

## **Information in relation to the Financial Assistance Scheme**

### **1. The actual and potential number of pensioners who would be covered by the scheme:**

With the extension of the FAS, we now envisage that around 40,000 members within 15 years of their scheme's normal retirement age will benefit from the FAS (an additional 25,000 or so on top of the up to 15,000 expected to be helped under the previous design). Payments are normally made from age 65, and the numbers who have already reached age 65 is relatively low. For example, someone aged 45 on 14th May 2004 (the date the scheme was announced), with a scheme pension age of 60, will not reach 65 and be eligible for their first FAS payment until 2024.

In order to determine the likely cost of the FAS and the numbers eligible, data was collected on the numbers and characteristics of 380 pension schemes, and specific data was collected on some 1,300 members of a smaller number of schemes thought to be reasonably representative of the total number. This data, together with scaling parameters, was then fed into an actuarial model to generate detailed time profiles of costs.

This data is continually reassessed against our findings as we collect details on eligible individuals from qualifying schemes.

### **2. How these estimates would be affected by the cut-off date for eligibility and the basis on which that date was decided:**

On 25 May this year, we announced that we will extend eligibility for this assistance to members of qualifying pension schemes who were within 15 years of their scheme's normal retirement age on 14 May 2004. There are approximately 125,000 members in affected schemes, of which we expect around 40,000 people to be eligible for payments from the Financial Assistance Scheme under the terms of the extension.

Our priority has been to get help to those facing the most urgent difficulties. These are clearly people who are closest to or are already over retirement age, and therefore less able to make provision to replace their lost pensions. Extending the Scheme to those within 15 years of their scheme pension age means that we can help more of those who would not necessarily be able to make up any shortfall before their planned retirement. The Government considers that extending the scheme to those 15 years from their scheme retirement age is the most that the tax payer can reasonably be expected to fund and provides significant help to those most likely to need it.

The table below shows the number of people that we estimate will be eligible for FAS:

<b>Years from SPA* at date of wind up</b>	<b>Number of individuals (estimate)</b>
Pensioners	3,000-4,000
0-3 years (80%)	Around 11,000**
4-7 years (80%)	10,000-13,000
8-11 years (65%)	8,000-10,000
12-15 years (50%)	5,000-7,000

\*Scheme Pension Age

\*\* Of which 3,000 have reached 65 years and are now eligible for payment.

### **3. The original estimate of the cost of the scheme, how this estimate has changed, and the basis for such changes:**

We estimate that the total cost of the FAS scheme will be £2.3bn. This is £1.9bn more than the £400 million over 20 years that we allocated in May 2004. In NPV terms the original £243 million increases to £783 million. The likely calls on this funding will become clearer when we are able to assess the eligibility of each scheme and its members. Until then there will inevitably be some uncertainty over the costs.

This increase reflects the extension of eligibility for assistance from members of qualifying pension schemes who were within 3 years of their scheme's normal retirement age on 14 May 2004 to further include members of qualifying pension schemes who were within 15 years of their scheme's normal retirement age on 14 May 2004.

As above, in order to determine the likely cost of the FAS and the numbers eligible, data was collected on the numbers and characteristics of 380 pension schemes, and specific data was collected on some 1,300 members of a smaller number of schemes thought to be reasonably representative of the total number. This data, together with scaling parameters, was then fed into an actuarial model to generate detailed time profiles of costs. To profile expected payments, the model makes a prudent assumption about scheme members' life expectancy, and also allows for specific features of the FAS.

The actuarial model uses data on members to calculate the amount of pension that would be paid in each year to each individual in the sample. The key pieces of information used to calculate these costs are: age; retirement age; accrued pension; percentage of pension lost and the likely longevity of eligible members and any survivors. The results, in terms of likely cash flow in each year, are scaled up to the level of the total assumed numbers of affected scheme members.

For example, if an individual is 55 years old and is a member of a scheme with a normal retirement age of 65, the model will revalue the individual's pension for 10 years, and start payments in year 11 when the individual has retired. The model will then apply the longevity assumptions and any assumed survivors' benefit to calculate the number of years in which payments need to be made. This process is repeated for each of the members in the sample and is subsequently scaled up to the population level.

#### **4. The proportion of the short-fall of pension loses that would be made good by the scheme and the basis of any changes that have been made:**

The average funding level from the scheme's assets for a non-pensioner member in an eligible scheme who is within 15 years of retirement is likely to be around 35-40% of core pension benefits.

The average accrued pension of all non-pensioner members in eligible schemes within 15 years of retirement who will receive assistance because they have less than 80% funding levels in their schemes, and who are not cut out by the de minimis rule or the benefit cap, is around £5,200 per year.

Eligible members will receive assistance according to how close they are to their scheme's normal retirement age. Scheme payments will not usually start until eligible members reach the age of 65 and this applies to both men and women.

FAS payments for eligible members (subject to the £12,000 cap and a de minimis) will work as follows:

- members who were within 7 years of scheme pension age on 14 May 2004 will receive a top-up to 80 per cent of their expected 'core' pension;
- members who were within 8 to 11 years of scheme pension age on that date will receive a top-up to 65 per cent; and
- members who were within 12 to 15 years will receive a top-up to 50 per cent.

When FAS was originally announced, only members who were within 3 years of scheme pension age on 14 May 2004 were eligible for payments; receiving a top-up to 80 per cent of their expected 'core' pension (subject to the £12,000 cap and a de minimis).

As above, extending the Scheme to those within 15 years of their scheme pension age means that we can help more of those who would not necessarily be able to make up any shortfall before their planned retirement. The Government considers that extending the scheme to those 15 years from their scheme retirement age is the most that the tax payer can reasonably be expected to fund and provides significant help to those most likely to need it.

#### **5. The considerations given to different means by which the scheme could be financed:**

Alternative options for funding which were considered initially in relation to FAS are as follows:

- (a) the remaining scheme assets;

- (b) not annuitising;
- (c) the National Insurance Fund “surplus”;
- (d) a levy on industry/on-going pension schemes;
- (e) the Department’s contingency reserve;
- (f) unclaimed assets.

In each case the option was rejected or not pursued because the amount of funds that could be realised would either not be sufficient or would potentially have adverse consequences, or both.

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