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SORTING OUT THE PENSIONS

More than £47 million of the money which the Secretary of State received for NFC will be paid to the NFC Pension Funds. The Government will also continue to provide some other financial support for the Funds.


It is doubtful that even a dozen people understand all the implications of NFC’s pension problems. On top of the historical problems – some British Rail employees are in NFC funds and vice-versa – there were actuarial (i.e. valuation) and political problems to be solved at the time of the buy-out. There is no denying that the details are technical, but equally there is no denying just how important they were: the Government gave back more than 80 per cent of the £53.5 million it was paid for NFC to put the pension funds back onto a footing that would be acceptable in a normal commercial enterprise – where there is no automatic government guarantee to make good any shortfall in the pension fund and so the company itself has to transfer money to guaranteed pension funds.

Pension fund deficiencies can arise in a number of ways. In an ideal world pension fund contributions paid in by employees together with the contributions paid by employers should be
invested and when the employee retires the accumulated sum should provide enough to meet his guaranteed pension. In the real world however things tend to work out rather differently.

Pensions are usually based on a proportion of final salary, that proportion depending on the terms of the scheme, and the length of service which an employee has with the company. However in periods of rising incomes an employee’s salary on retirement entitles him to a pension which is in excess of the sum of the contributions invested for him/her over the years. Also, as acceptable social standards are raised over time there is a tendency for the terms offered by pension funds to improve, but the amounts charged to existing contributors to a scheme cannot be backdated to take into account the improved benefits now being offered. A third major force comes into effect when pension funds are index-linked – that is payments to pensioners rise automatically in line with, or as a proportion of, the increase in the retail price index.

The net effect of this is that gradually pensions come to be paid not from the contributions made by the pensioner in the past, but from higher pension contributions being made by those who are currently employed. The state pension scheme has been forced to operate on this pay-as-you-go basis for years.

This however is only part of the story. Although companies are obliged to ensure that their pension schemes have adequate funds to meet their pension obligations, they have no control whatsoever over the valuation or running of the pension funds, which is handled by a totally independent body of pension fund trustees who, in turn, employ highly qualified actuaries and investment managers. The job of the investment manager is to make the best return possible on the money held by the pension fund, while the actuary has to decide whether the fund has enough resources to meet its present and future liabilities. He makes these calculations on more or less established facts, e.g. the number of people due to retire in any given year, and informed guesses as to the likely movements in inflation, salaries and rates of interest. To the extent that a fund cannot