PARLIAMENTARY OMBUDSMAN REPORT - SUMMARY COMMENTS

Background:
- Government said occupational pensions were safe, but failed to make sure they were
- Government encouraged people to join their company scheme – it was official policy
- Changes to the law reduced security of members' accrued pensions on wind-up
- Government had special knowledge of this, but failed to tell members
- Government says these were just private schemes, but they were controlled by the state on wind-up – they also contained state pension rights

Why did members lose pensions after post-Maxwell changes (which started April 1997)?
- MFR was supposed to ensure proper funding (but Government secretly decided only to give 50% protection) -purported to increase protection – actually reduced it
- Unfair statutory priority order, removed trustee discretion to divide assets fairly on wind-up
- Impact of wind-up and priority order has devastated 'non-pensioners' pensions!
- MFR completely inadequate to ensure sufficient funds to pay pensions on wind-up
- Even members' own contributions and money transferred from other schemes not protected
- Government lulled members into false sense of security

What happens on wind-up?
- Independent trustees appointed – their fees paid first
- Assets used to buy annuities for those already drawing pensions
- Annuities are very expensive, if no money is left after buying them, other members get nothing
- Irrespective of age, length of service, contributions paid in etc.
- Can work for 40 years, be one week away from retirement and still get no pension!
- In fact, many can end up worse off in retirement than if never contributed to company scheme

Effect of our Pensions System
- Like forcing members to bet their retirement income on one share in the stock market
- If that company fails, they can lose all their money (and their job too!)
- No-one ever explained this to them, they were completely unaware of the risks
- Government legislation created those risks, but never warned members
- Even solvent employers could walk away leaving members' pensions decimated
- Maladministration of MFR changes, which ignored member security on wind-up

Members had no idea
- Government promoted and encouraged joining but never warned of the risks
- Employers were allowed to make membership compulsory
- Inland Revenue prevented any other pension once in company scheme – no diversification
- Official documents contrasted 'safety' of final salary schemes with 'risky' money purchase
- Government priority order removed trustee discretion, preventing fair division of assets
- No financial company could get away with telling people something was guaranteed and not compensating when it wasn't paid in full

Why lack of warning caused injustice and loss to so many
- If they had been warned, members would have had a chance to protect themselves
- Some could have retired and secured their pensions, but were not told of the effects of the priority order on non-pensioner security – they were denied an informed choice
- Some would have saved in other ways, or taken insurance before it was too late
- Members could have pressed employers to contribute more
- Solvent employers would not have been able to put in only the MFR level

CLEAR EVIDENCE OF GOVERNMENT MALADMINISTRATION

Government encouraged people to put their money into their employers' scheme. It was official Government policy to encourage people to join their employers' pension scheme and the Government put out materials which it said were designed to encourage membership.

Government led people to believe that, after putting their money into their company scheme, their accrued pension rights would be safe and protected by law. Effectively, the Government gave the employers' pension promises an official endorsement, by encouraging people to join and telling them they were protected, without mentioning the risk of pension losses on wind-up. From the public's point of view, these schemes had a Government 'kitemark' of approval.

Government took it upon itself to issue pension information and education leaflets to help the general public understand the benefits – and risks. *1998 Pensions Green Paper from DSS said: 'We published a new series of DSS pension leaflets in June 1998…providing clear and unbiased information'. 'We have already taken steps to ensure people are better informed about pension issues generally…they need to know where they can get information and advice from sources they can trust…this will include promoting awareness of the benefits and risks'.*

The Government led the public to believe that salary-related pensions were secure, and not dependent on investment returns or employer solvency. The *DWP booklet 'Occupational Pensions Your Guide' October 2002 p.11 said: 'The pension you get in a salary-related scheme is based on: The number of years you belong to the scheme as an employee and: how much you earn (usually your earnings when you retire or leave the scheme).* This was contrasted on page 12 with *'In a money purchase scheme, your contributions (together with your employer's) are invested. The pension you get is based on the total payments into the pension fund, and how well these investments have done…You use the money this builds up to buy an 'annuity' from an insurance company when you retire'.* No mention of the problem of having to buy annuities when a final salary scheme winds-up, nor the impact of the legal priority order. The leaflets only mention seeking financial advice if salary-related scheme members work part-time, get divorced or want to transfer a pension when changing jobs.

Government was aware that members were concerned about the security of their pensions - especially after the Maxwell scandal. *1998 DSS Green Paper on Pensions: 'People should join their employers pension scheme, but will only do so if they believe their pension rights are properly protected. Security is of paramount importance'.* It seems that the Government decided to tell them they were safe, even though they weren't!

Government at the time did not believe it was trustees' duty to protect members' pensions. Government knew this was the responsibility of the Government itself, but is now trying to pretend otherwise. For example, *Pensions Minister Jeff Rooker in 2000, told Parliament: 'we are aware of the importance of protecting members' rights. If* ***we*** *cannot do that, they have no-one else to look to.'*

Government failed to keep the costs of scheme wind-up and implications of any changes in annuity rates and MFR levels under review, to ensure members' pensions were secure. Government failed to take notice of the soaring costs of buying bulk annuities on wind-up and the fact that increasing proportions of the assets were being taken up in securing the 'pensioners' pensions. It ignored the warnings about this from the Institute of Actuaries which explained that 'non-pensioner' members' pensions would be substantially reduced if the scheme had to wind-up, which was clearly contrary to the 'original intention' of the MFR. The Parliamentary Ombudsman found no record of the position of wind-up being properly considered when deciding to weaken the MFR and this is clearly maladministrative. When taking such a decision, Government must properly consider all relevant factors. It had the option of not weakening the MFR, even if actuarial advice was to do so, if there were particular reasons to do so. Surely, the situation of members losing their pensions on wind-up would have been such a situation.

Even after schemes started collapsing, post-1997 with non-pensioner members suffering huge losses, Government still produced official material assuring members their pensions were safe and failing to mention the possibility of pension losses on wind up. Until 2004, official material continued to give the clear impression that final salary pensions were safe and policy continued to encourage people to contribute to their scheme, without mentioning any risk. *DWP booklet, 'Occupational Pensions Your Guide, October 2002 p.15 'How do I know my money is safe? ' As a scheme member, you are protected by a number of laws designed to make sure schemes are run properly and to make sure funds are used properly.'* No mention of what these laws could do to accrued pensions on wind up.

Government told people that their pension was kept separate from their employer, so that, members were given the clear impression that the security of their *past* pension rights did not depend on the employer. *DWP booklet 'Occupational Pensions Your Guide' October 2003 p.15 'Although your employer pays into the scheme and may be a trustee, the assets of the pension scheme belong to the scheme, not to your employer '. P.16 'Opra can act quickly to protect your interests if the trustees who run your scheme, or your employers, do not meet their obligations.'*

Government led members to believe that the Inland Revenue ensured contracted-out schemes would provide benefits at least as good as those they would have had in the state pension scheme. This was not true, but members were never told it might not be true, or that they needed to consider whether their state pension rights could be lost as well as all their private pension. *DWP booklet, Occupational Pensions Your Guide, October 2002 p.12 'For a salary-related scheme to be able to contract out of the additional State Pension, it must pass a test of overall scheme quality. They must offer benefits that are broadly the same as, or better than, the State Second Pension'*

In its educational material and official leaflets, Government even mentioned the possibility of what might happen if an employer became insolvent, in two places, but did not talk about the risks of wind-up! For example, *DWP booklet 'Occupational Pensions Your Guide, October 2003 section headed: 'What if things go wrong?' said 'Although it's rare, if an insolvent (bankrupt) employer has removed a pension scheme's assets dishonestly, the Pensions Compensation Board can make compensation payments to the scheme.'* Similar wording was repeated later in the leaflet too. So the official materials discussed the particular issue of employer insolvency, but did not mention the risk of pension losses when the scheme had to wind-up and thus misled members into believing they would be compensated!

EVIDENCE UNCOVERED IN PARLIAMENTARY OMBUDSMAN REPORT

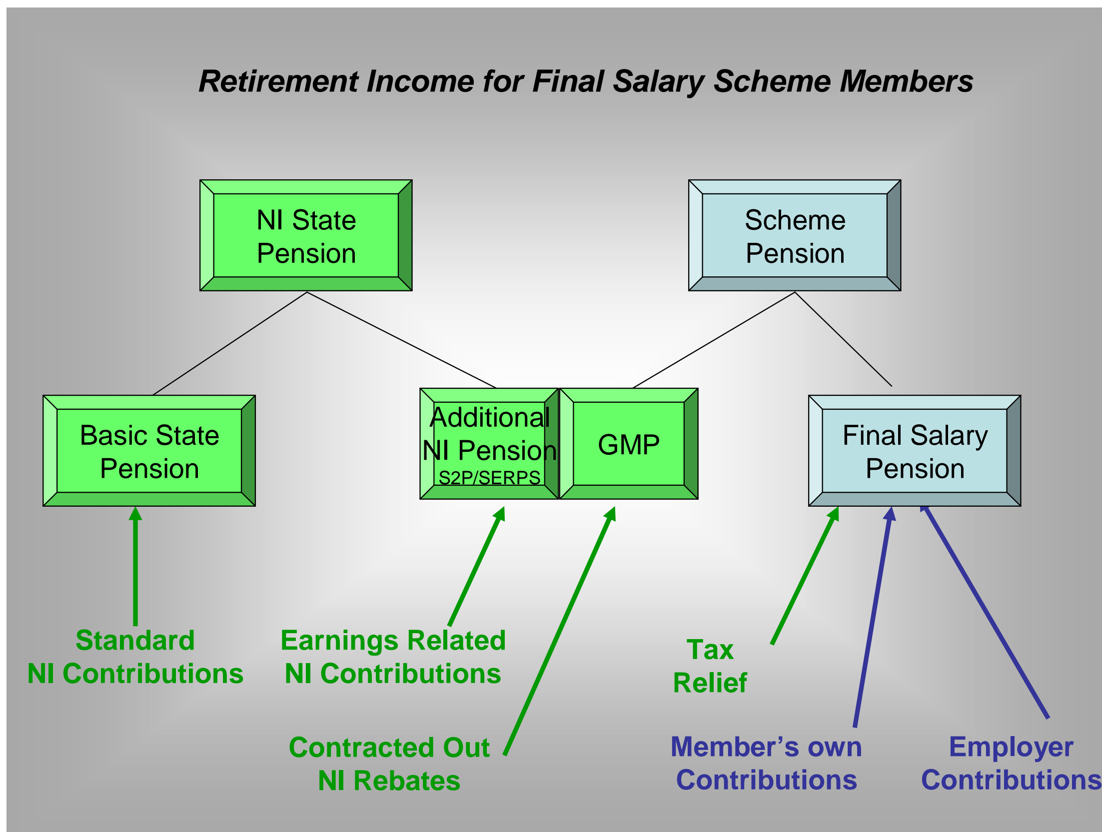
WHAT GOVERNMENT SAID:	WHAT GOVERNMENT DID:
In 1995 Government said 'the MFR will mean that members can be confident that the value of their accrued rights is secure, especially in the event of the scheme or the employer company winding up. It is only right that the members' investment and their accrued occupational pension rights, should be properly protected'.	Behind closed doors officials told the Actuarial Profession to design the MFR formula to give only a 50/50 chance of non-pensioner members getting their full accrued pensions.
In 1998 DSS said it would work with the FSA to improve pension information, including promoting the awareness of the benefits and risks. 'Government and financial Regulators have a central role to play in developing the long-term framework…People should be encouraged to join their employer's scheme, but will only do so if they believe their pension rights are properly protected.	DSS and FSA issued information leaflets only stressing the benefits of final salary schemes, but not mentioning any risks. The FSA said these pensions were 'guaranteed' which makes it 'easier to plan for retirement'. Knowing people had to believe their pensions were properly protected, DSS said they were 'safe' – even though they were not.
In 2000 the Actuarial Profession recommended that the MFR should be strengthened. Officials told the Pensions Minister, Malcolm Wicks, that this would restore the MFR to its original strength, but added 'if we introduce these changes …we are likely to come under pressure to similarly change the assumptions used in the calculation of (contracting-out) rebates which would make them more expensive to Government. We do not have Treasury agreement to this.'	Government ignored Actuarial Profession and decided not to strengthen the MFR, but would wait for a forthcoming review of contracting-out rebates and of the MFR to be carried out by the Actuarial Profession. Government failed to consider the effect of this decision not to strengthen MFR on the security of members' pensions on windup – both for solvent and insolvent employer schemes.
In 2000, Alistair Darling said 'The public rely on Government information and they are entitled to be reassured that leaflets are accurate and comprehensive.' 'It is important that Governments should be honest about what they do… Whatever else they do, they should not put people in a position in which they do not have adequate pension cover.' Pensions Minister Jeff Rooker told Parliament 'we are aware of the importance of protecting members' rights. If we cannot do that, they have no-one else to look to.'	In 2000, Government ignored the report from the Actuarial Profession which said the public thought MFR fully protected their pension rights and that they should be told it does not. A DSS official wrote to the Minister that informing the public truthfully about the insecurity of benefits would require careful handling since this would highlight the fact that the objectives of the MFR mean that non-pensioners only have a 'reasonable expectation of receiving their benefits.' Government did nothing to alert the public to the situation.
In 2000, Alistair Darling said 'The giving of wrong information by a department is inexcusable.' 'We have already tightened up procedures for checking leaflets and guidance'.	DSS leaflets were issued which failed to mention the risks to final salary scheme members' pensions on wind-up and told members that their pensions were 'safe', thus giving a biased, misleading picture.
In 2001, the Chancellor said he was determined to protect the security of pensioners and other pension scheme members in occupational schemes'.	In 2002, the MFR was weakened a second time and in 2003, the Government ignored actuarial profession's advice that the MFR had become much too weak and needed to be strengthened urgently. This reduced security for members on wind-up.
In 2004, Government announced a £400million Financial Assistance Scheme claiming 'this represents significant help to those who have lost the most'.	The FAS has only helped about 100 people. Meanwhile, scheme money is sitting in a bank but Government has refused to allow trustees to pay money immediately not even to those terminally ill, or already in their late 60's.

HOW SCHEME MEMBERS LOST STATE PENSION RIGHTS TOO

Essentially, National Insurance contributions provide a state pension consisting of two parts – (a) Basic State Pension – BSP (flat-rate) and (b) Additional Pensions – which used to be called State Earnings Related Pension (SERPS) now called State Second Pension (S2P).

Since the 1970's Governments have allowed SERPS rights to be replaced by a private pension instead. Employers were encouraged to 'contract' their scheme out of the Additional Pension (not the BSP) with the aim of reducing long-term pension costs to the state. The Government rebated some National Insurance contributions to the private scheme, which would provide a replacement for the state pension foregone. This was called a 'Guaranteed Minimum Pension' (GMP) – which Government said would be at least as good as the SERPS pension given up. If the worst happened, the national insurance system would agree to reinstate all scheme members back into SERPS.

So the company pension also consisted of two parts: (a) the GMP to replace state SERPS rights and (b) the occupational pension itself, paid for by members' and employers' contributions. See below:



In many cases on wind-up, members have lost their entire occupational pension and some or all of their so-called 'Guaranteed Minimum Pension' – which they were assured by the official leaflets would be at least as good as the State pension they had given up. However, from April 1997, previous protection for GMPs on wind-up was severely reduced. Government would no longer take these pension rights back into the National Insurance system for members as a whole and the legally imposed priority order and weakness of the MFR have meant members losing much of their GMP. Anyone losing some GMP will have zero occupational pension and will also be worse off than if they had never joined their company scheme, because if they had not been in their contracted out company scheme, they would have received their SERPS in full! So all their years of contributions will have been wasted! The following example illustrates this. It shows the pension position of Stan Carpenter, who is 66 years old and was in the Perivan scheme for 38 years. He has received nothing yet from the FAS.

CASE STUDY: STAN CARPENTER

- Member of Perivan Pension Scheme
- 66 years of age
- 38 years contributing to scheme
- Not yet receiving assistance from the FAS.

Pension if scheme had not wound up should have been:

Final salary pension	£38
Contracted out of SERPS, so GMP	£48
Total	**£86pw + Basic State Pension**

State pension Stan would be receiving if he had not joined company scheme:

SERPS	£48
Total	**£48pw +Basic State Pension**

Pension Stan is actually receiving:

Final salary pension	£0
Just receiving partial GMP (does not get SERPS)	£17.33
Total	**£17.33 pw + State Pension**

Stan is £31 worse off per week than if he had simply thrown his hard earned pension scheme contributions in the bin! His 38 years worth of contributions have left him £31 per week worse off than if he had never joined his scheme.

And this is what Government assured him was a 'safe' pension and encouraged him to join! There are thousands of others who are finding themselves in the same position.

WHAT ACTUALLY HAPPENS WHEN A SCHEME WINDS UP?

An independent trustee is appointed who is responsible for all aspects of the scheme. They try to get as much money as possible into the pension fund. If a scheme is funded below the Government's official pension funding standard (MFR), and the employer is still solvent, the law requires the employer to pay the amount of money required to bring the scheme up to 100% MFR. Even if the employer could afford more, the trustees are unable to force them to. If the employer is insolvent, the amount of money needed to bring the scheme up to 100% MFR becomes a debt owing to the fund, however pension funds are unsecured creditors and therefore banks, VAT, tax and other secured creditors have to be paid out before any money is put into the pension fund, which usually means there is nothing left for the pension scheme.

In any case, the MFR level is nowhere near sufficient money to provide all members' pensions on wind-up and, although the public were not told, it was never designed to do so. (ASW was 104% MFR!)

Trustees have to collect all assets and calculate all liabilities before wind-up can complete. They must agree contracted-out Guaranteed Minimum Pension (GMP) entitlements for all members' with the Inland Revenue. Before 1997, the Government would reinstate SERPS entitlements for all scheme members back into the National Insurance system, but the Government stopped doing this in 1997. Now trustees have to agree GMPs for each individual, and the GMP is not put back into the state system for everyone. This process can take years. If the scheme is underfunded on MFR, members can go back into SERPS through what is called 'deemed buyback', but the pension is not reinstated in full, with the amount of reduction depending on the MFR funding level of their scheme.

Before wind-up can be completed, the trustees must ensure there are no other debts due to the fund and take legal action to recover any potential sums, if they can. They must also try to trace all scheme members, even those who belonged many decades ago. This all takes a long time and can cost large sums. Any trustee, legal and other expenses are paid from scheme assets, thus potentially reducing the amount left for members' pensions even further.

To complete wind up, trustees buy bulk annuities with the remaining assets (including for members who have not been traced, in case they may show up in future!) In April 1997, the law introduced a specified 'priority order' for buying out members' pensions, with all pensioner benefits having first call on the assets. This priority order has decimated long-serving members' pensions and is grossly unfair, because it provides full pensions to one group and nothing at all to others. Before 1997, trustees would divide the assets more fairly. The legal priority order, in summary, is:

1. AVC and all expenses
2. Level pensions for pensioner members (no inflation linking)
3. Level GMP for all non-pensioners (no inflation linking)
4. Inflation increases for pensioner members
5. Inflation increases for GMP non-pensioners
6. Final salary occupational pensions for non-pensioners

Bulk annuities have become so expensive that 'pensioner' members take **all** the assets and schemes do not usually have enough money to pay for even the full GMP entitlement of non-pensioners. (Even Directors who took early retirement at 50 and are working elsewhere are classed as 'pensioners'!) Of course, anyone with less than full GMP effectively gets nothing at all from their own contributions! 'Non-pensioners' include people in their 50's and 60' with decades of contributions in the scheme, or people who transferred money in from other schemes etc. Unless already drawing their pension, long serving members can lose it all. The law over-rides trustee discretion. Yet, official information never mentioned this priority order, or the risks that fully funded on MFR would not mean full pensions on wind-up. Government never checked what was happening to annuity rates, nor did it consider the impact of weakening the MFR on solvent employer wind-ups. This is maladministration. Government was responsible for these laws, created this huge risk to members' pensions, yet never mentioned it.

PRECEDENT FROM INHERITED SERPS INQUIRY

In 2000, this Government agreed to pay out billions of pounds in compensation, after the Parliamentary Ombudsman found Government departments guilty of maladministration, for issuing leaflets which failed to warn the public that the SERPS pensions for surviving spouses would be cut in future. This is a useful precedent to consider.

In 1986, Parliament decided that - from April 2000 - surviving spouses would receive only half their deceased partners' SERPS pension, rather than keeping the full pension as before. DSS leaflets did not tell people about this, so they had no chance to make alternative and additional arrangements to protect their spouse's income after their death (e.g. to save more when they were working or take out extra life insurance etc.)

The Parliamentary Ombudsman found Government guilty of maladministration, for similar reasons as in the case of the official pension leaflets in this case i.e. that they were incomplete**,** not that they were all technically wrong (although some were, as was the OPRA handbook in the occupational pensions case), because they omitted to mention an important piece of information.

In 2000, this Government accepted it was guilty of maladministration in preparing the leaflets in question. Yet those leaflets, too, claimed they were 'for general guidance only' and 'were not a complete statement of the law'. Ministers accepted that losses were not caused specifically by the leaflets, but that individuals suffered injustice because they were not warned of changes that could reduce their surviving spouse's pension income, and they were, therefore, not given a chance to make arrangements to provide for additional inherited income. The same applies in the case of occupational pensions, whereby the Government failed to warn people they could lose their pension on wind-up and they did not know they might need to make extra provision (e.g. saving more, spending less or taking extra insurance).

Given this precedent, the Ombudsman's findings in the case of her occupational pensions report are especially important for Parliament to consider. Not only did the DWP continue to make the same kind of mistakes that cost taxpayers billions for the inherited SERPS case, but even more damaging for the credibility of the Department is that it continued to do this even after it changed its own guidelines, tightened checking procedures and publicly assured the Commons that such mistakes would not occur again. Given this, it is particularly inexcusable that, even up to 2004, the official leaflets were being issued without mentioning any risk of wind-up.

The DWP does not seem to understand the thought processes of those who read its information. Perhaps it is trying to ascribe the same levels of knowledge and awareness to the 'man-in-the-street' as would apply to officials. The leaflets were not fit for purpose, the public were badly misled by them. We need to prevent such problems arising again in future.

This Government accepted that pension rights needed to be protected and the public needed to be told about changes that could affect their future retirement income. Alistair Darling told Parliament in 2000 'The public rely on Government information and they are entitled to be reassured that leaflets are accurate and comprehensive…It is important that Governments should be honest…whatever else they do, they should not put people in a position in which they do not have adequate pension cover'. Clearly, the changes to the rules of wind-up had a devastating effect on members' pensions, but they were never warned. If the Government compensated people who 'might' have lost out because they were not warned about forthcoming changes to survivor pension benefits, it is unfair to refuse to compensate others who did actually lose out because they were not warned about the risks which the law created for pension wind-ups, in which members with decades of service and close to retirement could lose their entire pension, with no protection.

INADEQUACIES OF THE FINANCIAL ASSISTANCE SCHEME

The DWPs full final response to the Ombudsman's report (laid in Parliament on 7th June 2006) states that the FAS will pay 80% of the' 'expected' pension of those within 7 years of scheme pension age, 65% of 'expected' pension for those 7-11 years away and 50% of 'expected' pension for those up to 15 years away. This is not correct. The statement misleads MPs into thinking that members will get most of their pension back. That is far from the truth. In reality, many of those on the 80% band will still lose about half their 'expected' pension, those in the 65% band will often only get less than 40% of their 'expected' pension and most of those on the 50% band will only get between a quarter and a third of their scheme entitlement, so members are still suffering dreadful losses.

This is because the FAS payments are based on what the DWP called 'core' pension, which is not their 'expected' pension at all. This 'core' pension is worth far less than the 'expected' scheme pension. It certainly seems ironic that the DWP statement, which was attempting to explain why the Government believes it did not mislead members of occupational pension schemes, was itself misleading Parliament!

- FAS payments are not inflation-linked at all – the 'expected pension' would be
- FAS only starts at age 65 –'expected pensions' start from scheme pension age (often below 65)
- FAS only starts full payment when wind-up has actually finished – 'expected pensions' are paid as soon as pension age is reached
- FAS payments are capped at £12,000 and this cap itself is not inflation-linked, so it declines in value over the years – 'expected pensions' are not subject to any cap
- FAS does not have any tax free element and the entire FAS payments are subject to tax – 'expected pensions' include a tax-free lump sum
- FAS only pays 50% the FAS benefit to a surviving spouse – if the scheme had not wound up, spouses would normally receive at least 50% of the full 'expected pension'
- FAS payouts halve immediately if a member dies' soon after retirement – ongoing schemes usually continue paying full pension to surviving spouses for a few years
- If members die young, FAS pays nothing and survivors are left without any insurance – 'expected pension' benefits include life assurance cover
- FAS pays no ill health benefits – most schemes would offer ill-health cover

Other problems with the FAS:

1. Solvent employer schemes are excluded. Even though solvent employer schemes were also at the mercy of the MFR and the rules of wind-up (both Government responsibility) they have been left out
2. Some insolvent employer schemes are also excluded, in cases where a foreign employer went bust, but did not register the insolvency in the UK
3. Anyone over 15 years from pension age is still excluded, so people in their 50's who saved for over 25 years in their company scheme can still get nothing.
4. In fact, because of the FAS anyone over 15 years from pension age will get even less than they would have had without FAS. This is because trustee expenses incurred in submitting forms and data for each scheme must come from scheme assets. Therefore, the FAS is taking even more money away from members whose pensions have already been decimated, in order to give a bit of assistance to those who do qualify for the FAS

It is important that MPs realize just how inadequate the FAS truly is. Not only have so few people received anything at all, but even when they finally do, the payments will be far, far less than the pension they were expecting.

The Government has also overstated the amount of money the scheme will cost. The announcement that the extension to the FAS will mean a cost of £2.3bn is misleading. The £2.3bn is just a cash cost (calculated in the same fashion as the £15bn). The true net present value cost of this extended scheme is only £540m. Even this is an overstatement because the real cost to taxpayers will be reduced by tax paid on the FAS benefits and means tested benefits not paid to recipients. The Government has not provided any estimate of the true net cost, but it is clear that the FAS itself is nothing like as generous as the Government wants MPs to believe. It is not an adequate remedy for the injustices caused by the wind-up rules and priority order put in by law.

WHY THE GOVERNMENT'S £15BILLION FIGURE IS NOT REALISTIC

The calculations produced by the DWP to justify its £15billion estimate of the costs of complying with the Ombudsman's report are open to major criticism. Ronnie Sloan, a leading independent actuary, has prepared a critique which he has submitted to the Committee, but I would add my own observations as follows:

Assumed numbers affected have been inflated:
The calculations are based on an estimated 125,000 people, which adds two thirds to the numbers which the FAS actually knows about. The DWP has somehow assumed that, although it only knows of about 380 schemes with 75,000 people affected, it will suddenly find a further few hundred schemes with 50,000 more members! This is highly unlikely. All the large schemes that have been affected have already been identified, the FAS was announced 2 years ago and all trustees have been asked to register. It is rather difficult to imagine that there are any large schemes which the DWP has yet to discover. Even if there were 300 schemes, each with 30 members, that would still be less than 10,000 extra people. Some addition needs to be made for solvent employer schemes, but this is nowhere near 50,000 people, so the figures for numbers affected appear to be a substantial over-estimate.

Net cost will be far less, because tax paid and benefits not paid are not taken into account:
Of course, the DWP does not take account of the fact that the FAS payments will be taxed and also that some people will lose means-tested benefits that they would otherwise be receiving. This means the net cost to the taxpayer is far lower than stated, but the DWP – despite its 'sophisticated' modelling of other areas – says it is unable to estimate what those costs might be.

Life expectancy assumptions:
The costs are also over-stated because the DWP model uses average life expectancy, but it is far more reasonable to expect that these people's life expectancy will be much shorter than average. Many of them are from manual labour industries, mostly in regions of the UK with lower life expectancy and, of course, the fact that they have lived for years with the worry of losing their pension is likely to have shortened their lives too.

Net present value £2.9 - £3.7billion
In practice, the net present value of £2.9-£3.7bn is the figure that would normally be used to calculate pension liabilities and even this would need to be reduced for tax payable and benefits which would not be paid.

Assuming annuity purchase adds to costs
The assumption that bulk annuities would have to be bought for all schemes adds significantly to the costs. The PPF would not buy annuities and neither should these schemes. If existing assets are used, the costs of compensation can be reduced further.