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PENSIONS POLICY ALL AT SEA

Parliament has just held its latest debate about restoring the pension rights stolen from people whose pension schemes had collapsed. Until then I had not realised that all of the key issues would be nautical in character. Ministers talked glibly about 'lifeboats being sunk' and Opposition proposals being 'all at sea'. Despite this, it was the government's position that looked more like a slapstick re-run of the film 'Carry on Cruising'; except it wasn't funny.

The sea, of course, was where the scandal of stolen pensions all began. On 4th November 1991, newspaper magnate Robert Maxwell fell off his boat and drowned. After his death it emerged that 'Captain Bob' had pocketed some £400 million of the pension funds administered by his Mirror Group or Maxwell Communications empires. Some 32,000 pensioners were to discover that their pensions sank along with the thieving old rogue.

The reason why this is important to the current debate is that the Maxwell pensions scandal was supposed to have produced a framework, guarantying that pensioners could never again have their assets stolen by duplicitous scheme managers. This is exactly what the 125,000 pensioners caught up in the current scandal were led to believe they were covered by.

Every time the matter has gone before a court or an independent inquiry, their verdict has been that the pensioners were right to believe in a government guarantee that their pensions were safe. It's just that the guarantee was never what it claimed…and successive governments and Ministers knew this.

After Maxwell, the government introduced the Minimum Funding Requirement for pension schemes, as a safety net pensions guarantee. This turned out to be no guarantee at all. It only gave a 50-50 chance of getting a pension. Government actuaries warned that pensioners should be told this. No Minister had the courage to do so. Only when the schemes collapsed did the smoke and mirrors nature of government guarantees become apparent. So what was to be done?

In the 1990s, the government had stepped in with a loan scheme, ensuring that all of the Maxwell pensioners received their pensions in full and without interruption. They honoured the retirement age set out in the Scheme, even if this was earlier than the state retirement age. Maxwell may have sunk, but the government ensured that pension rights did not drown with him. Politically, it comes hard to acknowledge that the government that came to the rescue was a Tory one.

Today, we have a Labour government response that is deeply flawed, fragmented, fictitious and unfathomable. Pensioners are supposed to be protected by the government's new Financial Assistance Scheme (FAS). Most pensioners have yet to receive a penny out of the Scheme and some have died waiting.

Already over 10,000 pensioners have reached retirement age and should be in receipt of FAS payments. Only 1,300 have received anything. So far, the scheme has cost £10 million, with over £6 million of this being paid to the administrators rather than pensioners. Government claims that the Scheme is working simply do not square with the real world experience of it.

Even more damaging is the duplicity of government claims that FAS will deliver at least 80% of the lost pensions. First of all, the 80% figure relates to a concept, invented by the government, called the 'core pension'. To get this figure you have to take the pension you expected to get and make a number of deductions. Out goes the inflation proofing. Out goes pension re-valuation and any entitlement to a tax-free lump sum. Then widows benefits are excluded along with ill-health benefits. At this stage, the government deducts 22% in tax from the figure… and there you have your 'core' pension. Oh, and by the way, even if your original scheme gave you a pension at 60, the new arrangements only apply from age 65.

It is unsurprising that, when they discover that the 80% guarantee turns out to be less than 35% of their expected pension, pensioners are less than ecstatic about the government Scheme. If you tried to do this to MPs' pension rights you would get lynched.

Parliament's attempts to offer more substantial repayments of the stolen pensions have focused on the creation of a 'lifeboat fund'. Its purpose would be to use a government loan to pay out pension entitlements immediately, and then re-coup the money from unclaimed assets held by banks, building societies, insurance companies and from the collapsed pension funds themselves. It is essentially what was done for the Maxwell pensioners. But this is where the politics becomes interesting.

Some years ago, Labour MP Frank Field presented a Bill that would allow the government to use unclaimed assets, held by banks and building societies, to protect those who were the victims of savings scandals. The Bill was blocked by the Treasury; saying that assets may be unclaimed, but this did not mean they could be taken by the state rather than pocketed by the banks.

Today, as Prime Minister rather than Chancellor, Gordon Brown has decided that the 'orphan assets' can be claimed. However, Brown wants to use these funds to pay for youth projects. No problem with that, but he has specifically ruled out pensioners having access to the same funds. It is a decision that falls somewhere between the irrational and the vindictive.

It came as no surprise, then, that the government's Interim Review Report on resolving the stolen pensions scandal concluded that a financial 'lifeboat scheme' would not work. You can't find money in areas you are not allowed to look into.

It left open the suggestion that all such monies would have to be raised from orphan assets held by insurance companies. Unsurprisingly, insurance companies went ballistic.

Every MP was written to by the insurance industry, saying that these were not orphan assets, but part of the asset base for other insurance policy holders. Raiding such funds would be robbing Peter to pay Paul.

The power of this argument diminishes when you discover that the same insurance companies owned some of the collapsed pension funds, and have not paid out a penny to help the members who lost their pensions. Since 2004, the government has been appealing to the insurance industry to contribute to the FAS. Not a button nor a bean has been paid in.

The truth is that the insurance industry is desperate to avoid any inquiry into unclaimed assets they may be sitting on. No wonder, when you think about similar claims by banks and building societies in Ireland before a government inquiry took place.

The industry insisted that, at most, they held only around €3 million in unclaimed assets. It wasn't worth the effort and cost of an inquiry. The government, however, pressed on and ultimately collected €196 million. Banks and financial institutions fibbing? How could it be?

The truth is that, at the top of the tree, money is sloshing round as never before. We have created a welfare state for the rich rather than the poor. Ordinary taxpayers pay for the tax exemptions given away in executive share options and in private equity takeovers of public companies. The accelerating acquisition of wealth at the top is being paid for by the diminishing entitlements of those at the bottom.

Since 2000, the number of final salary pension schemes has collapsed from 34,700 to 12,000 today. People were supposed to have moved across into the (less generous and less secure) 'defined contribution' schemes. The number here, though, has also fallen, from 62,600 (in 2000) to 53,500. Somewhere, 32,000 schemes have just disappeared.

Final salary pension schemes got themselves into a mess for two reasons. First, employers were able to give themselves contributions holidays, where they simply stopped paying into their pension schemes. Second, the whole industry got caught up in the casino of speculative investments, chasing unrealistic profits 'til they all fell off the cliff. They did so with money that workers thought was their savings for retirement. This is the moral core of why those pension entitlements must be restored.

To do so would cost the government £20 million a year for the next 50 years. Not a great sum when you consider that the 'error' factor in the Department for Work and Pensions' budget for the last year came to £725 million. Not much, when you think that the government could recoup this cost in the same way the Irish government has done. Not much, when you think this would allow pensioners to live in dignity rather than poverty.

As I write, I have discovered that there is a penultimate and ugly twist to the debate on the Pensions Bill. It was due to go back to the House of Lords, where the Lords were once again expected to insist on the creation of a lifeboat fund and an inquiry into orphan assets.

The government has obtained a ruling that this is illegal. It says that only the government has the right to decide on the raising of money (and from what source). Parliament will not be allowed to insist on something Ministers do not wish to consider.

The news will go down badly with the pensioners, and play worse with the public. It is not, though, the end of the matter. Ultimately, the courts will place a financial figure on the judgements already made in favour of the pensioners. Then, parliament will have to pay out, begrudgingly, what we should have done willingly from the start.

Morally, the pensioners have an unassailable case; for justice not for handouts. To cheat them of this is not politically smart. It cheapens the parliamentary process and those caught up in it. It isn't the lifeboat fund that has been sunk, but the credibility of parliament and government.

Worse things happen at sea? Yeah, sure.