



**Financial Assistance Scheme
Review of Scheme Assets**



**Interim Report
July 2007**

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Foreword

The Financial Assistance Scheme (FAS) was set up in the Pensions Act 2004 to provide help to those people who have lost significant proportions of their occupational pension because their employer's scheme was underfunded when it started to wind up and the employer is insolvent or no longer exists.

When FAS was originally set up it was designed to provide help to qualifying members of pension schemes where these members were within three years of their scheme's normal retirement age. This relatively limited scope provided little viable opportunity for innovative use of scheme assets. However, given that the scope of FAS has been expanded considerably, and the Government has announced a further extension, I was asked by the Secretary of State for Work and Pensions to lead a review considering whether the current arrangements remain fit for purpose or whether it might be possible to make better use of the residual scheme assets to supplement Government funding and increase assistance for members.

In this interim report we consider four main areas:

- the value of assets in FAS schemes, their ownership and stewardship;
- potential alternative ways of using these assets and whether there are options to increase value;
- other non-tax sources of funding; and
- the key issues related to pension schemes with solvent employers.

This interim report summarises work to date. So far the Review team do not have all the answers; our early work suggests that there is merit in further investigation in a number of areas, and we are already in a position to draw some conclusions.

In particular this report concludes that the current arrangements (where each scheme uses their assets to purchase annuities in order to secure as much of the scheme pension as possible and Government then tops this up to a pre-specified level) are unlikely to be the most effective way of using the estimated £1.7 billion in residual scheme assets. The Review team believe that additional value could be generated solely by increased scale of the annuitisation process and with scope to make further additions coming from risk sharing and alternative management of assets and liabilities.

On other non-tax sources of funding the Review team conclude that most of the options identified are not suitable. In particular we do not believe that any voluntary contributions, 'windfall' taxes, an extension of the Pension Protection Fund or Pensions Regulator levies, the National Insurance Fund 'surplus', defined benefit pensions, 'orphan assets' or NS&I 'unclaimed assets' are credible alternative funding sources. We have not considered bank and building society unclaimed assets as these are the subject of a separate HM Treasury consultation.

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Unclaimed personal pensions and life assurance policies might theoretically provide a new source of funding though there would be substantial legislative and administrative barriers to establishing such a scheme, with a very uncertain income.

Despite this the Review team believe it should still conduct some further investigation of the complex legal and operational issues raised by unclaimed assets, involving Government and industry as required, to determine the viability of the remaining options.

We also conclude that, at present, there is insufficient information to enable us to make a recommendation on the issue of whether FAS should be extended to cover schemes that wound up underfunded but where the sponsoring employer remains solvent. To fill this, and other, information gaps and enable us to make an informed recommendation in our final report, which is due before the end of 2007, we intend to undertake further data collection and consultation over the summer. In the meantime we recommend that Government does not act on the current and proposed scheme cut-off dates for scheme insolvencies to avoid the potential exclusion of some schemes from FAS whilst our investigations are ongoing.

Finally, I would like to personally thank all the members of the expert advisory panel (Professor David Blake, Martin Clarke, Ashok Gupta, Alan Higham, Angela Hills, Chris Martin and Jane Samsworth) for their invaluable input. My thanks also go to all those scheme trustees and actuaries who have provided us with data (a full list is provided in the Annexes) and all those companies and pensions experts who have provided us with their time, thoughts, ideas and expertise for free. My thanks finally go to various members of the Department for Work and Pensions, the FAS Operational Unit and Government Actuary's Department for analysis and other input and particularly to the secretariat (Brendan McMullan, Toby Nutley and Nina Young) who have so ably supported this Review in preparing our interim report.

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July 2007

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Chapter 1: Summary

- 1.1 This is a progress report on the Financial Assistance Scheme (FAS) Review of Assets which was set up by the Secretary of State for Work and Pensions and launched on 23 April 2007 when James Purnell, the then Minister of State for Pensions Reform, published its terms of reference.
- 1.2 The review has been set up to consider whether an alternative treatment of the residual funds in affected pension schemes could supplement the committed Government funding of the Financial Assistance Scheme and “...to increase assistance for affected scheme members”.¹
- 1.3 In this interim report the Review team concentrate on identifying:
- the value of assets in FAS schemes, their ownership and stewardship;
 - potential alternative ways of using these assets and whether there are options to increase value;
 - other non-tax sources of funding; and
 - the key issues related to pension schemes with solvent employers.
- 1.4 The Review team would welcome comments on any aspect of this report or our work programme (our contact details are in Chapter 7). We plan to consult key stakeholders and experts further over the summer and will be delivering a final report before the end of 2007.

Chapter 3: Scheme assets

- 1.5 There has not previously been an informed estimate of the quantity of assets in FAS schemes, their stewardship or allocation to particular asset classes. However, commentators have generally suggested that it was at least £1 billion.
- 1.6 The Review team have conducted a data collection exercise where the 525 schemes yet to complete wind up were approached to provide information on their assets. Over 400 provided information, and the Review team is grateful for such a high level of co-operation within tight timescales.
- 1.7 These scheme level returns suggest that there are assets of around £1.7 billion in assets available, with approximately £1.3 billion of assets in schemes that have not committed any assets, and around £0.4 billion remaining in schemes that have started to commit assets to pay current or future pensioners. The vast majority of these assets are held in gilts and fixed interest assets.

¹ Statement by John Hutton, Secretary of State for Work and Pensions, 28 March 2007

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- 1.8 This estimate has the potential to change rapidly as schemes complete wind up, particularly as the majority of assets are concentrated in relatively few schemes.
- 1.9 Many schemes have also either already wholly or partly annuitised or have contractual agreements to annuitise. Whilst the Review team have not been able to make an estimate of the amounts involved we know that some of the largest schemes have already annuitised all their assets.

Chapter 4: Use of assets

- 1.10 Currently schemes in FAS use their assets to purchase annuities in order to secure as much of the promised scheme benefits as possible; these payments are then topped up to the appropriate level of expected core pension by FAS assistance payments.
- 1.11 The process of annuitisation on a scheme by scheme basis is unlikely to offer the best use of residual scheme assets because of the costs arising from duplication of negotiations, lack of scale and risk pooling etc.
- 1.12 Early investigation by the Review team suggests that there are a number of potential alternatives to this approach that should be able to secure better value for money and therefore increased assistance levels.
- 1.13 For example, merely replacing the scheme by scheme approach to annuitisation by a bulk purchase approach may be sufficient to provide greater value for money due to administrative savings and effects such as pooling risks. There may then be additional gains to be derived from alternative methods of sharing risk or reallocating it to those best able to manage it. Actively managing scheme assets (modelled on the lines of the existing PPF structure) and liabilities (particularly around longevity risk) may also provide an additional source of value. However, any change from the risk profile of the current arrangements requires further consideration to ensure that it provides an optimal solution for all relevant parties.
- 1.14 Each of the potential alternative options identified also raises complicated legal and operational questions which require additional consideration before the Review team is able to settle on a preferred solution.

Chapter 5: Other funding sources

- 1.15 The Review team have identified a number of potential non-tax funding sources, particularly various kinds of unclaimed assets. We have not considered unclaimed bank and building society assets as these are already being considered within a separate HM Treasury exercise.

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- 1.16 These sources raise complex legal and operational issues, and at present there is little evidence of how much additional funding they might provide. Hence the Review team believes there is a need to conduct further investigation, involving Government and industry as required, to determine the viability of some of these options.
- 1.17 We do not, however, believe that any voluntary contributions, ‘windfall’ taxes on profits of organisations who might be thought to have been responsible for the level of underfunding or insolvency, an extension of the Pension Protection Fund (PPF) or Pensions Regulator (tPR) levies, the National Insurance Fund ‘surplus’ or NS&I ‘unclaimed assets’ are credible alternative funding sources and will not be investigating these areas further. Some of these options also fall outside of the scope of this Review.
- 1.18 Unclaimed personal pensions and life assurance policies might theoretically provide a new source of funding. However, there would be substantial legislative and administrative barriers to establishing such a scheme, with a very uncertain income.

Chapter 6: Pension schemes with solvent employers

- 1.19 Currently FAS exists to provide financial help to members of qualifying schemes where the sponsoring employer has been unable to pay the promised pension scheme benefits because it is insolvent or no longer exists.² There have, however, been proposals that FAS should be extended to cover members of schemes wound up by solvent employers before the Pension Protection Fund (PPF) came into operation.
- 1.20 The Review team believes there are significant gaps in current understanding around the circumstances of many solvent employers with pension schemes that have wound up underfunded. In order to fill these gaps we will undertake further investigation and data collection and the results of this exercise will inform our final report. We encourage trustees and scheme members to provide us with this information.
- 1.21 The Review team agrees with Government’s plans to extend FAS to enable the inclusion of schemes where a compromise agreement is in place. However, until further investigation has been undertaken the Review team does not feel we can make a general recommendation as to the inclusion, or otherwise, of those schemes that have wound up underfunded with a solvent employer. We are, however, conscious of the argument that allowing all pension schemes with a solvent employer into FAS would allow some employers to avoid their moral responsibilities and render ongoing negotiations irrelevant.

² Government has announced plans to extend this to schemes where a compromise agreement has been entered into.

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- 1.22 The Review team recommends that Government does not action the cut-off dates for scheme insolvency to avoid the potential exclusion of some schemes from FAS whilst our investigations are ongoing.

Chapter 2: Introduction

Issues the Review are considering

“Having now settled the public expenditure support for these schemes, the Secretary of State for Work and Pensions will establish a review to examine how we make best use of the assets in pension schemes that are winding up underfunded with an insolvent employer or who come within the extension for solvent employers whose schemes signed a compromise agreement.”

Background to the Review

2.1 On 28 March 2007, John Hutton, the then Secretary of State for Work and Pensions, announced a review to examine whether an alternative treatment of the residual funds in affected pension schemes could supplement the committed Government funding of the Financial Assistance Scheme and *“...increase assistance for affected scheme members”*.

2.2 The Review was launched on 23 April 2007 when James Purnell, the then Minister of State for Pensions Reform, published its terms of reference (shown in full at Annex A) in a letter to Members of Parliament, noting that *“The review will provide an initial view in the summer, consult formally in the autumn and then report by the end of the year.”*

2.3 The Review is being led by Andrew Young of the Government Actuary's Department. It is being advised by a panel of leading external experts who provide support across a wide range of specialist and technical areas (Annex B provides more details).

The areas covered in this interim report

2.4 This interim report provides initial thoughts on five main areas which were set out in the Terms of Reference:

- the value of assets in FAS schemes, their ownership and stewardship – Chapter 3;
- options for using the assets in the relevant pension schemes and whether changes might, by themselves, increase the potential assistance levels to members – Chapter 4;
- other sources of funding and whether these might supplement the committed Government funding - Chapter 5;
- pension schemes with solvent employers and whether FAS should be extended to cover these schemes – Chapter 6; and
- preliminary conclusions and next steps in preparation for the final report due before the end of the year – Chapter 7.

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- 2.5 This interim report will be followed by a consultation over the summer, together with further information gathering (particularly on pension schemes that have wound up underfunded where there is still a solvent employer) in order for the Review team to be able to make recommendations on the areas we have been asked to consider.
- 2.6 The Review team would welcome comments or representations on any aspects of this report or our wider work programme; our contact details are provided in Chapter 7.

Chapter 3: Scheme assets

“To determine the potential value, current stewardship and current allocation to different asset classes of the assets that were the property of the relevant pensions schemes on their commencement of wind up, in order to assess what assets might be available.”

Main findings and recommendations

- There has not previously been an informed estimate of the quantity of assets in FAS schemes, their stewardship or allocation to particular asset classes. However commentators have generally suggested that it was at least £1 billion.
- The FAS Review team have, with the assistance of DWP, the FAS Operational Unit, GAD and scheme trustees undertaken a data collection exercise to provide a more robust estimate.
- The Review team believes there are around £1.7 billion in assets available, with approximately £1.3 billion of assets in schemes that have not committed any assets, and approximately £0.4 billion remaining in schemes that have started to commit assets to pay current or future pensioners. The vast majority of the remaining assets are held in gilts and fixed interest assets.
- This estimate has the potential to change rapidly as schemes complete wind up, particularly as the majority of assets are concentrated in relatively few schemes.
- Many schemes have also either already wholly or partly annuitised or have contractual agreements to annuitise (these tend to be on terms that are unlikely to be surrenderable, at least without penalty). The Review team have some concerns over the data provided to date on this so a reliable overall estimate of the amount involved has not been made. However some of the largest schemes have already annuitised all their assets.
- Scheme funding levels vary widely between schemes, but some FAS schemes are relatively well funded.

The value of assets in FAS pension schemes

3.1 The Review team, in conjunction with DWP, conducted a data collection exercise, which involved contacting all the 525 schemes currently eligible for FAS assistance that are in the process of winding up.^{3,4}

³ Schemes that are eligible for FAS assistance but are fully wound up were not contacted since their assets have already been used to secure scheme pensions.

⁴ The Review team have also undertaken a data collection exercise, with the co-operation of a number of the leading actuarial companies (details are provided at Annex I), to obtain data on individual scheme members. This data will be used to reconsider the current estimates of costs of FAS and further details will be provided in our final report.

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3.2 401 schemes responded by our deadline (Annex H provides a full list), and of these, 387 returns were used⁵, resulting in a proportion of 74 per cent of all schemes initially contacted, which represented approximately 85 per cent of the total membership⁶ of FAS eligible schemes.⁷

3.3 Initial analysis of the data provided through this data collection exercise shows the following key results:

- For the 200 schemes, which according to the data provided, have not, as yet, committed assets to provide an annuity for pensioners, nor entered into any agreement to commit assets in the future, the returns suggest that there is approximately £1.3 billion of assets as yet uncommitted. This represents approximately 43,000 deferred/active members and 18,000 pensioner members;
- For the 187 schemes who have taken some steps towards annuitisation, we estimate that there is approximately £0.4 billion of uncommitted assets;⁸ and
- Therefore, in total, **we estimate that there is approximately £1.7 billion of uncommitted assets in schemes eligible for FAS assistance** that are currently in the process of winding up.

3.4 It must be noted, however, that the pensioner members in the schemes which have not annuitised will have a priority claim on the assets in their schemes. It should also be noted that **the total of assets has the potential to change, for example, through investment returns increasing them or further annuitisation reducing them.**

3.5 We have also examined the distribution of scheme assets; this shows that:

- In schemes that have yet to commit assets to annuitisation the 10 largest⁹ schemes account for 40 per cent of the assets, the 20 largest account for 57 per cent of the assets and the 50 largest for 81 per cent of the assets; and

⁵ The period of data collection ran from 12 June 2007 to 4 July 2007, a total of 403 returns were provided, 2 being delivered after the exercise closed (a very early inspection of these two schemes returns suggests approximately another £30 million, however given current estimates are weighted for non response this should not have a material effect on estimates). A small number (14) of scheme returns were excluded due to inadequate data.

⁶ The FAS Operational Unit have supplied information on the total number of members (both eligible and not eligible for FAS assistance) in FAS schemes.

⁷ To convert our estimates of assets from the sample to the entire FAS eligible population, we have used an uprating factor of 1.16.

⁸ Schemes that had entered into a relationship with an annuity provider were also asked to provide data on the amounts paid over to annuity providers. However, assessment of this information by the Government Actuary's Department has led the Review team to have doubts over its consistency and usefulness. Therefore, the analysis of available assets for those schemes that have entered into a relationship with an annuity provider has been restricted to residual assets. It is worth noting that most schemes that had entered into a relationship with an annuity provider stated that their policies were non-surrenderable or that there were exit penalties.

⁹ Here 'largest' refers to the value of assets in the schemes.

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- In schemes that have taken some steps towards annuitisation the 10 largest account for 63 per cent of the assets, the 20 largest account for 79 per cent of the assets and the 50 largest for 95 per cent of the assets.

Figure 1: Proportion of schemes by size of scheme assets¹⁰

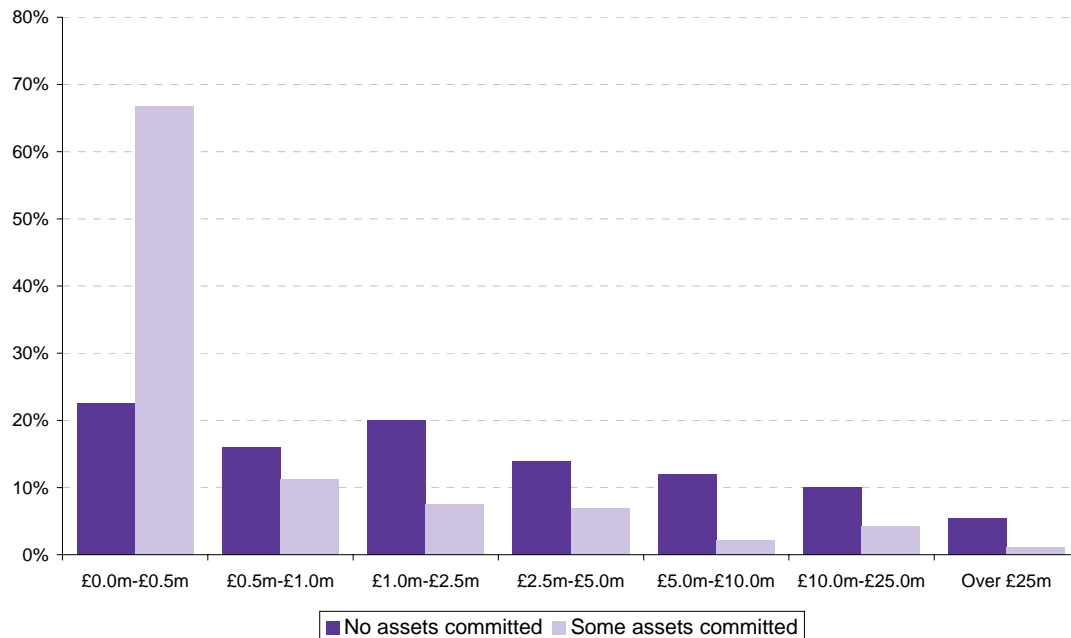
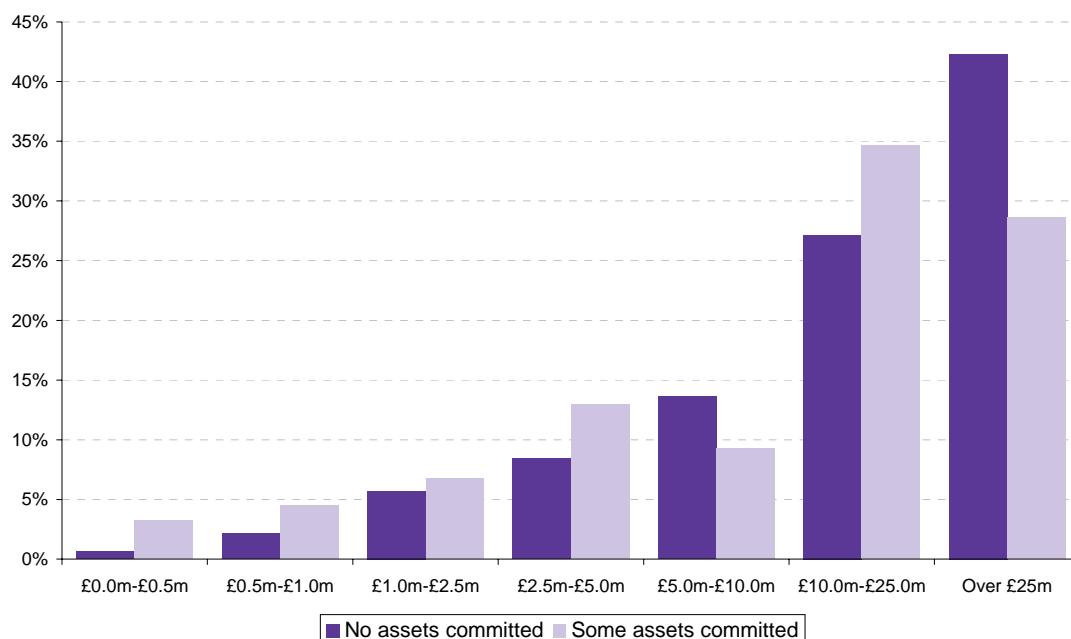


Figure 2: Proportion of assets by size of scheme assets



3.6 This distribution of assets, where the majority are contained within a few schemes, suggests that if these schemes were to annuitise then the total

¹⁰ Base for Figures 1 and 2 is the 387 schemes with useable data

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assets figures could change rapidly.¹¹ The Review team also note that several of the largest¹² FAS schemes have already fully annuitised, and this is already likely to have severely reduced the quantity of assets left.

3.7 Figure 1 shows the proportion of **schemes** by scheme asset size, this suggests that the majority of schemes have under £2.5 million in assets (including those with zero assets), but Figure 2 shows the proportion of **assets** by scheme asset size and this shows the majority of assets are in schemes with at least £10 million in assets.

3.8 Schemes were also asked about whether there was any possibility of further recovery of assets; 277 reported there was no prospect and 47 did not answer the question but, of the 63 responses:

- 28 responded that they had a 'good' chance of further recovery of assets;
- 14 responded that they had a reasonable prospect; and
- 21 had a 'low' prospect.

3.9 The total estimated amounts that might be recovered (whether with 'good', 'reasonable' or 'low' probability) were stated as £67 million. However, almost half of this amount was in respect of a single scheme, where the probability had been assessed as 'low'.

Ownership and stewardship of assets

3.10 Assets in FAS schemes are either the property of the trust and managed for the benefit of members or have been passed to insurers in order to secure scheme benefits through annuitisation.

3.11 As detailed in paragraph 3.3 200 of our sample of FAS schemes have yet to secure any scheme pension through annuity purchase¹³ whilst 187 have started to secure scheme pensions (with some of their assets). There are also a considerable number of FAS schemes (135 at May 2007) that have fully wound up and secured scheme pensions that were outside the scope of the data collection undertaken.

3.12 The data collected does not allow us to say with confidence what proportion of assets remain with trustees and what proportion has been

¹¹ The Review team understands that several schemes are awaiting a ruling on the Dubery case which will determine whether members who were been entitled to retire but had not should be treated as a pensioner for scheme wind up purposes. We have been informed that this has lead schemes to delay winding up and the ruling could lead to a significant part of the remaining assets being annuitised soon after the judgment.

¹² Here largest is defined by numbers of members.

¹³ This would imply around 50 per cent (i.e. 200 out of 401 responses). However some caution should be attached to deriving a proportion of all FAS schemes since we don't know whether the schemes that did not respond have similar characteristics and also that this only covers those scheme yet to fully wind up.

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passed to insurers; however, there is still a significant quantity (£1.7 billion) in FAS schemes.

Asset allocation

3.13 The analysis undertaken so far has also considered the asset allocation of the uncommitted assets as described above.¹⁴ Based on the returns provided, the analysis suggests an allocation as set out in Table 1.

Table 1: Assets by asset class		
Asset type	Total ¹⁵	Percentage
Gilts and fixed interest	£1.3 billion	78 per cent
Insurance policies	£140 million	8 per cent
Cash	£100 million	6 per cent
Equities	£70 million	4 per cent
Other investments	£70 million	4 per cent

3.14 The vast majority of uncommitted assets are in ‘gilts and fixed interest’ with the only other significant amounts remaining in ‘insurance policies’ and ‘cash’. These are frequently considered, by many, to be relatively ‘safe’ assets i.e. they are generally thought to be less likely to experience large fluctuations in value than, for example, equities, but they are also likely to provide relatively low returns.¹⁶ This suggests that, as outlined at paragraph 3.4, further annuitisation is more likely to drive changes in the amount of available assets than investment performance.

Scheme funding levels

3.15 Schemes were also asked about their funding levels. This was reported on a variety of different bases, by far the most common being the Minimum Funding Requirement (MFR)¹⁷ basis and a full buy out basis.¹⁸ Only

¹⁴ Some caution should be attached to these numbers as:

- The number of schemes contributing to the ‘Other investments’ category is small and schemes may have misinterpreted what should have been recorded here e.g. including managed funds which may have been recorded elsewhere as ‘Equities’ or ‘Insurance Policies’;
- A few schemes did not give percentage asset allocations, and asset figures for such schemes have been divided up between asset types pro rata to proportions for schemes which did give full details; and
- The date which the asset breakdown applied at may have been a different date from the value of assets.

¹⁵ Again, this is an updated figure to reflect the whole sample.

¹⁶ Investment in gilts/fixed interest may well reduce volatility against annuity prices, or against a liability valuation based on bond yields, which are both relevant, but compared to cash the market value of gilt/fixed interest investments can fluctuate a lot.

¹⁷ The MFR was part of a package of measures that was introduced in the 1995 Pensions Act and came into force in April 1997. It required defined benefit pension schemes to hold a minimum level of assets to meet their liabilities (though it never guaranteed full benefits for all), and set out time limits within which any underfunding had to be met.

¹⁸ The amount required to secure the full liabilities of the scheme. Full buyout involves a complete transfer of scheme assets and liabilities to an insurance company, allowing the

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results available on these two bases have been analysed. 334 schemes gave useable data on funding levels on one of these two bases.¹⁹

- 3.16 There is little difference in quoted funding levels between schemes which have committed funds to insurers²⁰ and those which have not on either basis.
- 3.17 No aggregate or average funding level figures are available since schemes reporting (on either basis) gave results as at a wide range of different dates and it is not generally appropriate to combine these.²¹ On both the MFR and the full buy out bases, there does not appear to be any strong pattern of changes in reported funding level depending on the date of the valuation (valuations in all calendar years seem to show a wide range of funding levels).
- 3.18 219 schemes reported results on the MFR basis, 94 saying that the figure was an estimate and 125 saying that it was accurate. The results reported had a range of effective dates for the MFR valuation from 1997 up to 2007:
- 24 schemes were less than 50 per cent funded;
 - 53 were between 50 per cent and 75 per cent funded;
 - 83 were between 75 per cent and 100 per cent funded; and
 - 59 were more than 100 per cent funded.
- 3.19 Being more than 100 per cent funded on the MFR basis has never meant that it is possible to secure full benefits for scheme members by buying out with an insurance company, and therefore having an MFR funding level of above 100 per cent is not inconsistent with a scheme having members who are eligible for FAS assistance.
- 3.20 115 schemes reported results on a full buy out basis, 89 saying that the figure was an estimate, and 26 saying that it was accurate. The results reported a range of dates for the full buy out funding levels between 1997 and the current time, but with the bulk of the valuations in 2003 and later:
- 6 schemes reported being less than 25 per cent funded;
 - 57 were between 25 per cent and 50 per cent funded;
 - 40 were between 50 per cent and 75 per cent funded; and
 - 12 were more than 75 per cent funded.

sponsoring employer and scheme trustees to be completely discharged of their liabilities to the scheme.

¹⁹ 53 schemes out of the 387 included in the analysis did not give a funding level; either as they did not record the basis used or as the data were unusable.

²⁰ For schemes which have already committed some, or all, of their assets to insurance companies for the purchase of annuities, the quoted funding levels would generally be as at a date before any transfer of monies to the insurer had taken place.

²¹ Since estimates would be affected by, for example, subsequent movements in stock markets.

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3.21 A scheme that is more than 75 per cent funded on a full buy out basis might be thought to have few members eligible for FAS assistance; however, once 100 per cent of liabilities for pensioners²² are met on a full buy out basis, the remaining assets divided by the full buy out liabilities for non-pensioners may well be sufficiently low that non-pensioner members are eligible for FAS assistance.

²² Pensioners being the first group to have their liabilities secured.

Chapter 4: Use of assets

Issues the Review are considering

“To make recommendations on the optimal use of these assets, bearing in mind:

- *The optimal economic use of these assets for meeting the liabilities*
- *The implementation issues – ensuring any proposals for asset reallocation or change of stewardship are feasible*
- *The ongoing administrative issues and costs involved in any proposals*
- *The transfer of risk, including to the Government.”*

Main findings and recommendations

- The current process of annuitisation on a scheme by scheme basis is unlikely to offer the best use of residual scheme assets.
- The Review team believe that there are a number of potentially viable alternatives to the current arrangements and are investigating these further.
- Initial investigations suggest that increased scale of annuitisation alone may be sufficient to provide greater value for money due to administrative savings and effects such as pooling risks.
- There may then be additional gains to be derived from alternative methods of sharing risk or reallocating it to those best able to manage it.
- There may be further advantages from operating a FAS fund along the lines of the existing PPF to increase the expected value of the amounts payable from the scheme assets and to manage this alongside the FAS payments.
- Actively managing scheme liabilities may also help to increase value for money.
- However, any changes from the risk profile of the current arrangements will require further consideration to ensure that it provides an optimal solution for all relevant parties; in particular the Review must ensure that members' accrued rights are appropriately protected and the risks to Government are properly managed.

4.1 This chapter examines:

- options for using the residual scheme assets;
- options for managing the liabilities;
- the benefits of these options;
- implementation issues; and
- proposals for our future evaluation framework.

Options for the use of scheme assets

4.2 The Review team have identified two alternative approaches to the current one for using residual scheme assets to provide assistance to members.²³

We would welcome comments on these and on any other feasible methods. The Review team believes there are therefore three options:

- Option 1 – The current FAS approach;
- Option 2 - Modified annuitisation; or
- Option 3 - Managed use of scheme assets to supplement Government assistance.

Option 1 - The current FAS approach

4.3 Under the current FAS model (Annex C provides more detailed background on FAS), insurers provide a guaranteed lifetime income via an annuity which is topped up to the appropriate level of expected core pension²⁴ by FAS assistance payments. The cost of the annuity (which is secured on a scheme basis during the winding up process) is based on actual figures for individual members' accrued rights and the insurers' pricing of annuities. The insurers bear all the risks on the proportion of a member's pension that is paid through an annuity. This proportion might be quite low in some cases, particularly for deferred members, given the priority order and low funding levels in many FAS schemes.

4.4 FAS is effectively a pay as you go (PAYG) scheme.²⁵ Therefore the Government does not bear any direct investment risks on the FAS top up²⁶, but it does bear the longevity risk on the top up amount. There is no inflation risk to be borne once payments are made as FAS payments are not indexed.

4.5 Because the amount of the annuity that can be purchased from insurance companies will be based on the assets available, Government (until they have assessed FAS entitlement for most eligible members) has to carry the risk that key assumptions made in estimating the costs of FAS, such as accrued pension and scheme funding levels, turn out to be different from reality. In order to provide a greater degree of confidence around current estimates the

²³ By members we mean those people qualifying for FAS assistance, not including those scheme members, mainly priority class pensioner scheme members, where the scheme can afford to pay a pension which is either greater than 80 per cent of the scheme's full core pension, or exceeds the proposed FAS cap of £26,000.

²⁴ Not currently exceeding £12,000, with plans to increase this to £26,000.

²⁵ Like the basic State Pension, it is paid for out of general taxation on an ongoing basis; funds are not set aside in advance.

²⁶ However there are still some investment related elements of risk, notably:

- a) if the investment performance of the recovered assets is poor, Government has to top up by whatever amount is necessary to meet the appropriate level of core pension; and
- b) poor investment performance, resulting in general economic stagnation, can affect Government since it is effectively using future growth in GDP to help underwrite the PAYG amounts.

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Review team have undertaken a data collection exercise, with the co-operation of a number of the leading actuarial companies (details are provided at Annex I), to obtain data on individual scheme members. This data will be used to reconsider the current estimates of costs of FAS and further details will be provided in our final report.²⁷

4.6 Key points with the current approach include:

- Concern has been expressed to us over the potential duplication of effort²⁸, for example, each scheme separately negotiates a deal with insurers. There is also administrative duplication, for example, through communications. This is potentially inefficient and any such inefficiencies could be reduced by exploiting economies of scale, or having a single organisation – Table 2 shows some of the duplicate events that occur in the current system;
- Concerns have also been raised to us about how competitive the annuity market is and whether annuities offer good value for money. The deferred annuity market in particular is often felt, by commentators, to be less competitive than the immediate annuity market²⁹. However, it is very difficult ex-ante to determine if an annuity price is fair given the uncertainty over, for example, interest rates and life expectancy³⁰;
- The key advantages of annuitisation include the guarantee of an income for life (regardless of how long this is) and consumer protection through FSA regulation, though as FAS is a top up arrangement Government still bears the longevity risk on that proportion³¹ of members' pensions not provided via annuitisation.³²

4.7 The Review team believe that the current process of annuitisation on a scheme by scheme basis is unlikely to offer the best use of residual

²⁷ At present data cleaning and verification are being undertaken and this data will then be used in a newly developed costing model.

²⁸ There have also been some concerns raised with the Review team about the way FAS benefits are calculated with FAS replicating benefit calculations to determine the top up and the cost and effort of processing deemed buy back.

²⁹ There have been a number of new entrants into the deferred annuity market, which traditional economic theory suggests should help to increase competition and drive down prices; there is also anecdotal evidence that the costs of buyout are falling.

³⁰ There is also a moral hazard in that since Government has committed to top up by what ever amount is necessary to meet the appropriate level of core pension, annuity providers may have a reduced incentive to offer the most competitive annuity rates and trustees a reduced incentive to negotiate the most competitive terms.

³¹ Under the proposed FAS extension it is estimated that, for those people who will receive some FAS payments, the scheme assets will finance about one third of their total income from their scheme plus FAS and the Government will finance the other two thirds through FAS.

³² Government could, if it wanted, get rid of any longevity risk amongst FAS cases by buying top-up annuities (sufficient to reach the appropriate level of core pension) from the relevant existing annuity provider (subject to Government having the appropriate legal powers). This would have the advantage of removing continuing Government responsibility for these members, but at the cost of paying upfront for the annuity i.e. converting FAS from a PAYG to a funded system. Government is, in practice, likely to be willing to accept at least some degree of longevity risk as evidenced by the current arrangements.

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scheme assets, for the reasons set out below in the descriptions of the alternative options.

Table 2: Duplicate events in current FAS system		
Duplicate events	Annuity provider	FAS
General queries from members	Will need to respond to scheme queries and refer FAS queries to FAS.	Will need to respond to FAS queries and refer scheme queries to annuity provider.
Change of address, marital status	Member would need to notify the annuity provider who will update database.	Member would need to notify FAS who will update database.
Member retires	Annuity provider will write to members with options. Retirement age may differ from 65. Administration will involve sightings of birth and marriage certificates	FAS will advise member of assistance when they get to age 65. Entitlement will be verified.
Ongoing pension payroll	Payment of pension, usually monthly in advance, collection of tax, maybe issue payslip, annual P60, application of pension increases if any.	Ongoing payroll.
Member dies either in retirement or before retirement	Dealing with member's spouse/estate to establish if any benefits are now due, set up and pay benefits to dependants, spouse as appropriate. Sight of original death certificate and birth and marriage certificate of spouse. Settlement of any lump sum if scheme provided death benefits in first five years of retirement. Other lump sum death benefits for death before retirement age.	Establish if there is a spouse, receiving proof of spouse, settlement of assistance to the spouse.
Ongoing operational costs	Cost of administering the policy on an annual basis.	Annual cost of the FAS unit.
Ongoing communication with member	Cost of any regular communication with	Cost of any regular communication with

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	members.	members.
Provision of information	Trustees need to provide member information to the annuity provider to enable policies to be set up.	Trustees separately provide membership details and benefit information to FAS separately.
Interim payments	Trustees set these up, possibly involving bulk annuity provider if in place.	Trustees pass interim payment details to FAS to enable on account information to be provided, pending finalisation of benefits. FAS will then adjust interim assistance once benefits finalised.

Option 2 - Modified annuitisation

4.8 Halting the current annuitisation process and replacing it with a modified version could offer greater value for money. The Review team have identified two possible alternative approaches:

- Bulk annuitisation; or
- Annuitisation in tranches.

4.9 It is worth noting that, on all the options identified, the total amount paid from the pension scheme and FAS to each person eligible for FAS will be the same, so the aggregate annual payments are the same under each option. There are however differences in the way the amounts financed by the assets of the scheme and the Government payments are made and in particular how they are spread over time. This will affect the present value of the Government's commitment.

Bulk annuitisation

4.10 Rather than each scheme negotiating contracts with insurers on an individual basis there may be economies of scale from the annuity purchase being done at the level of the entire FAS population not already annuitised.

4.11 Market testing would allow a reasonable assessment of the scale of any extra value to be made, but logically, additional value seems likely to be obtained as:

- existing insurers and new entrants in the buyout market have available capital and are keen to obtain additional business; a large deal of around £1.7 billion should be more attractive than hundreds of smaller ones, and is also likely to give greater buying power;

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- the pooled mortality experience across 700 schemes is likely to be more stable and easier to predict than taking on these small schemes individually³³; and
- there should be lower expenses and greater administrative efficiencies in getting one large quote than 700 small ones.³⁴

Annuitisation in tranches

4.12 The other variant to the current annuitisation process identified by the Review team is where, rather than using the residual scheme assets to secure some pension for each member (both pensioner and deferred) when the windup process is completed, annuitisation could be done on a group by group basis. This could proceed in a number of different ways, for example:

- immediate annuity purchase as pensions first become due;
- buying out the first X years of pension payments; or
- fully buying out the liabilities of the first X people closest to retirement.

4.13 On the first type of option in 4.12, Government (or some organisation like the PPF) could take in the residual scheme assets and then, as FAS assistance payments become due, transfer these assets to annuity providers to purchase immediate annuities.³⁵ This would avoid the need to purchase deferred annuities³⁶, which are widely believed by most commentators to offer relatively poorer value for money than immediate annuities, whilst still providing hedging against longevity risk. Government would be underwriting the investment and longevity risks during the deferment period in return for the expected better value obtained from deferring the annuity purchase.

4.14 Alternatively it would be possible to transfer the residual scheme assets to insurers in order to fully buy out the liabilities of all members for the first X years of FAS level of payments, with Government then paying for the full payments over the remainder of the lifetime of FAS. This could prove attractive for two reasons:

³³ For example annuitising on a scheme by scheme basis means annuitants in a single scheme tend to have similar characteristics due to the region and occupation that they worked in, hence the mortality experience is likely to be broadly similar, whereas at the level of the entire FAS population there will be a greater variety of people and hence some offsetting effects i.e. benefits of pooling. There is a possibility that, for some FAS schemes that have particular characteristics, pooling risks may lead to annuities being offered on less attractive terms (since low risk people are combined with other higher risk groups). However, these people would not lose out since Government would be ensuring a common benefit across schemes.

³⁴ This could be further improved by having good quality clean data and a simplified underlying benefit structure. Without simplification the logistics of buying out multiple benefit designs simultaneously are likely to increase the risks of error and the associated costs. Taking into account how bulk annuity providers cost benefits and building the most favourable features into the design may also enhance benefits and improve value for money.

³⁵ Which is analogous to the German approach to the PPF

³⁶ But would still leave the longevity risk of deferred members, which will be reflected in future immediate annuity rates.

- Insurers would take all the risk at the start of FAS. We understand they would do so on more competitive terms since they would not have to factor in margins for the greater longevity risk associated with younger members. Government would effectively be underwriting this longevity risk;³⁷ and
- Government expenditure would be postponed (though whether this is attractive would, of course, be a matter for Government to decide on).

4.15 There is also the option to fully buy out the total payments to be made to the first X people using all the residual scheme assets, so that insurers take total responsibility for this group, and Government takes total responsibility for the remainder of the FAS population. This would be attractive for similar reasons to the option above.

4.16 Changing the current annuitisation regime would, of course, have administrative and operational implications which are examined in more detail at paragraph 4.35.

Option 3 - Managed use of scheme assets

4.17 Rather than using the residual scheme assets to purchase some form of annuities there is the option of the managed use of the assets. The Review team have identified two approaches that could be taken:

- a fund based model, like the PPF; or
- Government taking the residual scheme assets and paying the entire FAS assistance.

4.18 For both options, it would be necessary to take account of those members of the schemes who are entitled to benefits greater than the FAS level, either prior to the remaining assets being 'managed' or within the alternative options for managing the remaining assets.

A fund based (PPF type) model

4.19 The residual scheme assets could be used to set up a fund, similar to the PPF (Annex D gives further information on the PPF) rather than purchase annuities. In the PPF compensation is funded in three ways:

- assets remaining in schemes which transfer to the PPF;
- levies charged to all eligible occupational pension schemes; and
- the investment returns from each of these.

4.20 In the case of FAS there would not be an ongoing levy income to support the fund. Therefore only the residual scheme assets would be

³⁷ Arguably insurers would be taking little risk and therefore the value of the insurance would be limited.

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used to finance the benefits which would otherwise have been met by annuitisation.

4.21 The assets in the fund could then be used either to:

- supplement the current committed Government funding throughout the lifetime of FAS; or
- make assistance payments for as long as the assets in the fund lasted.

4.22 The exact way in which financing is done would not affect the FAS beneficiaries, only the timing of the run down of the assets and the speed of payment of the Government/FAS top-ups.

Government takes assets and pays

4.23 The other approach for an alternative use of scheme assets would be for Government to absorb all the residual scheme assets as a ‘windfall’ and then pay the entire payments due to those eligible for FAS at the predetermined FAS level. However, it is hard to see that this offers any significant advantage over setting up a fund within an organisation like the PPF since it wouldn’t provide any ongoing investment income, though it might prove administratively simpler to arrange.

Liability management

4.24 As well as potentially treating the residual scheme assets in a different way there may also be scope to alter the treatment of liabilities to help drive additional overall benefits to members. There are three key options:

- Option 1 - Managing longevity risk;
- Option 2 - Simplification of the benefit structure; and
- Option 3 – Other ways of improving value.

Option 1 – Managing longevity risk

4.25 Currently the market for deferred annuities is characterised by the need for prudent margins to account for the risk of unforeseen liability increases, such as from increased longevity, or for regulatory purposes. In particular the younger the annuitant the greater the risk their longevity will exceed expectations, therefore deferred annuities are argued as being more expensive for younger members.³⁸ There are potential methods to manage this, mainly:

- The removal of younger people from the FAS population; this could be achieved by offering transfers, on a suitable basis, into a defined

³⁸ Although this is, in part, compensated for by the mortality profit created by deferred annuitants who die before the deferred annuity begins.

contribution pension. However the Review needs to consider whether this could be compatible with ensuring protection of members accrued rights;³⁹ or

- Government taking at least some of the longevity risk in relation to that part of the payments which are annuitised at present; in effect this would be like Government offering 'catastrophe' insurance, where anyone over the age of, for example, 90 would have their payments fully underwritten by Government. Therefore these particularly uncertain future payments would not need to be factored into the pricing of any contracts. As a result, the insurers would pay a higher proportion of the payments up to the cut-off age, which we consider could add overall value. The potential value from such a change and the transfer of risk, to Government in this case, needs to be investigated further.⁴⁰ There is, however, a trade-off that needs to be considered in all options, namely the additional reward anticipated for assuming additional risk.

Option 2 – Simplifying the benefit structure

4.26 Currently the FAS benefit structure has a payment of core pension that is based on two separate funding streams:

- an individual scheme pension paid through an annuity; and
- an individual top up payment.

4.27 This structure is complex and it has been suggested that merging payments into a single funding stream could make FAS simpler to operate.⁴¹ For example, the entire payment from what is currently the combined insurer plus FAS payments would come via an insurer (or, for example, from the PPF) with Government having either to:

- transfer cash to the insurer on an ongoing basis to top up the payments (effectively FAS but with a single payment being sent by the insurer); or
- transferring sufficient cash at the start of the process to fully buyout the liabilities to a given level, therefore removing the necessity for a Government top up.⁴²

4.28 The first of these two options is likely to be more attractive than the second. The first option may offer some administrative savings over the

³⁹ If Government needed to make these payments upfront there might be affordability constraints.

⁴⁰ It is, of course, worth noting that PAYG state pensions and the NHS leave Government already exposed to significant longevity risk. However the additional longevity risk from this would appear, at first sight, relatively trivial.

⁴¹ This assumption would need to be tested against the costs of making any changes.

⁴² There would also be the option for a semi funded scheme where the single payment coming from an insurer was delivered through immediate annuities with funds being transferred from Government to purchase these as liabilities became due; this is covered in some more detail in the section on annuitisation in tranches (paragraph 4.12).

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current FAS scheme. The second, however, would require Government to take a PAYG system and convert it to a funded system, with consequent implications for Government expenditure.⁴³

- 4.29 The alternative approach is for Government to pay the entire FAS payment (and manage the scheme assets in some way); this is examined in the Options for the use of scheme assets section (see paragraph 4.17).
- 4.30 There are also further simplifications that could potentially be made to the benefit structure, for example around the interaction of FAS and deemed buy-back⁴⁴ and payments from normal pension age (NPA).⁴⁵ The Review team will consider all the possible changes that could be made to benefits structures more fully in our final report due before the end of the year. We expect that simplification should reduce administrative costs and also make pricing of annuity contracts relatively easier, but this needs to be balanced against providing protection for members accrued rights “...to ensure the pension scheme member benefits are no less protected...”⁴⁶

Option 3 - Other ways of improving value

- 4.31 In addition to longevity risk there are other risks that could be managed to improve value. In particular operating FAS as a single large scheme, rather than a collection of small schemes, would offer benefits from pooling, for example, with respect to residual assets. This effect arises as the risks of schemes are not necessarily correlated with each other and hence there are offsetting effects from combining them.
- 4.32 If it was also possible to ensure all the FAS schemes in a single pool had good quality clean data, for example, on the presence of spouses and their ages etc then it becomes relatively simpler to make an estimate of the full scale of liabilities and they can be priced without the need for an additional margin to account for uncertainty.
- 4.33 There are also some potential benefits from the removal of members entitled to very small pensions, e.g. those below the current de minimis level (of £10 per week) as these cases are relatively costly to administer in relation to the benefits they expect to receive.⁴⁷ Again any potential

⁴³ Expenditure would be brought forward since Government would need to make an upfront contribution.

⁴⁴ Deemed buy-back is a process where members can benefit from reinstatement into the additional state pension (State Second Pension, formerly SERPS), in return for the payment of a premium by the pension scheme.

⁴⁵ At present members get a scheme pension from NPA (assuming this is less than 65) to 65, then they get FAS and scheme pension from 65. Paying FAS from NPA would make this simpler and make attribution of scheme assets easier since there would not be a need to earmark those assets required to pay pensions till FAS assistance starts, there would however be an attached cost (which is currently unknown).

⁴⁶ See Annex A for the Review's Terms of Reference.

⁴⁷ If this removal takes the form of a cash transfer out of the scheme then there is, of course, a potential issue in so far as Government expenditure is brought forwards.

changes to benefit structure need to bear in mind the protection of members' accrued rights.

The benefits of the various options

4.34 At this stage, the Review team have not had sufficient opportunity to conduct detailed analysis of the additional benefits that changing from the current arrangements might generate; this analysis will be undertaken for our final report. However initial discussions with insurers and investment banks suggest that:

- **the current FAS scheme is not the best way of ensuring good value**, as there is a complicated process and benefit structure, considerable duplication of administration, insufficient risk pooling etc;
- **bulk purchase**, with cleaned data, and maybe some simplification of the underlying benefit structure **could deliver an improvement of perhaps as much as 10-15 per cent**^{48,49};
- **risk sharing or reallocation** e.g. Government guarantees, Government taking the tail longevity risk, actively managing assets etc **are felt to deliver a further potential improvement**, though clearly the compatibility of these options with the need for the Review to *"...present appropriate risk management structures for any proposals, to ensure the pension scheme member benefits are no less protected than currently and that any risks to the wider taxpayer are minimized"* will require additional consideration.

Implementation issues

4.35 The Review has been tasked with ensuring that *"...any proposals for asset reallocation or change of stewardship are feasible"*. At this stage the Review team has not had sufficient opportunity to undertake a detailed exploration of all the legal, operational and administrative aspects of any changes. Based on our work to date, we are now focussing on the following areas:

- Issue 1 - Range of assets/members/schemes included;
- Issue 2 - Use of Government funding;
- Issue 3 - Protecting members accrued rights;
- Issue 4 - Management of residual scheme assets;
- Issue 5 - Ensuring ongoing payments; and
- Issue 6 - Letting contracts.

⁴⁸ There would be costs involved in preparing the schemes for such an exercise, although most of that work would have to be done in any case within the current piecemeal process

⁴⁹ The 10 to 15 per cent has been suggested through discussions with insurers and investment banks; it will vary depending on the exact mix of people e.g. ages and genders etc.

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Issue 1 - The range of assets/members/schemes included

- 4.36 Currently FAS assistance is not provided to all members of FAS schemes, as some members are excluded on the basis of the cap, de minimis⁵⁰ or because their scheme pension exceeds the FAS assistance level. One possible extension to the pooling options is to include the assets and liabilities of non-qualifying members of FAS qualified schemes.⁵¹ This would increase the amount of residual assets available⁵² (with a corresponding increase in liabilities) and remove the need for trustees to identify and earmark the assets required to pay scheme pensions in respect of these people. However, ensuring that they did not receive less than the pension they expected could act against intentions to make FAS simpler. The alternative approach would be to ensure that these people had an annuity arrangement in place before assets were pooled.
- 4.37 Including the assets required to pay scheme pension from NPA is clearly sensible if FAS were extended to pay from NPA; it might also be a feasible option worth exploring even if paying from age 65 combined with other arrangements to pay the member from NPA to 65. Paragraph 4.30 explores this idea in some more detail.
- 4.38 For options where assets are pooled there also needs to be a method in place to ensure that FAS, or any other organisation conducting the pooling on behalf of members, collects all the assets⁵³ from every scheme winding up. The cost and timing of this exercise needs to be thought through to ensure that it works effectively without loss of service to members.
- 4.39 There also needs to be consideration of whether any new administrative arrangements cover all the FAS schemes or just those schemes that have not finalised winding up. Any new approach needs to avoid creating a two tier system with winners and losers depending solely on the stage of wind up that has been achieved.

⁵⁰ Which is due to be removed

⁵¹ Many of the scheme assets are referable to members who do not qualify for FAS e.g. pensioner members have a greater priority than deferred members such that, even in severely underfunded schemes, they may still get enough pension to extinguish their entitlement to FAS.

⁵² The increase would not take the total above the £1.7 billion identified, rather it would avoid these being reduced as assets were allocated in respect of non FAS qualifying members.

⁵³ If FAS is only going to take over the assets relating to qualifying members then there is more complexity than if FAS takes over all the assets. Ultimately, FAS would have to rely on trustees doing their job properly to buy out the priority pensioners and identify the residual assets available for FAS qualifying members. Scheme assets would be subject to some form of audit and so an individual sign off/reconciliation ought to be available.

Issue 2 - Use of Government funding

4.40 Where the Government makes a top-up payment in addition to any income stream generated by scheme assets there are two plausible methods to do this; either to use all the scheme assets upfront and Government expenditure to follow once these are exhausted or a smoother transition. Government may prefer to exhaust scheme assets⁵⁴ since this would defer expenditure but this is likely to be less attractive to any asset managers since it would, in all probability, severely constrain the investment strategies they could adopt. This issue applies to several of the options, especially those where there is no annuitisation. We will be carrying out further work on the impact of different options.

Issue 3 - Protecting members' accrued rights

4.41 Any new arrangements put in place need to provide adequate protection for members accrued pension rights and ensure that members' expectations are fulfilled. The Review team is examining this issue to identify which groups might lose from any changes and develop strategies to mitigate this. We propose setting explicit evaluation criteria around members' rights (see Paragraph 4.53 for more details).

Issue 4 - Management of residual scheme assets rather than annuitisation

4.42 Options that require the management of residual scheme assets raise a number of issues, but it is important to remember that these are not unique or even unusual. For example, many closed schemes (i.e. where there is no additional income save for investment growth)⁵⁵ operate on a far smaller scale than the assets in FAS would allow.

4.43 There would be a need to ensure that high quality fund managers could be retained and that they would have sufficient incentives to provide appropriate asset management. The PPF already delivers this and there could well be benefits from running any FAS based funds alongside the PPF to achieve further economies of scale.

4.44 There is also a need to ensure that appropriate risk management structures are in place. However running a fund need not imply Government taking on large scale investment risk; fund managers can be directed on the quantum of investment risk (and reward) they are to undertake and run the investment fund appropriately.

⁵⁴ Here there would be a discrete increase in Government spending from zero to a large annual payment when the scheme assets were exhausted; this may not prove attractive to Government.

⁵⁵ Management of closed schemes tends to be a fairly technical (although fairly standard) asset-liability management exercise which could be put out to tender.

Issue 5 - Ensuring ongoing payments

4.45 There is a need to ensure that members continue to get assistance payments whilst any new arrangements are put in place. Indeed, we would ideally want any option to make it easier to ensure that members eligible for FAS are able to get their payments as soon as they qualify. Initial investigation suggests that the options identified need not cause any major disruption around paying people as they reach 65.

Issue 6 - Letting contracts

4.46 For options where contracts (either for fund management or annuity purchase) are let on a bulk basis there needs to be an appropriate tendering structure in place to ensure best value. There would also be a need to ensure that any move to a bulk contract does not lead to increased counter-party risk e.g. the risk of default when provision is not spread across providers. However, this is a standard commercial exercise that is frequently conducted and the Review team have no reason to believe it would be problematic.

An evaluation framework for choosing between options

4.47 The Review team plan to use an evaluation framework to determine the relative merits of alternative options. In their future work on investigating the details of the options, the Review team propose a two stage process where:

- all options first need to pass some fundamental hurdles, and assuming these are passed then;
- they are assessed for their relative performance in key areas.

Hurdles

4.48 Any option would have to be compatible with all aspects of the current legislative framework applicable to FAS schemes, or would need to be capable of being made compatible within a reasonable timescale.

4.49 Any option would need to be capable of working administratively without causing any unreasonable or material delays in payments to members.

4.50 Any extra costs of moving towards new arrangements need to be manageable and not represent too great a proportion of any additional benefits.

- 4.51 Assistance must be capable of being delivered through existing institutions (with appropriate use of specialists, existing capacity and capability).
- 4.52 Any option must not significantly increase the risks to Government, members or other parties.
- 4.53 Any new arrangements put in place should seek to ensure that, as far as possible, members are not disadvantaged compared to the existing arrangements.

Relative assessment

- 4.54 If options pass the fundamental hurdles detailed above then the relative merits of each need to be considered with relation to:
- the expected extra value from each option;
 - whether the extra value can be guaranteed or whether it is dependent on, for example, investment performance⁵⁶;
 - the moral hazard issues particular to each option and how Government might proportionately manage these;
 - timing and size of cash payments from Government;
 - the level of guarantee required from Government; and
 - cost and complexity of the new arrangements.
- 4.55 **The review team would welcome views on this proposed evaluation framework** and whether it adequately captures the relevant issues.

⁵⁶ Previous consultation exercises with FAS members suggest that they place a high value on certainty and so an option with variable income may not be appropriate.

Chapter 5: Other funding sources

Issues the Review are considering

“The intention of the review is to determine how these or other sources of non-public expenditure funding (that have not already been allocated) could be used to increase assistance for affected scheme members. The Review will be open to any suggestions from interested and concerned parties.”

“Other credible non-tax funding sources should be investigated, particularly where contributions to the scheme from external sources are deemed possible”

Main findings and recommendations

- The Review team have identified a number of other potential sources of funding, some of which we will be considering further over the coming months.
- We will not be considering bank and building society assets as these are the subject of a separate HM Treasury exercise.
- Early investigation suggests that most of the identified sources raise complex legal and operational issues which would need to be resolved before the Review could definitively recommend any of them.
- We do not believe that the current legislative powers that allow the FAS scheme to accept voluntary contributions from business are a credible source of additional funding.
- We also do not believe that the National Insurance Fund or National Savings are credible options as sources of funding – surpluses and unclaimed assets do not exist in these areas.
- We will also not be considering ‘windfall’ taxes or additional levies on business, which fall outside the scope of this review.
- Unclaimed personal pensions and life assurance policies might theoretically provide a new source of funding - defined benefit pensions and orphaned assets will not since there are no unclaimed assets here. However, there would be substantial legislative and administrative barriers to establishing such a scheme. There is also considerable uncertainty about the amounts that may be raised.
- Any compulsory scheme aiming to gather unclaimed assets would require primary legislation which could lead to delays in the assets being available.

5.1 The Review has identified and received representations on several potential sources of funding that could be used to increase assistance to affected members. It has made an initial assessment of the potential of these, and whether they fall within the scope of the review, which is set out below. However, **the Review team would welcome representations on any other areas to explore**. The areas identified to date are:

- Voluntary contributions from industry;
- ‘Windfall’ tax;

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- Levy on industry;
- National Insurance Fund (NIF) 'surplus';
- Unclaimed assets:
 - Bank and building society unclaimed assets;
 - Unclaimed pension assets:
 - Unclaimed defined benefit pensions;
 - Unclaimed personal pensions and life assurance policies.
 - Orphan assets;
 - Unclaimed assets held by NS&I;
 - Further types of unclaimed assets, including unit trusts.

5.2 We have excluded any consideration of banks and building societies unclaimed assets to avoid any overlap between the scope of the FAS review and HM Treasury's consultation on bank and building society account assets "A UK Unclaimed Asset Scheme: a consultation" which was issued on 20 March 2007.

Voluntary contributions from industry

5.3 The legislation establishing the FAS permits the scheme to accept voluntary contributions from business⁵⁷, but as yet no payments have been received and in the opinion of the Review **it is unlikely that industry will voluntarily offer any significant level of funds**. The Review team therefore do not believe that this is a credible route for increasing levels of FAS assistance and will not be considering it further.

Windfall tax/levy on industry

5.4 The review has received representations suggesting that a 'windfall' tax on either profits of private equity firms, pension providers or actuaries could be a feasible way of providing funding to support FAS. It has also been suggested that a possible contribution could be provided in terms of facilities or professional services rather than cash.

5.5 Similarly, another proposal is that the Government could consider raising funds to support FAS by imposing a new tax on the business community, for example through raising a levy such as those collected by the Pensions Regulator (tPR) and the Pension Protection Fund (PPF).

5.6 The Review team does not think that these are attractive or appropriate sources of funding for FAS.

5.7 While some pensioners and media commentators feel such institutions have a partial responsibility for the underfunding of these pension

⁵⁷ As defined in Regulation 6 of The Financial Assistance Scheme Regulations 2005 S.I. 2005/1986

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schemes or the collapses of the companies sponsoring such schemes, the performance of pension funds has been driven by a number of factors, for example, the stock market and increased longevity. In practice there would be no direct link between the incidence of a ‘windfall’ tax or levy and pension losses, and this could actually penalise those that have behaved most responsibly.

5.8 These options would also require primary legislation and would be counter to Government’s stated policy: the Government gave a commitment during the passage of the Pensions Act 2004⁵⁸ not to impose a levy or charge on any person to fund the FAS, therefore such a provision would be contentious.

5.9 Fundamentally, the use of money raised by a tax or levy represents public expenditure and this option is therefore out of the scope of this Review.
We will therefore not be considering ‘windfall’ taxes or levies further.

National Insurance Fund (NIF) ‘surplus’

5.10 **There are no ‘surplus’ assets in the NIF.** National Insurance Contributions (NICs) are taken in and by law can only be used for two elements of public spending: to pay contributory benefits as they fall due (mainly, but not solely, state retirement pension); and the National Health Service.

5.11 If the amount taken in is lower than the amount needed there is a transfer from general taxation to make up the shortfall. Conversely, if in any year more NICs are paid than are needed to cover the benefits, then this surplus is ‘borrowed’ by the Treasury to cover other Government spending, avoiding the need for the Government to borrow at commercial rates (although the Treasury does pay notional interest on the borrowed surplus).

5.12 Using the NIF surplus would therefore in reality be no different from using taxpayers’ money directly and therefore contrary to the aim of using non-public expenditure funding. If the NIF surplus was used the Government would need to raise the equivalent through other means such as raising taxes. Primary legislation would also be required to change the uses to which the NIF can be put. As using the NIF would represent public expenditure, this source of funding is out of the scope of this Review and **we will therefore not be considering it further.**

⁵⁸ Section 286(5) of the Pensions Act 2004: “Regulations under subsection (1) may not make provision for the imposition of a levy or charge on any person for the purpose of funding, directly or indirectly, the financial assistance scheme.”

Unclaimed assets

- 5.13 'Unclaimed assets' refers to money held by various financial institutions which has either not been claimed or is in an account and has not been used for a significant period of time. There is no recognised definition of what constitutes unclaimed assets, although HM Treasury have said that *"The 2005 Pre-Budget Report ... set out a Government and banking industry agreed definition that unclaimed assets should generally cover accounts where there has been no customer activity for a period of 15 years."*⁵⁹
- 5.14 This money is held by the financial institution, but account holders (or their heirs) continue to have the right to demand repayment, depending on the contractual arrangements which underlie their accounts, no matter how long ago they last made contact with the bank. Therefore any unclaimed assets scheme that was set up would have to make proper provision to enable consumers to reclaim their assets at any time.
- 5.15 It is difficult to estimate with any accuracy the extent of the potential level of funds that might be available for distribution through unclaimed assets until a formal scheme is in place and the necessary investigations take place.
- 5.16 It is also possible that in many instances primary legislation would be required to enable unclaimed assets to be used for any specified purpose.
- 5.17 Subject to the comments below on specific 'unclaimed assets', the Review team will continue to investigate the complex legal and other issues on those which we consider may still provide extra resources.

Bank and building society unclaimed assets

- 5.18 **There is no overlap between the scope of this review and the Government's consultation on bank and building society account assets** *"A UK Unclaimed Asset Scheme: a consultation"* issued 20 March 2007.
- 5.19 A second consultation document on the development of a UK unclaimed assets scheme, setting out proposals for the effective and efficient distribution of those unclaimed assets back into society was issued in May 2007.⁶⁰ This consultation proposes that the focus of these resources, in England⁶¹, will be youth services that are responsive to the

⁵⁹ A UK Unclaimed Asset Scheme: a consultation, March 2007, HM Treasury. It is worth noting that a suitable definition for banks and building societies may be less applicable to, for example, pension funds where these may often be characterised by long periods without customer interaction.

⁶⁰ Unclaimed assets distribution mechanism: a consultation, HM Treasury, May 2007

⁶¹ The devolved administrations of Scotland, Wales and Northern Ireland will determine their own priorities for distribution which reflect the needs of communities in each country.

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needs of young people, followed by financial capability and inclusion. Resources permitting, the Government would also like to see a proportion of the available assets used to help develop the social investment market and contribute the long-term sustainability of the third sector.

- 5.20 This is in line with the 2005 Pre-Budget Report⁶² which announced the spending priorities for that scheme as “...where owners and their assets cannot be reunited, the money should be reinvested in the community, particularly in deprived communities, in a sustainable way, through a coordinated delivery mechanism, with a focus on youth services that are responsive to the needs of young people, and also on financial education and exclusion.”
- 5.21 The banks and building societies estimate that, on the basis of the 15 year definition, several hundred millions of pounds may lie unclaimed in dormant accounts.
- 5.22 Beyond a one-off lump sum on establishment of any scheme, there is also the potential of a smaller stream of income which will become available each year as more accounts become dormant.
- 5.23 The banks and building societies will run a major publicity campaign before the scheme is launched encouraging consumers to claim their dormant accounts. Once the scheme is set up it will have to fund ongoing claims from consumers. All these activities will reduce the level of funds available for distribution. It is not possible to put a precise estimate on the numbers involved, however the scheme run in the Republic of Ireland has had a significant assets reclaim rate (see Annex E for more details).
- 5.24 The funds will not become available, at the earliest, until such time that legislation is in place and a formal scheme has been developed and becomes fully operational. Developing a workable scheme in consultation with the banking industry, with appropriate regulation, is likely to take some considerable time.
- 5.25 Given plans are already in place to make use of bank and building society unclaimed assets the Review team will not be pursuing this as a source of funding for FAS.**

Unclaimed pension assets

- 5.26 There is considerable uncertainty about what is meant by ‘unclaimed pension assets’. ‘Unclaimed pension assets’ are different in nature to unclaimed bank and building society assets – the latter are a cash amount sitting in deposit, but what might be termed unclaimed pension assets are

⁶² Pre-Budget Report 2005 Britain meeting the global challenge: Enterprise, fairness and responsibility, HM Treasury, December 2005

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more complex and depend on the nature of the pension scheme and the way the assets are invested.

5.27 Consequently the issues around defining and identifying ‘unclaimed pension assets’ and using the assets for other purposes (e.g. to increase assistance to members of FAS pension schemes) are rather different, and have not been fully explored either by Government or industry. For example, it would be necessary to consider the legal issues surrounding the ownership of the assets, the impact of withdrawing assets on the pension schemes’ funding levels and on funds’ policyholders and shareholders (where the assets are invested in insurance contracts) and changes to Financial Services Authority rules may also be required to allow any distribution. There are also likely to be differential impacts across different types of fund, or types of company.

5.28 Broadly there are two types of asset that have been described as ‘unclaimed pension assets’:

- defined benefit occupational pensions that are unclaimed once the member reaches scheme pension age; and
- personal pensions and defined contribution pension scheme assets that are unclaimed once the member reaches scheme pension age or the policy matures.

Defined benefit occupational pensions

5.29 Defined benefit occupational pensions have no ‘unclaimed assets’ available as any uncollected pensions are the property of the trust which is held for the benefit of members and the sponsoring employers.

5.30 Requiring trustees to pay over any monies in respect of unclaimed pensions to the Government may require them to act against the best interests of their members – this would be inconsistent with their fiduciary duty. Hence the Review team believe **there are no ‘unclaimed assets’ available in these defined benefit schemes.**

Personal pensions and life assurance policies

5.31 A personal pension (whether sponsored by an employer or not) is a legal form of a contract between an individual and a pension provider (usually an insurance company). Therefore if the assets are unclaimed they are available to the provider to hold as part of a capital reserve insurance or ultimately for distribution to shareholders etc.

5.32 Unclaimed policies within a with-profits fund are in effect used to support investment returns to policyholders. The ABI believe that any change to this practice would require insurers to review their Principles

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and Practices of Fund Management statement, and subsequently warn policyholders that returns might be lower than anticipated going forward.

- 5.33 The ABI have also stated that most unclaimed policies are for very small sums of money and that such policies were often taken out before computerised records became standard business practice. As a result they believe that the identification and tracking of such policies to hand over for other purposes would represent a significant cost to the industry, costs that the company and its policyholders would not want to bear. The ABI argues that in many cases the costs of tracking such policies would outweigh the sums raised.
- 5.34 If insurers have to sell the assets underlying any policy deemed to be unclaimed, this will in some circumstances generate a liability to capital gains tax that would also need to be recognised as part of the costs of any scheme and would be very complicated to handle and would further reduce the amount potentially available.
- 5.35 Despite much speculation, the extent and value of unclaimed pension assets is unknown. In the Irish scheme (further details can be found in Annex E), the unclaimed pension assets were found to be of significantly lower value than the unclaimed bank assets and also lower than projections. Although there may be reasons why unclaimed defined contribution pension assets might be relatively greater than in Ireland, the main growth in such pensions in the UK has been in recent years, so the scope for such assets to have been unclaimed for many years is limited at present.
- 5.36 As the amount of funding which might be collected would be very uncertain and not known for some time – say two to three years after legislation was introduced, it could be difficult to increase assistance levels in the short-term and any enhancements that were possible might have to be paid retrospectively to those already eligible for assistance.
- 5.37 Whilst there might be a proportionally large one-off sum, over the very long term the cash flow would be unlikely to match the outflow of FAS liabilities. There would also be a reclaim risk, (very likely to be carried by the Government), which might reduce the value of assets by around 15 to 25 per cent.
- 5.38 As the Irish experience shows, advertising campaigns to reunite these assets with their owners can significantly reduce the amount of unclaimed assets available. The Review team believes that introduction of a compulsory scheme would need to be accompanied by a high profile advertising campaign.
- 5.39 Obtaining the primary legislation needed to introduce any scheme would be for HM Treasury. It would potentially prove controversial and is likely to be strongly resisted by the insurance industry and/or their stakeholders and/or policyholders.

5.40 Therefore **whilst unclaimed personal pensions and life assurance policies might theoretically provide a new source of funding, there would be substantial legislative and administrative barriers to establishing such a scheme, with a very uncertain income.** The Review team will give some further consideration to this area, but we believe there are likely to be significant difficulties to surmount.

Orphan assets

5.41 Orphan assets generally refer to any excess of assets maintained in long-term with profit funds (not just pension funds) over and above the amount required to meet liabilities to policyholders plus a profit margin.

5.42 The so-called 'orphan estate' is built up over many years in with-profit funds and can be regarded as the excess assets over those required to meet the liabilities (including discretionary amounts) to current policyholders. If these assets are not required for the business, they may be paid out, subject to an apportionment exercise to determine how they are divided between different generations of policy holders and shareholders.

5.43 Rules on the apportionment of these funds are complex and can require High Court approval. Such activities are governed by the Financial Services Authority (FSA) under the authority of the Financial Services and Markets Act 2000. FSA conduct of business rules requires firms to distribute or reattribute any excess surplus holdings. A firm will normally have to distribute that part of a with-profits fund that is not required to support any continuing business and to ensure that any inherited estate is distributed fairly between different generations of policyholders.

5.44 The distribution of orphan assets will provide some additional funds to all policyholders and shareholders. For example, for any individuals holding pensions with these insurance companies, it will increase their pension fund and ultimately their income in retirement. The amount of the increase will of course depend on the amount received from orphan assets and given the number of people sharing the orphan assets, it may be small.

5.45 Any attempt by Government to claim some or all of these funds would almost certainly be resisted strongly and probably challenged in the courts by the companies on behalf of shareholders, and/or by stakeholders and/or also by policyholders. It would be seen as a 'windfall tax' on life funds.

5.46 As arrangements for the distribution of these funds are already in place it would be very controversial and complicated to change them. As a result **the Review team's initial view is that we do not consider that there are any 'unclaimed assets' available from orphan assets.**

Unclaimed assets held by NS&I

5.47 The Government said in the March 2004 Budget and reiterated in the March 2005 Budget that it is right in principle that when unclaimed assets cannot be reunited with their owners they should be reinvested in society. Unclaimed assets held by NS&I are already re-invested in society. **The Review team therefore does not think it would be viable or appropriate to use NS&I assets to boost FAS funds.**

Further unclaimed assets

5.48 The Balance Foundation was a private-sector charitable initiative whose objective was to develop and test a voluntary mechanism for the release of unclaimed assets held by UK financial institutions. The scheme focused on the unclaimed assets in cash balances of investment banks as this held little political contention, and appeared to be the easiest asset to locate and release.

5.49 From 2003-2007, Balance oversaw the release of an estimated £8 million in funds from unclaimed assets within investment banks using the voluntary release mechanism. Targeted funds were only three years old. FSA rules⁶³ were amended to allow this to happen, and an insurance policy product was specially produced to insure against reclaim.

5.50 **There may be additional funds available in further types of unclaimed assets and the Review team will investigate these further before our final report is produced.** A comparison of the unclaimed assets collected in Australia, New Zealand and Spain can be found in Annex F, which provides an indication of the types of assets which are subject to similar programmes.

⁶³ Where an investment bank or non-bank broker holds money for customers as client money under the Financial Services and Markets Act 2000, it is required to maintain cash in a segregated bank account, which it holds as trustee for the customers concerned under a statutory trust created by the client money rules of the FSA. Accordingly, cash held as client money can be paid away only in circumstances permitted by the client money rules. The proposed waiver procedure ensures that payments may be made without infraction of an institution's duties as trustee.

Chapter 6: Pension schemes with solvent employers

Issues the Review are considering

“To determine whether there are other pension schemes (in addition to those with compromise agreements) where although the sponsoring employer did not undergo an insolvency event, it would not be reasonable to expect the employer to have a continuing responsibility for supporting an underfunded scheme.”

Main findings and recommendations

- The issue of whether pension schemes with a solvent employer should be eligible for FAS is complex. Little is known about the circumstances of these schemes and hence, at this stage, the Review team cannot make a recommendation as to their inclusion. However, we are conscious of the argument that allowing all solvent employer schemes into FAS would allow some employers to avoid their moral responsibilities and render ongoing negotiations irrelevant.
- The Review team believe there is a need for a data collection exercise to develop a greater understanding of these schemes circumstances. In particular there is a need to determine whether they are significantly different from those schemes included through the extension of FAS to those cases where a compromise agreement is in place. Together with DWP and the FAS Operational Unit the Review has launched this exercise and results are expected to be available later in the summer; we would urge co-operation from schemes.
- The Review team is also inviting further representations from scheme members and trustees over the summer and is planning to consult to develop our understanding of schemes circumstances.
- The Review team recommends, in light of this further work and whilst questions of scheme eligibility remain unresolved, that Government does not action any cut-off date for scheme insolvency events. This will ensure that schemes likely to undergo insolvency events in the future will not be excluded from FAS. The cut-off date needs to be considered in context of the final recommendations from this Review.

Current eligibility

6.1 FAS was set up to provide financial help to members of qualifying schemes which started winding up underfunded between 1 January 1997 and 5 April 2005 and where the employer has been unable to make up the shortfall because it is insolvent or no longer exists.

6.2 On 27 February 2007 the Government announced its intention to extend the cut-off date for insolvency events to 31 August 2007 and confirmed that the appropriate legislative amendments would be brought forward in

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due course. In the meantime the current cut-off date of 28 February⁶⁴ by which a relevant insolvency event⁶⁵ must have occurred will no longer have effect.

Extension to cover some schemes where there is a solvent employer – compromise agreements

6.3 The Government announced⁶⁶ a further extension to the FAS to cover members of schemes that began winding up within the same timescales set out above, where a compromise agreement is in place, and where enforcing the full statutory debt against the employer would have forced the employer into insolvency. It is thought that this extension will provide help to around 8,000 scheme members.

6.4 Compromise agreements refer to specific agreements between the trustee(s) of a pension scheme and the employer in relation to the amount of debt owed to the scheme. When a defined benefit occupational pension scheme starts to wind up and its assets are less than its liabilities, an amount equal to the difference is treated as a debt due from the employer to the trustees of the scheme. Legislation does not require trustees to enforce the debt. Under the Trustee Act 1925, they may reach a compromise agreement with the employer, where they accept an amount less than the debt owed by the employer. Whilst scheme trustees are able to reach such compromise agreements with the principal employer to the scheme, they also have a fiduciary duty to act in the interests of all scheme members and beneficiaries to negotiate the best settlement that they can.

6.5 An indicative list containing 17 schemes potentially eligible for support from the FAS where a compromise agreement is understood to be in place was subsequently published on 23 April and a copy is attached at Annex G. Schemes not already on the list but which might be covered by this extension were urged to make contact with the FAS Review team through their website. So far only one new scheme has contacted the Review team directly and another two have contacted the FAS Operational Unit in York and been issued with a FAS application form.

6.6 The Government has always made it clear that where there is a solvent employer it is reasonable to expect the employer to have a continuing moral responsibility for supporting that scheme. Trustees entered into compromise agreements legally and in good faith. At worst, enforcing the statutory debt on the employer would almost certainly have led to the

⁶⁴ Contained in regulation 11 (1) of the Financial Assistance Scheme Regulations 2005 S.I. 2005/1986 (as subsequently amended) (the 'FAS Regs')

⁶⁵ As defined in Regulation 13 of the FAS Regs

⁶⁶ Announcement by the then Minister of State for Pension Reform, James Purnell, on 18 April 2007

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insolvency of the company together with the consequent loss of members' jobs as well as a significant reduction in their pensions.

6.7 Trustees might have acted very differently had they known at the time that compromising the debt to keep an employer solvent would exclude pension schemes from FAS. They may have chosen instead to force employer insolvency to secure the best interests of their members. The circumstances of this particular group of schemes and the impact on affected members is, in practice, very similar to those that are eligible for FAS under the existing rules. Hence **the Review team feel the arguments for extending eligibility to the group of schemes with a compromise agreement are clear.**

Role of the Review team

6.8 The main focus of the Review team in relation to examining pension scheme eligibility is to determine whether there are other pension schemes (in addition to those with compromise agreements) where, although the sponsoring employer did not undergo an insolvency event, it would not be reasonable to expect the employer to have a continuing responsibility for supporting an underfunded scheme.

6.9 One of the key questions is whether it is feasible to draw a distinction between:

- those schemes which have wound up underfunded with a solvent employer where a compromise agreement is in place, without which the employer would have gone insolvent, and
- those schemes where no compromise agreement has been reached.

6.10 **This is a particularly complex area and there is no immediate answer.** If it is possible to draw a distinction, then it would be necessary to understand how best this can be done. Information on the circumstances and situations of the schemes which may seek to contend that they are no different from schemes with compromise agreements is very limited.

6.11 The Review's objective in relation to any such schemes is to investigate whether it is possible to establish any clear delineation between the different types of schemes that are winding up where there is a solvent employer. Any findings and recommendations from this work will be contained in the Review team's final report due before the end of the year.

6.12 As a result of the current lack of information the Review team believe there is a need for an additional data collection exercise to develop a greater understanding of these schemes circumstances. In particular there is a need to determine whether these schemes are significantly different from those included through the extension of FAS to those cases where a compromise agreement is in place.

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6.13 Together with DWP and the FAS Operational Unit the Review team has therefore launched this data collection exercise in early July 2007; results are expected to be available later in the summer and will inform our recommendations for our final report due before the end of the year. We would urge co-operation from schemes in order for the Review team to be able to take a more informed view.

Extending scheme eligibility

6.14 It is important to understand the full extent of an individual employer's obligations in relation to the level of debt owed by employers to their schemes and the amounts required by employers to buy out the debt at the time the schemes wound up. The Review team is keeping an open mind about the case for including other schemes in FAS at this stage. However we are aware of the argument that an extension to cover all solvent schemes which started winding up underfunded between 1 January 1997 and 5 April 2005, whilst clearly advantageous to all those scheme members affected, may not strike the right balance in ensuring that the rights and responsibilities of all parties are upheld.

6.15 Employers have a very real moral obligation to meet their pension promises and if they have been unable or unwilling to meet them a key consideration for the Review team must be the reasons why they failed to do so. Simply extending FAS to cover all pension schemes which wound up underfunded with a solvent employer could create a loophole, which might allow some employers and trustees to avoid their financial responsibilities and duties to scheme members and render ongoing negotiations irrelevant.

6.16 The Review team has received representations about 22 schemes outside the current and proposed eligibility categories.

Invitation to provide information

6.17 Trustees of schemes which have wound up underfunded with a solvent employer where no compromise agreement is in place, but who consider that their scheme's circumstances are very similar should contact the Review team by e-mail at adelphi.fas-review@dwp.gsi.gov.uk and provide details. Similarly, representations from scheme members who have sufficient information are welcomed.

6.18 There will also be a further opportunity to provide views when the Review team conducts consultation over the summer before it produces its final report before the end of the year.

Insolvency cut-off date

6.19 While the Review of Scheme Assets is ongoing and questions of scheme eligibility remain unresolved **the Review team recommends that the Government does not action any cut-off date for insolvency events**. This will ensure that schemes likely to undergo insolvency events in the future would not be artificially excluded from FAS. The cut-off date needs to be considered in context of the final recommendations from this Review, which are due before the end of the year.

Chapter 7: Conclusions and next steps

Issues the Review are considering

“The Review should engage all relevant stakeholders on the feasibility of any proposals.”

Current conclusions and recommendations

7.1 The principal conclusions and recommendations to emerge from this interim review are:

- The Review team believes there are around £1.7 billion in assets available, with approximately £1.3 billion of assets in schemes that have not committed any assets, and around £0.4 billion remaining in schemes that have started to commit assets to pay current or future pensioners. The vast majority of these assets are held in gilts and fixed interest assets. Scheme funding levels vary widely between schemes, but some FAS schemes are relatively well funded and therefore likely to be able to secure full scheme benefits for pensioner members **(Chapter 3)**;
- The current process of annuitisation on a scheme by scheme basis is unlikely to offer the best use of residual scheme assets. It is probable that additional value for money could be secured through either increased scale or scope, for example pooling assets, changes to the benefit structure, alternative methods of risk sharing or the creation of a PPF style fund etc. These options raise a number of complicated legal, administrative and operational issues that require further investigation to ensure that they deliver the most appropriate solutions for all relevant parties **(Chapter 4)**;
- Having identified a number of potential non-tax funding sources the Review team will conduct further investigation, involving Government and industry as required, to determine the viability (both legally and operationally as well as their likelihood of providing sufficient funds) of some of these options. We do not, however, believe that any voluntary contributions, ‘windfall’ taxes, an extension of the PPF or tPR levies, the National Insurance Fund ‘surplus’, defined benefit pensions, ‘orphan’ assets or NS&I ‘unclaimed assets’ are credible alternative funding sources and will not be investigating these areas further **(Chapter 5)**;
- The Review team believes there are significant gaps in understanding around the circumstances of many solvent employers with pension schemes that have wound up underfunded. Further investigation and data collection will be undertaken to fill these gaps. Until this has been

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completed the Review team does not feel we can make a recommendation as to the inclusion, or otherwise, of these schemes (**Chapter 6**); and

- The Review team recommends that Government does not action the cut-off dates for scheme insolvency events to avoid the exclusion of some schemes from FAS whilst our investigations are ongoing (**Chapter 6**).

Next steps

7.2 The Review team feels that we have identified sufficient assets and potential options to justify further investigation in a number of areas. These are:

- Deciding between alternatives to the current FAS model. This will require further consideration of the legal, legislative, administrative and operational aspects of each option. The Review team will work with Government and industry to take this forwards in time for our final report;
- Whether it is possible to supplement the committed Government funding, and any additional revenue generated by better management of assets and liabilities, with viable alternative non-tax sources of funding. The Review team will again need to consider legal, legislative and operational aspects of the remaining options;
- The circumstances of those pension schemes where the sponsoring employer has not either undergone an insolvency event or compromised their debts, to determine whether there is a case for the Review team recommending the Secretary of State for Work and Pensions includes them in FAS.

7.3 We also plan to hold further focussed consultation with key stakeholders and experts in the coming months and will be providing a final report before the end of 2007. In the meantime the Review team would welcome comments on any aspects of this report or our programme of future work more generally; our contact details are provided below.

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Contact us

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Annex A: FAS Review terms of reference

Review of the use of assets in FAS pension schemes

Having now settled the public expenditure support for these schemes, the Secretary of State for Work and Pensions will establish a review to examine how we make best use of the assets in pension schemes that are winding up underfunded with an insolvent employer or who come within the extension for solvent employers whose schemes signed a compromise agreement. The intention of the Review is to determine how these or other sources of non-public expenditure funding (that have not already been allocated) could be used to increase assistance for affected scheme members. The Review will be open to any suggestions from interested and concerned parties.

Scope

- The Review will focus on those pension schemes that are eligible for assistance from the Financial Assistance Scheme. That is, those schemes that started winding up between 1st January 1997 and 5th April 2005 as a result of the sponsoring employer becoming insolvent.
- The Review will include those schemes where, in the same period, agreements were signed to compromise pension scheme debt in order to prevent an employer insolvency.
- The Review will (other than the above) not include schemes that were wound up by a solvent employer; schemes that are eligible for the PPF, or schemes that wound up prior to 1997.

Objectives

- To determine the potential value, current stewardship and current allocation to different asset classes of the assets that were the property of the relevant pensions schemes on their commencement of wind up, in order to assess what assets might be available.
- To make recommendations on the optimal use of these assets, bearing in mind:
 - The optimal economic use of these assets for meeting the liabilities
 - The implementation issues – ensuring any proposals for asset reallocation or change of stewardship are feasible
 - The ongoing administrative issues and costs involved in any proposals
 - The transfer of risk, including to the Government.
- To determine whether there are other pension schemes (in addition to those with compromise agreements) where although the sponsoring employer did not undergo an insolvency event, it would not be reasonable

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to expect the employer to have a continuing responsibility for supporting an underfunded scheme.

- The Review will present appropriate risk management structures for any proposals, to ensure the pension scheme member benefits are no less protected than currently and that any risks to the wider taxpayer are minimized.
- The Review must ensure that the benefits of all members of these Pension schemes should be taken into account
- The Review should not propose solutions that would subject Government on behalf of the taxpayer to the management of significant incremental risk.
- Other credible non-tax funding sources should be investigated, particularly where contributions to the scheme from external sources are deemed possible
- The Review should engage all relevant stakeholders on the feasibility of any proposals.
- The Review must ensure the speed of payment of assistance to scheme members is not unduly impeded.

Timing

The Review will commence today, provide an initial view in the summer and make a report to the Secretary of State by the end of 2007.

Annex B: The Review team

Review team lead

The Review is led by **Andrew Young**,

- Andrew is Directing Actuary (Social insurance, pensions policy, demography and statistics) at the Government Actuary's Department
- He has over 34 years experience of advising the UK and foreign Governments of all actuarial and financial aspects of pensions and social security.
- He currently works at the Pensions Regulator giving actuarial advice in relation to corporate transactions, and at the Pension Protection Fund, supporting the development of actuarial functions at the PPF. Immediately before that he was seconded to the DWP and designed the structure of the PPF.
- He has been a member of the Institute and Faculty of Actuaries Pensions Board and Chairman of their Technical and Research Committee. He is also a past-chair of the International Actuarial Association Social Security Committee.

Review team – external experts

- **Alan Higham** is a leading expert within the Life and Pensions sector and is a Non-Executive Director of Higham Dunnett Shaw (HDS).
- **Ashok Gupta** is a director on the Board of Pearl Group Limited.
- **Jane Samsworth** is a partner at the international law firm Lovells.
- **Chris Martin** is Managing Director at Independent Trustee Services (ITS) Limited.
- **Professor David Blake** is Professor of Pension Economics at Cass Business School and Director of the Pensions Institute.
- **Angela Hills** is an administrator for Mercers Human Resource Consulting Limited.
- **Martin Clarke** is the Executive Director of Financial Risk at the Pension Protection Fund.

Annex C: FAS – background information

The Financial Assistance Scheme - history

1. The Financial Assistance Scheme (FAS), introduced through the Pensions Act 2004, was set up to provide help to certain people who have lost out on their occupational pension because the scheme was underfunded when it started to wind up and the employer is insolvent or no longer exists. The scheme has been in operation since 1 September 2005 and is administered by an Operational Unit in York within the Department for Work and Pensions (DWP).
2. Originally the scheme was designed to provide help to qualifying members of qualifying pension schemes which commenced winding up between 1 January 1997 and 5 April 2005 and where these scheme members were within three years of their scheme's normal retirement age on 14 May 2004.
3. Qualifying members receive assistance, known as annual payments, that top up their 'actual pension' (typically the rate of annuity secured for them at the end of wind-up) to a proportion of their 'expected core pension'.⁶⁷ There is also provision to pay survivors of qualifying scheme members an amount up to at least 50 per cent of the total core income the member would have received from the scheme and from FAS had they lived. Payments are subject to a minimum payment rule (de minimis) of £520 per annum and a cap of £12,000 (which includes the 'actual pension').
4. Initial payments may also be made upon request from a trustee to all qualifying members who are eligible for payment and whose schemes have not yet completed winding up. Such payments are discretionary and top up a member's pension to a level broadly equivalent to 60 per cent of their expected core pension. FAS payments commence at age 65, except in special circumstances where early access to payments can be applied for by scheme trustees for terminally ill qualifying members or to the survivor of a qualifying member.

⁶⁷ The expected core pension refers to the amount of pension accrued by a member in their scheme when it started to be wound up. It does not include additional benefits, such as indexation, the ability to commute part of a pension into a lump sum, benefits 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 per cent compound per year) up to the relevant date for the member's FAS assessment

Key changes to FAS since December 2006

5. A number of changes have been implemented or announced since its inception. As part of the White Paper on Pensions Reform published on 25 May 2006 the Government announced its intention to extend eligibility to those who were within 15 years of their scheme's normal retirement age on 14 May 2004. Regulations to implement these changes came into effect on 16 December 2006 together with two further changes which widened the scope of schemes that could be eligible to include those where:
 - the employer is unlikely to continue as a going concern and where no formal insolvency event has occurred but which were, to all intents and purposes, insolvent; and
 - those where the sponsoring employer has undergone an overseas insolvency event that substantially corresponds to one that FAS already accepts in the UK for the purposes of qualification.

6. In his Budget announcement speech on 21 March 2007 the Chancellor announced the Government's intention to bring forward legislation that ensures that:
 - where the sponsoring employer is insolvent pension scheme members will have their pensions topped up to a level of 80 per cent of their core expected pension rights accrued in their scheme (subject to a cap), regardless of their age;
 - the level at which FAS payments are capped will be increased from £12,000 to £26,000 a year; and
 - the de minimis rule will be removed and anyone currently excluded from help from the scheme because their FAS payment would have been £520 pa (£260 for survivors) or less will now receive payments.

7. On 18 April 2007 during the passage of the Pensions Bill the Government announced that it would further extend the FAS to cover members of schemes that began winding up between 1 January 1997 and 5 April 2005, where a compromise agreement is in place, and where enforcing the debt against the employer would have forced the employer into insolvency. The Government also introduced an amendment to the Bill which, subject to Royal Assent, will:
 - require that the level of final assistance payment made to a member (the annual payment), is set at no less than 80 per cent of that member's expected pension taking account of any actual pension that member is receiving; and
 - raise the level to which initial payments will top up scheme pensions from the current 60 per cent of expected core pension to 80 per cent with effect from Royal Assent.

Annex D – The Pension Protection Fund

1. The Pension Protection Fund (PPF) is a statutory fund run by the Board of the PPF, a statutory corporation established under the provisions of the Pensions Act 2004. The PPF became operational on 6 April 2005 and was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.

Qualifying conditions

2. In high level terms, in order for the PPF to assume responsibility for a scheme, the scheme must satisfy the following key criteria:
 - the scheme must be a scheme which is eligible for the PPF;
 - the scheme must not have commenced wind up before 6 April 2005;
 - an insolvency event must have occurred in relation to the scheme's employer which is a qualifying insolvency event - legislation sets out what the Pension Protection Fund will consider as an insolvency event. This legislation is consistent with the provisions of the Insolvency Act 1986;
 - there must be no chance that the scheme can be rescued; and
 - there must be insufficient assets in the scheme to secure benefits on wind up that are at least equal to the compensation that the Pension Protection Fund would pay if it assumed responsibility for the scheme.

PPF levies

3. PPF compensation is funded in three ways:
 - by means of levies charged to all eligible occupational pension schemes;
 - by assets remaining in schemes which transfer to the PPF at the end of an assessment period; and
 - by the investment returns from each of these.
4. There are four levies:
 - The administration levy – calculated and payable based on the number of members in pension schemes and provides for the operating costs of administering PPF compensation. To date this has been set annually;
 - The scheme-based levy – calculated and payable on the level of the scheme's liabilities - contributes towards compensation payments. This

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levy amounts to approximately 20 per cent of the combined scheme and risk-based levy that a pension scheme has to pay. The amount payable is set annually;

- The risk-based levy – calculated and payable on scheme underfunding and the likelihood of insolvency - contributes towards compensation payments. This levy amounts to approximately 80 per cent of the combined scheme and risk-based levy that a pension scheme has to pay. Schemes that are over 125 per cent funded against the PPF level of benefits do not have to pay the risk-based levy. The amount payable is set annually; and
 - The Pension Protection Fund Ombudsman (PPFO) levy – calculated and payable based on the resources required by the PPFO's office to provide the service for reviewable matters and maladministration complaints. A PPFO levy has yet to be raised.
5. The scheme-based levy and the risk based levy are normally referred to together as the Pension Protection Levy.
 6. The Fund's investment strategy has been designed by PPF specifically to balance security for scheme members and the interests of levy payers. This will be achieved using a liability driven approach through investment in bonds and derivative instruments. In addition, the strategy seeks to enhance the returns through investment in: UK and global equities hedged back into sterling, UK and global Government bonds hedged back into sterling, property and currency.

Compensation

7. When the PPF assumes responsibility for a scheme it provides two levels of compensation:
 - for individuals who have reached their scheme's normal pension age or, irrespective of age, are either already in receipt of a survivors' pension or a pension on the grounds of ill health, the PPF will pay the 100 per cent level of compensation, subject to PPF rules; and
 - for the majority of people below their scheme's normal pension age, the PPF will pay the 90 per cent level of compensation subject to the compensation cap (see below) and PPF rules.
8. Normal pension age (NPA) is defined as the age specified in the scheme as the earliest age at which the pension or lump sum becomes payable without actuarial adjustment (disregarding ill-health rules).
9. Members who have not reached NPA (or are not ill-health pensioners) are subject to a cap on the level of compensation they receive. The compensation cap for 2007/08 is £29,928.56 and when applying the 90 per cent compensation requirement £26,935.70 for a person who first receives compensation at age 65 on or after 1st April 2007. In calculating a member's compensation entitlement the cap is applied before

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compensation is reduced to the 90 per cent level. This amount is adjusted depending on age to ensure that the actuarial value of the compensation package remains the same. The compensation cap increases in line with the general level of earnings obtaining in Great Britain.

10. Increases to pensions in payment are linked to the Retail Prices Index and are capped at a level of 2.5 per cent but only in respect of amounts of pensions accrued since April 1997. Revaluation of all deferred rights are in line with the general level of prices in Great Britain, capped at a level of 5 per cent.

Annex E: Republic of Ireland unclaimed assets scheme

The Irish scheme

1. In Ireland, the Dormant Accounts Act 2001 and Unclaimed Life Assurance Policies Act 2003 allow unclaimed assets to be reunited with owners or, where this cannot be done, transferred to a dormant accounts fund administered by the National Treasury Management Agency (NTMA) and disbursed by the Dormant Accounts Fund Disbursement Board. The Dormant Accounts Fund Disbursements Board will distribute the funds to programmes designed to assist the personal, educational and social development of persons who are economically, educationally or socially disadvantaged or persons with a disability and to projects that are designed to assist primary school students with learning disabilities.
2. This is a compulsory scheme, in contrast to the UK Government's proposals for using unclaimed bank and building society assets, which is to be voluntary.
3. The **Dormant Accounts Act 2001** came into effect in Ireland in 2002. It focused on assets held in dormant current accounts, deposit accounts, savings certificates and bonds. The Act was later widened by the introduction of the **Unclaimed Life Assurance Policies Act 2003**, which covers three main types of assets:
 - **fixed term lump sum policies** - classed as 'unclaimed' where the policy term expired at least five years ago and the insurer has had no communication from the policyholder since the term expired;
 - **open-ended policies** - classed as 'unclaimed' when the policyholder has had no contact with the insurer for at least 15 years; and
 - **personal pension policies** (those not included in an employer's pension scheme) – classed as 'unclaimed' where more than five years have passed - without communication from the policyholder - from the latest retirement date in the policy.
4. Since its inception in 2003 the Board has collected a total of £228 million from credit institutions (banks, building societies and national savings) and £25 million from life assurance and personal pension policies. Actual income received in 2003 and 2004 fell short of expectations as advertising campaigns to reunite these assets with their owners resulted in over half the unclaimed assets being claimed. Table 3 shows a yearly breakdown of the amounts received.
5. The amount generated from unclaimed life assurance policies and pension policies in Ireland in 2006 represented less than 10 per cent of the total collected from other dormant accounts. Although the ratio of life assurance

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and personal pension policies is unknown the Review team understands that personal pensions are likely to represent a small proportion of these overall assets.

Table 3: The Republic of Ireland unclaimed assets scheme					
	2003	2004	2005	2006	Total
Banks and savings	⁶⁸ €196m (£133m)	€33m (£23m)	€33m (£23m)	€73m (£50m)	€335m (£228m)
	<i>Projection was € 400m (£272m)</i>				
Life Assurance Policies (inc. personal pensions)	Nil	⁶⁹ €23m (£16m)	€8m (£5m)	€7m (£5m)	€38m (£26m)
	<i>Projection was €60m (£41m)</i>				
Total	€196m (£133m)	€56m (£38m)	€41m (£28m)	€80m (£54m)	€373m (£253m)

Note: amounts shown in Euros (equivalent in £m shown in brackets)

Application to the UK

- There is a lack of information on the relative proportions of the population in Ireland or the UK that hold life assurance or personal pension policies. However, assuming that broadly the same numbers of residents have life assurance/personal pension policies (which may well not be the case given the likely differences in demographics) it might be possible to gauge **very broadly** the maximum level of potential revenue for UK policies.
- In 2005 Ireland had a population of around 4 million compared with a UK population of approximately 60 million, which results in a ratio of 1:15. Applying the same ratio to the monies collected since 2003 from life assurance and personal pension policies in Ireland suggests that similar UK policies might generate income in the first year of around £234 million, dropping to around £70 million a year thereafter.

⁶⁸ First year of income following introduction of legislation - Dormant Accounts Act 2001

⁶⁹ First year of Income following introduction of legislation - Unclaimed Life Assurance Policies Act 2003

Risk

8. In Ireland the NTMA carries the risk and in the event of a reclaim makes a payment to the insurer to enable the net encashment value of the unclaimed policy to be paid to the policy holder. NTMA hold back 15 per cent of the assets received as a reserve fund to meet any reclaims. In practice it is relatively difficult to obtain a precise estimate of the reclaim rate since it is difficult to be sure which years collection the reclaim relates to. However if we consider the Irish scheme, in 2003 reclaims were €24 million⁷⁰ of €196 million collected, in 2004 the figures were €20 million out of €33 million collected and in 2005 €21 million out of €33 million collected.

⁷⁰ Note all figures refer to banks and savings only

Annex F: Comparison of unclaimed assets collected in Australia, New Zealand and Spain

The following paragraphs outline unclaimed asset regimes in Australia, New Zealand and Spain. These are merely examples and we are investigating the systems in other countries.

Australia

- Sub-section 69(1) Banking Act 1959 defines unclaimed money to be: *"all principal, interest, dividends, bonuses, profits and sums of money legally payable by an ADI but in respect of which the time within which proceedings may be taken for the recovery thereof has expired, and includes moneys to the credit of an account that has not been operated on either by deposit or withdrawal for a period of not less than 7 years."*
- In addition, the regulations prescribe a dollar benchmark for unclaimed monies of no less than \$500.

New Zealand

- Money, including the interest or any amount in the nature of interest thereon, deposited with any holder so as to bear interest for a fixed term,
- Money deposited upon current account or otherwise with any holder and not bearing interest.
- Money payable or distributable on, or in consequence of, the maturity of a policy of life assurance is also included.

Spain

All kind of assets are included: securities, money and other personal property, i.e. current account balances, savings account balances, Treasury stock, negotiable securities and other financial instruments, security certificates and personal property deposited in safe-boxes.

Annex G: Indicative list of schemes potentially eligible for support from the Financial Assistance Scheme where a compromise agreement is understood to be in place

This list is taken from James Purnell's letter to MPs on 23 April 2007. The Review team is aware that there may be some other schemes with a compromise agreement in place and we would invite any schemes that think they should be included to contact us, our contact details are in Chapter 7.

1. AUCS UK Defined Benefit Pension Plan
2. Chapman Group Pension Scheme, The
3. Charles Clifford Industries Limited Scheme
4. Data General Employee Benefit Plan, The
5. Expamet International Scheme, The
6. Folgate Insurance Co Ltd Pension
7. Fredk H Burgess LimitedScheme
8. HK Technologies Ltd Scheme
9. J & D Wilkie Ltd Pension Scheme 1982
10. Kingsmead Pension Scheme
11. Lionheart Group Pension Scheme
12. Lucas Yuasa Pension Scheme
13. Norman Butcher, The
14. Parsons
15. Shipham & Company Retirement Benefits Plan
16. Stankiewicz UK Pension Scheme
17. Unilabs Trust Laboratories Limited Pension Scheme

Annex H: Schemes providing information on assets to the FAS Review team

The Review team would like to thank trustees and administrators of the following FAS schemes for provision of information on the value, current stewardship and current allocation of scheme assets.

1. A & R Carton (UK) Limited Pension Fund
2. A & R Carton (UK) Ltd Executive Pension & Life Assurance Plan
3. A J Reeves Birmingham
4. A L Fuller Limited 1991 Retirement Benefits Plan
5. A Meredith Jones & Co Ltd Retirement & Death Benefit Scheme
6. A Riddell + Co Limited RBS 1988
7. A Robertson & Company (Building & Contractors) Ltd Retirement Benefits Scheme
8. Abbey Gate Group Retirement Benefit Plan
9. Abingdon Carpets PLC Pension Fund
10. AEW Limited Benefits Plan
11. Airflow Streamlines PLC Pension & Life Assurance Fund
12. Airflow Streamlines PLC Senior Staff and Directors Pension & Life Assurance Fund
13. Albert Fisher Group Pension Fund
14. Allan Haigh and Co Limited Pension and Life Assurance Scheme
15. Allenwest Pension and Life Assurance Scheme
16. Alltek Retirement and Death Benefit Plan, The
17. AM Group Retirement Benefits Plan
18. Anchor Press Limited Retirement Benefits Scheme
19. Anglo United Pension Scheme
20. Applied Chemicals Limited Pension Scheme
21. APW Electronics Limited Pension Scheme
22. Arcoelectric Switches Pension Scheme
23. Armstrong Group Pension Scheme
24. Arthur D Little Limited Benefits Programme
25. ASW Pension Plan Cardiff
26. ASW Sheerness
27. B.S.A Tools Ltd Staff Pension Scheme
28. BAC Limited Retirement Benefit Scheme
29. Baker Wilkins & Smith Retirement Benefit Scheme
30. Ballast Nedam Construction Limited Retirement Benefits Scheme
31. Ballast Wiltshier Retirement Benefits Plan
32. Ballinger Rawlings Retirement Savings Plan
33. Basford Group Pension Scheme, The
34. BDC Pension Scheme, The
35. Beldray Ltd Pension and Life Assurance Scheme
36. Berner Pension Scheme, The
37. BETEC Retirement Benefits Plan
38. BEW (Auto Products) Limited Retirement & Death Benefit Plan
39. BIBRA Pension and Assurance Scheme

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40. Bierrum Group Pension Scheme
41. Birmingham Mint Pension Plan, The
42. BKL Fittings Pension Scheme
43. BKL Fittings Senior Staff Pension Scheme
44. Blueprint Group (uk) Pension Scheme
45. Blyth & Blyth Pension Scheme
46. Bonds Foundry Co Ltd Retirement Benefits Scheme
47. Box-Carton Limited Retirement Benefits Plan
48. Bradford Boxmakers Staff Pension Scheme
49. Bradstock Group Pension Scheme
50. Brannoc Fibres Limited Pension Fund
51. Brearley Group Limited Pension and Assurance Scheme, The
52. Brimley and Company Pension and Life Assurance Scheme
53. British Federal Limited Pension Fund
54. BRK Pension Scheme
55. Broderick Structures Ltd Pension Scheme
56. Bronte Foods Ltd Retirement Benefits Scheme
57. Bryan Donkin Works Retirement Benefit Scheme
58. BSK Aluminium Limited Retirement Benefit Scheme
59. Budget Pension Plan, The
60. Buko Retirement Benefits Scheme (1991)
61. Burton Industrial Holdings Limited Group Pension Plan
62. Bush and Wilton Retirement Security Plan
63. BUSM Pension Plan
64. C E King Limited Retirement and Death Benefits Plan
65. Cambridge Optical Group Limited Pension Scheme
66. Capital Foods (1990) Retirement Benefits Scheme
67. Cardinal Broach Company Pension Scheme, The
68. Carkeek Limited Managed Pension Plan
69. Carpets International Pension Schemes
70. Carpets of Worth Limited Retirement Benefits Scheme
71. Carter Penguin Group Pension Scheme
72. Cartographical Services (Southampton) 1973 Pension Scheme
73. Cawoods Contributory Pension & Life Assurance Scheme
74. CBCC Limited Retirement Benefits Scheme
75. CCA Group Pension Scheme
76. Cellar 5 Group Pension Scheme
77. CFS Holdings Limited Pension and Assurance Scheme
78. Chaffoteaux et Maury Limited Pension and Assurance Scheme
79. Chamberlain Phipps Group Pension & Life Assurance Plan
80. Chance Propper Pension Scheme
81. Charles W Taylor & Son Ltd Pension & Assurance Scheme
82. Charles W Taylor & Son Ltd Works Pension & Insurance Scheme
83. Chart Marston Pension Scheme
84. Cheney Pension Scheme
85. Christiani & Nielsen Limited Pension Fund
86. Citex Group Pension Scheme
87. Citizen Manufacturing (UK) Ltd Personal Retirement Fund
88. Claremont Construction (London) Savings Retirement Plan
89. Clarke & Smith Industries Ltd Pension and Assurance Scheme

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90. Cleales Ltd Retirement Benefit Scheme
91. Clearex Plastics Limited Pension & Assurance Scheme
92. Clifford Whatmough Limited Pension Plan, The
93. Colebrand Limited Retirement and Death Benefits Scheme
94. Colour Processing Pension Scheme, The
95. Constructor Group Retirement Benefit Scheme, The
96. Cooperheat Employee Benefits Scheme
97. Cordiner's Garage (Aberdeen) Limited Pension and Life Assurance Scheme
98. Cork Industries Pension Scheme
99. Cork International 1985 Pension Scheme
100. Coupe Foundry Pension Scheme
101. Cranbrook Electronic Pension Scheme
102. Creechurch Pension Fund, The
103. Crest Pension Fund
104. Crosrol Limited Staff Pension Scheme
105. Crosrol Limited Works Retirement Benefits Plan
106. Crouch Mining Limited Pension and Life Assurance Scheme
107. Cuthbert Heath Family Security Plan
108. Dartington Crystal Limited Pension Scheme for Foreign Personnel
109. Dartington Crystal Pension Scheme
110. Dawson Fur Fabrics Limited Pension Scheme
111. Delplan Limited Employee Benefit Scheme
112. Demaglass Pension Scheme
113. Dennis Group Pension & Assurance Scheme
114. Dexion Group Pension & Assurance Scheme
115. DGB Hydraulic Services (South Wales) Limited Retirement Security Plan
116. Donside Paper Company Limited Pension Scheme, The
117. Ducana(Scotland) Limited Retirement Benefit Scheme
118. Dudley Drop Forging Co Ltd Retirement Benefits Scheme
119. Dunlop Textiles Limited Pension Scheme
120. Dura Automotive Pension Plan
121. Eagle Precision Technologies Limited Retirement Benefits Plan
122. Earby Light Engineers Limited Group Pension Scheme
123. Early's of Witney plc Contributory Pension Scheme
124. Eastern Kayam OCM Pension Scheme
125. Eaton International Staff Pension Scheme
126. ECC Pension Fund
127. Echo Plastics Pension Scheme
128. Edward Hockley Holdings Limited Pension & Assurance Scheme
129. EIP Metals Pension Scheme
130. Elect Servicing Limited Pension Scheme
131. Elswick Group Pension Scheme
132. Enron Metals Limited Retirement Benefits Scheme
133. ES Group Pension Scheme
134. ESM Retirement Benefit Scheme
135. Estuary Colour Group Limited Pension Scheme
136. Etchells Machinery Limited Retirement Benefits Plan (1972)
137. European Leisure PLC Pension Scheme, The

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138. EW Hutchison Ltd 1977 Staff Retirement and Death Benefits Scheme
139. F & E Clarke Limited Retirement Benefits Scheme
140. Fabric Care Research Association Ltd Retirement Benefits Scheme
141. Falconcraft Limited Retirement Benefits Scheme
142. Falmer Limited Pension Scheme
143. Felix Schoeller Imaging Ltd Pension Scheme
144. Ferguson International Holdings Plc Retirement Benefits Scheme
145. Ferraris Piston Service Limited Retirement Benefits Plan
146. FII Group Pension & Life Assurance Scheme
147. Fine Art Wallcoverings Pension Scheme
148. Fisher Foods RF No 2 Retirement & Death benefit Scheme
149. Flexello Pension Scheme,The
150. Fosters Trading Company Pension Scheme
151. Frank Monkman Ltd
152. Fulton Group Limited Pension Scheme
153. G P Turner and Co Ltd Retirement Scheme
154. Garage Equipment Company Limited Pension Scheme, The
155. Garland and Roger Retirement Benefits Plan
156. Garton Engineering Plc Retirement Benefits Plan (1981)
157. GBE International PLC Pension Scheme
158. Geoffrey E MacPherson Limited Pension & Life Assurance Scheme
159. Globe Pension & Life Assurance Scheme
160. Gloystarne & Co Limited Retirement and Death Benefit Scheme
161. Goodalls Caravans Limited Occupational Pension Scheme
162. Gresham Group Pension Scheme
163. Guide Pensions & Insurance (1992) Retirement Benefit Scheme, The
164. H Richards & Sons Limited Pension Fund
165. Hadleigh Industries Group plc Staff Pension Scheme
166. Hawtal Whiting Pension Fund
167. Henlys Group Plc Pension Scheme
168. Henry Brook & Co Ltd Retirement and Death Benefits Scheme
169. Henry Tyrer & Co Ltd Pension & Life Assurance Scheme
170. Hermes Pension Plan
171. Hermetic Pension Scheme,The
172. Hibernia Foods Bakeries Pension Scheme
173. Hill & Tyler Limited Pension and Assurance Scheme
174. Hill Leigh Group Retirement Benefits Scheme
175. Hird Hastie Paints Ltd Pension Scheme
176. Hollas Group 1995 Retirement and Death Benefit Plan,The
177. Holmes Group Retirement Benefit Scheme, Frastan (Hollinwood)

Section The

178. Holmes Halls Tanners Limited Pension Scheme
179. Horstmann Group Limited 1991 Employee Benefits Scheme
180. How Produce Group Pension Scheme
181. HR Holdings Limited Final Salary Scheme
182. HT (UK) Ltd Pension and Life Assurance Scheme
183. HTA Industries Pension Scheme
184. Hubron Ltd RBP (1974)
185. Hunter & Foulis Ltd Pension Scheme
186. Hunter International Pension Scheme,The

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187. Hydra Tools International Limited Pension Scheme
188. Imperial Graphics Group Retirement Benefits Scheme The
189. Imperial Home Décor Pension Scheme, The
190. Industrial Holdings Pension Scheme
191. Industry Wide Mineworkers Pension Scheme (NSM Mining (South Wales) Limited Section)
192. Inframan Pension Scheme
193. Inns of Court School of Law Pension Scheme
194. International Bottle Company Limited Pension and Life Assurance Scheme (Brimsdown Decoration Limited Section)
195. International Bottle Company Limited Pension and Life Assurance Scheme (Ceridec Limited Section)
196. Interwood Pension and Life Assurance Scheme
197. Ionic Surface Treatments Limited Pension Scheme
198. ISC Retirement Benefit Plan, The
199. J C Hatt Limited Pension Scheme
200. J F Foord Limited Pension and Life Benefits Scheme
201. J T Inglis & Sons Limited Pension and Assurance Scheme
202. James Longley Group Pension Scheme
203. James Mackie and Sons Limited Staff Superannuation Fund
204. JH Clarke & Co (Chelmsford) Ltd Retirement Benefits Scheme
205. John Cleland (Holdings) Ltd Retirement Benefits Scheme
206. John Howitt Group Ltd Pension + Assurance Scheme
207. John Howitt Group Ltd Senior Managers Pension Scheme
208. John Tams Group Plc No 1 Retirement Benefits Scheme
209. Jokyle Holdings Pension Plan
210. Jordan Group Pension Scheme, The
211. Karrimor International Limited Retirement Benefit Scheme
212. Kaye Aluminium Pension Scheme
213. Kenrick and Jefferson Group Pension Plan
214. Kode International Pension and Assurance Scheme (1993)
215. L Gardner & Sons Pension Scheme
216. L Greenberg Ltd Pension Scheme
217. Lake & Elliot Pension Fund
218. Lake and Elliott Staff Pension Fund
219. Lamont Group Pension Plan, The
220. Laughton & Sons Ltd Employee Pension Plan
221. LDMS Pension Scheme
222. Lewis & Peat Group Pension Scheme
223. Lewis and Peat (Rubber) Ltd Pension Scheme, The
224. Lewis Woolf Griptight Pension & Life Assurance (1978) Scheme
225. Leyland Printing Co & Assoc Companies Pension & Life Assurance Scheme
226. LGC Pension and Life Assurance Plan
227. Lighting Technology Group Pension & Assurance Scheme
228. Lion Mark Holdings Pension and Assurance Plan
229. Lister Petter Pension Scheme
230. LK Limited Retirement Benefits Scheme The
231. Lonrho Textiles Limited Pension Scheme (Cramlington Textiles Limited Pension Scheme)

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232. Lovelace Pension & Assurance Scheme
233. Macdermott & Chant Retirement Benefit Scheme, The
234. Mackay Design associates ltd retirement benefits scheme
235. Manchester Tobacco Company Limited Staff Pension Scheme
236. Manning Williams Pension and Life Assurance Scheme, The
237. Mari Pensions 2000 Superplan,The
238. Marketing Improvements Group Pension Scheme, The
239. Mason Pittendrigh Holdings Limited Retirement and Death Benefits Scheme
240. Masta Struk Limited Retirement Security Plan
241. McMaster Stores Scotland Ltd Pension Plan
242. Mecro Limited Retirement Benefits Scheme
243. Melton Medes Group Pension & Life Assurance Scheme
244. Melville Dundas Limited Pension Scheme
245. Merretts Syndicates Limited Retirement Benefits Scheme,The
246. MG (UK) Staff Pension Scheme
247. Mid Anglia HGV Training Limited Pension and Life Assurance Scheme
248. Midland and Scottish Resources Plc Retirement and Death Benefit Scheme
249. Minerva Engineering 1992 Retirement Benefits Scheme
250. Mitchell Shackleton & Co Ltd 1988 Pension Plan
251. Moll Industries Retirement Benefits Scheme
252. Moorfield Holdings Limited Pension Scheme
253. Motherwell Bridge Group Pension Plan, The
254. Motor Panels Staff Pension Scheme, The
255. Motorworld Group Limited Pension and Ass Scheme
256. Moulinex Swan Retirement Benefits Plan
257. Mountstevens Ltd (1978) Pensions and Life Assurance Scheme
258. MSI UK Pension Scheme
259. Multiplex Techniques Ltd Retirement Benefits Scheme
260. National Welsh Omnibus Pension Scheme
261. NEU Engineering Retirement and Death Benefit Scheme
262. New College Pension and Life Assurance Scheme (1983)
263. NSM plc Group Pension Scheme
264. Nursery Supplies (Bourne) Limited Retirement Benefit Scheme
265. NW Plumbing and Central Heating Maintenance Limited Final Salary Scheme
266. Oliver Wiltshier Retirement and Death Benefit Scheme
267. Orridge Group Limited Pension and Assurance Scheme
268. PCG Glass Pension Scheme
269. Pension & Life Assurance Plan of Crendon Holdings Limited and Subsidiary Companies
270. Pension and Life Assurance Plan of the Bartlett Group,The
271. Pension and Life Assurance Plan of Thyssen (Great Britian) Limited
272. Pension and Life Assurance Plan of Trys (Wessex) Limited
273. Perivan Pension Scheme, The
274. Peter Walker Group Limited Retirement and Death Benefits Scheme, The
275. Phoenix Metal Products Pension Scheme
276. Pillans & Wilson Pension and Life Assurance Scheme

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277. Pioneer Weston Pension Scheme
278. Plaswood Products Ltd Pension Scheme
279. Platon Managed Pension Plan
280. Plint and Partners Ltd Retirement Benefit Scheme
281. Plymbridge Distributors Pension Scheme
282. Polton Press Limited Pension and Life Assurance Scheme
283. Poole Pottery Pension Scheme, The
284. Powerhouse (Protected Employees) Pension Scheme
285. Pre-Met Electrical Components Limited Retirement Benefit Scheme
286. Preprint Imaging Ltd - Stan Plan F
287. Princedale Group Pension Scheme
288. Printing & Publication Service Pension Scheme Nexus 60027
289. Printing Roller Company Limited Retirement & Death Benefits Plan
290. Printline Stationers Limited Retirement Benefits Scheme
291. Progress Foundry Ltd Retirement Benefit Scheme
292. Pullen Pumps Limited Pension & Assurance Scheme
293. Qualart Limited Employee Benefits Scheme
294. R E Brown And Co Ltd Retirement Benefit Scheme
295. R Lewis & Co Ltd Staff Benefits Plan
296. R Taylor & Sons(Orthopaedic) Ltd Pension Fund
297. Raven Studios Limited Retirement Security Plan
298. Ravenhead Company Pension Plan, The
299. Ravenhead Company Senior Management Pension Plan, The
300. Rayner and Company Limited Staff Pension Fund
301. Reece Final Salary Scheme
302. Renny's of Tonbridge Ltd Pension Plan & Disability Plan
303. Richard Roberts Holdings Ltd Pension and Assurance Scheme
304. Richards Group
305. Richardson Fertilisers Staff Retirement Benefits Plan
306. RigbyMaryland (Stainless) Limited Pension & Life Assurance Scheme
307. Rowecom UK Pension Fund
308. Roxby Pension Scheme
309. Roymere Limited Retirement Benefits Plan
310. RVL Group of Companies Pension Scheme
311. Rye Pension Fund, The
312. S Whiteley and Sons Ltd
313. Sabena Pension Fund
314. Sale Tilney
315. Salex Group Pension Scheme, The
316. Salvage Association Retirement Benefits Plan For Surveyors, The
317. Samas Roneo Limited Pension Scheme
318. Samuel Jones Pension Scheme
319. Sanderson Pension Scheme
320. Scipher Pension Scheme
321. Scottish Computer Services Ltd Retirement Benefits Scheme
322. Selkirk Pension Plan (1989)
323. Selwyn Press(1998) Final Salary Scheme
324. SES Group Pension Scheme
325. Shalet Limited Retirement Benefits Scheme, The
326. Shepherds Grove Limited Retirement Benefits Scheme

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327. Shipbuilding Industries Pension Scheme Appledore Shipbuilders Limited Section, The
328. Shirtmakers Guild Pension Scheme, The
329. SIA (Toolmakers) Ltd Pension & Life Assurance Scheme
330. Simson Pimm Retirement Benefits Plan
331. Singer UK Limited Employee Benefits Plan
332. Smit Land and Marine Pension and Life Assurance Scheme
333. Snackhouse plc Executive Pension Scheme
334. Solvera Group Pension Scheme
335. Sowester Limited Pension and Life Assurance Scheme
336. SS White Industrial Limited Pension Plan
337. Staffordshire Tableware Pension Scheme
338. Stag Employees Security Plan
339. Stag Furniture Retirement Benefits Plan
340. Steatite Insulations Limited 1974 Retirement Fund
341. Sterling Underwriting Agencies Limited Retirement Benefits Scheme, The
342. Stonehouse Battye Pension Scheme
343. Stormont Pension & Life Assurance Scheme (1977)
344. STS Pension and Life Assurance Scheme, The
345. Student Bookshops Limited Retirement Benefits Scheme
346. Sunderland Sheet Metals Pension Scheme
347. SVM Pension Plan
348. Syon Print Limited Retirement Benefits Scheme, The
349. T & D Industries Pension Scheme
350. T R Transport Staff Pension Scheme
351. T.M.S. Pension Fund Retirement Benefits Scheme
352. Tatra Plastics Ltd Pension & Life Assurance Fundr
353. Tecnograv Ltd Pension Scheme
354. Thermos Pension Plan (1989)
355. Tinsley Bridge Limited Pension Scheme
356. TMIPP (Alperton Group Ltd)
357. TMIPP (Bradbury & Brown Garages Limited)
358. TNO Bibra International Pension Plan
359. Tom Smith & Co Ltd Staff Pension & Life Assurance Scheme
360. Top Hat Holdings Ltd Pension Scheme
361. Totectors Retirement Benefits Plan
362. Town & County Ltd Retirement Benefit Scheme
363. Transfer Technology Pension Scheme
364. Transtec Automotive (Coventry & Nuneaton) Pension Scheme
365. Triefus Group Staff Pension & Assurance Scheme
366. Triplex Components Group Limited Pension Scheme
367. Truman King Lift Trucks Retirement Benefits Plan, The
368. Tyzack Machine Knives Ltd Pension Scheme
369. UK Safety Group Pension Scheme
370. Unicomp Final Salary Pension Scheme
371. Unidare Plastics Pension & Death Benefits Plan
372. United Carriers Group Pension Scheme
373. United Engineering Forgings
374. United Engineering Forgings Senior Executive Pension Scheme

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375. Unesco Steels Limited Pension Plan
376. UPF Pension Plan
377. USM Texon Pension Scheme
378. UVG Pension Plan
379. Varta Limited Pension and Life Assurance Scheme
380. VDL UK Pension Scheme
381. Viasystems Tyneside Limited Pension Scheme
382. Viscosuisse Textured Yarns Limited Pension & Death Benefits Scheme
383. Viscosuisse Textured Yarns Ltd Works Pension Scheme
384. W & G Pension Scheme
385. W and J Whitehead (Laisterdyke) Ltd Retirement Benefit Plan (1972)
386. W J Cooper & Sons (Phoenix Works) Limited 1975 Pension Scheme
387. W L Thompson Limited Executive Pension and Life Assurance Scheme
388. W Notting Limited Retirement Benefits Plan
389. Warwick Group Pension Scheme 1988
390. Wellman Pension Scheme
391. Whelpdale Maxwell and Codd Limited Pension Fund
392. Willbow Manufacturing Company Limited (1978) Pension and Life Assurance Scheme
393. William Bate Limited Retirement Benefit Scheme
394. William Russell Group Pension & Life Assurance Scheme
395. Wills Group Pension Scheme
396. Wilson & Garden Limited Group Pension Plan (1991), The
397. Wilsons Foundry Pension Plan
398. Wound Products Pension Fund
399. Wylie's Ltd Staff Superannuation Fund
400. Yardley Lentheric Payroll Pension Fund
401. Yardley Lentheric Staff Pension Fund
402. ZAL Holdings Group Pension Plan
403. ZCCM (UK) Pension and Death Benefit Plan

Annex I: Actuaries providing information on scheme members to the FAS Review team

The Review team would like to thank the following actuarial companies for provision of information on scheme members.

1. Axa-Sunlife
2. Barnett Waddingham
3. First Actuarial
4. HDS
5. JLT
6. KPMG
7. Mercer