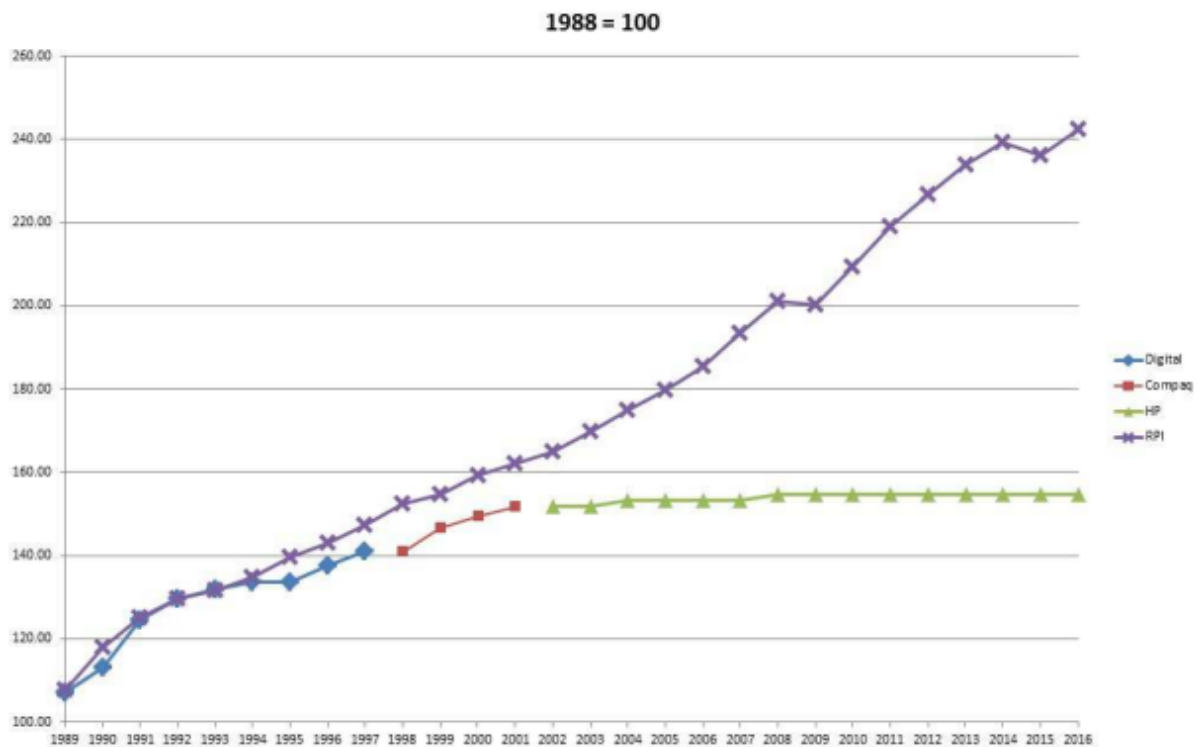


Written evidence from the Hewlett Packard Pension Association (PPF0127)

Our Plight

We represent about 3,500 pensioners who have the misfortune to have a pension with Hewlett Packard (HP) including pre-97 service indexation of which is not covered by current government legislation. Our Pensions have been virtually frozen since HP assumed responsibility for the Digital Equipment Company (DEC) pension plan in 2002. Digital Equipment Corporation was a major computer company with a turnover of \$13bn and around 8500 employees in the UK. DEC paid indexation to its pensioners on a discretionary basis according to affordability. Compaq acquired Digital in 1998 and continued to pay discretionary increases to pensioners, with an undertaking to continue doing so subject to affordability. Hewlett-Packard acquired Compaq in 2002 and assumed responsibility for the Digital pensioners but has dishonoured this undertaking except for two token 1% rises and has not been paying indexation for cost of living increases to ex Digital pensioners for 14 years. This is demonstrated in the following graph.



Over the past fourteen years the buying power of our pensions has diminished by almost 50%, and continues to shrink year on year. It has so far cost an average of £24,000 per pensioner in withheld cost-of-living increases compared with our colleagues whose contributions were made post-1997. The average pension paid to Digital pensioners in 2002 was £6008 per year and if the pension had kept up with inflation, today it would be worth £9070. This is leading to severe financial hardship to many in this group of pensioners

resulting in them being unable to afford an ordinary living pattern verging on poverty, requiring government subsidy in terms of income support benefits.

Hewlett Packard is a fully solvent U.S. corporate giant with 2015 revenues of \$139 billion and profits of \$7 billion. In the UK, HP turnover in 2015 was £4.75bn and profits of £176.4m. HP is the Government's largest IT supplier with 2014-15 sales of more than £1.2 billion, approximately 25% of its UK turnover. HP UK's highest paid director received £1.64 million in 2014 and £0.92 million in 2015.

Pensioners in all of HP's European subsidiaries have been receiving regular cost-of-living increases except in the UK. This is because UK legislation incongruously permits this exclusion for pre-1997 service, whereas in most other European countries no such discrimination exists. HP has clearly taken advantage of this shortcoming in UK law to restrict its pension costs in the UK.

To clarify, existing UK pensions legislation obliges all defined benefits pension providers to pay annual cost-of-living increases in line with inflation, subject to a cap of 5% and 2.5% for contributions from April 2005, **except for those pensioners whose contributions were paid prior to April 1997**. Unless otherwise required by the provisions of their pension plan, employers can therefore legally withhold increases if they so choose, **but only from their pensioners with pre-1997 service**.

To those who may feel inclined to envy the present generation of gold-plated pensions it may come as a surprise to learn that a significant number of pensioners are not prospering under "triple lock" indexation, but instead are suffering considerable hardship under a triple injustice:

- A prosperous pension provider which proclaims its 'hp way' philosophy as a people-valuing company yet considers it reasonable to treat its UK pensioners in this manner.
- UK pensions legislation which contains no provisions to prevent or deter unscrupulous pension providers from behaving in this way.
- A legislative framework which fosters a form of pensions apartheid which entitles one group of pensioners to index-linked pensions but not another, depending solely upon when they paid their contributions.

The Prime Minister has stated that dealing with unacceptable behaviour by big business will be one of her Government's top priorities. We certainly hope that dealing with unfair and discriminatory pension providers will be on her list.

Attempts to Resolve Our Plight

We continue to make vigorous representations to Hewlett Packard and to the pension trustees to have the present policy re-considered, but after fourteen years of summary rejection we have been forced to conclude that there is no longer anything to be gained from further direct dialogue.

In 2014 we lodged a formal appeal with the Pensions Ombudsman (PO) but discovered that the PO is only empowered to consider complaints relating to the previous three years – not a particularly helpful limitation given that fourteen years of withholding pension increases defines the basis of our grievance, **given that Digital and Compaq had established the ‘custom and practice’ of giving increases which HP then cast aside**. We also discovered that the PO’s investigation process in no way resembled an impartial assessment of our presumed entitlement to fair treatment. It simply affirmed that HP was not acting in breach of the law and was therefore under no obligation to defend its actions. We were already aware of this and the position was also confirmed by Counsel whose opinion we subsequently obtained.

The Pensions Regulator (TPR) has stated that the primary objective of the legislation is (quote) “to maintain a balance between meeting pension obligations whilst ensuring the ongoing viability of sponsoring employers”. This appears to be no more than an aspirational statement because, so far as we are aware, there are no criteria, guidelines or procedures by which such balance could be determined.

Having been advised by our Counsel to seek a political solution, we have responded to a recent invitation by the Work and Pensions Select Committee to submit proposals on DB pensions.

The Case for Legislative Change

The change we are seeking is that the discrimination between pre-1997 and post-1997 contributions be removed from the legislation, and that the minimum permissible increases **for all direct benefits pensions in payment** should in future be in line with increases in the RPI.

The Minister for Pensions has been invited to state what objections there might be to implementing this change, and he has commented as follows:

“When the statutory requirement to increase pensions was introduced, it was not backdated to cover pension rights accrued before 1997. To have introduced the requirement with retrospective effect would have meant imposing very substantial costs on workplace pension schemes. As schemes would not have had the chance to build up funding to cover these extra financial liabilities, the effect would have been widespread scheme closures, in some cases extending to the scheme winding up with insufficient resources to pay out pensions in full. This would be even more likely in the current economic climate should we consider extending the statutory requirements”.

Comment

If this was partially true in 1997 it is certainly not the case today. Furthermore, it applies the same rules to large wealthy multi-national companies as it does to small UK companies. The Government’s own statistics clearly show that over 90% of all defined benefit schemes already make provision for, and pay, regular increases in respect of pre-1997 contributions and that these increases are in line with, or close to, the RPI. Even for those currently

dependent upon “discretionary” increases most employers treat regular increases as their default option and therefore make long-term provision to fund these.

To underpin with legislation increases which most pension providers are already paying voluntarily would involve few if any additional liabilities as a result of the proposed change. It should further be noted that pensioners with pre-1997 service now represent a small and diminishing proportion of most plans’ total membership, which further reduces the likelihood that it would have any significant impact on employers’ ability to pay.

There is conclusive evidence that only a very small number of employers have a long term policy of non-payment. It is these who would be required to make additional provision to pay their pre-1997 pensioners. Our research also shows that the non-payers are predominantly prosperous U.S multi-national corporate giants such as 3M, Chevron and Unisys, as well as HP.

The Minister also stated that *“as scheme rules and overriding legislation will have changed over time, it is not unusual for scheme members to have different entitlements to those who were members at a different time”*.

Comment.

We agree that changes to pension schemes will result in differing individual pensioner benefits depending upon when such changes were introduced, and that such differences cannot be regarded as “unfair”. However, the right to a minimum legal indexation should have been treated as a universal entitlement for **all** occupational scheme pensions in payment, effective from the date of its introduction. If affordability was originally an issue, the Government of the time could have phased its introduction rather than granting the right to one group of pensioners but denying it to another. As a comparison, when the National Health Service was introduced, if the benefits of free healthcare had been restricted to those who had been born after a specified date, there would be no question that this would have been widely viewed as fundamentally unfair and unacceptable legislation. We believe that our case is no different.

In summary we believe that the Minister’s presumption of potential unaffordability for many companies is based upon an incorrect understanding of present practice within the pensions industry. The proposed changes would have a minimal impact on more than 90% of all pension schemes.

Evidence and Data Sources
Office of National Statistics (ONS)

The table below contains ONS data from its annual surveys of defined benefit pensions in the private sector showing increases paid to pensioners with pensions accrued before April 1997.

Table 1

	2009	2010	2011	2012	2013	2014	Average
Pensioners (millions)	4.6	4.7	4.5	4.6	4.6	4.6	4.6
Total receiving an increase	3.5	2.7	3.9	4.2	4.0	4.2	3.8
% of total	76.1	57.4	86.7	91.3	87.0	91.3	81.6
Average Increase paid (%)	2.4	1.9	3.5	3.6	2.7	2.6	2.8
Increase in the RPI (%)	-0.5	4.6	5.2	3.2	3.1	2.4	3.0

Comment

More than 80% of all pre-1997 pensioners were paid an average of 2.8% in any given year, compared with an average annual increase in the RPI of 3.0%. Cumulatively this maintained on average 93.3% of the pension value relative to the RPI. Note that the period covered includes the years immediately following the near collapse of the banking system and the ensuing world-wide recession. Over a more normal period (2012-2014) more than 90% of pensioners received RPI driven increases.

FTSE 100 Companies

A Reuter's survey of FTSE 100 companies in 2005 found that 99% of those with defined benefit pension schemes paid regular increases in line with inflation. In most cases, no distinction was made between pre-1997 and post-1997 service, either by the provisions in their pension plans' trust deeds or as a matter of company policy.

Other Surveys

The IBM pensioners' association conducted a survey of 150 comparable schemes in 2011, which showed that:

129 schemes (86%) guarantee to provide increases for pre-1997 service.

111 schemes (74%) paid these increases in line with RPI.

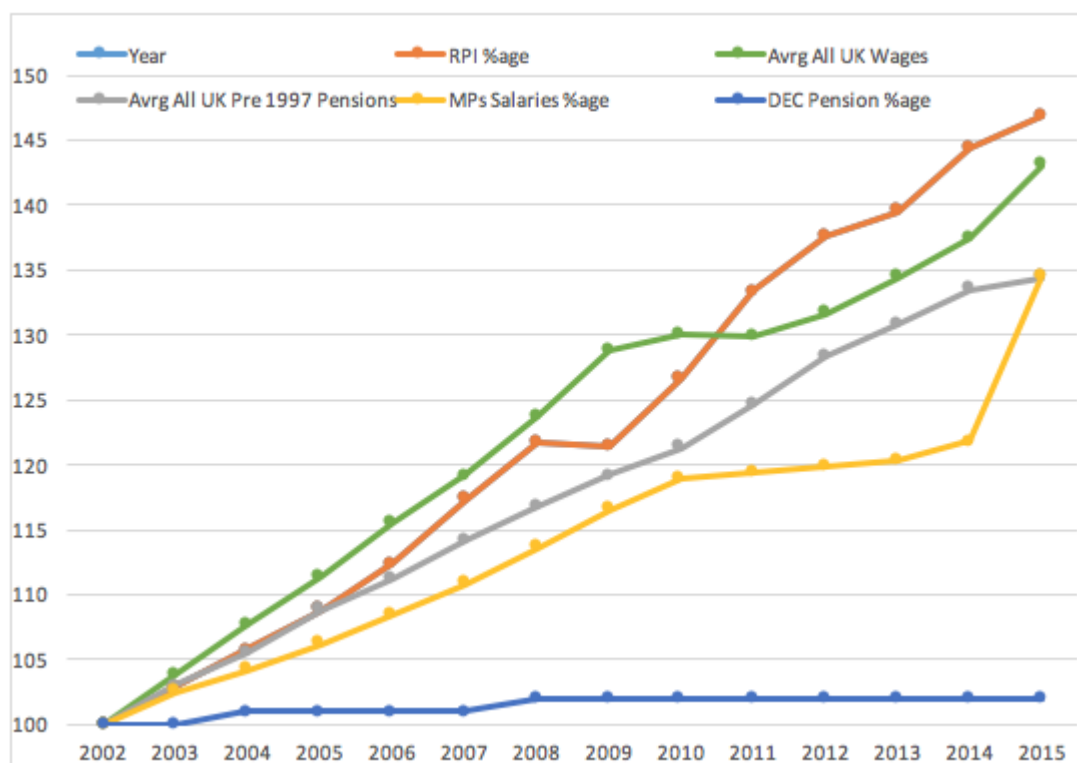
They also found that in Germany employers are legally obliged by law to raise their pensions in line with inflation every three years.

Comparative Data on Indexation

The graph below shows cumulative increases in the RPI over the years from 2002 to 2015 (orange line where 2002 =100) and compares these with increases paid for:

- Average UK wage (green line)
- Pre-1997 pension incomes (average) (grey line)
- MPs basic salaries (yellow line)
- Pre-1997 HP/DEC pensioners (blue line)

Figure 1 RPI v Inflation Increases Awarded 2002/2015



Notes

1. Over this period the RPI has increased by 46.85%
2. Average earnings have increased by the equivalent of 97.4% of RPI.
3. Overall pensions have increased by the equivalent of 91.6% of RPI.
4. MP's salaries have increased by the equivalent of 91.6% of RPI.
5. HP/DEC pensions have increased by the equivalent of 0.7% of RPI excluding GMP.

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