Department for Work & Pensions

Guy Opperman MP
Minister for Pensions

Rt Hon Stephen Timms MP
Chair, Work and Pensions Select Committee

House of Commons
London
SW1A 0AA

6 November 2020

Questions regarding the failure of the AEA Technology pension scheme

Dear Stephen,

Thank you for your letter of 21 October 2020 regarding the failure of the AEA Technology (AEAT) pension scheme. I appreciate the difficult situation that the original members of this scheme are experiencing and I am happy to provide answers to your questions below.

As you are aware, the AEAT scheme was an occupational defined benefit (DB) final salary scheme set up in 1996. AEAT was the commercial arm of the UK Atomic Energy Agency (AEA). Following the Atomic Energy Authority Act 1995, AEA Technology was privatised and specific provisions were made for the pension arrangements of transferring staff. Members were given the choice of leaving their preserved benefits in the UK AEA pension scheme, transferring them to the AEAT scheme, or purchasing a personal pension. The issue at hand relates to members who chose the second option of transferring to the AEAT scheme.

The companies which made up the AEAT group went into administration in November 2012. The AEAT pension scheme entered a Pension Protection Fund (PPF) assessment period and transferred to the PPF in July 2016. An estimated 3,000 people are now receiving compensation payments from the PPF.

I will address your questions in turn.

Were the AEAT Pension Scheme to be set up today would it be given a proportional share of the original scheme's assets?

This is a hypothetical question which it is difficult to answer in substantial terms. The distribution of the original scheme's assets would essentially depend on the individual circumstances surrounding the creation of any new scheme.

Nonetheless, the transfer from the UK AEA pension scheme was from an unfunded scheme, and as such there was no share of assets to distribute. A bulk transfer was paid for transferring members of equivalent actuarial value to the benefits being transferred. This is typical for such transfers from unfunded public sector schemes.

Has the level of risk been calculated that members moving from a public sector to a privatised defined benefit scheme will not see all their benefits paid and is the risk well communicated?

The risk faced by members of not seeing all their benefits paid when they transfer from a public sector to a privatised defined benefit pension scheme is entirely dependent on the financial circumstances of the private scheme and its sponsoring employer. There cannot be a generalised calculation of the risk brought by this process, given that the risk lies within the present and future management of the private scheme's assets. When members choose to transfer from a public sector to a private pension scheme, a risk is present but cannot be predicted at that given time.

This risk is inherent to all private defined benefit pension schemes, which is why the PPF was set up in 2005 to ensure a minimum level of compensation to scheme members.

To what extent will the measures in the Pension Schemes Bill help prevent similar cases in the future?

The Pension Schemes Bill, together with secondary legislation and a revised DB scheme funding code to be published by the Pensions Regulator, will provide clearer funding standards to ensure that those schemes which do not follow good practice have clearer guidelines in order to do so. This will support scheme trustees and employers to improve the way they manage their scheme funding over the longer term and enable the Pensions Regulator to take action more efficiently to protect scheme members when necessary. In particular, the Bill provides for secondary legislation to define more clearly what is meant by an appropriate recovery plan for addressing funding deficits.

It must be remembered, however, that in the usual course of business some companies will become insolvent and the Government cannot prevent this. The new funding standards will help ensure that pension schemes are better funded for the longer term and that funding deficits are addressed sooner, where this is possible. This should help to minimise the need for the PPF to provide compensation.

You told my predecessor that the GAD could be named as a party to a case considered by the Pensions Ombudsman. Is there still scope for the Pensions Ombudsman or another body to look at this case?

On 8 February 2018, your predecessor wrote to me with regard to Ombudsman remits in respect of the Government Actuary's Department (GAD). As you know, I noted in my reply that there is nothing to stop GAD being named as a party to a case considered by the Pensions Ombudsman. The *Pensions Act 2004* broadened the scope of the Pensions Ombudsman's powers to include the investigation of persons or bodies that have carried out an administrative function on behalf of the scheme; this could include GAD, but it is for the Pensions Ombudsman to consider whether the issues raised in a specific case fall within his jurisdiction.

The Pensions Ombudsman gave a final decision on 21 December 2016 (reference PO-15162) that in the particular case being considered he did not have jurisdiction to look at such a complaint against the GAD. This was a final decision in respect of the complainant. While, technically, it would be possible for other scheme members to make a complaint about GAD and seek a decision from the Ombudsman, I am advised that unless new information was presented as to why GAD should fall within the Ombudsman's jurisdiction, then it appears unlikely that they would receive a different decision from the one given in PO-15162. Decision PO-15162 is not publicly available as the Pensions Ombudsman does not usually publish jurisdiction decisions.

The AEAT pension scheme has been thoroughly investigated by previous Ministers. Were further enquiries to be initiated, it is my view that they would be most unlikely to achieve a different outcome.

Yours ever,

Guy Opperman

Guy Opperman MP

Minister for Pensions and Financial Inclusion

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From the Chair

Guy Opperman
Minister for Pensions and Financial Inclusion
Department for Work and Pensions

21 October 2020

Dear Guy,

I have recently received a letter from Prospect, which represents many members affected by the failure of the AEA Technology pension scheme. Please could you answer the questions below:

- Were the AEAT Pension Scheme to be set up today would it be given a proportional share of the original scheme's assets?
- Has the level of risk been calculated that members moving from a public sector to a privatised defined benefit scheme will not see all their benefits paid and is the risk well communicated?
- To what extent will the measures in the Pension Schemes Bill help prevent similar cases in future?
- You told my predecessor that the GAD could be named as a party to a case considered by the Pensions Ombudsman. Is there still scope for the Pensions Ombudsman or another body to look at this case?

With best wishes,

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee