

**FINANCIAL ASSISTANCE SCHEME ANNUAL REPORT**

**1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008**

**JULY 2008**

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**Laid before each House of Parliament by the Secretary of State for Work and Pensions pursuant to regulation 7(3) of the Financial Assistance Scheme Regulations 2005 (S.I. 2005/1986).**

## BACKGROUND

1. The Financial Assistance Scheme (FAS) was set up in September 2005 to provide help to certain scheme members who had lost out on their final salary pension in circumstances of company failure prior to the introduction of the Pension Protection Fund (PPF).
2. As at the 31<sup>st</sup> March 2008 the scheme has been in operation for over two and a half years. This report provides information on the operation of the scheme for the period from 1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008.
3. A number of legislative changes and other events have affected the scope of activity in the FAS Operational Unit during the period of this Annual Report and a timeline is set out at Annex A.

## SCHEME AND BENEFICIARY NUMBERS

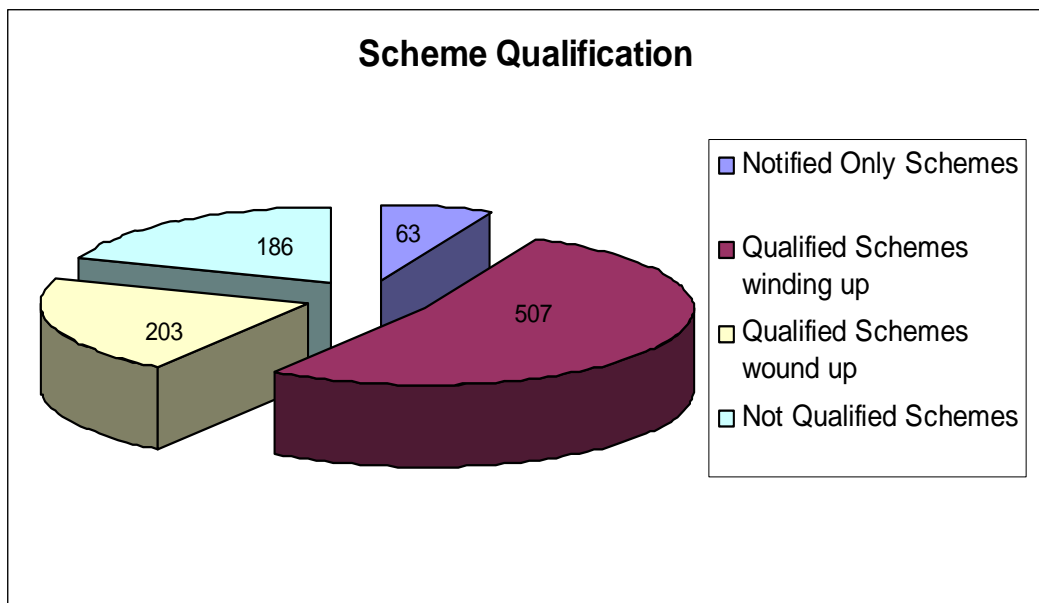
4. For an occupational pension scheme to be considered under the FAS rules, details of the scheme need to be notified<sup>1</sup> to FAS in the prescribed manner. When a scheme has notified the FAS Operational Unit, the Unit will determine whether the scheme is a qualifying pension scheme.
5. From December 2007, the eligibility conditions were extended so that schemes that had entered into a compromise agreement with an employer could qualify for FAS.
6. By 31 March 2008 a total of **959** schemes had successfully notified us of their details (see Figure 1). This included 34 schemes with compromise agreements. Of these:

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<sup>1</sup> The process by which trustees and members are able to formally notify FAS of their scheme's basic details so that the schemes can be considered for FAS qualification

- 896 schemes received formal decisions on scheme qualification (710 qualifying schemes and 186 non-qualifying).
7. Of the 63 schemes whose qualification status remained undecided:
- 56 schemes require more information from trustees to support the qualification process (including 18 compromise agreement schemes);
  - 7 schemes were in mid process where information was being clarified with trustees to determine whether the scheme would qualify or not (including 6 compromise agreement schemes).
8. Of the qualifying schemes, 507 schemes were in wind up and 203 schemes have completed the process. Based on the data we hold, we estimate that qualifying schemes have a total of 124,250 members.

Figure 1



## FOCUS IN 2007- 2008

9. To support our effective handling of an increasing number of schemes and beneficiaries, we identified four key areas to focus our activities on and the report looks at each of these in turn. These are:

- **Stakeholder engagement** - increase stakeholder activity and improve relationships with trustees and administrators;
- **Payment numbers** - increase beneficiary payments;
- **Beneficiary awareness** - increase awareness and ensure that contacts are managed effectively and efficiently; and
- **Efficiency** - ensure our processes are efficient and secure and that resources are utilised effectively.

## STAKEHOLDER ENGAGEMENT

10. Our 710 qualifying schemes are managed by 107 trustees and 81 administrators. We have engaged in an ambitious programme of work with both these groups. This included individual visits plus two open days for trustees and administrators. This programme covered a total of 640 of the FAS schemes and so targeted 90% of our portfolio.

11. At these sessions, we have focussed on providing updates on the FAS changes and addressing questions and issues arising from the Young Review (set up to examine whether an alternative treatment of the residual funds in affected pension schemes could supplement the committed Government funding of the Financial Assistance Scheme) interim and final reports and the Government's response. We also reviewed the schemes managed by the individual trustees in order to increase the provision of member data to ensure that all

beneficiaries due FAS payments were paid either from the scheme or by us.

12. We have also introduced a series of trustee updates and technical bulletins. These can be viewed on the FAS website at [www.dwp.gov.uk/fas](http://www.dwp.gov.uk/fas) and broadly focussed on:

- Guidance and information about the statutory changes and the implications for trustees when working with us;
- Clarifying issues raised in trustee visits and the open days, in particular around data requirements needed to support the delivery of member payments; and
- Messages to all data providers on secure transfer of data.

13. This proactive stakeholder strategy has substantially increased trustees' engagement in the FAS payments process and resulted in significantly increased number of payments being made to beneficiaries.

## **PAYMENTS TO SCHEME BENEFICIARIES**

### *Total payments*

14. Once a scheme has satisfied the qualifying conditions for FAS, we work with scheme trustees to provide the information required to support payments.

15. At the end of March 2007, 1057 beneficiaries were receiving payments. At 31 March 2008 this had increased to:

- A total of **5088** beneficiaries in receipt of FAS annual and initial payments<sup>2</sup>. Of these 971 were in receipt of FAS annual payments and 4117 FAS initial payments;

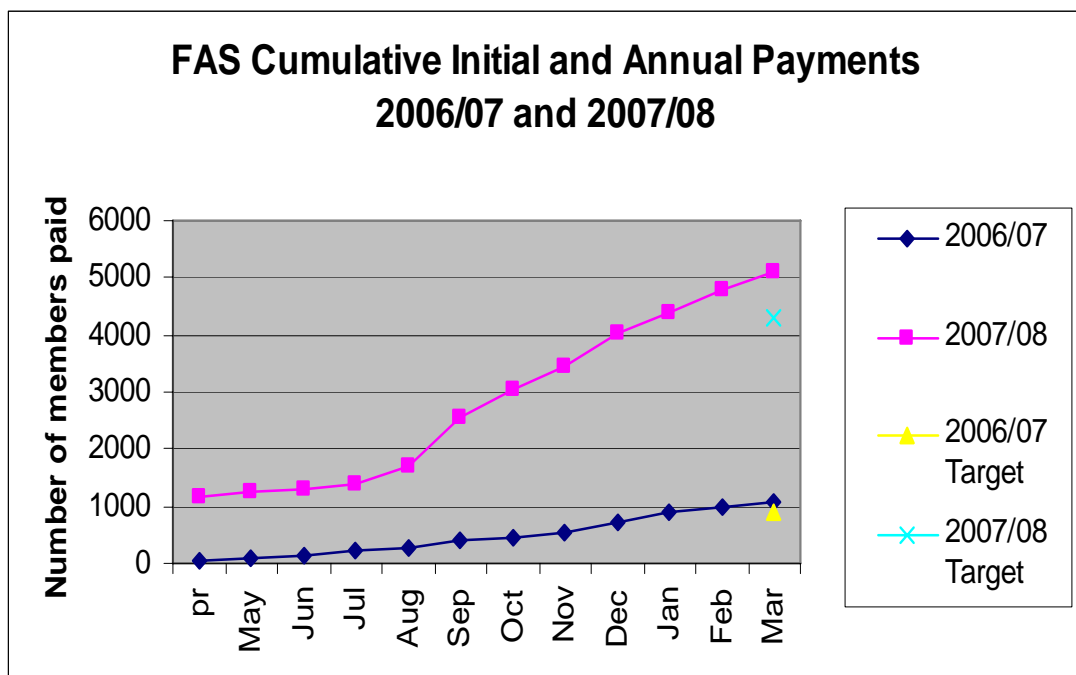
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<sup>2</sup> Annex B provides information on the circumstances in which Annual and Initial Payments are made

- A further **721** beneficiaries had been assessed and who were ready to be paid once they returned the personal details required to instigate payments; and
- A further **1517** beneficiaries who had been assessed and whose payments would start when they reached age 65 (the relevant FAS payment date as at 31 March 2008).

16. Figure 2 illustrates the significant growth in payment numbers in 2007/08 compared to 2006/07. It is also worth noting that the payment numbers mask the fact that, as the legislative changes are introduced, each beneficiary may have his case reassessed in year to reflect this.

Figure 2



17. Figure 3 shows the range of awards for the 5088 FAS beneficiaries receiving payments.

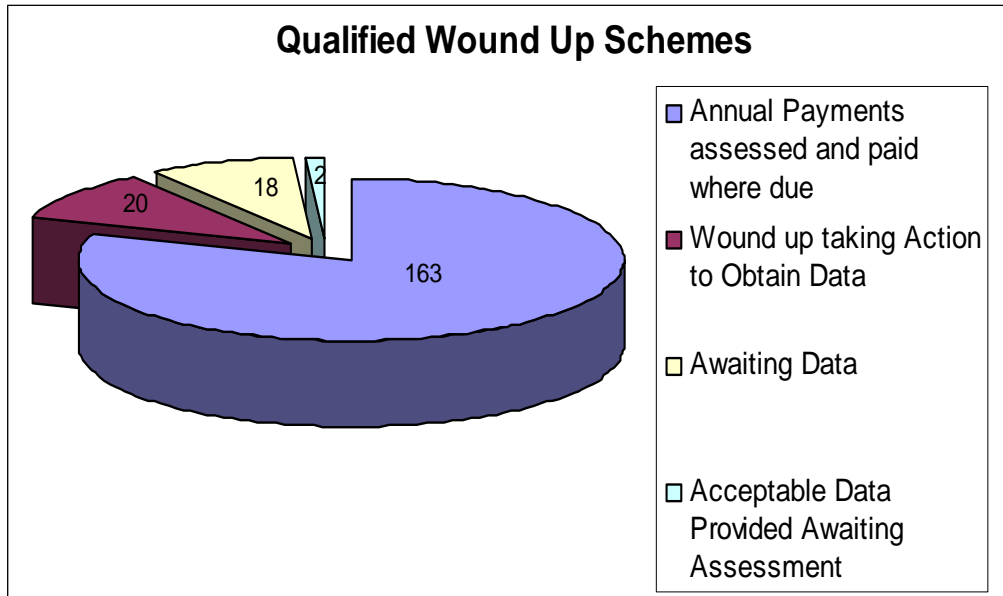
Figure 3

Payment Range Gross Figures to April 2008	Number of beneficiaries receiving Annual Payments	Numbers of beneficiaries receiving Initial Payments	Total Number
£0-250	336	808	1144
£251-520	166	706	872
£521-1000	130	762	892
£1001-3000	221	1203	1424
£3001-5000	62	371	433
£5001-7000	29	121	150
£7001-9000	16	68	84
£9001-11000	5	32	37
£11001-13000	3	18	21
£13001-15000	0	8	8
£15001-17000	1	1	2
£17001-19000	0	3	3
£19001-21000	0	6	6
£21001-23000	0	4	4
£23001-25000	0	2	2
£25000 plus	2	4	6
<b>Total</b>	<b>971</b>	<b>4117</b>	<b>5088</b>

*Payments to beneficiaries in wound up schemes*

18. Of the 203 wound up schemes 165 had provided data (compared to 61 at the end of March 2007). We continue to work with trustees, administrators and in some cases beneficiaries themselves to cleanse and gather data for a further 10 schemes where member data has been provided but the data sets are poor. Only 18 schemes are yet to provide any data. In all 91% of schemes that have wound up have provided data against 65% of schemes at the end of March 07. Figure 4 illustrates this position.

Figure 4



*Payments to beneficiaries in winding up schemes*

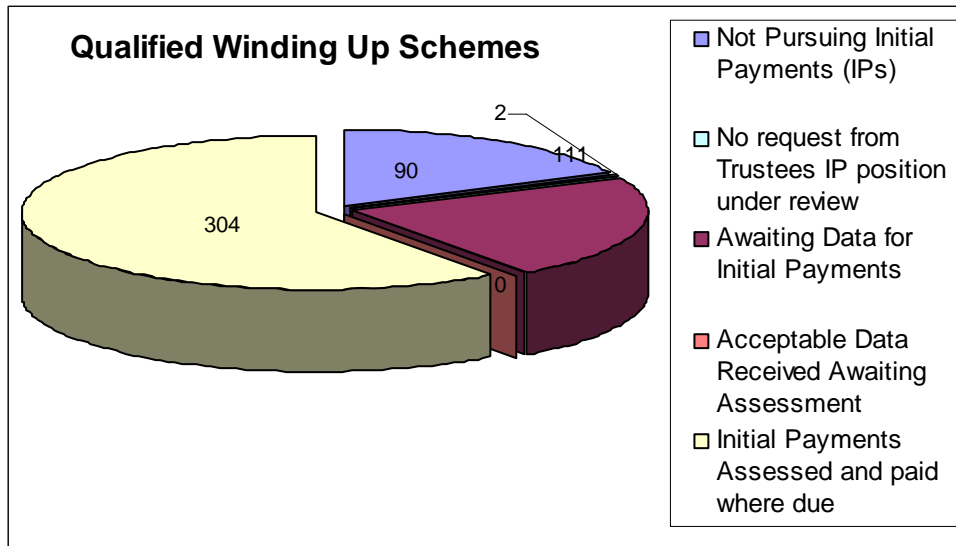
19. A total of 507 qualifying schemes are winding up (see Figure 5 below). Once a scheme has satisfied the qualifying conditions for FAS, we contact scheme trustees and provide information on making an application for initial payments. The number of schemes applying for initial payments increased significantly in year to 417 (compared to 244 in 2006/07).

20. Initial payments are made at the discretion of the FAS scheme manager. We have encouraged trustees to apply for these payments as it enables beneficiaries to receive help from FAS prior to schemes winding up, which can take a long time.

21. Of the 507 in wind up schemes, member data has been provided and assessed for 306 schemes (188 schemes as at the end of March 2007).

22. There are a further 111 schemes where the trustees have agreed that they wish to pursue initial payments and work continues to obtain the data required to support assessment and payment of FAS assistance to beneficiaries.

Figure 5



23. Only 90 schemes, 18% of our portfolio, have indicated that they do not wish to pursue initial payments. Figure 6 sets out their reasons. Where we considered it unacceptable for them not to pursue initial payments, we continued to work with the trustees to encourage them to engage in the initial payment process.

Figure 6

Wind up too close	Funding over 80%	Other with acceptable reason <sup>3</sup>	Other with unacceptable reason
38	30	17	5

*Total assessments*

24. Between 1 April 2007 and 31 March 2008 the FAS Operational Unit completed a total of 5895 beneficiary assessments that resulted in:

<sup>3</sup> For example schemes that have no members that have reached age 65 and schemes with a GMP underpin where the final funding position of the scheme is unknown.

- 3355 beneficiaries who had an immediate entitlement to FAS;
- 1104 beneficiaries who had an entitlement to FAS and payment would commence once the member reached age 65; and
- 1436 beneficiaries with no entitlement because their scheme pension exceeded 80% of the cap.

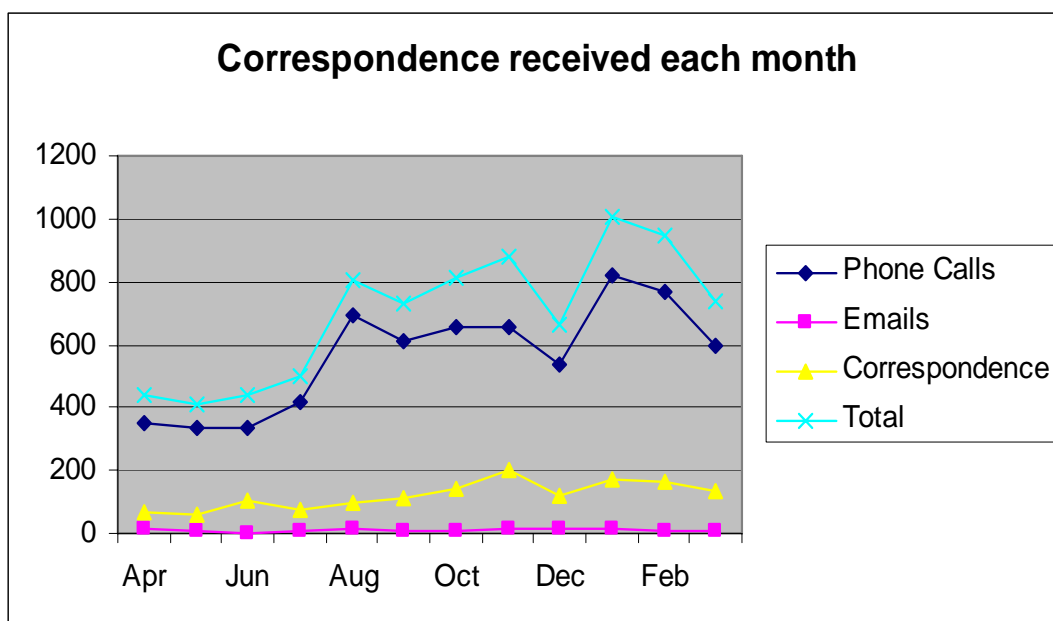
## **BENEFICIARY ENGAGEMENT**

25. We have worked in a number of ways to improve our communications with beneficiaries. Specific improvements this year included:

- the single list of schemes on the website. This provides greater detail about the status of qualifying schemes and how trustees are engaged in the provision of member data to support payments;
- qualifying beneficiaries have been able to directly contact the Unit if they have reached age 65 and have not received a payment. Previously these enquiries had been directed to trustees.

26. During the year we have handled communications from beneficiaries by telephone, e-mail and letter and measured complaints and compliments (see Figure 7 for details)

Figure 7



27. We have handled a total of 10288 beneficiary contacts in the year. We welcome views on our service and make use of all feedback. We have received much positive feedback from beneficiaries and also some negative feedback from six members (4 complaints about processing and administration and two about policy). We have reviewed these and looked at opportunities to improve procedures and processes.

## REVIEWS AND APPEALS

28. The Scheme Manager received 14 applications for an internal review of decisions made on scheme and member eligibility. The results of these reviews are set out in Figure 8. Reviews relating to scheme eligibility have been published on the FAS website.

Figure 8

Type of Review	No. received	No. review applications rejected as incorrectly made	No. of decisions upheld	No. decisions revised	Work in Progress
No of reviews requested by schemes and members	11	0	3	2	6
<sup>4</sup> Reviews instigated by Scheme Manager	3	0	2	1	0

29. Decisions on eligibility for assistance from the FAS also carry the right of appeal once an internal review has been carried out. The Pension Protection Fund Ombudsman carries out this role. Figure 9 details the outcome of the appeals. The concluded appeals have been published on the FAS and Pension Protection Fund Ombudsman ([www.pensions-ombusman.org.uk](http://www.pensions-ombusman.org.uk)) websites.

Figure 9

Type of Appeal	Number of appeals concluded	Number of decisions upheld	Number of appeals withdrawn and file closed	Work in progress
Appeal on Scheme Qualification	2	2	1	0
Appeal on beneficiary assessment	1	1	0	1

## EFFICIENCY - PROCESSES AND ADMINISTRATION

30. In March 2007 we commissioned Mercers Human Resource Consulting Limited to review our data gathering processes. We wanted to establish whether our processes could be further improved to effectively support the gathering of members' data to enable us to deliver timeous and accurate payments to beneficiaries.

<sup>4</sup> Regulation 10 of the FAS (Internal Review) Regulations 2005 provides for the scheme manager to instigate a review of a decision following receipt of information that may change the original decision

31. Mercers delivered their report in August 2007 and concluded that “the process of gathering data to operate the Financial Assistance Scheme (FAS) is fit for purpose and is managed satisfactorily.” The report acknowledged our dependency on trustees and administrators providing data and how this contributed to a delay in payments to beneficiaries. Its recommendations included making some changes to our processes around obtaining data, improving our management information and undertaking a financial audit.

32. In response to this report we:

- Built on these recommendations when developing the programme of visits to trustees and administrators;
- Now make an initial contact with trustees within seven days of the issue of a scheme qualification decision to them;
- Increased management information and controls around the collection of member data and introduced an internal escalation process where data requirements are not met;
- Increased the number of peer reviews that take place in the assessment and payment processes; and
- Commissioned an internal audit review of our end to end payment process.

33. The internal audit review issued its report in January 2008. It identified that good controls were in place to mitigate risk in the key areas of assessment, security checking and user access. It also identified a requirement for some additional controls, for example to mitigate the risk and impact of inaccurate data submitted by schemes and management information on payments.

34. We have implemented all the recommendations in the report.

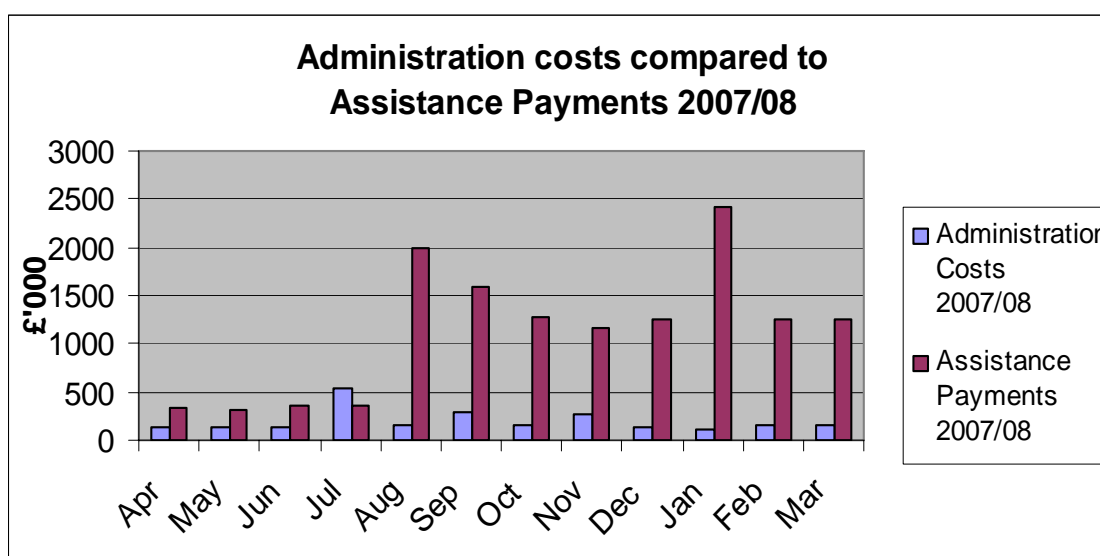
## **FINANCE**

35. The total FAS assistance paid in year in the UK totalled £13.2m and £0.26m was paid to beneficiaries in Northern Ireland. The cost of running the FAS Operational Unit during the year totalled £2.36m.

36. In April 2007 there were 56 staff (WTE<sup>5</sup>). This figure remained reasonably static with the staffing figure at March 2008 standing at 55.85 (WTE).

37. Reflecting the significant increase in the number of payments being made, from August the total amount of assistance paid was much greater than the administration costs. Figure 10 below compares the two costs on a month by month basis.

Figure 10<sup>6</sup>



38. Annex A reflects the level of change faced by the Scheme in year and this requires a constant training commitment for staff as the work of the Unit changes. Changes in the legislation also mean that assessments need to be revisited and payments calculated for past periods where appropriate.

## THE FUTURE FOR FAS

<sup>5</sup> WTE – whole time equivalent

<sup>6</sup> Administration Costs increased in July due to payment of annual IT costs.

39. On 23 April 2007 the Secretary of State for Work and Pensions initiated the Young Review which considered whether some aspects of the current Financial Assistance Scheme remained fit for purpose.

40. On 16 July, the interim report of the Young Review identified that there were approximately £1.7bn in assets in affected pension schemes that had not been used for annuity purchase. Pending the final report from the Young Review, regulations came into force on 26<sup>th</sup> September 2007 which required trustees who had not yet entered a binding commitment to purchase annuities, to apply for approval from the Scheme Manager before any further annuities were purchased or any agreements to purchase were entered into. To date we have received 9 applications seeking approval to annuitise. The outcomes were as follows:

- 1 application was withdrawn
- 5 applications were refused
- 3 applications are work in progress.

41. The final Young Review report was published on 17<sup>th</sup> December 2007. It included the recommendation that to improve the payments to pension members from FAS, the Government should absorb all the residual assets in affected pension schemes and then pay the entire payment due.

42. In response to the report the Government announced a further package of changes:

- Guaranteeing all scheme members 90% of their accrued pension at the date of commencement of wind up, revalued to their retirement date (subject to a cap of £26,000 the value of which will be protected).

- Increasing payment of assistance based on post – 1997 service in line with inflation (subject to a 2.5% limit).
- Paying assistance from the scheme's normal retirement age, subject to a lower limit of 60 (people who are unable to work due to ill health will also be able to apply for early access to their payments, subject to actuarial reduction).
- Extending assistance to members of schemes which wound up under-funded (after 1<sup>st</sup> January 1997 and before the employer was required to meet the full buy out costs) where the employer is still solvent.
- Providing for the ability to commute some portion into a lump sum, where a member's share of scheme funds allows and subject to certain Guaranteed Minimum Pensions-related restrictions.

43. Legislation enabling many of these extensions is being brought before Parliament during 2008/2009. During the last quarter we have commenced the planning and systems development that would be needed to implement the changes as quickly as possible.

## ANNEX A

<b><u>TIMELINE OF KEY FAS EVENTS</u></b>	
<b>21 March 2007</b>	<p>Extension to the FAS &amp; Review of Assets announced in the Budget :</p> <ul style="list-style-type: none"> <li>• All members of qualifying schemes will have their pensions topped up to 80% of the core pension rights accrued in their scheme.</li> <li>• The cap increased from £12,00 to £26,000</li> <li>• Removal the minimum payment rule (<i>de minimis</i>)</li> <li>• Schemes that entered into a compromise agreement with an employer will now be able to qualify for FAS.</li> </ul>
<b>18 April 2007</b>	Pensions Bill Report Stage – FAS Government amendment Inclusion of schemes with compromise agreements announced.
<b>23 April 2007</b>	Young Review launched
<b>16 July 2007</b>	Interim report of Young Review published
<b>26 July 2007</b>	Pensions Act 2007 comes into force which includes amendments to raise FAS initial payments from 60 to 80%; increase the cap to £26,000 and regulatory making powers to halt annuitisation.
<b>26 September 2007</b>	The FAS Halting Annuitisation Regulations 2007 (S.I. 2007/2533) come into force.
<b>17 December 2007</b>	Final report of Young Review published
<b>17 December 2007</b>	<p>Extension to FAS announced :</p> <ul style="list-style-type: none"> <li>• Increase payments to 90% of accrued pension payable from scheme normal retirement age (but not before age 60);</li> <li>• Access to early payments where a pension scheme member is unable to work on ill health grounds;</li> <li>• Inclusion of schemes with solvent employers;</li> <li>• Increasing payment of assistance based on post-1997 service in line with inflation (subject to a 2.5% p.a. limit);</li> <li>• Allowing members to commute a portion of their pensions to a lump sum where their share of scheme funds allows.</li> </ul>
<b>19 December 2007</b>	FAS Miscellaneous Amendments Regulations 2007 (S.I. 2007/3581) come into force which cover the extension of the scheme as announced in the Budget of March 2007.
<b>7<sup>th</sup> February 2008</b>	Court of Appeal's ruling on 'Bradley' handed down.
<b>6<sup>th</sup> March 2008</b>	Consultation exercise announced on draft Financial Assistance Scheme (Miscellaneous Provisions) Regulations
<b>27<sup>th</sup> March 2008</b>	Consultation exercise announced on draft Financial Assistance (Miscellaneous Amendments) Regulations

## Payments

During the period of this Annual report, two types of FAS payments were made –annual payments and initial payments.

An **annual payment** is the amount of assistance payable from FAS to a qualifying member of a qualifying scheme or to a survivor of such a member. It will top up their scheme pension to a level broadly equivalent to 80% of their core pension benefits (the position in the period covered by this Report). In general the amount of the annual payment can only be determined and paid once the pension scheme in question has been wound up.

**Initial payments** are interim payments made at the discretion of the scheme manager to eligible members of qualifying schemes that are still winding up. These provide flexibility to make payments to people who reach age 65 (their FAS payment age in the period to 31 March 2008) before their pension scheme has completed winding up. They also allow payments to be made to survivors of qualifying members who die during wind-up where the scheme has not yet completed its winding-up. For qualifying members initial payments top up any payment the pension scheme is making to an equivalent of 80% (increased from 60% from 26 July 2007)of core expected pension. Where the scheme is already making payments to scheme members at or above this level no payment will be due from the FAS.

## Expected Core Pension

This refers to the core pension rights a member had accrued within their scheme when it started to be wound up. “Expected core pension” does not include any additional benefits, such as those that may arise in relation to early retirement or pensions that may be paid to dependent children, which any individual scheme may have offered.

Where revaluation would have applied to any core pension rights under a scheme’s rules those rights are increased in line with prices (subject to a maximum of 5% compound per year) up to the relevant date for the member’s FAS assessment.