

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fifth Delegated Legislation Committee

DRAFT FINANCIAL ASSISTANCE SCHEME (INCREASED CAP FOR LONG SERVICE) REGULATIONS 2018

Tuesday 30 January 2018

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The Committee consisted of the following Members:

Chair: PHIL WILSON

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| † Adams, Nigel (<i>Lord Commissioner of Her Majesty's Treasury</i>) | † Murray, Mrs Sheryll (<i>South East Cornwall</i>) (Con) |
| Amesbury, Mike (<i>Weaver Vale</i>) (Lab) | † Opperman, Guy (<i>Parliamentary Under-Secretary of State for Work and Pensions</i>) |
| † Bacon, Mr Richard (<i>South Norfolk</i>) (Con) | † Poulter, Dr Dan (<i>Central Suffolk and North Ipswich</i>) (Con) |
| † Dromey, Jack (<i>Birmingham, Erdington</i>) (Lab) | † Stephens, Chris (<i>Glasgow South West</i>) (SNP) |
| Flint, Caroline (<i>Don Valley</i>) (Lab) | † Tomlinson, Justin (<i>North Swindon</i>) (Con) |
| † Foxcroft, Vicky (<i>Lewisham, Deptford</i>) (Lab) | † Twigg, Derek (<i>Halton</i>) (Lab) |
| † Jack, Mr Alister (<i>Dumfries and Galloway</i>) (Con) | † Yasin, Mohammad (<i>Bedford</i>) (Lab) |
| † Jayawardena, Mr Ranil (<i>North East Hampshire</i>) (Con) | |
| † Jones, Susan Elan (<i>Clwyd South</i>) (Lab) | Robert Cope, Sarah Rees, <i>Committee Clerks</i> |
| † Kawczynski, Daniel (<i>Shrewsbury and Atcham</i>) (Con) | † attended the Committee |

Fifth Delegated Legislation Committee

Tuesday 30 January 2018

[PHIL WILSON *in the Chair*]

Draft Financial Assistance Scheme (Increased Cap for Long Service) Regulations 2018

2.30 pm

The Parliamentary Under-Secretary of State for Work and Pensions (Guy Opperman): I beg to move,

That the Committee has considered the draft Financial Assistance Scheme (Increased Cap for Long Service) Regulations 2018.

It is an honour to serve under your chairmanship for the first time, Mr Wilson.

The regulations were laid before the House on 18 December 2017, and they deliver a commitment that was made to the House on 15 September 2016 to introduce a cap for long service in the Pension Protection Fund and the financial assistance scheme.

The Government have listened carefully to stakeholders, and a stakeholder consultation took place between last September and October on the draft regulations, which apply to those with long service in a single pension scheme.

The Committee will agree that it was right for the Blair Government to create the Pension Protection Fund and the financial assistance scheme. All successive Governments have supported both schemes, which ensure that individuals who have saved for their retirement during their working lives receive assistance if their pension scheme winds up underfunded.

The regulations increase the maximum amount that an individual can receive from the financial assistance scheme if the individual has long service in an eligible pension scheme. Those who are disproportionately affected by the cap on the amount of assistance payable to an individual member because they have long service in a single scheme will have their maximum cap amount increased. The cap is currently £34,229 at age 65, and reduced if a member opts to receive their assistance early. The cap helps to limit the costs of the FAS, which is funded by the taxpayer.

Individuals accrue high pensions for two reasons. Some will have been high earners, in which case they have generally had opportunities to secure alternative savings for retirement, but others will have worked for the same employer for a long time and consequently may have little or no other private pension savings to offset the shortfall between the capped assistance and what they had expected from the pension scheme had it not failed.

This legislative change will benefit the second group by ensuring that an individual's long service in a single scheme is not disproportionately affected by the cap. The maximum amount of assistance that is currently paid to an individual will be increased by 3%, funded by the taxpayer, for each full year of pensionable service

above 20 years, subject to a new maximum of double the standard FAS cap amount. In those circumstances, I commend the regulations to the Committee.

2.32 pm

Jack Dromey (Birmingham, Erdington) (Lab): It is a pleasure to serve under your chairmanship, Mr Wilson.

The regulations are welcome and we support them, but we want to ask some questions. The Minister is right that they represent a continuity of policy. We may have substantial disagreements about pension policy, but the regulations represent a continuity of policy under successive Governments.

The regulations will increase assistance payments for members of the financial assistance scheme who have been disproportionately affected by the cap on the amount of assistance payable to an individual member under the scheme. They will make changes to legislation to increase the current financial assistance scheme cap for those with long service in a single eligible pension scheme.

It is estimated that 290 FAS members will benefit from the introduction of the regulations over the lifetime of the financial assistance scheme. Although that is not many people, it is a significant proportion of the 500 people estimated to be affected by the cap.

On 6 April 2017, provisions for a long service cap were implemented in the Pension Protection Fund, and the regulations introduce a similar long service cap into the financial assistance scheme. The Pension Protection Fund provides compensation for pension scheme members whose employer became insolvent on or after 6 April 2005.

From its commencement, the financial assistance scheme was criticised for providing less generous support than the Pension Protection Fund. However, successive Governments have made significant improvements to the scheme, and that is welcome.

I want to ask some questions that arise out of engagement with stakeholders on the one hand and discussions in the other place on the other. The dialogue around the proposals has been generally constructive.

First, it was announced that from 2016 the financial assistance scheme would be closed to new applications. That decision keeps the scheme open some 10 years longer than was originally planned, but have the Government made any assessment of how many individuals will lose out as a result and how much the Government will save? Failure to access the scheme may be laid at the door of trustees or scheme administrators, but any loss will be suffered by members. Is that fair? Will failure to seek access to the scheme cause any restriction to access to social security benefits?

Another issue that arises is whether the regulations should define pensionable service. Such a definition would help to avoid confusion in cases in which service is under another scheme and is to be disallowed. The Government say that they are content to rely on information from trustees about pensionable service, based on the definition contained in individual scheme rules. However, one bugbear of the scheme, at least initially, was the poor quality of data held by various schemes. What is the current situation in that regard? What confidence is there across the board that scheme data are now more

robust? In how many cases and on what points has the scheme manager had to issue guidance to individual schemes?

We note that no impact assessment has been offered for the regulations, although reference is made to the impact assessment for the Pensions Act 2014. Will the Minister tell us why no such assessment has been prepared, particularly given that after asset transfers and recovery, the scheme's net costs are met by the public purse? Since the regulations will apply to Wales as well as to the rest of Britain, may I ask whether they have any relevance to the controversial issue of steelworkers at the Tata-owned Port Talbot works?

2.37 pm

Guy Opperman: I am grateful for the hon. Gentleman's questions. Let me address them briefly in reverse.

On Port Talbot, the reality is that members of the British Steel pension scheme who do not opt to enter the BPS2 opt-out will go into the Pension Protection Fund, so they will not be affected by the financial assistance scheme.

On data, the hon. Gentleman raises a fair and legitimate point that has concerned successive Governments. I know that he is a massive supporter, as I am, of the pensions dashboard, an effort from the Government and from all organisations that run pension schemes to make data accessible on a uniform platform. We have launched that initiative and the Department for Work and Pensions is taking it forward. I will happily set out

more detail in writing on that point and others, but to put it bluntly, we all agree that data needs to be improved and made accessible in a single portal. We will report to the House before the end of this term with the results of the DWP feasibility study on the dashboard. We hope to take it forward in 2019.

On the assessment of the losses to members from the closure of the FAS, 10 years' notice of the closure was given—that was widely publicised in 2016. The hon. Gentleman also raised the impact on social security benefits of failure to seek access to the FAS. I reassure him that since it is the responsibility of the scheme trustees to apply to the FAS and there is no requirement for individual members to do so, it is extremely unlikely that failure to apply to the FAS would have an impact on a member's social security benefits.

I accept entirely that there may be some outstanding matters on which I will need to double-check that I have responded to the hon. Gentleman, and I shall do so in writing. I believe that the regulations strike the correct balance between securing meaningful income in retirement for members compensated by the financial assistance scheme and managing the cost to the taxpayer. They show that we have decided to act to fix a long-standing problem with a scheme that has long been supported—and rightly so—by successive Governments.

Question put and agreed to.

2.40 pm

Committee rose.

