Response from the Pensions Action Group to the governments consultation on the Financial Assistance Scheme and Pension Protection Fund (Valuation ,Revaluation and Index Amendments) Regulations 2011

Background

The Pensions Action Group objectives have always been to seek a level of "assistance" compensation for all of the members who lost some or all of their pensions following either the insolvency of their employer of the winding up of the pension scheme without sufficient assets

The starting always has to be the 100% of the scheme based benefits the members lost in the first instance and much heralded 90% headline in many cases is not 90% and in all cases ceases to be 90% immediately after payments commence

Against this background PAG has through meetings with successive Ministers and DWP officials sought to improve FAS and to avoid any changes in legislation that erodes benefits

In July of 2010 a group of PAG members met with The Minister of State for Pensions and in particular highlighted the following shortcomings:

Loss of scheme based revaluation and in particular on contracted out benefits
Lack of meaningful post retirement indexation
Limited early access to benefits
Reduced tax free cash availability

We also expressed concern at the potential damage to the value of member's pensions by the proposed switch to CPI from RPI

This further reduction is of particular concern given the statements from the Minister and his Conservative counterpart when they were in opposition as well as the Chancellor Pre election promises to overturn the effects of Gordon Brown's damaging raid on pension funds

Why do we have concerns about the proposals in the consultations document?

It is clear from the paper that the switch whilst being " a more effective measure " will save money and reduce benefits and expectations and we do not believe that CPI really reflects the inflation costs faced by pensioners in areas such as council tax, rent, basis foods and utility bills and the combination of both CPI and the 2.5% limited will very swiftly become damaging

We are concerned that the document gives the Government the powers to select a different measure in the future without consultation

Whilst most of the comments here concern FAS some of the issues have an equal impact on PPF and in particular the pre retirement revaluation changes and the post retirement inflation protection

The changes will for PPF impact on the s143 valuations providing a higher level of coverage from the scheme assets and as a result a lower liability for the PPF and the levy payers

The Financial Assistance Scheme issues

Q5 we would appreciate a discussion with officials to clearly understand the issues and impact on members but PAG is against any measures which changes and or erodes member's expectations or current benefit levels

We have experience in the past where members have made decisions based on information from the scheme administrators / actuaries only to see their FAS benefits reduced as a result of FAS factors being introduced and published after the decision had been made by the member

If the new CPI basis was used would or could it impact on current benefit levels?

Q6 we are very concerned that the proposed revaluation basis further erodes expectations and whilst recognising the CPI basis will only apply from 2011 we have previously stated that the basis currently in use is already lowering expectations

Q7 The current lack of indexation is as the Minister knows our major concern because of the limited application the post 97 rule has to FAS members and further erosion which be below the 2.5% figure is very worrying and without any movement of indexation an area we will continue to campaign on

We would also refer officials to the PAG fairness paper recently published

Q.8 The cap affects very people and penalises long serving members with normal salaries rather then the Fred Godwin's of the banking community

We feel the cap needs adjustment to reflect the long serving members and we further feel that if the original intention was to cap the high earners (which it does not) then to reduce the cap from an "earnings" related basis to the lowest inflation index is wrong

The impact of the cap gets progressively worse with the lack of benefit indexation

The comments here apply equally to PPF

Q 9 and 10 this area is partially referred to above Q5 but we again restate our concerns that FAS factors do neither erode benefits in payment or benefits expected

Some schemes will have already annuitized and the benefit structure of the bought out benefits have been secured with Insurers there have been discussions in the past about offsetting bought out benefits against FAS benefits in the case of post retirement escalation thereby reducing the FAS limited escalation

We do not expect to see bought out benefits to be used by the application of FAS factors as a way of reducing the FAS top up payments

We have concerns that by these regulations there will be created 2 classes of members those bought out and those not annuitized

If the previous Government had listened to Dr Ros Altmann and indeed the new Minister then annuitisation would have ceased long before the Young review of scheme assets

Remember FAS is not all tax payers money with around £1.8bn being transferred from scheme assets