15 December 2017

Dear Mr Field,

Re: British Steel Pension Scheme Member Choice exercise

I know colleagues have been in helpful contact with the Clerks to Committee since the evidence session on Wednesday. In addition I thought it might be helpful to write to you on a number of topics discussed at the hearing.

Benefit levels in the new scheme and the PPF

I am particularly keen to clarify the benefits available to members as this has been an area of significant misconception.

Both options – the proposed New BSPS and the PPF – offer lower benefits than the unaffordable benefits in the current scheme. While indexation and spouse’s benefits for some members are better in the new scheme and the 90% level would not be applied to those currently deferred or early retired, commutation and early retirement factors, together with spouse’s benefits for some members are better from the PPF.

This broadly similar level of benefits means most, but not all, BSPS pensioners would be financially no worse off or marginally better off in the new scheme, while for remaining members the position will very much depend on their personal circumstances – there is no underpin in the new scheme that members would at least receive PPF levels of benefits. To imply, as some commentators have done, that members opting, or choosing to rely on the default option, to come to the PPF may be a bad or inappropriate outcome is therefore wrong. Of course there is a trustee aspiration to one day provide higher benefits in the new scheme but that is wholly conditional.

Default options and the ‘Time to Choose’ exercise

A member might be better off, or no worse off, in the PPF or the new scheme dependent both on accrued benefits and personal circumstances (eg whether they have a spouse, intend to retire early and/or commute benefits). There may also be non-financial factors at play in member decision making (eg governance of PPF and the new scheme). It is therefore appropriate that members have a choice and we have actively supported the ‘Time to Choose’ exercise through developing a specific website, reviewing the content of trustee letters, FAQs and other materials, and providing PPF spokespeople at the roadshows. We are rightly uneasy about any member going to the new scheme when they would be better off in the PPF and vice versa. As we made clear in our written evidence, we also have
Concerns around the reports of the circumstances of members transferring out of the current scheme.

Despite the legitimate concern about members not making a choice, we remain supportive of the current legislative framework that requires member consent to transfer. Trustees being able to transfer members to new schemes with lower benefits without their consent raises some very significant issues. Even with much improved scheme data, a trustee view on personal circumstances would be problematic. We also believe a power to transfer members and reduce benefits without consent might significantly increase risk to both members and the PPF.

**Extending or pausing the 'Time to Choose' exercise**

We supported the Trustees’ decision to extend the deadline for all members to respond from 11 December to 22 December. We did so on the understanding that this was the latest date possible in order to meet the agreed next steps under the terms of the framework agreement between the scheme and company. If these are missed and the tests for a new scheme are not met before the 29 March 2018, Mr Johnston indicated in his evidence on Wednesday the liabilities of the scheme would increase by in the region of £200m due to the annual increase exercise. The RAA mitigation was also agreed on the basis that the current scheme would enter assessment by the end of March 2018.

As a result, it is likely that moving timings back would make the new scheme unviable, with all members staying in the current scheme which would enter PPF assessment. This clearly would not be an acceptable outcome, either for BSPS members who have opted for the new scheme, or for our levy-payers as this would mean a materially higher claim.

I would be happy to have a telephone call to discuss this further,

Yours sincerely,

Alan Rubenstein

Chief Executive

www.pensionprotectionfund.org.uk