

**FINANCIAL ASSISTANCE SCHEME ANNUAL REPORT**

**1 September 2005 to 31 March 2006**

**June 2006**

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**Presented to 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).**

## **OBJECTIVES OF THE SCHEME**

The Financial Assistance Scheme (FAS) provides help to people who have lost out on their occupational pension because the scheme was under funded when it started to wind up and the employer is insolvent or no longer exists. It provides help to qualifying members of qualifying schemes whose pension schemes commenced winding up between 1<sup>st</sup> January 1997 and 5 April 2005 and were within 3 years of their schemes normal retirement age on 14<sup>th</sup> May 2004. As part of the White Paper on Pensions Reform published on 25<sup>th</sup> May 2006 the Government announced its intention to extend eligibility to those who were within 15 years of their schemes normal retirement age on 14<sup>th</sup> May 2004.

## **INTRODUCTION**

The main regulations governing FAS received Parliamentary approval in July 2005. It is administered by an operational unit which was set up from April 2005 and formally opened for business on 1<sup>st</sup> September 2005. It is part of the DWP Pensions Client Directorate and is situated in York. Although the payments are administered by this Department they do not form part of the social security system.

The structure of the scheme was designed in close consultation with an Industry Working Group representing pension interests. This engagement has continued as we now rely on the trustees and administrators of qualifying schemes to supply the operational unit with the necessary data to establish eligibility of the scheme, details of the scheme members, and to calculate awards.

There are two types of payments that can be made from the FAS: annual payments and initial payments. An *annual payment* is the amount of assistance payable from FAS to a qualifying member of a qualifying scheme. It will top up their scheme pension to a level broadly equivalent to 80% of their

core pension benefits. 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<sup>1</sup> to eligible members of qualifying schemes that are still winding up. These were introduced to provide flexibility to make payments to people who reach age 65 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. For qualifying members initial payments top up any payment the pension scheme is making to an equivalent of 60% of core expected pension as compared to the 80% for an annual payment. Where the scheme is already making payments to scheme members at or above these levels no payment will be due from the FAS.

Activity in the first six months of operation has necessarily focussed on making initial payments as most FAS qualifying schemes have not yet completed winding up.

Trustees decide whether requests for initial payments should be made. They may decide not to make such requests if, for example, their scheme is close to completing wind-up, or if members are already receiving 60% of their expected pension.

## **SCHEME ELIGIBILITY**

For schemes to qualify for FAS the scheme must first be successfully notified to the Scheme Manager. The notification period, the period in 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, began on 1 September 2005 and ended on 28 February 2006. Exceptionally, the scheme manager has discretion to accept late notifications if he considers it reasonable to do so. Once this basic information has been provided within

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<sup>1</sup> The Scheme Manager is the Secretary of State for the Department for Work and Pensions.

the relevant timescale the scheme is classed as successfully notified. The scheme then has to meet the necessary qualifying conditions to be eligible as a qualifying scheme.

By 31 March 2006 the operational unit had issued 1186 application forms and 927 of those had been returned fully or partly completed.

Of the completed application forms 867 schemes were confirmed as having successfully notified (notification decisions) their scheme details. Decisions on another 60 potential notifications were still awaiting action by the FAS operational unit at the end of the year. In addition, 202 schemes had decided that it was not in their best interest to pursue their applications as they considered it unlikely that they would be eligible for assistance.

Of the 867 successfully notified schemes, 395 formal decisions on scheme qualification decisions were made – 331 schemes were confirmed as qualifying schemes and 64 as non-qualifying.

At the end of the year there were 589 schemes where their qualification status had been undecided. 412 of these cases were either waiting for the trustee or administrator to provide details of the scheme's circumstances or to supply the supporting evidence needed to enable the decision on scheme qualification to be made. Trustees have up to six months from the date of successful notification to supply the relevant information to the scheme manager to enable him to decide whether the scheme is a qualifying scheme. The remaining 177 were awaiting further action by the operational unit to move them through to the decision stage for scheme qualification.

## **MEMBER ELIGIBILITY AND PAYMENTS**

Once a scheme has satisfied the qualifying conditions work to determine which of the scheme's individual members are eligible for assistance begins. Scheme trustees or those administering the scheme are required to provide

the operational unit with the data needed to make this assessment. The number of schemes applying for initial payments and the number that have provided data in the prescribed form has been lower than hoped. The ongoing dialogue with trustees and administrators has encouraged closer working and led to us streamlining some of our processes. We hope that this will provide a sound basis for increasing the numbers of payments in future months.

The table below shows the cumulative number of payments made in each month to 31 March 2006.

<b>Type of payment</b>	<b>December 2005</b>	<b>January 2006</b>	<b>February 2006</b>	<b>March 2006</b>	<b>Total at year end</b>
<b>Initial</b>	13	15	27	32	87
<b>Annual</b>	0	0	0	0	0
<b>Total</b>	13	15	27	32	87

By the end of March 2006, 87 monthly FAS payments had been made to 32 scheme members.

The average monthly value of payments made was £191.83 (£149.85<sup>2</sup>) with payments ranging from a minimum of £50.08 (£39.06) to a maximum of £629.81 (£491.49). Average arrears payments were £2598.09 (£2159.51) with payments ranging from £448.94 (£350.40) and £8045.32 (£6275.14).

## **INTERNAL REVIEWS AND APPEALS**

The Scheme Manager has received four applications for internal reviews of decisions made on scheme eligibility. The results of these reviews will be published on the FAS website.

Decisions on eligibility for assistance from the FAS also carry the right of appeal once an internal review has been carried out. The Department has

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<sup>2</sup> Gross figures shown with net figures indicated in brackets as FAS awards are taxable

extended the role of the Pensions Ombudsman to carry out this work alongside his work with the Pension Protection Fund. The Pensions Ombudsman has put in place the necessary systems to handle appeals. To date no appeals have been made. Information on appeals received will be published on the FAS and Pensions Ombudsman ([www.pensions-ombudsman.org.uk/](http://www.pensions-ombudsman.org.uk/)) websites.

## **COMMUNICATIONS**

In response to discussions with the industry we have clarified our guidance on member data provision and simplified the information we need from schemes. In particular we have clarified that we only require data on members who are likely to qualify for initial payments before the end of wind-up. We have also arranged meetings with trustees representing the majority of schemes with members potentially eligible for initial payments to ensure that they understand what information is required and when. Meetings with 12 trustees representing 75% of schemes had been completed by the end of April 2006. As a result of our communications activity, increasing numbers of trustees are indicating that they will spend more time on FAS matters. This will undoubtedly help to increase the speed of take up.

We have used the DWP website to publicise progress of the scheme, and to keep pension scheme members informed of the status of the applications to FAS concerning their scheme. The website ([www.dwp.gov.uk/fas](http://www.dwp.gov.uk/fas)) also contains key statistics and general information and contact details.