



**Consultation on FAS & PPF (Valuation, Revaluation and Indexation  
Amendments) Regulations 2011**

**This response is submitted by Unite, the UK's largest trade union with almost 1.5 million members across the private and public sectors. The Union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.**

**Our members place a high priority on pensions and Unite played a leading part in the campaign for protection of the rights of members whose pensions were endangered following the insolvency of the employers sponsoring the schemes. This led to the establishment of both the Financial Assistance Scheme and the Pension Protection Fund, which despite their shortcomings have considerably ameliorated the position**

**Unite has opposed the measures in recent years to reduce the minimum levels of increases in pensions in payment and revaluation of deferred pensions as we believe the purchasing power of all pensions should be maintained.**

## **Executive Summary**

- Unite opposes generally the move to basing pension increases and revaluation on the CPI rather than RPI measure of inflation
- The application of CPI to FAS and PPF benefits will reduce further the restricted basis of compensation/protection payments that members receive
- The PPF and FAS funding plans fully cover payment of benefits on RPI linked terms
- FAS and PPF recipients are already denied pension increases on any benefits earned before 1997 despite the fact that many of their company schemes promised to pay guaranteed increases
- These proposed changes are seen as a further betrayal of a group of people who already feel betrayed by their companies and pension schemes and by a failure of regulators and government to safeguard their position

## **The Unite case in detail**

1. The proposed adoption of CPI as the Government's designated inflation measure for statutory pension increases is an opportunistic move to save money taken with scant regard to its impact on vulnerable pensioners. It breaches good faith in overturning arrangements established by long custom and practice. It also breaches a key principle relating to pension changes that they should not have retrospective impact.
2. The Government has adopted CPI not because, as it has claimed, it is a better measure of inflation for pensioners but because it expects in the medium term that CPI will be as much as 0.75% p.a. below the RPI.

3. Even if CPI were a better measure of the movement in cost of living for pensioners, it is not clear that this argument is relevant to indexation of deferred benefits as the intention of legislation in respect of requiring increases in deferred benefits was to limit the loss of value relative to the benefits of those who remained contributing to schemes and whose benefits rise in line with pay. We expect that pay rises will continue to be related to movements in RPI.

4. In principle Unite believes that compensation from the FAS and the PPF should be aimed at ensuring members get their full promised benefits. The current level of benefits provided by these schemes was conceded after a hard fought campaign and was supported by all the main political parties. This is a cynical back-door erosion of these limited benefits

5. FAS and PPF recipients have in many cases already been deprived of increases in respect of pre-1997 earned benefits, which comprised for many the largest part of their benefits. Surveys prior to the introduction of mandatory indexation indicate that three quarter of schemes provided guaranteed increases (see NAPF Survey 1997) before they were compelled to.

6. Even the post-1997 service increases are capped at 2.5%, below the statutory cap of 5% which applied in the period after 1997, which means they have already suffered a reduction in the pension increases from the level their schemes would have provided.

7. Surveys indicate that for the majority of private sector occupational schemes any change in the minimum level of required increases by basing them on CPI will not apply automatically. This means it would not have impacted on the past service of most of these members had their schemes continued in existence. For this reason the application to FAS and PPF benefits is akin to over-riding legislation with a retrospective impact on benefits

8. The limited basis of increases is already the area of biggest weakness and perceived injustice in the basis of FAS and PPF benefits and the CPI change only compounds this.

9. FAS and PPF benefits for those under scheme pension age are already restricted to 90% of what would have been members expected deferred pension level. The use of CPI revaluation of benefits over the period up to recipients retirement will further erode value relative to living standards at the point of their retirement

10. Even if the Government insists on CPI linkage as part of a wider pension policy then savings made on the promised levels of benefits should be recycled into the schemes to improve other aspects of the benefits

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**Closing date for submissions 3 November 2010**

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