Pension increase held at 0.9%

Company unable to accede to SPA's request for a discretionary adjustment

Bob Craig to James Smith:

19 December 2008

In my letter to you last year on the subject of the annual pension increase review, I highlighted the issue of the higher cost of living applicable to pensioners compared to the RPI, and that the trends at that time indicated that this differential would at least maintain or, more likely, increase. The outcome has in fact proved much more severe than that prediction given the steep increases in fuel and food prices which we have experienced this year. On top of that, we are all, of course, impacted by the general financial crisis; in pensioner terms there is an immediate impact as pensioners are generally more reliant on income from savings, now considerably reduced, and with little compensating benefit from lower interest rates (such as would be the case for mortgage holders).

That the RPI for pensioners is higher than the average for society is, I believe, widely accepted. What I think needs to be highlighted, particularly in today's economic environment, is the extent of the difference. A report published in *The Daily Telegraph* in October 2008 puts the cost of living increase for pensioners at 13.7%, close to three times higher than the RPI at that time. That report concluded with the statement that 'an average pensioner is suffering acutely from increases in food and gas prices.' Cost increases of this level would be hard to sustain at the best of times, but in today's environment and with the negative impact on savings, pensioners, particularly those retiring some years ago on comparatively low final salaries, are hit hard.

Against this extremely worrying economic environment we are reassured to note the continuing strong profitability of Royal Dutch Shell and the reasonable funding position of the SCPF, despite the recent turmoil in global financial markets.

Shell pensioners are naturally looking to the Company at this time to use the discretion available to it under the terms of the trust deed to award an annual increase above the level of RPI which would go some way towards providing a high degree of protection from inflation; that being their reasonable expectation as contributors to the fund over many years.

I would ask that you and your colleagues give this serious consideration when you review the pensions increase to be applicable from April 2009.

7 February 2009

Further to my letter of 19 December regarding the annual increase for pensioners, I wish to signal to you my concern in this year given that the published RPI index appears to show an annual increase of less than 1% as at December 2008. The low RPI index reflects, of course, the dramatic fall in house prices and mortgage costs recorded in the last two months of the year. I don't intend to repeat the case set out in my earlier letter, and in previous letters on this subject, but what is apparent now, given the ramifications of the economic crisis, is that for the majority of pensioners, an RPI-based adjustment of less than 1% would be frighteningly remote from the reality of the inflation they experience.

As you know, the SPA has written to you and your predecessors to urge the Company to use the discretion allowed under HMRC rules and authorise a discretionary payment above the increase in RPI up to 3%. Given the severe economic situation, particularly as regards those who are dependent on their savings, coupled with the, again, very strong Company results in 2008, this is surely a time for that discretionary element to be applied.

James Smith to Bob Craig:

5 March 2009

James Smith, UK country chair, has confirmed that pensions will be increased in April by 0.9%, in line with the December 2008 RPI annual increase. This confirmation will be included in the annual letter that James will be sending shortly to Shell pensioners.

The SPA had written to the Company once the December RPI figure became known to ask that the Company use its discretion to raise the increase to up to 3%.

In his response to Bob Craig, James confirmed that after consideration the Company has decided to stay with the RPI figure. James stated: 'I know this level of increase will be a disappointment to you and the members of the SPA and I recognise the arguments that the RPI does not reflect the cost increases felt by the typical retired person. We are obliged, however, by the trust deed and regulations, to use the RPI. The RPI remains the official index of inflation used by the government as the basis for annual increases to state pension and more broadly in the economy as a guide for wage and salary negotiations.'

James also comments as follows: 'The economic circumstances of recent months have been extraordinary of course and the effects are impacting companies and pension funds as well as individuals. The SCPF is not immune to these impacts. Relative to others, our SCPF pensioners are fortunate in that they have a formula-based annual pension increase, whereas many other pensioners are at the mercy of company discretion for any pension increase at all. They can also take comfort in the strength of Shell as the SCPF sponsor.'

James further notes that the RPI operates on a cumulative basis so that one can expect the kind of fluctuations that can occur month to month to be ironed out over time.

James has offered to meet Bob Craig to discuss further the rationale for the Company's decision.

Bob Craig comments:

'We made strong arguments to the company that, especially in this year, with the RPI index untypically reduced as a consequence of the economic crisis, now was the time for the company to use the discretion available to provide an above RPI increase up to 3%. I am extremely disappointed on behalf of our pensioner community that the company has decided not to apply this at this time. We believed that, in this year, there was a very strong case for an exception to the rule, which was affordable given the robust set of company financial results.'

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What is pension credit? *By Angela Maxwell*

Pension credit is a means-tested benefit for people aged 60 or over living in Great Britain who have a low income and/or savings.

It has two parts: the guarantee credit and the savings credit.

Am I entitled?

If you are aged 60 or more and have a total income (including assumed income from capital – see below) from all sources of less than:

- £124.05 a week if you are single
- £189.35 a week joint income if you have a partner (partner can be under 60).

The guarantee credit can top up your income to these levels.

The savings credit provides extra money of 60p in the £ to those aged 65 and over, who have income (over and above their state pension) from occupational pensions, savings or certain other investment income which takes their total income over a level called the savings credit threshold. The threshold is currently £91.20 for a single person and £145.80 for couples. The full amount of savings credit is as follows:

- £19.71 if you are single
- £26.13 a week if you have a partner

However, once your total income exceeds £124.05 (single) or £189.35 (couple) the maximum savings credit starts to be withdrawn at the rate of 40p in the £. You are therefore only likely to be entitled to any of the savings credit if as a single person your income is less than £174 per week and if as a couple your joint income is less than £255 per week. At this level of income your savings credit will have been whittled away to zero.

Do take note that if you are disabled, a carer and/or have certain housing costs such as mortgage interest, you may be entitled to the guarantee or savings credit if your income is higher than the levels stated above.

If you are in receipt of attendance allowance or disability living allowance, these benefits will be disregarded as income when calculating pension credit entitlement.

What about my savings/capital?

The home you live in is not counted as capital. Any other savings/capital of up to £6,000 are also ignored. Any capital of more than £6,000 is assumed to produce a weekly notional income of £1 for every £500 (or part of £500) over this limit.

Can you give me some examples?

Example 1 – Mary

Mary is single and is 60. She lives in her son's home. The only money she has is her state pension of £90.70 a week and an occupational pension of £10.50 per week – a total of £101.20. Her savings are under £6,000 and therefore ignored.

Qualifying income is £101.20 therefore £22.85 guarantee credit is payable to make her income up to £124.05. The difference between her income of £101.20 and the savings threshold of £91.20 is £10 so a savings credit of 60p in the £ = 60% of the difference is payable = £6.

Total pension credit is £22.85 guarantee credit plus £6 savings credit = £28.85 per week extra.

Example 2 – Raj and Su

Raj and Su are a couple and are both 75. Their combined weekly income is £160 from state pensions plus £49.35 occupational pension = £209.35 per week. They have savings of £11,000 (£6,000 ignored) which leaves £5,000. £1 a week income is assumed for every £500 = £10. So their grand total weekly income is £219. 35.

This is £30 more than the £189.35 limit so the maximum savings credit of £26.13 is reduced by 40p in the £ = 40% of the £30 = £12. Therefore only £26.13 – £12 is payable = £14.13 savings credit due.

Example 3 – John

John is a widower of 68 and has a total weekly income from his state pension, occupational pension and assumed income from capital of £198. He is therefore not entitled to pension credit because his income is too high. However, he may still be entitled to council tax benefit or housing benefit if he is a tenant. The Pension Service will be happy to check John's calculations. He should look again if his circumstances change and also every April (when the benefit rates increase) to see if he is entitled to pension credit.

Remember

Living with your grown up family does not mean that you cannot get pension credit. It's your income that counts – not theirs.

If you are entitled to pension credit you will most likely get help with other things such as housing benefit, council tax benefit and help with some medical costs Even if you are not entitled to pension credit but you have a low income, you may still get partial help with these things. The Pension Service can now help you apply for pension credit, and claim council tax benefit and housing benefit at the same time over the phone. Your benefit can be backdated for up to three months if you are entitled and you can spend up to 13 weeks abroad without your benefit being affected.

How then do I apply for pension credit?

- Call 0800 99 1234. The lines are open Monday to Friday between 8.00am – 8.00pm
- If you have speech or hearing difficulties, the textphone number is 0800 169 0133.
- When you ring, make sure you have your national insurance number handy, together with details of your income and capital.

Please note that from 6 April 2009, the guarantee pension credit weekly rates will increase to £130 (single) £198.45 (couple). Savings credit levels will also increase so check for the latest rates after 6 April 2009.

RPI ... and its shortcomings

Bob Craig explains

The inflation rate is calculated from the prices of a range of different goods and services selected to represent average spending patterns in the UK. The Office for National Statistics monitors changes in these prices each month. There are a number of indices used, the most widely used being the RPI (retail price index) and the CPI (consumer price index). Both indices dropped dramatically in December last year, partly as a result of changes in VAT rates and reductions in fuel and transport costs. However, the fall in the RPI was even more pronounced – to 0.9% in December, down from 3.0% in November – largely as a result of reductions in mortgage interest payments and house depreciation which are excluded from the CPI. This is fine if you have a mortgage, but if you don't...

SCUK and SICC reunion lunch

The annual reunion lunch of SCUK and SICC pensioners will be held this year at Lensbury on Thursday 23 April.