

Taxpayers to pay off £6bn Pension Fund deficit

The above statement is too long and technical for a tabloid newspaper headline. This potential headline is also nothing to do with the possibility of you reading this on April Fools Day! The statement is just my somewhat contrived summary of the debate in Parliament on 19th March. It concerns the Royal Mail Pension Fund.

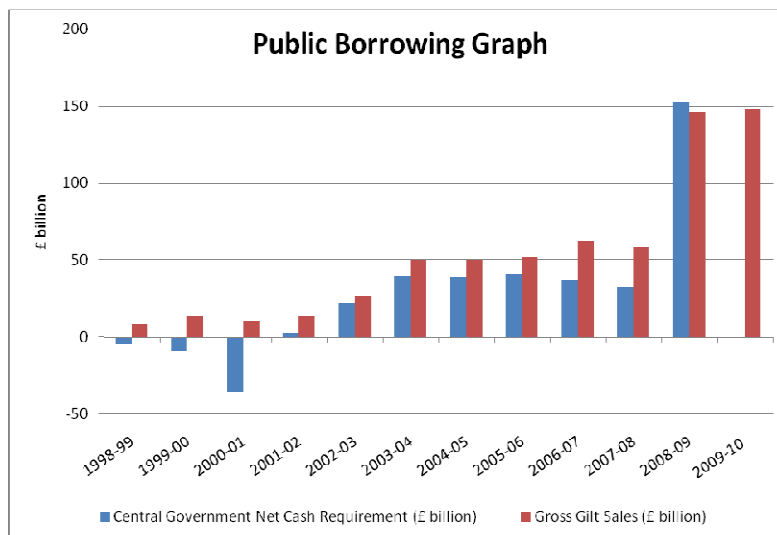
Just after half-past Ten o'clock, [Hansard](#) records some questions and answers about the Government (well actually us as taxpayers) assuming £29.5bn of liabilities in respect of the Royal Mail Pension Scheme. In return we will receive the £23.5bn of assets in the Royal Mail Pension Scheme. This move was prompted by the [second reading](#) on 10th March of Lord Mandleson's Postal Services Bill to rationalise and modernise the Royal Mail. Some interesting facts which readers may like to compare with their own assessment of a sponsor's covenant -

- Royal Mail loses around £70m per annum and is in urgent need of modernisation, investment and experience from another European postal or network company (the words of Mr. McFadden, Minister for Employment Relations and Postal Affairs).
- Clause 20 of the Bill allows the Government to take the existing assets into general funds and spend them immediately to reduce the current public sector borrowing requirement (also see below).
- The £6bn deficit was assessed at 31st March 2008. Updated figures (a bigger deficit), are awaited.
- No dividend has been paid (to taxpayers) for some years.
- The Scheme was in surplus (on some unspecified basis) as recently as 2001 but the contributions holiday was suggested as not being a contributory factor to the current deficit.

Our Debt Management

As we enter uncharted territory in our public sector borrowing the recent "Provisional debt management [report 2009/10](#)" provides some startling facts. The Debt Management Office (DMO) is the government body charged with funding our debts primarily by borrowing money through the issuance of gilts ("gilt edged" loans. The government can apparently or allegedly always pay their IOUs, if by no other means than printing money!)

Well this financial or fiscal year, we are borrowing nearly £150bn. Next year is likely to be the same. This is put in historical context by the following graph.



Government debt as a percentage of GDP (Gross Domestic Product) was high in the recession of the early 1990's. We got over that, however, the current borrowings will eclipse that level of real borrowing and perhaps most worryingly there is no medicine proposed to reduce borrowing in 2011/12 and beyond. Perhaps politicians would be well advised to start managing our expectations of recovery with the likely requirement of 5 years+ of hard work and only modest enrichment (no more average house price rises equal to average annual salary). Will the timing of the next general election have any bearing on

this I wonder? Finally with that level of borrowing is anybody else bothered about future inflation? I am.

And finally; As the Postal Services Bill outlines the gradual 1% per annum decline in post each year, another startling statistic is revealed, namely that on average 216m text messages were sent each day in 2008. The readers of Pension Snippets, like the author, may not feel that they contribute a representative proportion to that average. I haven't heard of any suggestion to put a tax on such activity, or perhaps more accurately, not yet!

As always, for further comment, assistance, advisory or trustee services, contact me on **07714 064964** or via allan@acmca.co.uk Feedback on Pension Snippets is always welcome. For further details, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at www.acmca.co.uk