Britain: Top directors avoid pensions crisis

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Hundreds of top company executives are set to rake in six-figure annual pensions while the nation's workforce is gripped by pension panic, according to a survey by *Labour Research* magazine.

As household name companies queue up to close their employees' final-salary schemes—pensions paid at a guaranteed percentage of final salaries—the survey reveals that 255 directors of FTSE 100 firms have already built up entitlements of over £100,000 a year in final-salary arrangements. Some will get much higher sums by the time they actually retire, as their entitlement will be based on longer service and higher pay than they have now.

One-fifth of the 255 would get £300,000 or over per annum if they retired immediately, compared to just 30 last year, says the survey. The current figure is almost six times the number of directors that reached the £300,000 figure in *Labour Research*'s 1999 survey. Topping the table for a second year in a row is Dr Jean-Pierre Garnier, chief executive of the pharmaceuticals group GlaxoSmithKline. At 53, Garnier is already looking forward to £833,000 when he retires—an increase of £133,000 on last year's figures.

If Garnier stays at GlaxoSmithKline until retirement, his actual pension will be based on another seven years' service and probably a higher salary. And, as part of his contract, he will also be credited with an additional three years' service. Fewer than half of all workers in the UK can look forward to the guaranteed benefits of a final salary scheme, even in companies where directors figure in the *Labour Research* pensions league table.

Second is H. Laurance Fuller, who retired as US-based director of oil giant BP in 2000. His annual pension package is worth just under £800,000 but, according to a recent end of year report, he opted for a £9 million lump sum instead.

Directors at Kingfisher (which owns B&Q and Comet), Unilever, and Powergen will also each receive annual pensions of over £500,000. But most controversial are the provisions made for directors of companies that have decided to deprive employees of a final-salary pension. Rentokil-Initial said in January that it was ending its scheme, but director Sir Clive Thompson will retire on at least £562,000 a year. Food giant J Sainsbury has also closed the final-salary scheme to many employees, but chief executive Dino Adriano will get at least £351,000 a year. And it is a similar story at Tesco and Boots. Final-salary schemes are closed to new recruits, but John Gildersleeve will get £309,000 and Lord Blyth £392,000 on retirement.

The *Labour Research* survey is based on figures from the annual reports of firms in the FTSE 100 index and represents entitlements already built up and based on current salaries. The research shows that there are 11 companies paying at least two or more executives £300,000 or more a year in pension entitlements. Leading the field is BP, whose four executives will be retiring on an annual combined pension payout of £1.98 million. Diageo, Cadbury Schweppes, Granada and Unilever are each paying three executives £300,000 or more, while GlaxoSmithKline, BAE systems, AstraZeneca, British American Tobacco, Powergen and the Daily Mail are each paying two of their directors similar amounts.

According to *Labour Research*'s previous annual surveys from 1999 onwards, Sir Chris Gent of Vodafone has seen the largest increase in his pension entitlement. In 1999, his pension entitlement was a lowly £173,000. Now it is valued at £411,000, nearly 2.5 times higher. Sir Clive Thompson at Rentokil-Initial has also seen his pension entitlement increase substantially. In 1999 his annual pension package was valued at £314,000 and rose by nearly £100,000 for each of the following two years to £502,000. It is now worth £562,000.

Like directors' remuneration packages, executive pensions have also been spiralling out of control as investors fail to challenge the recommendations of the board. According to the latest pensions research from consultancy New Bridge Street, nearly one in 10 large companies still includes all or some of directors' bonuses as part of the pay on which pensions are calculated—years after the 1995 Greenbury report said that the practice should be stopped. This gives a huge boost to the amount directors receive on retirement. Consumer goods group Unilever and confectionery giant Cadbury, for example, allow 20 percent of executive bonuses to count towards pensionable pay.

Recently, the heavily-indebted Swiss-Swedish engineering group ABB said that Percy Barnevik, the company's first chief executive until 1996, and his successor Goran Lindahl, who resigned late in 2000, have agreed to pay back 137 million Swiss francs of the 233 million francs (roughly £98 million) pensions and benefits packages they had received. The pension storm has cost Barnevik dear. Once celebrated as one of Europe's best businessmen and revered as a management guru by many, his reputation now looks dented. Within weeks of the disclosure, he lost his job as chief executive at Investor AB, while Swedish journalists hounded him for comment outside his London penthouse. The revelation that Barnevik received 148 million Swiss francs after his resignation as chief executive hit a raw nerve in the Swiss and Swedish public, where many small investors lost money and worried about their pension funds.

Labour Research's findings are published as unions campaign to stop more firms closing final salary schemes, a trend which has

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become a major worry for workers. According to the pro-union body Labour Research Department, which publishes the magazine, fewer than half of all UK workers can look forward to the guaranteed benefits of a final-salary pension scheme. These schemes, also called defined benefit schemes, promise members a set pension, dependent on their pay and length of service. Money purchase or defined contribution plans shift the risk of providing for old age on to the employees. Employers making the switch from final salary to money purchase arrangements often use it as an excuse to cut their contributions. The typical employer contribution to a final salary scheme is 12 percent, against six percent for money purchase schemes. In real terms, this means a cut in retirement benefits. The accountancy firm KPMG said that a pension from a defined contribution plan is likely to be 30 percent less than from a final salary plan.

FTSE 100 companies that have already switched from final salary schemes to defined contribution schemes for new employees include HSBC, Barclays, Halifax (now part of HBOS), Abbey National, Alliance & Leicester, Royal & Sun Alliance, BT, Boots, ICI, House of Fraser, GlaxoSmithKline and Reuters. There is also a crisis of confidence in defined contribution schemes, which have been suffering from plummeting stock market returns.

The proportion of workers in final salary schemes is set to fall further as a result of the current pensions crisis, exacerbated by the economic downturn and the introduction of the controversial new accounting rule FRS17.

FRS17 was created in November 2000 by the Accounting Standards Board, which dictates how companies must complete their accounts. The new rule—not due to come into force until next year—makes companies report any deficits in their pension schemes on their books. The liabilities of a pension scheme are a long-term debt, but FRS17 forces the liability on to short-term accounts, potentially wiping out company profits. FRS17 was primarily intended to make the funding of pension schemes more transparent. Actuaries were deemed to have had too much leeway in massaging the figures to make pension schemes look less of a burden to companies.

But pensions consultant William Mercer predicts that the accounting standard will show half the UK's top 500 companies being hit by pension liabilities. Analysts believe it could even affect a firm's ability to pay dividends to shareholders.

The "black holes" that have been revealed in funds threaten to undermine the retirement hopes of many workers who are relying on schemes to fund their old age. According to various estimates, the total funding gap in leading UK companies is likely to reach £10 billion. Those with a deficit include BAE Systems, which disclosed a funding gap of £776 million. Marconi admitted to a "past service" deficit of £137 million. It will make extra contributions of £16 million a year for 12 years but said its scheme is fully funded under FRS17. Engineer GKN said FRS17 would have reduced shareholders' funds by £169 million at the end of 2001. The group is making additional contributions of £10 million a year. Builders' merchant Travis Perkins is reviewing its final salary pension scheme, which has a £32 million deficit. It is topping up the scheme for present members. Rolls Royce has a deficit of £392 million; ICI £453 million; AstraZeneca £463 million; BAE Systems £776 million; Marks & Spencer £134 million; HSBC £620 million; Centrica £117 million; BT £3 billion.

The National Association of Pension Funds (NAPF), the UK's leading pensions industry body, has accused companies of using the new accounting rule as an excuse to cancel employee pension schemes that had become expensive. Speaking at the group's investment conference in Edinburgh in March, NAPF investment council chairman Paul Rubenstein said: "Accounting standards don't make decisions to close pensions schemes, people do. I do wonder sometimes if some of those companies closing schemes and blaming FRS17 would not be more honest to say, 'We've realised how much our pensions scheme costs, and we're not prepared to pay it any more'."

The future state of pension provision in the UK is a shambles. The country's biggest pensioners' organisation, the National Pensioners' Convention (NPC) and the Low Pay Unit, which campaigns for workers' rights, issued a timely warning to the government concerning the problems facing future retirees. Research by the two organisations show that today's low-paid will be tomorrow's poorest pensioners, surviving on means-tested benefits and a dwindling state pension. These findings raise serious questions about the government's existing pension policy, especially since the take-up of stakeholder pensions has been low.

Rodney Bickerstaffe, president of the National Pensioners' Convention, said, "The government's existing pensions policy is unsustainable. We are creating a situation in which an entire generation of low-paid workers will find themselves in retirement without a decent company, without a secure private pension, and relying on a dwindling state pension. If we think the scale of pensioner poverty is bad today, just wait and see what it will be like in 10 or 15 years time."

Richard Towers, director of the Low Pay Unit, said, "Take-up for stakeholder pensions has been low, and it appears that more higher earners have taken it up as a device for avoiding tax than those for whom it was intended. More importantly, however, the stakeholder pension leaves the low-paid saver vulnerable to the risks of the financial markets at the same time as being discriminated against in the labour market."

The Association of British Insurers (ABI) estimates that 416,000 stakeholder pensions had been sold by November 13, 2001. The government's target group for its pension scheme was five million low-paid workers. The ABI states that only 37,000 of this target group have taken up the scheme, leaving 379,000 that have taken up the scheme from higher-earning groups. Furthermore, 10 million workers (two-fifths of the working population) are currently paying National Insurance contributions, but have neither a personal or occupational pension and will be relying on the state pension alone.

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