How to organise Compensation

A new statutory body could be established, perhaps called the 'Pension Replacement Fund', which will pay pensions to all members of final salary schemes which have wound up with insufficient assets to meet all scheme liabilities. This could be done in parallel with the proposed PPF.

What happens to the assets of the funds? – Pool assets into a Pension Replacement Fund (PRF).
Do not buy annuities, but keep the assets and use them to continue to pay pensions as now.

When the necessary structure has been established, all the assets of all the funds which are winding up can be pooled into one fund – perhaps called the Pension Replacement Fund. These assets will eventually run out and then additional payments from Government will be required.

How will the Government ensure that the PRF will have enough money to pay future pensions?
I suggest that the Government agrees to pay a sum of, say, £60million a year for the next 30 years into the PRF to ensure that there will be enough assets in future to pay all pensions. We will not be able to predict the exact cost of compensation until people start to register their claims on the fund.

What happens before the Pension Replacement Fund has been properly set up?
Independent trustees who are winding up the funds will continue to run these assets as now, until administration of this Pension Replacement Fund is in place. All pensions already in payment will continue to be paid as now.

Any members who come up to retirement age will then start to receive their proper entitlements from the fund (to be calculated by the independent trustees and then taken over by the Board of the Pension Replacement Fund when it is set up).

Independent trustees will continue to administer the winding up schemes as before, except they will not need to consider purchasing annuities. Once the Pension Replacement Fund Board is ready to take over, there will be a transfer of assets and fund records to this new Fund

How do the independent trustees transfer the assets and records to the PRF?
Independent trustees will write to all scheme members and inform them that the assets and administration have been transferred to this new Fund. At the same time they will also write to ask members to sign a form to register their claim on the Pension Replacement Fund. The members should return this form to the trustees within a specified time limit and will then have their claim on the Pension Replacement Fund recorded. These forms and records can then be transferred over to the Board of the Pension Replacement Fund, together with the names and entitlements of all other members of the scheme who have not replied.

The independent trustees will then have finished their involvement and all future responsibility will pass to the Board of the Pension Replacement Fund.

How do the members receive their pensions from the PRF?
Those already receiving pensions will carry on receiving them as before.

Those who have not yet reached retirement age but have registered, will receive their pension from the Pension Replacement Fund when they reach their retirement date.

Those who have not returned the form to the independent trustee, but who subsequently realise they have entitlements from one of the schemes whose details have been passed to the Pension Replacement Fund, can still claim later, but the PRF Board will need to establish the validity of their claims. The Board of the PRF will have their details from the independent trustees and should then be able to verify the amounts payable.

What happens to members of schemes which have already bought the annuities?
This situation will be the most difficult, but the members are clearly entitled to the same help as others, since they have suffered the same loss of pension rights. Some members may have taken transfer values and the amount of their losses will be harder to calculate. The Board of the PRF will need to take actuarial advice to assess the amount of lost pension and restore this to the members, but I would expect this to be paid as a pension on an ongoing basis, rather than as a lump sum.

The important questions…

Why is the Government responsible for restoring these people's pensions?

Successive Governments lulled scheme members into a false sense of security. The last Tory Government claimed the 1995 Pensions Act and the Minimum Funding Requirement (MFR) it introduced, would ensure their pension contributions were properly protected. This Government is also directly implicated in this dreadful social injustice. In 2000, the Institute of Actuaries told the Treasury that members erroneously believed their contributions were fully protected and advised, at the very least, to tell members of the risk to their pensions on insolvency. After lengthy consultation, the Treasury decided to ignore the advice and *not* to warn members. Worse still, official Treasury publications continued to claim that employer pensions were guaranteed. The 'FSA guide to the risks of opting out of your employer's pension scheme', sent out in 2002, states "Some types of employers' schemes (the ones called 'final salary' or 'defined benefit' schemes) give you a guaranteed pension. The amount of pension you get from a personal pension is unpredictable". This booklet mentions nothing about the risks of scheme wind-up, and members, relying on such assurances, believed their accrued pensions were fully protected. If members had known, in 2000, that their whole working life's pension savings could be lost if their company failed, they have said categorically they would never have left their money there. But they believed the Government when told they were safe. Any company which behaved in this way would have to compensate investors and the Treasury must surely accept responsibility for these people's losses.

Why should the taxpayer fund pensions for members of voluntary private arrangements?

These are not purely private arrangements. Government has intervened. In the 1980's, membership was often compulsory and, even after this, Inland Revenue rules effectively compelled members to stay in their company scheme, since once in, they could not hold any other pension. Government promoted and encouraged membership without warning of any risks, so members were lulled into believing they were safe. Indeed, Government required members who left company schemes to be compensated by those who sold them personal pensions instead and were told to re-join. Government legislated an unfair priority order which means those already drawing pensions (irrespective of age or length of service) take precedence over everyone else.

Won't this set a dangerous precedent, with other groups demanding compensation too?

No. This case is unique. No other group was directly deprived of their pension by Government rules, nor deprived of the opportunity to protect their contributions by false assurances that the law specifically ensured their pension was safe. No other group was told by the Government that their pension contributions would deliver a 'guaranteed' pension.

What about Equitable Life?

This is not the same as Equitable Life. Equitable Life members chose that company because it offered best rates in the market, but they were never promised by Government that those rates would pay a guaranteed amount of pension.

How much will this cost?

This will cost no more than about £75million a year for 30 years. We spend £14 **billion** a year on tax relief for pensions, so £75 million a year is a tiny amount of money in comparison.

Why should taxpayers pay for compensation for members of occupational pensions, when not all taxpayers have occupational pensions?

Ensuring a healthy pension system is of benefit to all taxpayers and society as a whole. That is why all taxpayers pay for the £14billion a year of tax relief, which only goes to people contributing to a pension.

What if these people do not receive any assistance?

Confidence in pensions will not be restored. The success of the current Pensions Bill depends on helping these victims. They have lost everything. They will not go away. It is less than 10 years since the 1995 Pensions Act which promised pension security. How can members trust the new proposals, if they know that when they believed such assurances last time and things went wrong, members were left without the pension they contributed to for decades? The unions will sue the Government in the European Courts for failure to protect pensions. The cost of fighting this case and losing in Court will be much higher than settling now. It is vital that these people are helped now. Why should they suffer any longer? The Government can and must agree to restore their pensions immediately. Their health is suffering, they are having to sell their homes, some have even died, with their last days in despair. The Government is responsible and must act to right this injustice.