

On the social security side, the Government proposes wide-ranging changes aimed at simplifying pensions legislation and improving members security, particularly when schemes wind-up. It is thought that it will be April 2005 at the earliest before those measures of the new Pensions Bill come into force. The key proposals include two which have potential significance to the plan:-

- A pension protection fund to protect the rights of members of final salary schemes whose employer becomes insolvent;
- The establishment of a fund to compensate members who have already lost out in the wind-up of under funded final salary schemes;

As a result the Trustees have to form a judgment as to whether it would be in the best interests of the scheme to wind up at present because by doing so they may disable the scheme from being able to apply for compensation from the various Government sources. At the very least, the trustees would wish to be able to study the details of the various schemes before reaching any conclusion. Entering wind-up would not result in the immediate cessation of the scheme but would require the trustees to adopt a more conservative investment strategy than that which has successfully been pursued over the last few years. If current investment conditions continue, this would deprive the scheme of the opportunity to make further gains and result in the loss of potential pension benefits.

In addition, it should be noted that the trustees remain satisfied that the scheme's liabilities are not increasing significantly in relation to the assets of the scheme and that, as such, the trustees do not consider that the deferral of the wind-up is financially disadvantageous to the members. However, the trustees do recognise that there are also risks with regard to the deferral of the wind-up. Management costs are strictly controlled and the lay trustees, G Purdie and N Campbell have not and will not in future charge for their services to the scheme. There is also a risk of adverse investment performance and increasing annuity rates, all of which could potentially reduce the possible benefits available to members.

By way of summary the trustees perceive the key issues for and against the continuing deferral of wind-up to be as set out below:

For deferral

1. If the trustees continue to pursue current investment strategies there is a prospect of increasing pension benefits for everybody
2. The pension scheme will be better placed to recover any remaining shortfalls from the government pension compensation schemes
3. Members will retain greater flexibility over the choice of pension strategy and the pension benefits they will receive

For wind-up

1. Locks into the present position, ie things can't get any worse but they won't get any better
2. An insurance company will guarantee the level of future pensions, albeit at a fairly substantial cost for taking on such a risk so that benefits may be reduced.

Your decision

I would therefore ask you to consider the issues that I have raised with you and indicate your preference on the enclosed reply and voting form. You will see that you are asked to indicate your view on two issues. First you are asked the basic question of whether you prefer deferral to immediate wind up. In addition you are asked if your view on deferral would be different if you were given the option of transferring out of the scheme.

Recognising that some members work at sea or abroad, I ask that all responses should be returned to me by 28 February 2005. I hope to be able to announce the result of the consultation shortly thereafter.