices Index, which is the measure used for State and occupational pension

increases. This means inflation has risen by 10.7 per cent in the four years since RPF/SPS pensioners last received a discretionary increase.

FitzGerald told us in his previous letter that many pensioners will be receiving some increase on post-1997 pension accrual or GMP included in their RPF/SPS pension.

Inequitable treatment

This clearly depends on individual circumstances and in the majority of cases will have only a marginal effect. Many members worked abroad for a large part of their career or are overseas locals and will have no GMP. And post-1997 pension is only gradually beginning to have an impact and in any event is part of the inequitable treatment that exists between pre- and post-1997 pensioners. GMP only comes into play at State Pension Age (65 for men, 60 for women) and, therefore, does not help early retirement pensioners, who form the vast majority of retirees. Also, due to the quirkiness of the revaluation rules on GMPs it is unlikely that early retirement pensioners will receive any increase on their pre-1988 GMP even when they reach State Pension Age.

Consider the following examples:

● **Pensioner (male) retired on 5/4/1988 at age 65. Scheme pension of £20,000 pa including GMP of £2,000 pa. Increases now only paid by the State on the GMP of £2,000 pa.**

● **Pensioner (male) retired early on 5/4/2000 at age 55. Scheme pension of £15,000 pa, pension from redundancy payment £5,000 pa, pension from AVCs £5,000 pa, pension from transfer value from previous employer £5,000 pa. Total pension is £30,000 pa, but only a small part of the £15,000 pa scheme pension will qualify for increase having arisen after 5/4/1997. There is no GMP until age 65 and then increases on the GMP earned up to 1988 will be delayed by revaluation rules. (GMP might be £3,000 pa for service to 1988 and £2,000 for service from 1988 to 1997).**

“What concerns us in the whole of this debate is whether the principles that have guided Reuters in the past still apply today,” we told FitzGerald. “Earlier this year you talked about the honesty and integrity of the Reuters business. Last year, in a message to staff, our Chief Executive said:

“In a world of changing values and confusion, we offer trust. Trust in our news and data, trust in the fairness and independence of our transaction systems and trust in the fundamental decency and humanity of Reuters.”

Principles for all?

“Can we ask you to make clear whether the Reuter principles as outlined by you and the Chief Executive apply only to the Reuters business or whether they apply to the fabric of the Company and extend therefore to staff and pensioners. And will the Board give some encouragement for pensioners that increases will be resumed as soon as possible. A future based on fixed incomes is not an encouraging prospect.

“We have been exchanging correspondence with the Company over several months and had hoped this would be a constructive dialogue leading to a resolution of all problems. Now that the Company has been forced to accept that RPF is a defined benefit pension scheme and has also accepted its responsibility for the past service deficit, the only outstanding issue is the restoration of annual pension increases in line with the practice of nearly all FTSE 100 companies.

“Rather than continuing to exchange letters on this subject, we would like to meet directly with those responsible for the decision to stop annual pension increases with the aim of drawing up a timetable for the restoration of such increases for both RPF and SPS members.”

•Reuters concedes that RPF is a defined benefit scheme

Reuters now agrees that the Reuters Pension Fund is a defined benefit scheme rather than a defined contribution scheme. As recently as its 2004 Annual Report Reuters had maintained that it was a defined contribution scheme. At the same time, it added in the report that the Supplementary Pension Scheme provided for senior managers was a defined benefit scheme. The point is significant because recent UK legislation gives added protection for defined benefit schemes, requiring companies to state their liabilities for the schemes. There is no such requirement for defined contribution schemes because contributions by both sides are fixed in advance.

For pensioners who retired with a pension calculated as a percentage of their final salary it may have seemed obvious that the RPF was a defined benefit scheme. But Reuters has argued for some years that since it has been paying a fixed amount into the fund the RPF is a defined contribution scheme. It continued to argue this position even after closing the RPF to new members and setting up the Reuters Retirement Plan, a defined contribution scheme, to take its place. This is clearly a defined contribution scheme since members' pensions are not defined in advance but will only be known on retirement when the accumulated contributions are converted into a pension.

In its report for the third quarter of 2005, published on October 27, Reuters said: “The RPF is an unusual scheme in that it is a fixed cost scheme providing defined benefits. Reuters has previously accounted for this scheme on the basis of a fixed level of contribution. Following conversations with the Trustees, Reuters has concluded that it will now account for RPF as a defined benefit scheme and will record a balance sheet liability, net of tax, of approximately £110m (based on a 31 December 2004 actuarial valuation).” Reuters said it was considering the appropriate dates and basis for recording this liability under applicable reporting frameworks. The Company said it would continue its dialogue with the Trustees of the RPF to secure an equitable outcome for both the scheme members and the Company.

● PRG weighs resolution at next Reuters AGM

The Pension Review Group is planning to submit a resolution at the Company's AGM on April 27, 2006. The Companies Act gives shareholders the right to do this provided the resolution is signed by at least 100 shareholders who, on average, have at least 400 shares each. With so many pensioners holding Reuters shares we do not expect this to present a problem. We are also able to submit along with the resolution a supporting document of not more than 1,000 words giving the background and arguments in its favour.

● Pensions Regulator warns about pensions "at risk"

The UK Pensions Regulator has served notice of intervention in under-funded pension schemes.

The Regulator's chief executive Tony Hobman said on October 30 he would take "a pragmatic and commercially realistic approach" while avoiding the imposition of burdens on business.

But, writing in the *Financial Times*, he also said: "A defined-benefit promise is indeed just that - and should be backed up by funding plans that are demonstrably capable of meeting this promise in most circumstances. We expect trustees to give the interests of the pension scheme their proper status: any shortfall must be recognised as a key material unsecured creditor of the business."

Hobman added: "The new statutory funding regime will require trustees to correct any shortfall as quickly as the employer can reasonably afford, which means that we need to consider affordability in deciding whether to intervene. We will be more likely to consider intervention if the recovery period is longer than 10 years. We may also look at schemes where the recovery period is 10 years or less but where the employer's strength suggests it could reasonably clear the shortfall more quickly."

Hobman said the Regulator's code of practice would

make it clear that trustees should act independently and be well prepared when negotiating with employers to ensure that schemes are sufficiently funded to pay the benefits their members have been promised.

● Trustees grant custody of RPF investments to Bank of New York

RPF trustees have appointed the Bank of New York as custodian of the Fund's investments.

The bank said in August that the appointment was the result of a competitive review conducted by the scheme's actuary Watson Wyatt and followed a restructuring in the last quarter of 2004.

RPF Chairman Greg Meekings was quoted as saying the review saw a change in investment strategy towards a more risk-based approach and a "quite considerable" turnover of managers. The manager roster now includes Legal & General, Western Asset Management, Lazard, New Smith, Alliance Bernstein and Slater. Schroders runs a real estate mandate, Meekings added.

"It's not that we were unhappy with performance," Meekings said. "It was the fact that we switched investment strategy."

The scheme had previously used managers as custodians but the restructuring had given it the opportunity to adopt a single custodian, he said.

"Our review process highlighted the strong calibre of the bank's custody team and its flexible approach," Meekings was quoted as saying in a Bank of New York statement.

"We were impressed by their expertise and technology, which we believe will meet our high standards in areas like performance measurement, risk management and reporting."

The Bank of New York identified the Reuters Pension Fund as a £650 million defined contribution/defined benefit scheme with around 8,000 members.

●FitzGerald to address The Reuter Society

Reuters Chairman Niall FitzGerald is the guest speaker at the next meeting of The Reuter Society, to be held at the Company's new headquarters at Canary Wharf on December 6. The meeting starts at 5:30 pm. FitzGerald joined the Reuters Board as a non-executive director in 2003 and became Chairman in October 2004.

●Reuters, Scrooge-like... (part 2)

Reuters skidded from fourth place to 53rd in an annual survey of social investment among Britain's top 100 companies.

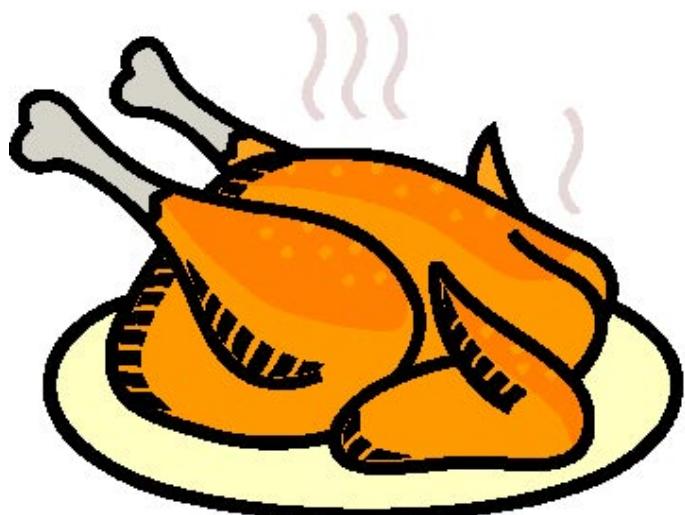
In its annual Giving List published on November 28, *The Guardian* ranked the FTSE 100 firms according to the percentage of their pre-tax profits donated to social and environmental projects, good causes and community involvement.

Reuters was ranked at 53 with a contribution of 0.6 per cent of pre-tax profit, listed as a £2.4 million cash donation. The newspaper did not say who received the money. Top of the list and up from second place last year was ITV with 10.8 per cent, mostly free air time.

●You & Us, plus them

If you are puzzled at receiving an "Uncontested Constituency Notice" from UBS about the election of the Swiss bank's pensioner representative on August 18 the mystery is solved ... it was sent by Hewitt!

●Pigeon - without all the trimmings



Finally, at the close of a busy year, members of the Pension Review Group send all readers of *Pension Review* newsletter best wishes for the festive season and a (hopefully) more prosperous New Year.

If the shrinking value of your pension obliges you to forego turkey this year, well, there's always pigeon.

