

**FINANCIAL ASSISTANCE SCHEME ANNUAL REPORT**

**1<sup>st</sup> April 2006 to 31<sup>st</sup> March 2007**

**JUNE 2007**

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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).**

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## **1. OBJECTIVES OF THE SCHEME**

1.1 The Financial Assistance Scheme (FAS) provides help to certain people who have lost out on their occupational pension because their scheme was under funded when it started to wind up and the employer is insolvent or no longer exists.

1.2 As at the 31<sup>st</sup> March 2007 the scheme has been in operation for 19 months and this report provides administrative information on the operation of the Financial Assistance Scheme between 1<sup>st</sup> April 2006 and 31<sup>st</sup> March 2007.

## **2. SCOPE OF THE SCHEME**

2.1 The scheme covers pension members who are within 15 years of their normal retirement age on 14<sup>th</sup> May 2004. This means that all eligible members with normal retirement ages of 65 who reach age 65 up to May 2019 will be considered for assistance, whilst those with normal retirement ages of 60 will be considered up to 2024. A number of other changes have been implemented or proposed and they are shown at Annex A.

## **3. REVIEW OF FAS ADMINISTRATION**

3.1 On 6<sup>th</sup> June 2006 the Minister of State for Pensions Reform announced that he would bring forward the planned review of the administration of the scheme.

3.2 At this time the FAS had been in operation for 9 months. This was considered an appropriate point to use the knowledge gathered in that period to look at refining, and if appropriate, altering the approach and business process to improve achievement of the scheme's objectives to provide assistance to affected scheme members.

3.3 Excluded from the scope of this review were core policy issues, including funding amounts and source, eligibility rules and levels of benefit. However, other policy issues that could increase effectiveness or efficiency had been included. Therefore the objectives of the review concentrated on the following:

- Ensuring all eligible members receive payments as quickly as possible.
- Ensuring the most cost-effective operation.
- Examining a full range of options for the appropriate organisational location and governance of the Scheme.

3.4 This involved identifying:

- Any potential changes that would increase the number of FAS payments made to eligible scheme members, with the resource/cost/organisation implications.
- Ongoing resource requirement and related running costs for FAS through assessment and qualification stages to steady state operation (where a schedule of payments has been determined for each eligible member), and options to reduce time to steady state operation.
- The optimal organisational location.

3.5 To support this work the areas examined included data gathering processes, other business processes, job roles and staffing levels within FAS and the appropriate location and governance of the operational unit.

### **Recommendations of the review**

3.6 The review reported in July 2006 and the recommendations were:

- A different skill set and a revised approach to gathering data on scheme members is required to speed up payments, these skills exist in the private sector and the Pensions Protection Fund and options

should be examined to inject these skills into the FAS Operational Unit.

- The length of the wind up process and competing trustee priorities are significant constraints to making FAS payments.
- Enter into discussions with the Pension Regulator on how best to influence trustee and administrative priorities.
- A detailed work analysis is required to critically review job roles, examine process timings and establish optimum staffing levels for the Operational Unit.
- The long term governance of FAS is best placed within The Pensions Service.

### **Implementing the review recommendations**

3.7 Good progress has been made in implementing the recommendations.

- The data requirement for initial payments has been reduced and guidance has been tailored to take account of comments from the pensions industry. This increased the volume and throughput of member assessments.
- A contract has been established with a leading pension scheme administrator - Mercers Human Resource Consulting Limited to help inject additional skills and expertise into the Operational Unit. The FAS Operational Unit completed an analysis of staff skills and Mercers used this to design a bespoke training course to address the gaps.
- Work has been completed with the Pensions Regulator on how to use his influence to raise the priority level assigned to FAS data by

administrators and trustees. Processes have been put in place for the referral to the Pension Regulator of cases where the Trustee or Administrators have indicated that they are not willing to co-operate with FAS.

- A balanced scorecard of measures was introduced over the summer to include revised targets for completed payments and other key work processes.
- The Pension Service has agreed in principle that the Operational Unit should move to their organisation and work is underway to ensure that a transfer takes place as soon as practicable<sup>1</sup>.

#### **4. OPERATIONAL ACTIVITY**

4.1 Much activity this year has concentrated on speeding up the time taken by trustees and administrators to supply data to the Operational Unit so that the number of pension scheme members receiving help continues to grow. This has not been an easy journey with much work having to be carried out to encourage trustees and administrators to attach a higher priority to the provision of data among many other competing priorities for their time.

4.2 Following the regulatory changes which were introduced in December 2006, the Operational Unit focussed on prioritising payments to 19 survivors and scheme members who were terminally ill and fell within the extension to 15 years, and were due payment immediately.

4.3 Work was ongoing with 7 pension schemes that now fall within the scope of the FAS because of the extension of insolvency events to include:

- where the employer is no longer a going concern, or
- the employer's insolvency event has occurred abroad.

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<sup>1</sup> Note: No transfer will take place in advance of the publication of the FAS Assets Review, in the light of which the continuing relevance of this recommendation will be reconsidered.

## **5. QUALIFYING SCHEMES**

5.1 By 31 March 2007, 995 schemes had successfully notified<sup>2</sup> their details to the FAS Operational Unit. 853 schemes had received formal decisions on scheme qualification, of these 667 schemes were confirmed as qualifying schemes and 186 as non-qualifying. 96% of the schemes notified have received decisions.

5.2 At the end of the year there were 142 schemes whose qualification status was undecided –

- 126 schemes still had to provide information to support the qualification process.
- 16 schemes were being taken through the qualification process and information was being clarified with trustees to determine whether the scheme would qualify or not.

5.3 Information on the status of individual schemes within the FAS process is available to members on the FAS website ([www.dwp.gov.uk/fas](http://www.dwp.gov.uk/fas)).

## **6. PAYMENTS TO SCHEME MEMBERS**

6.1 The table below shows the cumulative number of payments (Annual and Initial<sup>3</sup>) made in each month from April 2006 to March 2007 to 1057<sup>4</sup> members at a total annual cost of £3,782,725.

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<sup>2</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

<sup>3</sup> Annex B provides information on the circumstances in which Annual and Initial Payments are made

<sup>4</sup> These payments relate to members of the 245 schemes that have provided full data.

This compares to the 87 payments that had been made to 32 members by the end of March 2006.

Month	Initial Payments	Annual Payments	Total Payments
April 06	45	0	45
May 06	86	0	86
June 06	149	5	154
July 06	187	27	214
August 06	240	66	306
September 06	318	76	394
October 06	377	102	479
November 06	519	118	637
December 06	594	124	718
January 07	751	136	887
February 07	823	153	976
March 07	882	175	1057

6.2 Additionally at 31<sup>st</sup> March 2007 there were a further 197 pension scheme members for whom data has been submitted who have been assessed and will be paid once they reach the age of 65.

6.3 The range of annual and initial payments (excluding arrears) made through FAS is contained in the table below.

Payment Range Gross Figures	No of Members Receiving Annual Payments	No of Members Receiving Initial Payments	Total Number
£521 - 1000	41	270	311
£1001 - 3000	92	445	537
£3001 - 5000	28	107	135
£5001 - 7000	12	36	48
£7001 - 9000	0	16	16
£9001 - 11000	1	5	6
£11001 - 12000	1	3	4
			<b>1057</b>

## 7. NUMBER OF SCHEMES APPLYING FOR INITIAL PAYMENTS

7.1 Once a scheme has satisfied the qualifying conditions for FAS, scheme trustees are contacted and provided with information on making an application for initial payments. The number of schemes applying for initial payments increased significantly to 244 compared with the previous year when applications for initial payments had only been received from 32 schemes. Initial Payments are made at the discretion of the FAS scheme manager following a request from the trustee or manager of a scheme. We are keen to encourage trustees to apply for initial payments as it enables members to receive help from the FAS prior to completion of winding up, which can be a long process.

7.2 Of the 667 schemes that have qualified, 543 are in wind up. Of these 255 have decided not to pursue initial payments or have withdrawn their application for the following reasons:

Reason for not pursuing initial payments	Number of Schemes
Scheme too close to wind up	79
*Paying more than 60%	40
**No members eligible for help from FAS	70
Not economical	7
Still considering	12
No reason given	14
Application put on hold by trustee or administrator but may be pursued at a later date	33

\* Subject to Parliamentary approval of the proposal to increase initial payments to 80% the FAS Operational Unit will contact the trustees of these schemes to ask if they wish to reapply for initial payments.

\*\* Under the current scope of the scheme the majority are ineligible on age grounds

7.3 In addition to the 255 schemes that have decided not to pursue initial payments, the FAS Operational Unit were still working with trustees and administrators of a further 44 schemes that were still undecided about whether or not to make an application.

## 8. WORKING WITH TRUSTEES AND ADMINISTRATORS

8.1 During the early part of the year the FAS Operational Unit made targeted visits on Trustees and Administrators who represented multiple schemes and a high proportion of scheme members. Visits were made to 34 trustees and administrators who represent 332 schemes (50% of qualifying schemes) with a total membership of 78,283 including deferred and pensioner members. Educational visits were made to 11 trustees and focussed on increasing awareness of FAS and the processes to support applications for initial payments, and delivery of member data to support member assessment. A further 15 visits were made to administrators to increase their knowledge of the data sets required to support member assessment. The other 8 visits addressed member data issues on specific schemes.

## 9. INTERNAL REVIEWS AND APPEALS

9.1 The Scheme Manager had received 36 applications for internal reviews of decisions made on scheme and member eligibility. The following results of reviews relating to scheme eligibility have been already published on the FAS website.

Type of Review	No. received	No. review applications rejected as incorrectly made	No. of decisions upheld	No. decisions revised
Scheme Notification	19	0	0	19
Scheme Eligibility (qualification)	12	0	8	4
No of reviews requested by scheme by members on eligibility	0	0	0	0
No of reviews requested by scheme members on assessment	2 (still being determined)	0		
<sup>5</sup> Reviews instigated by Scheme Manager	3	0	0	3

<sup>5</sup> The Scheme Manager may instigate under regulation 10 of the FAS (Internal Review) Regulations 2005 a review of a decision following receipt of information that may change the original decision

9.2 The 19 decisions on scheme notification were revised due to a clarification of the regulations that if the scheme manager extended the date for a scheme to notify the FAS this also extended the date by which the insolvency event could occur.

9.3 Decisions on eligibility for assistance from the FAS also carry the right of appeal once an internal review has been carried out. The Pension Ombudsman carries out this role alongside his work with the Pension Protection Fund. He has received 5 appeals on scheme eligibility, 2 were not duly made as required by the regulations and therefore rejected and the other 3 remain under consideration. The outcome of these appeals, if applicable, will be published in due course on the FAS and Pensions Ombudsman ([www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)) websites.

## **10. ADMINISTRATION COSTS**

10.1 Total expenditure on the FAS Operational Unit and project costs during this year amounted to £3,992, 642. £1,984,503 is attributable to the running costs of the Operational Unit (including £1,473,968 for staffing costs) and the balance £2,008,139 was spent on project costs that included expenditure on IT design and implementation.

10.2 In April 06 there were 61 staff (wte<sup>6</sup>) and by March 2007 this has reduced to 56 (wte). Work is ongoing to recruit staff to maintain the required levels to process work as quickly as possible.

<sup>6</sup> WTE – Whole Time Equivalent

## 11. COMMUNICATIONS/CUSTOMER FEEDBACK

11.1 Whilst attracting criticism from some lobby groups and the media, the scheme has also received favourable comments from pension scheme members by letter and during the course of telephone conversations.

In letters people have made the following response:

“I was not expecting more than my basic government position, so it was a nice surprise when you awarded me the money.”

“I must admit I had resigned myself to either accepting a small amount I was receiving from my pension scheme or that if my scheme did qualify for government assistance that this would be a long drawn out affair, so I was pleasantly surprised how quickly it has all happened.”

“After four long stressful years after retirement I can now look forward to the difference these payments will make to both my wife and I in our future every day needs.”

Its good to know that your department exists to help those of us caught up in these types of problems.”

During the course of telephone calls between FAS Operational Unit Staff, and pension scheme members, the members have made the following comments:

“I am delighted with the way the operational unit has dealt with my case.”

“I was surprised I was due a payment as I left the pension scheme over 20 years ago and I am very thankful for what the FAS staff have done for me.”

“I am highly delighted with the way FAS Operational Unit handled the communication side and very pleased about the forthcoming payments.”

“My husband and I were pleased to receive the FAS payments, they were unexpected and we had long since dismissed any expectation of receiving any pension top ups.”

“I genuinely appreciate what FASOU has done for me but I am still very upset that my pension plan failed to meet its pension commitments.”

“My husband and I were pleased to receive the FAS payments, they were unexpected and we had long since dismissed any expectation of receiving any pension top ups”

### **Complaints to the FAS Operational Unit**

11.2 The FAS Operational Unit have received 8 complaints during the period of this report.

<b>Reason for Complaint</b>	<b>Number</b>
Notified changes not acted upon quickly enough.	4
Delays	3
Complaints against staff	1

## ANNEX A

### CHANGES MADE OR PROPOSED TO THE SCHEME 2006/07

<b>DATE</b>	<b>CHANGE</b>
<b>December 2006 (Regulations)</b>	Insolvency Events extended to include: <ul style="list-style-type: none"><li>• employers who had not had an informal insolvency event but who to all intents and purposes were insolvent.</li><li>• overseas insolvency events that substantially correspond to one that FAS already accepts for UK purposes.</li></ul>
<b>February 2007 (Announcement)</b>	Intention to extend cut off date for insolvency to 31 <sup>st</sup> August 2007 announced.
<b>March 2007 (Budget Speech)</b>	Chancellor announced the following proposals: <ul style="list-style-type: none"><li>• pension scheme members to have their pension rights topped up to a level of 80% of their core expected pension<sup>7</sup>.</li><li>• The level at which FAS payments are capped will be increased from £12,000 to £26,000.</li><li>• The minimum payment rule will be removed and anyone excluded from FAS because their payment was less the £520 pa will be paid.</li></ul> <p>It is expected that 125,000 will benefit from these changes.</p>
<b>March 2007 (Announcement)</b>	Review of Scheme Assets announced

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<sup>7</sup> Expected Core Pension is defined in Annex B

## **ANNEX B**

### **Payments**

There are two types of FAS payments that can be 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. 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 to eligible members of qualifying schemes that are still winding up. These 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.

### **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.