



The pension timebomb

Regulating pensions

Narrator

The scandal led to a major re-think on the regulation surrounding pensions' policy.

Jonquil Lowe

"It woke up the government to the inadequacy of the regulations surrounding occupational pension schemes.

And the upshot was that in 1995 there was a pensions' act that introduced a statutory office to oversee the regulation of pension schemes."

Narrator

Like most regulators, the pensions' regulator was more concerned with solving problems from the past – rather than the much harder task of predicting problems in the future.

Jonquil Lowe

"Regulation reacts to developments. Alright you can say it's shutting the stable door after the horse has bolted, but at least it protects the, the people who come after."

Narrator

However, new regulations can also have unintended consequences.

Jonquil Lowe

"What that 95 Act did, was it brought in what was called a Minimum Funding Requirement and essentially said that pension schemes had to look at what would happen if they had to wind up the scheme today, what could they get for their assets."

Narrator

Designed to increase the security of members whose pension schemes closed down, the knock-on effect was potentially a more conservative investment strategy.

Jonquil Lowe

"This really changed the whole basis of the way in which pension schemes were funded.

This idea of measuring the value of your assets not in terms of the flow of money that they may produce over time, but actually what would they would fetch if you had to sell them in the market today – a system called Mark to Market – that is now required by accounting rules.

You're introducing tremendous volatility into the way pension schemes are run and the impact on the company itself on whether it is going to have a deficit in the pension scheme one day, a surplus the next day, a deficit the next.

That's having a real impact on businesses."

Narrator

The next great pensions shock was at Equitable Life.

The company promised its policy holders guaranteed returns, which ultimately proved impossible to meet.

Many thousands of policyholders died without receiving their promised pensions and those still living, wait in hope.

Jean Stewart

"It was a disaster coz I was with Equitable life. A lot of money was lost then. A lot of money.

We planned to sell the big house that we had and wind down together, you know, have more holidays, and relax, enjoy the grandchildren. And help our children. And I feel quite upset that I've not been able to do that"

Jean Stewart

"I just don't trust these people that run the country now.

Jean Stewart

"I've found this last ten years quite frightening really, the changes that have occurred and, and I don't think they've helped my generation."

Narrator

Scandal again rocked the industry in the early 1990's, when more than 1 million people were wrongly advised by their Financial Advisors to give up company pension schemes in favour of personal pensions.

David Blake

"It's made people who would normally be quite careful and cautious and be natural savers to start to ask the question "Well, why should I bother? If they are going to be very badly managed, and they are going to give me products that don't work, or somebody can run off with the money?"