

Written evidence from AEA Technology Pensions Campaign (APS0007)

Introduction

- 1 The AEA Technology (AEAT) Pensions Campaign seeks to restore pensions earned in the AEAT Pension Scheme to their promised values. We welcome the current inquiry because we strongly believe that we were mis-sold pension options by the government.
- 2 The present inquiry asks about accessing defined contribution pensions:

Q4 Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?

Q9 Are pension schemes communicating options effectively to members and are there material differences between trust-based and contract-based pension schemes?

We feel that our experience of mis-selling is relevant to these questions, even though the AEAT Pension Scheme is a defined benefit scheme.
- 3 This submission also has the support of Prospect, the main trade union recognised to represent the interests of employees of AEAT.
- 4 This submission follows our submission to the inquiry into Pension scams (PPS0025).

Mis-selling in 1996

- 5 When AEAT was privatized out of the UKAEA, the government persuaded most employees to move their pensions earned in UKAEA into the AEAT Pension Scheme.
- 6 Employees were persuaded by a Note, commissioned by the UKAEA from the Government Actuary's Department (GAD) and given to them in November 1996. This Note was unique because of the requirements of the Atomic Energy Authority Act 1995.
- 7 The GAD Note said that it "outlines the main factors to take into consideration in deciding whether or not to transfer accrued UKAEA scheme benefits." It was presented as a time-limited special offer and we were given just 40 days to decide.
- 8 The only mention of the possibility of failure of the AEAT Pension Scheme in the GAD Note was in paragraph 3.2.3:

"The effect of preserving your UKAEA benefits is that your total benefits will be payable from two independent sources. Whilst it is unlikely that the benefit promise made by either the UKAEA Scheme or the AEAT Scheme would ever be broken, it is still more unlikely that both promises would be broken, and this could be viewed as a reason to opt for preservation [of pension earned in UKAEA in the UKAEA Schemes]. However, this consideration should not normally outweigh those in relation to salary and inflation, although it might be taken into account where the other relevant factors were very finely balanced."

- 9 But very important information about the risks of transferring those benefits into the AEAT Scheme was omitted from the Note:
1. The UKAEA scheme was backed by the Treasury but AEAT's, it turned out, did not have any such government guarantee, despite an assurance that the new scheme had statutory protection.
 2. As a result, an AEAT pension was at greater risk than UKAEA pension, because it depended on the success of an unproven company
 3. If AEAT or its scheme failed we could be left with greatly reduced pensions (all the more so because there was no PPF at that time)
 4. GAD had done no risk assessment of the AEAT scheme to justify their advice that "it is unlikely that the benefit promise made by either scheme would ever be broken".
 5. The "no less favourable" [than the UKAEA Schemes] pension required by the Atomic Energy Authority Act 1995 did not include pension security.
- 10 It is obvious that for most people, these would have been "main factors" in their decision making, had they been disclosed. They should have been spelt out to the financially unsophisticated readership of the Note.
- 11 Nearly 90% of transferees decided to transfer their past pension service, earned in the UKAEA Pension Schemes, into the AEAT Scheme.
- 12 AEAT went into a pre-pack administration in 2012 and its pension scheme went into the Pension Protection Fund (PPF) in July 2016. PPF compensation for pension earned before 1997 – including the pension transferred from UKAEA – is not indexed for inflation at all. Pensioners expect to lose about a third of their pensions – some more, some less.

Slanting the GAD Note

- 13 Documents released by GAD in response to a Freedom of Information request clearly show that UKAEA, after consulting AEAT, successfully persuaded the Government Actuary to alter the tone and content of the Note, playing down the argument for preserving benefits in the UKAEA Schemes and making the Note more encouraging about transferring benefits into the AEAT Scheme (letter from GAD to Derek Whitmell 14/11/14). GAD has accepted that their Note did not state anywhere that the AEAT pension fund was at greater risk than the UKAEA pension fund, even though the latter had a government guarantee (letter from GAD to Keith Hammond 17/10/14).
- 14 GAD found no record to justify the statement "it is unlikely that the benefit promise made by either the UKAEA Scheme or the AEAT Scheme would ever be broken" (in para 3.2.3 quoted above).
- 15 In the first draft of the GAD note the paragraph that became paragraph 3.2.3 (quoted above) read:
- "3.1.1 It is unlikely that the benefit promise made by either the UKAEA Scheme or the AEAT PS would ever be broken. Nevertheless some people rest easier with the feeling that "their eggs are not all in one basket". Preserving the past*

UKAEA Scheme benefits whilst joining the AEAT PS for the future has the effect of “keeping the eggs in different baskets”. The argument is that whilst it is very unlikely that either promise would be broken, it is still more unlikely that both promises would be broken. By itself, this argument is unlikely to be strong enough to persuade someone to preserve their UKAEA Scheme benefits. It might, however, clinch the decision in borderline cases.”

16 AEAT commented on the first draft of the GAD Note

“We believe the general tone of this note is likely to discourage people from transferring to the AEAT scheme: while recognising that the note must be as neutral as possible we do not think this is the case and have suggested a few places where the tone could be modified. In section 3, we would like to see the advantages of transferring put before those for preserving” (memo AEAT to UKAEA 31/10/96).

GAD made this change.

17 Edward Vaizey MP (Wantage) said in a Westminster Hall debate on 26/10/16 “In plain English, to me that means, “Slant the advice to encourage people to transfer”.”

18 Commenting on the paragraph about benefit promises being broken (paragraph 3.1.1 which became paragraph 3.2.3 quoted above) AEAT wrote:

“We believe that 3.1.1 is a very peculiar statement – it comes across as somewhat unprofessional. We would prefer it to be omitted altogether; if it must be left in it certainly should not be the lead paragraph in this section.”

GAD did not delete it, but moved it from the first to the last paragraph in the section on preserving UKAEA Scheme benefits and edited it.

19 Following a phone call between GAD and UKAEA on 5/11/96, GAD changed

“Nevertheless some people rest easier with the feeling that “their eggs are not all in one basket”.”

to

“The effect of preserving your UKAEA benefits is that your total benefits will be payable from two independent sources.”

in the same paragraph. Removal of the eggs metaphor probably made this less comprehensible and persuasive to some readers.

20 These exchanges show that in the 1996 privatization there were commercial pressures to modify the guidance and advice given to employees about their pension options; and that these pressures were partly successful. In this case the pressure was directed to civil servants and actuaries.

Conclusion

21 Commercial pressures led to the 1996 GAD Note being modified to encourage employees to transfer UKAEA pension to the AEAT Scheme. The Note failed to warn of the risks of this transfer. The guidance, advice and communications about options,

mentioned in Q4 and Q9 of the Call for evidence, must be free from such biases. They need to be written to be understood by financially unsophisticated readers. They should allow enough time to take an informed decision.

Further Information

22 Further information on the AEAT Pension Scheme injustice may be found in:

- a letter from Andy Bye (Secretary, Prospect Retired Members' Group) to Rt Hon Stephen Timms MP (14/7/20),
- e-mails from Andy Bye to Stephen Timms MP (19/11/20 and 20/1/21),
- the House of Commons Brief "AEA Technology pensions" (CBP-07740, 24/4/19),
- the "AEA Technology Pensions Dossier", Edition 2, January 2018
<https://library.prospect.org.uk/id/2017/01053>
- and in our submission to the inquiry into Pension scams (PPS0025, September 2020) <https://committees.parliament.uk/writtenevidence/11277/html/>

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