

Equality Impact Assessment

**The Financial Assistance Scheme: Revaluation and Indexation
amendments**

January 2011

Equality impact assessment for the Financial Assistance Scheme: revaluation and indexation

Introduction

The Department for Work and Pensions has carried out an equality impact assessment on the changes being made to the indexation and revaluation methodology applied to the Financial Assistance Scheme (FAS) by way of amending regulations. It considers the impact of these changes on the individuals who receive assistance from the scheme. Parallel changes are being introduced in respect of the Pension Protection Fund (PPF). As the PPF changes are being brought into effect through, in part, primary legislation changes that will taken forward in the Pensions Bill 2011, an impact assessment has been produced for that legislation¹. This assessment considers the changes in line with the current public sector equality duties.

This process will help to ensure that:

- the Department's strategies, policies and services are free from discrimination;
- the Department complies with current equality legislation;
- due regard is given to equality in decision making and subsequent processes; and
- opportunities for promoting equality are identified.

Scope of this assessment

This assessment considers the impact of the change to the indexation and revaluation methodology used by the Financial Assistance Scheme and specifically the impact in terms of:

- disability
- gender and transgender
- race
- age

¹ <http://www.dwp.gov.uk/docs/pensions-bill-2011-ia-annexc.pdf>

Brief outline of the policy or service

The Financial Assistance Scheme

The Financial Assistance Scheme (FAS) was designed to help those who suffered significant losses to their defined-benefit pensions as a consequence of employer insolvency between 1 January 1997 and 5 April 2004. It was first announced on 14 May 2004 and introduced in July 2005 but, since then, it has been successively extended to cover more people and offer increased benefits. Most recently this has been through the extensions announced in December 2007. An equality assessment was produced for these changes².

The FAS operates in two ways as:

- a top-up payment system. Schemes which wind-up will generally secure member benefits through an annuity, a transfer payment or a winding-up lump sum with the member's share of the remaining scheme assets. Where these payments are worth less than 90 per cent of the member's accrued pension (subject to a cap) the FAS makes a top-up payment to bring overall payments up to 90 per cent of expected pension. FAS payments are generally made from a member's normal retirement age. FAS payments are also made to eligible survivors and surviving dependants of qualifying members; and
- a replacement payment system. Recent regulations provide for certain schemes which qualify to be covered by the FAS and which have yet to complete wind-up, to transfer their assets to government rather than use them to purchase annuities. When the assets of these schemes transfer to government, the FAS will take over sole responsibility for making payments to members rather than there being a payment from an annuity supplemented by a 'top-up' Assistance payment.

The changes to the indexation and revaluation methodology

The FAS helps members who have lost some or all of their occupational pensions, generally due to employer insolvency, and so its rules generally reflect the minimum statutory requirements for revaluation and indexation in occupational pension schemes.

FAS payments are calculated by reference to the pension accrued by members in their schemes before the schemes began to wind-up. These accrued pensions are generally re-valued until payments begin to take account of the impact of inflation. Once in payment, indexation is applied in respect of pension accrued from April 1997, again to take account of inflation. There are caps on the amount of revaluation and indexation which reflect those used in statutory minima for occupational pensions.

² <http://www.dwp.gov.uk/docs/fas-equal-imp-ass-20jan10.pdf>

The Government announced on 8 July 2010 that it proposed to move to a different inflation measure – the Consumer Prices Index (CPI) – as the basis for the indexation and revaluation of Assistance provided by the FAS. This is part of a wider decision to use the CPI as the Government's general measure of inflation for social security benefits, State pensions, public sector pensions, statutory minimum revaluation and indexation of private sector pensions and pension compensation provided by the Pension Protection Fund.

The Government believes that the CPI is an appropriate measure of price changes as it :

- provides consistency with the measure used as the Bank of England's inflationary target;
- is a better reflection of actual inflation experiences because its methodology takes account of substitution behaviour;
- is the headline and most high profile measure of inflation; and
- excludes mortgage interest payments, which are not relevant to most benefit and pension recipients.

The Government believes that it would be inappropriate to use a different measure for the FAS than for the legislation governing pension schemes themselves.

The changes to the legislation are intended to come into force on 31 March 2011. This will mean that:

- accrued pensions can be re-valued by reference to the Retail Prices Index for periods before 31 March 2011 and by reference to the CPI after that date. Relevant caps to revaluation increases will continue to apply as they do under current rules;
- the FAS cap can be increased by reference to CPI from April 2011 and subsequent years; and
- changes to the indexation of relevant FAS payments can be undertaken in line with the CPI. These changes are intended to come into force on 31 December 2011

Consultation and involvement

As part of the consultation on the Regulations which will bring in these changes the Government sought views on whether they would impact on particular groups. Responses generally highlighted two impacts – the effect of the revaluation changes on younger scheme members, and those in respect of indexation on members who live longest. These impacts are considered below.

Impact of the way FAS assistance is revalued and indexed

As with other matters of employment, occupational pension schemes and the Financial Assistance Scheme (FAS) are prohibited from discriminating on grounds of:

- disability
- gender and transgender
- race
- age

Disability equality

The FAS includes provision to make payments early in cases of ill health or terminal illness. The payment of assistance prior to normal retirement age will mean these individuals will receive indexation on their entitlement as opposed to revaluation. However, given that both indexation and revaluation are moving to a Consumer Prices Index basis (CPI), this move does not affect the impact.

Gender and transgender equality

The Gender Equality Duty requires public authorities to actively address the individual needs of women and men. The FAS provides assistance to those who were members of defined benefit occupational pension schemes and who lost pension when their scheme began to wind up under-funded. In the private sector defined benefit schemes were more commonly adopted by larger-scale employers in male-dominated industries (such as engineering). In 2007, 61 per cent of active members of occupational pension schemes in the private sector were male³. It therefore follows that men are more likely to benefit from the FAS than women.

In addition, FAS payments are based on the rights accrued in the pension schemes at the point of wind-up. As women are more likely to have a broken work history and receive lower pay than men, their accrued pension rights and thus any FAS payments based on those rights are also likely to be lower.

³ OPSS, www.statistics.gov.uk/downloads/theme_population/Occ-Pension-2007/03_06.xls

These conclusions are supported by data from the FAS itself. In March 2010 some 27% of assessed members were female and average assistance provided to female members was only some 48 per cent of payments to their male counterparts.

However, the average longer life expectancy of women means that FAS payments are likely to be paid for longer, which also means that the indexation paid on pensions built up after 1997 is more likely to be of greater benefit to women than men. A male aged 65 in 2011 can expect to live a further 21.4 years⁴ and a 65 year old female can expect to live a further 24 years. The average amount of FAS currently in payment is about £2,000 per year.

The change in the rate of revaluation and indexation which these regulations will allow will be applied equally to members of either gender. The effect of this change will therefore stem from the differences in benefit profile and make-up of the occupational pension schemes, combined with differences in life expectancy and not from any change in the rate of revaluation and indexation used. Given these differences between men and women in occupational pension schemes who subsequently receive assistance payments from FAS, changes to the rates have a greater impact on women than men.

The cap on payments from the FAS will continue to be index linked under the changes, but by reference to CPI. From April 2011 the cap will be £30,297 under the CPI rather than £30,738 under the Retail Prices Index (RPI). Nevertheless, this is nearly three times the average occupational pension. In 2008/09, of all pensioner units⁵ that were in receipt of occupational pension, only approximately four per cent received a combined occupational pension⁶ worth more than the FAS cap. The cap, which operates on an individual and not pensioner unit basis, only impacts on a very small number of FAS members with higher pensions. The profile and make-up of schemes covered by the FAS and the difference in average Assistance payments between male and female members suggests that these members are predominantly men. If the cap is increased more slowly under the CPI, then it is possible that the number of members currently affected by it might increase albeit by a very small number.

Race equality

Entitlement to the FAS is, by its very nature, restricted to members of defined benefit occupational pension schemes. Any considerations of race equality therefore rest upon the workforce demographic of the qualifying scheme's sponsoring employer at the time the pension accruals were built-up.

⁴ 2008-based UK cohort life expectancy, http://www.statistics.gov.uk/downloads/theme_population/NPP2008/wUKcohort08.xls

⁵ A pensioner unit is either a single pensioner over state pension age or a pensioner couple where one or more are over state pension age.

⁶ The combined occupational pension refers to the total amount received by both head and spouse of the pensioner unit.

The changes to indexation and revaluation will consequently impact on individuals as members of qualifying schemes. The Government does not envisage any specific race equality impacts stemming from these changes.

Age equality

The FAS provides an income in retirement and is therefore governed by age-based rules concerning when assistance may be accessed. Younger qualifying members will be subject to the revised revaluation for a longer period than older qualifying members. Consequently, any long term difference between the RPI and CPI will have larger impact on those younger members due to compounding effects. However, younger members are likely to have accrued lower amounts of pension, so although the difference is greater in percentage terms, it is likely to be applied to a lower value of pension. Older members are likely to see a lower reduction in percentage terms, but this is applied to a higher value of pension.

Monitoring and evaluation

The DWP's policy intention is to ensure that payments from the Financial Assistance Scheme (FAS) are calculated on the inflation basis the Government considers most appropriate – currently the Consumer Prices Index (CPI). Given that the impact of this change stems primarily from the underlying make-up of occupational pension schemes from which qualifying members flow, it is not intended to specifically monitor the impact of the switch in inflation measure.

The Board of the Pension Protection Fund (PPF), in its role as the manager of the FAS, will continue to monitor its service to customers overall, with special reference to those members who are disabled or members of ethnic minorities. This monitoring will involve annual Stakeholder Perception Audits that quantify and qualitatively measure how well the PPF is communicating with FAS members.

The PPF is committed to providing facilities suitable for disabled people. As part of this commitment the PPF website has been built to internationally-recognised accessible website guidelines produced by the World Wide Web Consortium.

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