

**Monday 17 December 2007**

**DEPARTMENT FOR WORK AND PENSIONS**

**Financial Assistance Scheme**

**The Secretary of State for Work and Pensions (Rt Hon Peter Hain):** The Prime Minister announced last week that the Government would make a statement on the review of pension scheme assets undertaken by Andrew Young. The Prime Minister said that as a result of the review the Government would be able to announce that assistance from the Financial Assistance Scheme (FAS) would be guaranteed to 90%.

Andrew Young's report is published today and I am very pleased that we are able to announce a settlement that helps the 130,000 people already eligible for FAS – and an additional 11,000 people in some schemes with solvent employers. These have suffered losses, through no fault of their own, as a result of their pension schemes winding up under funded between 1st January 1997 and 5th April 2005, before the introduction of the Pension Protection Fund.

In his interim report published in July, Andrew Young identified that there was approximately £1.7 billion in assets in affected pension schemes that had not been used for annuity purchase. He concluded that the current system of annuitisation was not the best use of these assets. He said alternative solutions could provide the basis for higher assistance for members.

The Government recognised in July that more needed to be done to help those who lost their pensions. Following the publication of Andrew Young's interim report, we therefore committed to match the extra value identified by the Review with the goal of moving towards 90% assistance. We also introduced regulations to protect the £1.7 billion, placing a temporary halt on the purchase of annuities.

Since July, Andrew Young has been considering how much additional value might be generated by alternative treatment of the assets. These are complex issues and I thank him for the clarity of the final conclusions in his report.

He has concluded that, to provide a guaranteed benefit level, the best value will come from Government absorbing all the residual assets in the schemes and then making the associated payments as they fall due [1]. He has also said that members of schemes wound up by solvent employers are in similar circumstances to those in schemes wound up by insolvent employers.

Since receiving a draft of the report ten days ago, I have been working closely with the Chancellor to finalise the details of the Government response.

I can announce today the following extensions to the Financial Assistance Scheme:

- All scheme members will be guaranteed 90% of their accrued pension at the date of commencement of wind up, revalued to their retirement date [2].
- This will be subject to a cap of £26,000, the value of which will be protected.
- Payment of assistance derived from post-1997 service will be increased in line with inflation (subject to a 2.5% limit).
- Assistance will be paid from the scheme's normal retirement age, subject to a lower age 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 from the age of 60, subject to actuarial reduction) [3]
- Where their share of scheme funds allows, members will be able to commute some portion of their pension to a lump sum [4]
- Assistance will be extended to members of schemes which wound up under-funded (after 1st January 1997 and before the employer was required to meet the full buy-out cost) where the employer is still solvent.

The final details of these proposals will be confirmed in the New Year, when we will outline the legislation necessary to give effect to this package. We will do this as quickly as possible and call on all parties involved to work with the Government to ensure this commitment results in increased payments in the fastest possible time. Our priority will be to ensure that people who have already reached their scheme pension age receive payment at 90%.

The additional costs of this package will be £935 million in Net Present Value (NPV) terms. This will be on top of the £2.0 billion NPV we have already committed – £8.6 billion in cash terms. This will take the total commitment to £2.9 billion NPV, or £12.5 billion in cash terms.

This exceeds the Government's commitment to match the additional value identified by Andrew Young.

The Government recognises the difficulties experienced by those who lost their pensions through no fault of their own. We believe that the revised Scheme we have announced today represents a generous and appropriate final settlement.

Notes:

[1] HMG will take over payments to some fully funded pensions and other benefits associated with the assets transferred. The figures referred to in this statement do not include such members.

[2] Pensions accrued up to a member's date of leaving will be revalued in line with scheme rules up to the start of wind-up. Pensions that would have been revalued under scheme rules will then be revalued in line with price inflation capped at 5% per year compounded for the period. These rules will broadly equate to the compensation revaluation offered by the PPF.

[3] Payments will be backdated to the 14 May 2004 when the FAS was first announced.

[4] Subject to share of fund and restrictions that may be placed on the commutation of Guaranteed Minimum Pension rights.

[5] Inflation linking of pensions in payment will be capped at 2.5 per cent.