

Monday 4 April 2005

DEPARTMENT FOR WORK AND PENSIONS

Financial Assistance Scheme – Publication of draft regulations

The Minister for Pensions (Malcolm Wicks): Today we have published for consultation draft regulations setting out our detailed proposals for the Financial Assistance Scheme (FAS). In our previous statement on 22 February, Official Report, Col 16-18ws, we said that there are at least 380 schemes in which members might be potentially eligible for financial assistance, and placed a list in the Library. That list is indicative and based on information provided by scheme representatives.

We will be unable to confirm formally that any scheme will definitely qualify for the FAS until the regulations containing detailed eligibility criteria have been approved by Parliament and until schemes have been formally assessed under those criteria.

However, if the information we hold is confirmed during the qualification process and if the further information which may be needed to confirm scheme eligibility is provided by scheme representatives within prescribed timescales, then those schemes will meet FAS scheme qualification criteria. There is no reason to expect that any scheme should otherwise be taken off the list.

As indicated in the statement made on 22 February, the FAS will provide assistance to members of defined benefit pension schemes in circumstances where the sponsoring employer is insolvent. We are aware that some trustees and members of schemes that start to wind up with a solvent employer before 5 April 2005, but where the employer may enter insolvency after 5 April 2005, have been concerned that they will be excluded from both the FAS and the Pension Protection Fund (PPF).

I can reassure members of those schemes that start winding up before 5 April 2005 that they will potentially be eligible for assistance from the FAS should a relevant insolvency event occur after 5 April 2005. This is in order to minimise the administrative risk that members of those schemes will find themselves falling between the FAS and the PPF. However, to ensure its effective operation, it will still be necessary to set a cut off date for the occurrence of the insolvency. That cut-off date will coincide with the end of the period by which schemes must have notified the FAS of their potential eligibility. The date will be prescribed in the Regulations.

As solvent employers have a duty to support their schemes and provide the benefits members were expecting, it is right that the FAS focuses on insolvent employers. We have however taken action to facilitate operation of the arrangements for deemed buy back which enables some members of severely under-funded contracted-out pension schemes in wind-up, who meet the qualifying conditions, to choose to be reinstated into the state system.

On 31 March we laid new regulations to speed up the process and ensure schemes get their calculations quickly. These regulations clarify that as well as being available to members of some insolvent schemes (helping ensure that the funding

allocated to the FAS can help as many people as possible), this option is also available to some members in schemes with solvent employers.

As we announced on 22 February, the FAS will provide help to those within three years of their scheme pension age on 14 May 2004. The assistance will top up individuals' pensions to a level broadly equivalent to 80 per cent of the core pension rights accrued in their scheme. The draft regulations provide a detailed explanation of what this will cover.

Payments will commence at age 65 and assistance will only be provided to those who will receive at least £10 a week (or equivalent) from the FAS. There will also be a cap on the total amount of assistance and pension payable so that FAS payments do not top up people's pensions to more than £12,000 per year.

Payments will be backdated to the date we announced the Financial Assistance Scheme (May 2004) or the recipients 65th birthday, whichever is the later. These are likely to be in the form of a lump sum.

Surviving spouses of scheme members who were within 3 years of their scheme pension age on 14 May 2004 (or who would have been had they not died) will be eligible to receive payments from the date of the death of the member, regardless of the survivor's age. The FAS will provide support at 50 per cent of the member's level of assistance.

Getting assistance quickly to people who are older, especially where they are ill, is obviously a pressing concern. So, although not included in these regulations, we are exploring how to ensure that seriously ill people within three years of their scheme pension age can be paid very soon, before their pension scheme has finally wound up, and including survivors' rights. We are also exploring whether we might be able to fast track payments to people who are already 65 and putting in place arrangements to ensure those reaching 65 start receiving FAS payments as soon as possible after their 65th birthday.

We will make a further announcement on these options as soon as possible.

More details on these issues are in the draft regulations. A copy has been placed in the Library. We have invited comments on these for a period of 6 weeks until 16 May. Subject to the outcome, we plan to lay the regulations in June with the intention that they come into force as quickly as possible.