Fifty-seventh Report of Session 2022-23

The Department for Work and Pensions

AEA Technology Pension Case

Introduction from the Committee

AEA Technology (AEAT) was the commercial arm of the UK Atomic Energy Authority (UKAEA), and it was privatised in 1996. Around 4,000 employees were transferred to AEAT and joined the company's new pension scheme, and they had several options for the pension benefits they had already accrued in UKAEA, and the movement of these accrued benefits to the new scheme was given impetus by statements by ministers in the House of Commons. This included either keeping the benefits in the UKAEA public sector scheme, which was backed by government, or taking a special offer to transfer their accrued pension to a closed section of the new AEAT scheme. The government made assurances, including in statements by ministers and an information note provided by the Government Actuary's Department (GAD) to help scheme members make their decisions, that the new scheme would have equivalent benefits to the public sector one. Nearly 90% of eligible members chose to transfer their pension benefits.

In 2012, AEAT went into administration and the pension scheme subsequently entered the Pension Protection Fund (PPF). The compensation the PPF pays is typically lower than the original pension benefits. Since then, scheme members have raised concerns with various parts of government about information provided to employees in 1996 that informed their decision to transfer their pensions, and about the company's administration in 2012.

Based on a report by the National Audit Office, the Committee took evidence on Monday 13 March 2023 from the Government Actuary's Department, Parliamentary and Health Service Ombudsman and Department for Work and Pensions. The Committee published its report on 14 June 2023. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Pensions transferred to AEA Technology when it was privatised – Session 2022-23 (HC 1169)
- PAC report: AEA Technology Pension Case – Session 2022-23 (HC 1005)

Government response to the Committee

1. PAC conclusion: The people who transferred their accrued pension benefits to AEA Technology (AEAT) on privatisation, based on incomplete information from government, ended up losing money as a result.

1. PAC recommendation: The government should review whether the current rules for increasing PPF compensation for inflation are appropriate. This should consider the costs and benefits of extending the rules so that benefits accrued before April 1997 are also increased for inflation and, separately, of raising the cap for annual increases above 2.5%.

1.1 The government disagrees with the Committee's recommendation.

1.2 Pension Protection Fund indexation rules are set out in paragraph 28 of Schedule 7 to the Pensions Act 2004. The indexation rules broadly reflect the legal requirements for defined benefit pension schemes, that is compensation based on benefits accrued after 6 April 1997 is increased in line with prices, capped at 2.5 per cent. The legislation came into force on 6 April

2005 when the Pension Protection Fund became operational. Therefore, as referenced in paragraph 6.5 of HM Treasury guidance, Parliamentary scrutiny of public spending, the department cannot respond further to this recommendation as to change these indexation rules would require a change in legislation and is therefore a policy matter.

2. PAC conclusion: AEAT pension scheme members have been passed from one part of government to another, with no department taking overall responsibility for their complaints.

2. PAC recommendation: The government should ensure that members' complaints about the AEAT pension case can be independently reviewed, for example by a relevant ombudsman.

2.1 The government disagrees with the Committee's recommendation.

2.2 Complaints on this matter have been considered by relevant government bodies, including the Pensions Ombudsman (and the Parliamentary and Health Service Ombudsman), and decisions on these complaints including whether they are able to investigate them have been taken according to the remits given to them by Parliament and other broader statutory constraints. As referenced in paragraph 6.5 of HM Treasury guidance, Parliamentary scrutiny of public spending, the department cannot respond further on this matter as changing the remit of an ombudsman would be a policy matter.

2.3 As set out in the Committee's report, the government's 2013 Fair Deal policy means that the specific circumstances of this case would not happen again, as in cases of privatisation the pensions would now be expected to remain in public sector schemes.

3. PAC conclusion: The AEAT case shows that there are gaps in the routes of appeal available for people raising complaints about their pensions.

3a. PAC recommendation: The government should review ombudsman arrangements to ensure that all aspects of people's interactions with their pensions have an adequate route of appeal.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2024

3.2 The Pensions Ombudsman (TPO) is scheduled to have its independent arm's-length body (ALB) review in 2024, as part of the Cabinet Office review programme and in accordance with the Partnership Code of Good Practice. The aim of the review is to provide a robust challenge on the governance, accountability, efficacy, and efficiency of the ALB. The department can, in addition, request that the independent reviewer considers other areas that would benefit from their consideration. The review will be led by an independent reviewer appointed by the Secretary of State for Work and Pensions. The reviewer will report to the Secretary of State and be supported during the Review process by the department.

3.3 TPO currently has significant powers to deal with complaints of maladministration and disputes of fact or law. TPO's current time limits give the Ombudsman a wide level of discretion, subject to the Limitation Act 1980 restrictions. It should be noted that the Limitation Act 1980 is distinct from TPO's own time limit statutory framework and affects all types of civil proceedings, not just those that relate to pensions.

3b. PAC recommendation: We also ask that the Public Administration and Constitutional Affairs Committee consider examining whether the current time limits on government for retaining information and ombudsmen awarding redress are fit for purpose when it comes to pensions.

3.4 The recommendation in relation to the Public Administration and Constitutional Affairs Committee (PACAC) is a matter for that Committee to consider.

4. PAC conclusion: This is another case of government not giving people enough time or support to make complex financial decisions.

4. PAC recommendation: The government should write to us within three months to set out what more it will do to support people to make informed financial decisions, including regarding their pensions. This should include what changes it will make in light of DWP's recent call for evidence, and an update on progress with Pensions Dashboards.

4.1 The government agrees with the Committee's recommendation**.**

Target implementation date: September 2023

4.2 The government recognises that decisions about pensions can be complex and significant. The government will write to the Committee setting out the action it is taking to support people to make informed decisions about their pensions by encouraging the use of appropriate advice and guidance and reducing the complexity of decisions savers are required to take.

4.3 The government has recently taken significant steps to support people to make informed decisions about their pensions. The Stronger Nudge to Pensions Guidance ensures no-one accesses Defined Contribution pension savings without receiving Pension Wise guidance, or actively opting out of receiving it. The government is delivering the mid-life MOT in Jobcentre plus offices nationally; employers in the North East, East Anglia, and Devon and Cornwall through private sector providers; and launched an improved digital service in July 2023. The mid-life MOT provides and signposts to guidance around careers, health and finances, including pensions.

4.4 On 19 July 2023, the government made regulations with a new approach to delivery of Pensions Dashboards that allows the government to work more collaboratively with the pensions industry. The government remains as committed as ever to making pensions dashboards a reality and is ambitious about their delivery. The government is confident that this re-appraised approach will enable it to make significant progress on delivering dashboards safely and securely, enabling consumers to take advantage of their benefits to plan for retirement.