

FINANCIAL ASSISTANCE SCHEME

Following the debate on the Financial Assistance Scheme (FAS) during the passage of the Pensions Bill last Wednesday, I want to provide further information on the review being undertaken into making the best use of scheme assets and other potential funding sources, and our proposals to help people with losses in pension schemes that are not currently eligible for FAS.

Review of Pension Scheme Assets

On 28 March John Hutton announced a review 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.

The review has started and is being led by Andrew Young, Directing Actuary at the Government Actuary's Department. It is being advised by a panel of leading external experts that has been specially assembled to provide experience in key areas.

I am pleased to be able to confirm the names of the seven experts that have agreed to take part – their details are attached, together with the detailed terms of reference for the Review.

The Review Team has already met some key stakeholders and will be contacting others shortly to tell them about the review and to invite their contributions, including on how other non-public expenditure funding that have not already been allocated could be used to increase assistance levels.

The Review will provide an initial view in the summer, consult formally in the autumn and then report by the end of the year. In the meantime, I would like to invite suggestions on the best use of scheme assets from interested parties, and also suggestions on how other non-public expenditure funding that have not already been allocated, could be used to increase assistance levels. Pending a formal contact from the Review Team these can be sent to: adelphi.fas-review@dwp.gsi.gov.uk

Indicative list of schemes potentially eligible for support from the Financial Assistance Scheme where a compromise agreement is in place

On Wednesday I announced that we will further extend the FAS to cover members of schemes that began winding up between 1st January 1997 and 5th April 2005, where a compromise agreement is in place, and where enforcing the debt against the employer would have forced the employer into insolvency.

An indicative list of the seventeen schemes of which we are aware is attached. It has been compiled on the basis of information supplied either directly to the FAS operational unit or from discussions with scheme members and their representatives. Whether or not any of the schemes listed would be qualifying pension schemes for the purposes of FAS will depend on their exact circumstances and further information may be required from those schemes in order to determine their future eligibility.

Trustees or administrators whose schemes appear on the list but who have not yet submitted information to the FAS Operational Unit should contact the FAS Operational Unit on 0845 6019941 to obtain form FAS A1 or e-mail them at FAS-Operational-Unit@dwp.gsi.gov.uk

We are keen to ensure that we are made aware of any other schemes, not already on this list, which might be covered under this new extension. Such schemes should e-mail their contact details to: adelphi.fas-review@dwp.gsi.gov.uk

James Purnell

Indicative list of schemes potentially eligible for support from the Financial Assistance Scheme where a compromise agreement is understood to be in place

AUCS UK Defined Benefit Pension Plan

Charles Clifford Industries Limited Scheme

Folgate Insurance Co Ltd Pension

Fredk H Burgess Limited Scheme

HK Technologies Ltd Scheme

J & D Wilkie Ltd Pension Scheme 1982

Kingsmead Pension Scheme

Lionheart Group Pension Scheme

Lucas Yuasa Pension Scheme

Parsons

Shipham & Company Retirement Benefits Plan

Stankiewicz UK Pension Scheme

The Chapman Group Pension Scheme

The Data General Employee Benefit Plan

The Expamet International Scheme

The Norman Butcher

Unilabs Trust Laboratories Limited Pension Scheme

Review team lead

The Review will be led by **Andrew Young**,

- Andrew is Directing Actuary (Social insurance, pensions policy, demography & statistics) at the Government Actuary's Department
- He has over 34 years experience of advising the UK and foreign governments of all actuarial and financial aspects of pensions and social security.
- He currently works at the Pensions Regulator giving actuarial advice in relation to corporate transactions, and at the Pension Protection Fund, supporting the development of actuarial functions at the PPF. Immediately before that he was seconded to the DWP and designed the structure of the PPF.
- He has been a member of the Institute and Faculty of Actuaries Pensions Board and Chairman of their Technical and Research Committee. He is also a past-chair of the International Actuarial Association Social Security Committee.

Review team – external experts

Alan Higham is a leading expert within the Life and Pensions sector and is a Non-Executive Director of Higham Dunnett Shaw (HDS).

Ashok Gupta is a director on the Board of Pearl Group Limited.

Jane Samsworth is a partner at the international law firm Lovells.

Chris Martin is Managing Director at Independent Trustee Services (ITS) Limited.

Dr David Blake is Professor of Pension Economics at Cass Business School, City of London, and Director of the Pensions Institute.

Angela Hills is an administrator for Mercers Human Resource Consulting Limited.

Martin Clarke is the Executive Director of Financial Risk at the Pension Protection Fund.

Others may be added if additional areas of expertise are identified as necessary during the course of the review work.

Review team – terms of reference

Review of the use of assets in FAS pension schemes

Having now settled the public expenditure support for these schemes, the Secretary of State for Work and Pensions will establish a review to examine how we make best use of the assets in pension schemes that are winding up under funded with an insolvent employer or who come within the extension for solvent employers whose schemes signed a compromise agreement. The intention of the review is to determine how these or other sources of non-public expenditure funding (that have not already been allocated) could be used to increase assistance for affected scheme members. The Review will be open to any suggestions from interested and concerned parties.

Scope

- The Review will focus on those pension schemes that are eligible for assistance from the Financial Assistance Scheme. That is, those schemes that started winding up between 1st January 1997 and 5th April 2005 as a result of the sponsoring employer becoming insolvent.
- The Review will include those schemes where, in the same period, agreements were signed to compromise pension scheme debt in order to prevent an employer insolvency.
- The Review will (other than the above) not include schemes that were wound up by a solvent employer; schemes that are eligible for the PPF, or schemes that wound up prior to 1997.

Objectives

- To determine the potential value, current stewardship and current allocation to different asset classes of the assets that were the property of the relevant pensions schemes on their commencement of wind up, in order to assess what assets might be available.
- To make recommendations on the optimal use of these assets, bearing in mind:
 - The optimal economic use of these assets for meeting the liabilities
 - The implementation issues – ensuring any proposals for asset reallocation or change of stewardship are feasible
 - The ongoing administrative issues and costs involved in any proposals
 - The transfer of risk, including to the Government.
- To determine whether there are other pension schemes (in addition to those with compromise agreements) where although the sponsoring employer did not undergo an insolvency event, it would not be reasonable to expect the employer to have a continuing responsibility for supporting an under funded scheme.
- The Review will present appropriate risk management structures for any proposals, to ensure the pension scheme member benefits are no less protected than currently and that any risks to the wider taxpayer are minimized.
- The Review must ensure that the benefits of all members of these Pension schemes should be taken into account
- The Review should not propose solutions that would subject HMG on behalf of the taxpayer to the management of significant incremental risk.
- Other credible non tax funding sources should be investigated, particularly where contributions to the scheme from external sources are deemed possible
- The Review should engage all relevant stakeholders on the feasibility of any proposals.

- The Review must ensure the speed of payment of assistance to scheme members is not unduly impeded.

Timing

The Review will commence today, provide an initial view in the summer and make a report to the Secretary of State by the end of 2007.