Dear Mr Field

Thank you for your letter of 6 March regarding the Pensions Regulator’s recent settlement with Sir Philip Green over the future of the BHS Pension schemes.

The £363 million settlement we have reached with Sir Philip represents a strong outcome for the 19,000 members of the BHS pension schemes, giving them the same starting pension as they were promised by BHS, taking account of the interests of both current and future pensioners and the PPF, and we are pleased to be able to bring certainty to the members of the schemes.

As a result of the agreement we have reached with Sir Philip, our regulatory action against Sir Philip Green, Taveta Investments Limited and Taveta Investments (No. 2) Limited has now ceased. Enforcement action continues in respect of Dominic Chappell and Retail Acquisitions Limited.

When appropriate, we intend to publish a report under Section 89 of the Pensions Act 2004 in relation to this case.

In answer to the questions in your letter:

1. **Comparison with promised benefits – the distribution of projected member benefits under the settlement, by percentile of promised benefits.**

   A summary of the distribution of the number of members split by the value of new scheme benefits as a percentage of the value of the current scheme benefits is provided in the table below.
<table>
<thead>
<tr>
<th>Percentile Range</th>
<th>Number of members</th>
<th>Percentage of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>75% to 80%</td>
<td>26</td>
<td>&lt; 1%</td>
</tr>
<tr>
<td>80% to 85%</td>
<td>1,429</td>
<td>8%</td>
</tr>
<tr>
<td>85% to 90%</td>
<td>10,367</td>
<td>54%</td>
</tr>
<tr>
<td>90% to 95%</td>
<td>5,740</td>
<td>30%</td>
</tr>
<tr>
<td>95% to 100%</td>
<td>1,481</td>
<td>8%</td>
</tr>
</tbody>
</table>

A more detailed breakdown is provided in Appendix A.

2. **Comparison with promised benefits – indications of categories of typical members across that distribution**

The degree to which the value of benefits in the new scheme falls short of the value of those in the BHS schemes depends on a number of factors, including:

- **Service dates** – Those with post-5 April 1997 pensions are least affected
  
The difference between expected pension increases in the new and old schemes depends on when a person accrued their pension. New scheme pension increases are expected to be lower than BHS schemes’ increases to a greater extent for pensions accrued before 6 April 1997 than for those accrued after 5 April 1997.

- **Type of pension** – Those with “GMP”s are least affected
  
The increases on Guaranteed Minimum Pensions (GMPs) are mirrored in the new scheme. Therefore, the greater the proportion of a person’s pension that relates to GMP, the less material the impact of lower pension increases on other pension in the new scheme.

- **Life expectancy** – Those with shorter life expectancy are least affected
  
  All other things being equal, the longer the period a pension is expected to be paid, the greater the impact of any lower pension increases in the new scheme.

The extent to which the value of a particular member’s benefit in the new scheme compares with that in the old BHS schemes is a complex interaction of some or all of the above. Categories of members most likely to be affected are:

- **Those for whom the value of new scheme benefits is lowest compared with old schemes include:** Pensioners who retired early (before reaching age 60), deferred
members (under age 60) who are due to retire in the new future and relatively young people in receipt of a dependant’s pension.

- Those for whom the value of new scheme benefits is closest to 100% of old schemes include: Older pensioners.

The trustees will be writing individually to all members to set out the options that are available to them in due course.

3. Comparison with PPF benefits – how the average projected benefit compares with the average projected benefit had they been paid at PPF levels

On average the value of benefits payable from the new scheme are 27% higher than the value of benefits that would be payable from the PPF.

4. Comparison with PPF benefits – the distribution of projected member benefits under the settlement, by percentile of PPF benefits

A summary of the distribution of the number of members split by the value of new scheme benefits as a percentage of the value of PPF benefits is provided in the table below.

<table>
<thead>
<tr>
<th>Percentile Range</th>
<th>Number of members</th>
<th>Percentage of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% to 110%</td>
<td>1,588</td>
<td>8%</td>
</tr>
<tr>
<td>110% to 120%</td>
<td>5,434</td>
<td>29%</td>
</tr>
<tr>
<td>120% to 130%</td>
<td>5,206</td>
<td>27%</td>
</tr>
<tr>
<td>130% to 140%</td>
<td>2,606</td>
<td>14%</td>
</tr>
<tr>
<td>140% to 150%</td>
<td>1,980</td>
<td>10%</td>
</tr>
<tr>
<td>150% to 160%</td>
<td>1,739</td>
<td>9%</td>
</tr>
<tr>
<td>Over 160%</td>
<td>490</td>
<td>3%</td>
</tr>
</tbody>
</table>

A more detailed breakdown is provided in Appendix B.

5. Comparison with PPF benefits – an indication of the characteristics of members in different parts of that distribution

The degree to which the value of benefits in the new scheme exceeds the value of those in the PPF depends on a number of factors, including:

- Capped benefits - Members under age 60 had their benefits reduced by 10% when the BHS Schemes entered PPF assessment. Furthermore, a small number of members had their benefits capped. These reductions will be reversed in the new scheme.
• Service dates/type of pension – Pensions accrued pre-6 April 1997 receive nil increases in the PPF but will increase at 1.8% a year in the new scheme. In contrast, pensions accrued after 5 April 2005 (and GMPs accrued before 6 April 1988) will receive the same increases as in the PPF.

• Life expectancy – Those with shorter life expectancy benefit the least from obtaining the higher pension increases available from the new scheme.

• Commuted pensions - Members who previously exchanged pension for a lump sum will see their spouses and dependants pensions improved in the new scheme compared with the PPF.

The extent to which the value of a particular member’s benefit in the new scheme compares with that in the PPF is a complex interaction of some or all of the above. Categories of members most likely to be affected are:

• Those for whom the value of new scheme benefits is highest compared with PPF benefits include: Members under age 60, who have retired or are yet to retire are expected to see the biggest increase in their benefits compared to PPF levels because the reduction to benefits will be reversed.

In particular, we understand there are 10 pensioner members whose benefits are currently capped in the PPF and a further 6 deferred members, who could have expected to have been capped when they retired.

• Those for whom the value of new scheme benefits is closest to 100% of PPF benefits include: Older pensioners.

6. Comparison with PPF benefits – whether our projections suggest that any members could be financially better served by staying in the existing BHS schemes on PPF-level benefits

As the table under question 4 demonstrates, all members are expected to receive a higher pension from the new scheme than from the PPF. The new scheme will also have more options available to some members, for example deferred members will be able to transfer out of the new scheme which they cannot do from the PPF. There are no options available to members of the PPF which will not be available to members of the new scheme.

The terms on which members can exercise options from the new scheme have not yet been set and may be different from those provided by the PPF.

7. The formula for determining how much of the £15 million sum set aside in case fewer than 90% of eligible members choosing to take a winding up lump sum would be returned to Sir Philip
The provision of the £15m is dependent on the actual take-up of winding-up lump sums by members (WULS). If 90% or more of eligible members take the option to receive a WULS, Sir Philip will be returned the full £15m. If none of the eligible members take a WULS, Sir Philip will receive no return. For any level of take up in between, the amount of money returned to Sir Philip will be on pro-rata basis calculated based on the amounts of the WULS that are paid out.

8. What the remaining £5 million can be spent on and how much of it we expect to be spent on providing independent financial advice for scheme members

The BHS Schemes’ trustees estimated that the overall cost of implementation would be around £5m. The £5m provided by Sir Philip can be used for all the expenses relating to the implementation of the agreed structure. This includes (but is not limited to) the costs of:

a. Producing correspondence for members on their options;
b. Providing an independent financial advice helpline for all members;
c. Setting up the new scheme including all the legal documentation;
d. Setting up the special purpose vehicle that will act as the sponsoring employer of the new scheme;
e. Investment spreads arising from investing and divesting the BHS schemes’ and new scheme’s assets to ensure an appropriate strategy is in place for the new scheme.

I hope this letter has been helpful to you and answers the Committee’s questions regarding the details of the settlement for the BHS Schemes, but if you have any further questions please do not hesitate to contact me.

Yours sincerely

Lesley Titcomb
Chief Executive
Appendix A – distribution of the value of benefits in the new scheme compared to the BHS Schemes
Appendix B – distribution of the value of benefits in the new scheme compared to PPF levels