

Calculating 90% of FAS Expected Pension

Introduction

The Financial Assistance Scheme ("FAS") will top up eligible members' pension benefits up to a total of 90% of their accrued pension as at the start of wind-up, revalued to their eligibility date (subject to a cap). This revalued pension amount is known as the member's 'expected pension'.

In some circumstances, trustees may need to calculate what 90% of expected pension is to inform their decisions. This guide is to help you, as a trustee, understand how to calculate 90% of expected pension.

References to the "Regulations" are to the Financial Assistance Scheme Regulations 2005, as amended.

Please note that this document is intended as guidance only and is not legally binding. In the event of any conflict between this guidance and the Regulations, the Regulations will prevail.

When does 90% of expected pension need to be taken into account by trustees?

Set out below are a number of scenarios when you may need to consider 90% of expected pension. This is not intended to be an exhaustive list.

1. Request to waive the Regulation 22 (asset share) valuation

The FAS scheme manager has the power to waive Regulation 22 valuations for schemes which have not yet wound up. If you would like to waive the asset share valuation then you will need to demonstrate that this would not have a material impact on members' benefits. One issue to consider is whether any member of the scheme would, following the valuation, receive assistance above 90% of expected pension at any point over their future life.

2. Eligible member with defined benefit AVCs

If a member has defined benefit AVCs then it is a trustee decision whether these defined benefit AVCs should be transferred to FAS or discharged outside of FAS. If the defined benefit AVCs are transferred to FAS then the member would receive 90% of the expected pension in relation to the AVCs, in addition to 90% of the expected pension in relation to their main scheme benefits. The total amount will be subject to the FAS cap.

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3. Trustees apply to purchase annuities for the whole scheme

Some schemes which have qualified for FAS may be overfunded on the relevant statutory basis. If you believe that your scheme is in this position and you would therefore like to make an application to annuitise all remaining benefits, you will need to consider how annuity payments will compare to 90% of expected pension over members' future lifetimes.

4. Partially annuitised eligible member

If the trustees of a scheme conducting a Regulation 22 valuation purchased annuities for some members, but only for part of their benefits, then the trustees need to determine whether the members received the full value of their asset share.

If the annuity represents less than the full value of their asset share then the trustees need to consider whether to buy further top-up annuities. To inform this decision, you may consider possible additional annuity payments versus 90% of expected pension.

5. Use of residual assets

Some FAS qualifying schemes which have wound up have been left with residual assets after initially discharging members' liabilities. If there are residual assets in the scheme but you do not think that it would be cost effective to divide residual assets amongst members then you may consider transferring the assets to FAS.

In order to determine whether to do so you may consider what 90% of expected pension is at members' eligibility dates.

For further details please refer to Regulation 33.

Evidence requirements

In some of the scenarios above, you may need to provide the FAS scheme manager with evidence to justify the decision you propose to make. Your FAS caseworker will let you know what, if any, evidence is required.

Stages involved in calculating 90% of FAS Expected Pension

Worked examples of the following stages are provided in the appendix to this guide.

1. Revaluation to Eligibility Date

In order to calculate expected pension for eligible deferred members (members who were not entitled to payment of a pension under the scheme rules before the start of wind up), accrued pension is revalued from date of leaving to FAS eligibility date.

In order to calculate expected pension for eligible pensioner members (who were entitled to or in receipt of a pension under the scheme rules before the start of wind up), accrued pension is revalued from windup date to FAS eligibility date.

There are three different revaluation periods:

Revaluation period 1:

Who does it apply to? Deferred members

What period does it apply to? Date of leaving to the day before the date of start of wind up

What revaluation is applied? Revaluation in accordance with the scheme rules to the whole pension.

For further details please refer to paragraphs 4(5) to 4(6) of schedule 2 to the Regulations.

Revaluation period 2:

Who does it apply to? Deferred members

What period does it apply to? From the windup date to the member's FAS normal retirement date (or ill health eligibility date if applicable).

What revaluation is applied? Retail Price Index (RPI) increases, up to a maximum of 5 per cent per year over the period, is applied to any tranches of accrued pension entitled to increases in accordance with the scheme rules. No revaluation is applied to any accrued pension that would not have revalued under scheme rules.

For further details please refer to paragraphs 4(7) to 4(12) of schedule 2 to the Regulations.

Revaluation period 3:

Who does it apply to? Deferred members and pensioner members where FAS normal retirement date is prior to their FAS eligibility date.

What period does it apply to? FAS normal retirement date to their FAS eligibility date.

What revaluation is applied? Retail Price Index (RPI) increases, up to a maximum of 5 per cent per year over the period.

For further details please refer to paragraphs 3(3) to 3(3D) and 4(13) to 4(13D) of schedule 2 to the Regulations.

When determining the RPI to revalue expected pension, the RPI indices two months prior to the start and end dates of the revaluation periods should be used.

2. Allowing for different Normal Pension Ages

All FAS benefits are paid from a single FAS normal retirement age. For members who have tranches of benefit payable by their scheme at a different age to their FAS normal retirement age, a "tranching" factor is applied. This aligns these tranches to the FAS normal retirement age. The tranching factor will reduce tranches with a scheme normal pension age after the FAS normal pension age and uplift tranches with a scheme normal pension age before the FAS normal pension age.

The tranching factor is based on the member's normal pension age and FAS normal retirement age. However, if the tranche relates to GMP and the member is over GMP age at the windup date, it is based on the member's age at date of windup and FAS normal retirement age. This is in order to allow for statutory late retirement adjustments applied to GMP.

For further details please refer to paragraph 4B of schedule 2 to the Regulations.

For uplift/reduction factors please refer to:

http://www.pensionprotectionfund.org.uk/FAS/info_pensions_professionals/Pages/FA_SFactors.aspx

3. Allowing for bridging pensions

Some pension scheme benefit structures incorporate a component of pension that is payable for a short period, or equivalently, a deduction that starts being made some time after the pension becomes payable. These are often referred to as 'bridging' pensions.

Financial Assistance Scheme

If a scheme has this structure then the expected pension may take this into account. If the scheme has purchased an annuity for the member which contains a bridging pension, no factor should be applied. If the scheme has purchased an annuity for the member which smoothes out the bridging pension, or no annuity has been purchased, a "bridging factor" should be applied.

When a bridging factor is applicable, the bridging pension is multiplied by a factor that is related to the period the pension is payable for to convert it into an equivalent pension payable for life. If the qualifying member was a deferred member (ie had accrued rights under the scheme and was not entitled to present payment of a pension under the scheme rules before the start of wind up) the factor depends on the length of time for which the scheme would pay the bridging pension. If the qualifying member was a pension member (ie was entitled to or in receipt of present payment of a pension under the scheme rules before the start of wind up) the factor depends on the length of time between the windup date and date the bridge would have ceased under scheme rules.

For further details please refer to paragraph 4A of schedule 2 to the Regulations.

For bridging pension smoothing factors please refer to:

http://www.pensionprotectionfund.org.uk/FAS/info_pensions_professionals/Pages/FASFactors.aspx

4. Applying limits to the expected pension

FAS assistance is based on 90% of expected pension hence this limit of 90% must be applied. If the total expected pension is greater than the assistance cap then benefits accrued pre and post 6 April 1997 are reduced in proportion to the cap.

For further details please refer to paragraph 7 of schedule 2 to the Regulations.

FAS assistance caps applicable at historic dates are available from

<https://www.fasonline.org.uk/hopl.chi/wui/genpr2ui.html?hopsess=YIDdxjClaaiiRYdiQCUqapSfPTiTbldP>

Financial Assistance Scheme

Survivors and surviving dependants

Where a survivor or surviving dependant was entitled to scheme benefits immediately before the windup date, they are treated as qualifying members in their own right. 90% of expected pension is calculated in the same way as for other qualifying members.

Assistance payable to survivors and surviving dependants who have become eligible as a result of the death of a qualifying member after windup is based the original member's assistance at date of death.

Where a member dies before their FAS eligibility date, revaluation will be applied up to date of death to determine expected pension for survivors and surviving dependants. Where a member dies after their FAS eligibility date, indexation will be applied from FAS eligibility date to date of death to determine expected pension for survivors and surviving dependants.

Indexation of expected pension in relation to service post 6 April 1997 is RPI capped at 2.5%. No indexation is applied to expected pension accrued before this date. Indexation is applied on 1 January each year, based on RPI at the preceding May. Pro rated indexation will be applied on the first January after eligibility date to allow for a part year increase.

For further details please refer to paragraphs 5 and 5B of schedule 2 to the Regulations.

Appendix - Worked examples

The examples below show how 90% of expected pension should be calculated at eligibility date. A number of technical terms used in the examples are defined below.

Eligibility Date

The general rule is that a qualifying member is eligible for assistance when they reach their FAS Normal Retirement Age (FAS NRA), or when they meet qualifying conditions for early retirement on the grounds of ill health.

However, there is an exception to this where FAS NRA or ill health early access date is prior to 14 May 2004. If this is the case the qualifying member's eligibility date is 14 May 2004.

FAS Normal Retirement Age

The FAS Normal Retirement Age is the age that the member will normally retire, as specified in the scheme rules on the day benefits ceased to accrue, subject to a minimum of 60 and maximum of 65.

Financial Assistance Scheme

Example 1

This example demonstrates how to calculate 90% of expected pension for an eligible pensioner member and an eligible survivor.

- Mr Adams is a member of a FAS qualifying scheme which went into windup on 1 March 2002
- His date of birth is 12 January 1938. At windup, he was aged 64 and in receipt of a pension of £1,000 p.a.
- His FAS NRA is 65 so his FAS normal retirement date is 12 January 2003. This means his FAS Eligibility Date is 14 May 2004
- Mr Adams died on 25 July 2006, leaving a spouse
- All of his pension accrued after 6 April 1997 so all of his assistance receives indexation when in payment

Accrued pension at date of scheme wind up	= £1,000 a year
FAS NRA	65
Revaluation from start of wind-up to Eligibility Date	RPI March 2004/RPI January 2002 = 184.6/173.3 = 1.065205 This is less than the maximum revaluation of 5% p.a. over the period so does not need to be capped
90% of accrued pension at Eligibility Date	= £1,000 x 1.065205 x 0.9 = £958.68 a year
FAS Assistance Cap applicable at Eligibility Date	£26,000 a year
90% of expected pension at Eligibility Date	£958.68 a year
Expected pension for Mr Adams' spouse	
Increases from Eligibility Date to date of death	January 2005-RPI at May 2004 = 2.75%, pro rated for 7 months January 2006-RPI at May 2005 = 2.95% These are more than the maximum indexation of 2.5% p.a. so indexation of 2.5% p.a. is applied
90% of accrued pension at death	= £958.68 x 1.025 ^{7/12} x 1.025 = £996.98 a year
Spouse's expected pension at Eligibility Date	= £996.98 ÷ 2 = £498.49 a year

Financial Assistance Scheme

Example 2

This example demonstrates how to calculate 90% of expected pension for an eligible member whose accrued pension exceeds the FAS Assistance Cap.

- Mrs Brown left her scheme at age 50 on 1 March 1997. She was 55 when the scheme went into windup on 1 March 2002
- Her birthday is 20 January 1947. She has a FAS NRA of 60 so her FAS eligibility date is 20 January 2007
- Some of the benefits Mrs Brown accrued in her scheme do not receive revaluation in deferment under the scheme's rules. The revaluing elements receive revaluation of 5% fixed p.a.

Accrued pension at date of leaving that does not receive revaluation (1)	= £6,000 a year
Accrued pension at date of leaving that receives revaluation (2)	= £20,000 a year
FAS NRA	60
Revaluation from date of leaving to start of wind-up	$1.05^5 = 1.276282$
Accrued pension 1 at date of scheme wind up	= £6,000 x 1 = £6,000 a year
Accrued pension 2 at date of scheme wind up	= £20,000 x 1.276282 = £25,525.64 a year
Revaluation from start of wind-up to Eligibility Date	RPI November 2006/RPI January 2002 = 201.1/173.3 = 1.160415 This is less than the maximum revaluation of 5% p.a. over the period so does not need to be capped
90% of accrued pension 1 at Eligibility Date	= £6,000 x 1 x 0.9 = £5,400 a year
90% of accrued pension 2 at Eligibility Date	= £25,525.64 x 1.160415 x 0.9 = £26,658.30 a year
FAS Assistance Cap applicable at Eligibility Date	£26,000 a year
90% of accrued pension at Eligibility Date	£32,058.30 a year Accrued pension exceeds FAS Assistance Cap hence member receives £26,000 p.a.

Example 3

This example demonstrates how to calculate 90% of expected pension for an eligible member who has tranches of accrued pension payable by the scheme at different ages.

- Mrs Cook was an active member of the scheme when it wound up on 1 March 2002
- Her birthday is 15 October 1944. She has a FAS NRA of 65 so her FAS eligibility date is 15 October 2009

Accrued pension at date of scheme wind up payable by scheme at 60	= £3,750 a year
Accrued pension at date of scheme wind up payable by scheme at 65	= £2,000 a year
Accrued pension at date of scheme wind up payable by scheme at 67	= £6,250 a year
FAS NRA	65
Uplift/reduction factor for age 60	1.162
Uplift/reduction factor for age 67	0.938
Uplifted age 60 tranche	= £3,750 x 1.162 = £4,357.50 a year
Reduced age 67 tranche	= £6,250 x 0.938 = £5,862.50 a year
Revaluation from start of wind-up to Eligibility Date	RPI August 2009/RPI January 2002 = 214.4/173.3 = 1.237161 This is less than the maximum revaluation of 5% p.a. over the period so does not need to be capped
90% of accrued pension at Eligibility Date payable by scheme at 60	= £4,357.50 x 1.237161 x 0.9 = £4,851.84 a year
90% of accrued pension at Eligibility Date payable by scheme at 65	= £2,000 x 1.237161 x 0.9 = £2,226.89 a year
90% of accrued pension at Eligibility Date payable by scheme at 67	= £5,862.50 x 1.237161 x 0.9 = £6,527.57 a year
FAS Assistance Cap applicable at Eligibility Date	£29,386 a year
90% of expected pension at Eligibility Date	= £4,851.84 + £2,226.89 + £6,527.57 = £13,606.30 a year

Example 4

This example demonstrates how to calculate 90% of expected pension for an eligible member with a bridging pension.

- Mr Davis was an active member of the scheme when it wound up on 1 March 2002
- His birthday is 2 August 1948. He has a FAS NRA of 60 so his FAS eligibility date is 2 August 2008
- He has a bridging pension which the scheme would have paid from age 60 to 65 i.e. for five years

Accrued pension at date of leaving	= £6,000 a year
Accrued bridging pension at date of leaving	= £1,000 a year
FAS NRA	60
Factor for five year "bridge"	0.22
Smoothed bridging pension	= £1,000 x 0.22 = £220 a year payable from age 60
Revaluation from start of wind-up to Eligibility Date	RPI June 2008/RPI January 2002 = 216.8/173.3 = 1.251010 This is less than the maximum revaluation of 5% p.a. over the period so does not need to be capped
90% of accrued pension at Eligibility Date	= £6,000 x 1.251010 x 0.9 = £6,755.45 a year
90% of accrued bridging pension at Eligibility Date	= £220 x 1.251010 x 0.9 = £247.70 a year
FAS Assistance Cap applicable at Eligibility Date	£27,987 a year
90% of expected pension at Eligibility Date	= £6,755.45 + £247.70 = £7,003.15 a year