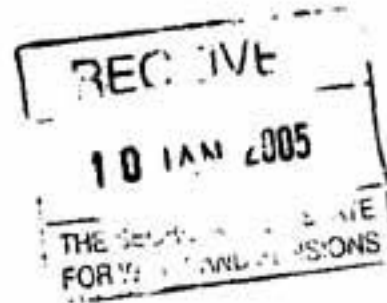


5 January 2005

Rt Hon Alan Johnson MP
Secretary of State
Department for Work and Pensions
Richmond House
79 Whitehall
London SW1A 2NS



Dear Alan,

PENSION PROTECTION FUND & FINANCIAL ASSISTANCE SCHEME

I am writing to share with you the NAPF's concerns about the stability and indeed viability of the PPF following the ministerial announcements on 8 November and 3 December. NAPF shares with the Government the objective of restoring confidence and trust in retirement saving which is absolutely crucial to meeting the challenges and opportunities that longer lives bring. We have also welcomed the various Government initiatives such as the Pensions Commission and Employers Task Force, which are intended to address these issues and inform policy. We have been happy to co-operate with both bodies and make available the experience and expertise the NAPF can provide.

We have also lobbied constructively to achieve a workable and fair system of pensions protection. However, the November announcement has introduced a retrospective element into the PPF which we believe was never intended when the Bill was first presented to Parliament. The inclusion of schemes which have not yet begun to wind up, but whose sponsors have become insolvent before April 2005, as eligible schemes threatens to swamp the PPF with claims immediately it begins operations. We suspect that this important and material change in policy is driven by the patent inadequacy of the budget committed thus far to the FAS. Our own estimates suggest that there is sufficient only to provide 2000 indexed annuities each year at the de minimis (£10 per week) level or less than 100 at £12,000 per year.

Should the Turner and Newell scheme be forced to wind up, its estimated buy out deficit of £875m would dwarf the £400m offered so far. Such a claim on the PPF will have to be met by the levy payers, that is, other private sector pension schemes. Additional cost pressures of this order can only exacerbate the significant funding problems faced by such schemes.

There is a simple way of resolving the dilemma which does not involve shifting claims on to the remaining sponsors of defined benefit schemes. Schemes which have started to wind up during 1997 to April 2005 and schemes where the sponsor has had an insolvency event in that time should be covered by the Financial Assistance Scheme. Before any budget is formally determined, the Government needs to ascertain the extent of the losses, decide upon criteria for eligible schemes and individuals and levels of assistance. We accept that assistance cannot be at PPF levels. What we want to avoid is a poorly thought out scheme which will inevitably disappoint. This cannot be good for retirement saving or good for the country.

The National Association of Pension Funds Limited

NIOC House 4 Victoria Street London SW1H 0NX
Tel: +44(0)20 7808 1300 Fax: +44(0)20 7222 7585 Internet: www.napf.co.uk
Registered in England and Wales No 1130269

Ministers have repeatedly expressed the hope that "the industry" will come forward and make contributions in cash and in kind to the scheme. In that context, the pensions industry is a broad term encompassing commercial and non-commercial providers of pensions. It is important to make this distinction. While we have no difficulty with providing expert help and know how (and indeed have done so), we cannot understand how our pension fund members who provide pensions voluntarily as part of the employment package can realistically be expected to finance retrospective assistance. Pension schemes do not constitute "an industry" but cover a diverse group comprising the pension funds of listed and unlisted companies, partnerships, charities, trade unions and public sector organisations. Those who run defined benefit schemes are, in the main, having to deal with underfunding and how best they can meet their own members' pension expectations. They will moreover have to pay PPF levies from April this year. Money committed to the FAS will mean smaller pension funds and less security for their members. This surely cannot be what the Government wants.

We would suggest that alternative sources of funding be fully explored in addition to taxpayer support. Unclaimed assets have been suggested and in that context, estimated unclaimed national savings of £2.5bn are notable. Of course, any use of unclaimed assets should be subject to a proper and rigorous process to ensure that owners are traced. There is also the surplus in the National Insurance fund of £27bn at 2003/04 which is growing annually.

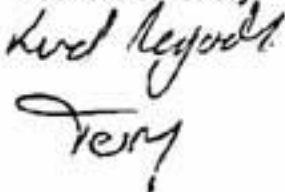
The consequences of not addressing these issues could be severe. The PPF is an entirely new departure for the UK. No one can be certain how it will develop. The absence of an underpinning guarantee or lender of last resort means that its finances are subject to uncertainty and additional risk. It is no use saying as has been reported in the press that as there will be no cash flow difficulties in the early years, the risks will go away. No pension scheme trustee would be allowed to get away with such unrealistic statements. The PPF must be able to meet its obligations as any other pension fund would be expected to. Otherwise it will either run out of money eventually or benefits will have to be reduced.

On this latter point, it is worth pointing out that the Department's guide to the Pensions Act 2004 makes no mention of the Secretary of State's power to reduce compensation levels. We believe that people should be told from the outset that this is a possibility and intend to do so ourselves. Indeed, retrospective claims on the PPF make it more likely that this power may have to be used at some point.

We must avoid the mistakes of the past; the MFR being a notable example of something which does not deliver what it appears to promise. All that does is to bring the retirement system into further disrepute.

To reiterate, we do not think that this is what the Government intends and would urge it to consider these issues. Given their high importance I ought to let you know that we are circulating this letter to the press and other interested parties.

Yours sincerely,



Terry Faulkner
Chairman