

Urgent Action Needed to Address the Injustice Facing Pre-1997 Private Sector Pensioners

Introduction

The UK Defined Benefit (DB) pension scheme landscape is estimated to be:

Public sector	17.2 million people
Private sector	9.5 million people

Some pensioners in the private sector schemes are facing a **profound and systemic injustice** due to the lack of protections for pension increases on service accrued before 1997.

Within the private sector, it is estimated there are approximately **1.7 million people** (7% of the total landscape and 20% of the private sector) subject to company discretionary powers for increases to their pensions earned before April 1997. Approximately 750,000 are currently pensioners.

Many of these **pensioners are significantly disadvantaged**, with some having gone **20 years without any increase** in their pre-1997 pension income. This has resulted in a drastic erosion of their pensions, severely impacting their ability to maintain a reasonable standard of living in retirement. **These pensioners are being left behind.**

The government does not know the scale of the problem. The DWP and TPR exercise no regulatory oversight over discretionary practices within the private sector, and they **do not collect any data on the treatment of pensioners with pre-1997 service.**

This lack of awareness and understanding likely explains why **no one in government appears to care or want to understand what is going on.** The practice of discretionary increases by certain companies within the private sector is a pensions governance issue that deserves urgent and immediate attention, now.

A Fairness Gap

In public sector schemes, pensioners receive automatic inflation adjustments that **protect their income** from eroding over time. These **guaranteed annual increases** ensure that their standard of living is preserved, and pensioners can rely on a secure retirement.

By comparison, private sector pensioners with pre-1997 service rely entirely on **discretionary decisions** by sponsoring companies and/or the Trustees. In many cases, these companies choose not to grant increases, even when they are financially capable of doing so. **This inconsistent and opaque process** leaves private sector pensioners particularly vulnerable to the **ravages of inflation**, a problem that their public sector counterparts are fully shielded from.

This stark disparity is not only a **matter of fairness**; it reflects a **failure in governance** that needs to be addressed. Public sector pensioners are rightfully protected, and **similar safeguards** should be applied to this vulnerable group of private sector retirees.

A Deepening Injustice: The Consequences for Pre-1997 Pensioners

1. **Erosion of Pension Value:** Many private sector pensioners have seen the real value of their pensions **shrink dramatically** due to inflation. Pensioners without any increase for over 20 years are now receiving income that, in real terms, is a fraction of what it was at the time of retirement, despite having worked decades with the expectation of a stable retirement income. Many are likely now struggling to meet basic living costs and relying on support.
2. **Two-Tier System:** While public sector pensioners and those with post-1997 service are protected by automatic inflation-linked increases, this group of private sector pensioners is treated as a **second class**, with **no guarantees** and often no increases despite rising living costs. The creation of this **two-tier retirement system** leads to profound inequality, where some pensioners are supported, and others are abandoned.
3. **Negative Impact on Well-Being:** Pensioners affected by this lack of increases are experiencing significant declines in their **well-being and quality of life**. Many are forced into financial insecurity, with the erosion of their income leading to stress, anxiety, and the inability to afford essentials. This outcome runs contrary to the principles of **fairness and dignity** that should be central to any pension system.

Exposing the Tip of the Iceberg

Recent articles in the press and media have exposed the tip of the iceberg.

Recent articles in the press are revealing the tip of the iceberg		
LEAGUE TABLE BASED ON RECENT PRESS ARTICLES		
COMPANIES THAT HAVE GIVEN ZERO DISCRETIONARY INCREASES TO PRE-97 PENSIONS	Company	Number of years of zero
	Wood Group*	22
	Hewlett Packard/Enterprise*	19
	3M*	15
	Pfizer	15
	KPMG	15
	Goldman Sachs	10+
	Amex*	10
* Companies where former employees have come together to form the The Pre-97 Alliance		

Within the private sector, **approximately 65 large corporations account for nearly 50% of pensioners subject to discretion** for their pre-1997 service, and **only 200 companies account for 80%.** **The government has no idea how these 200 companies are treating their pensioners dependent on discretionary increases for their pre-1997 service.**

Recommendation from the recent Pension Select Committee Inquiry

The recent Pensions Select Committee Inquiry into DB pensions included the following recommendation:

9. Some pension scheme members are dependent on discretionary increases to ensure their pension payments keep up with the cost of living. Where these have not been awarded the effect has been, over time, to erode their standard of living. This can be particularly the case for those with rights built up before April 1997, when there was no general requirement to index-link pensions in payment. *TPR should undertake research to find out: how many schemes have provision for discretionary increases on pre-1997 benefits within their rules; whether the discretion is for the trustee, sponsoring employer or both; the number of years in which they have paid discretionary increases on pre-1997 rights; and in the years they have not done so, the reasons for this.* (Paragraph 83)

This recommendation has still to be acknowledged, accepted and acted on by the government.

A Call for Government Action: Ensuring Fair Treatment and Better Governance for pre-1997 pensioners

The government must acknowledge the **deep structural unfairness** that leaves a significant portion of private sector pensioners at risk of financial hardship. The following actions are urgently needed to address this imbalance:

- 1.Improved Governance and Oversight:** The government must **strengthen oversight** of how companies manage discretionary increases for pre-1997 service pensions. Currently, there is no consistent regulatory requirement for transparency or accountability in how these decisions are made, leaving pensioners exposed to arbitrary or unfair outcomes. **Stronger governance mechanisms** are essential to ensure that companies act responsibly and in good faith.
- 2.Transparency and Reporting:** Require sponsor companies to provide **transparent, public reporting** on their decisions regarding discretionary pension increases. Companies should be required to justify any decision to withhold increases, particularly when financial conditions would support them. This would prevent companies from neglecting pensioners in favour of shareholder dividends or executive bonuses, and provide pensioners with **clarity and confidence** about their retirement income.
- 3.Behaviour and Accountability:** The government should explore **sanctions or penalties** for companies that consistently refuse to grant discretionary increases despite being in a strong financial position. Pensioners should not be left to suffer because a company prioritises profits over their well-being. By introducing measures that **align corporate behaviour** with the needs of retirees, the government can help close the gap between public and private sector pension protections.
- 4. Empowering Trustees:** Trustees of private sector schemes should be given **greater powers to advocate** for pensioners and challenge company decisions when discretionary increases are consistently denied. Trustee boards must be equipped with the legal authority to **hold companies accountable** for their pension commitments, ensuring that pensioners are not left without protection.

5. **Review of Legal Framework:** The government should consider reviewing the legal framework surrounding pre-1997 service pensions to ensure that **inflation erosion is addressed** for current and future generations of pensioners. While mandating increases may not be immediately feasible, **establishing minimum standards** for company behaviour and trustee oversight is critical to safeguarding the interests of affected pensioners.

Conclusion: A Matter of Justice and Dignity

The treatment of pre-1997 private sector pensioners represents a **clear injustice** in the UK pension system. The **contrast** between the treatment of public sector pensioners, who are fully protected from inflation, and their private sector counterparts, who are left vulnerable to the discretion of companies, underscores the urgent need for reform.

MPs and the government must take action to address this imbalance. **Fairness, transparency, and accountability** must be introduced into the system governing pre-1997 pensions, ensuring that all pensioners—regardless of the sector they worked in—can enjoy a secure and dignified retirement. The government has an opportunity to correct this injustice and ensure that **no pensioner is left behind**.