Chapter 4

British Steel Consumer Redress Scheme

BSPS DBAAT Annex

1	**Features, benefits and risks of a pension transfer**
1.1	The definitions in CONRED 4 and CONRED 4 Annex 21 1.3R apply to this Annex.
1.2	Table 1 illustrates in general the relative features and benefits of a *defined benefit occupational pension scheme* ('DB scheme') and a *non-DB pension scheme* ('DC scheme').
1.3	Table 1 should be read alongside the *consumer's* BSPS Scheme Rules and Handbook to determine how the BSPS benefits below apply to the *consumer* at the point the *firm* advised the *consumer*. Where there were special benefits in the BSPS that may be relevant to the *firm's* advice and disclosure of risks and benefits of transfer in general these are mentioned in 'notes' in Table 1.

Table 1:

	DB Scheme	DC Scheme
Benefits available	Defined by scheme rules. Pay a regular income based on the *consumer's* salary and length of the *consumer's* membership in the pension scheme.	Benefits depend on *consumer* contributions. The *consumer* builds up a pension 'pot' over time. Benefits available include taking withdrawals directly from the pot either via *uncrystallised funds pension lump sums* (UFPLS) or flexi-access drawdown (FAD) or using part/all of the pot to purchase an annuity to secure a guaranteed income for life.
When can benefits be taken?	Scheme benefits are intended to be taken at the scheme Normal Retirement Date (NRD), defined in the scheme rules (e.g. at age 65). Most schemes permit benefits to be drawn earlier than NRD (but only once the *consumer* reaches the scheme's minimum pension age), though with an actuarial reduction typically applied for every year they are taken before NRD. Note – *Consumers* that joined the BSPS before 6 April 2006 had a protected minimum pension age of 50. This benefit was lost on transfer to a DC pension (unless it was done as part of a block/buddy transfer) but may have been retained in BSPS2 and the PPF.	Benefits can be withdrawn from the pension at any point once the *consumer* meets their normal minimum retirement age.
Is a *pension commencement lump sum* (PCLS) available?	A PCLS is available and is typically achieved by 'commuting' pension benefits for lump sum benefits using a commutation factor outlined in the scheme	25% of the pension 'pot' is available to be withdrawn as a PCLS.

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Table 1:

	rules. This typically leads to a lower PCLS available than from a DC scheme.	
Are benefits protected against inflation?	The pension benefits under a DB scheme typically have a level of inflation protection (the income will increase every year) both in deferment (before the *consumer* accesses the pension) and in payment. The level of inflation protection depends on the type of benefits accrued (for example, Guaranteed Minimum Pension ('GMP'), excess over GMP) and when they were accrued. It is also impacted by certain minimums set out in legislation. The scheme rules detail the level of indexation and escalation that is applied.	There is no explicit inflation protection for benefits invested in a DC scheme. DC pension pots may be invested in the markets to generate a return to offset inflation. Where a *consumer* uses their pot to purchase an annuity, they can purchase levels of inflation protection, though this comes at the cost of reducing the initial income payment to the client.
What flexibility is available within the scheme?	DB schemes typically have flexibility around when benefits are taken from the pension, subject to confirmation in the scheme rules on early retirement and the factors that are used. All benefits are usually taken simultaneously – for example, PCLS and income benefits are usually taken in their entirety at the same time.	DC schemes allow for flexibility as to when and how benefits are taken. Further, not all benefits have to be taken at the same time. For example, partial or full PCLS can be taken without starting to withdraw income benefits.
Benefits available on death of consumer	A DB scheme will usually include a spouse's pension, which will continue to pay a proportion of the *consumer's* income after their death. There may also be pensions for dependent family *consumers*. Some schemes may make minor lump sum payments depending on when the *consumer* dies (e.g. if it was not long after they elected to take benefits).	Whatever is left in the pension pot at the *consumer's* death is an asset which is available to be inherited by a nominated individual. Annuities may also have other benefits (e.g. a spouse's pension) built in at the time of purchase which will continue paying an income to a spouse, though typically at a reduced rate.

1.4 The key risks associated with a transfer from a DB scheme to a DC scheme include:

(1) the loss of *safeguarded benefits*, in the form of a guaranteed lifetime income from the DB scheme for the *consumer* and their eligible dependants (usually spouses and dependent children);

(2) the loss of the inflationary protection that is provided by the DB scheme associated with the pension (both in deferment and in payment);

(3) the transfer of investment risk from the DB scheme (and sponsoring employee) to the *consumer*. Poor investment returns will directly impact on the value of the *consumer's* benefits in a DC scheme. In a DB scheme, investment returns impact on the scheme's funding position and the sponsoring employer must make good any shortfall;

(4) the transfer of longevity risk, which is the risk of running out of money in retirement and having to rely on the state pension. This is a key risk for *consumers* that choose to withdraw money from their pension via UFPLS or FAD. It is not a risk that is present in a DB scheme;

(5) the transfer of responsibility for decisions about scheme assets. A *consumer* must keep their DC scheme assets under review, particularly where benefits are withdrawn via either UFPLS or FAD. In these situations, the *consumer* will need to continue monitoring their pension and potentially

making complex and important investment and withdrawal decisions for the remainder of their lives. Where professional support is needed to help with the monitoring and these decisions, this will come at a cost that will reduce the available benefits within the pension.

2 Comparison of benefits provided by BSPS2 and the Pension Protection Fund (PPF)

2.1 Table 2 compares the benefits available from the proposed BSPS2 with the benefits available from the PPF for deferred (rather than retired) *consumers* who were eligible for a *pension transfer*. This information would have become available when Time to Choose packs were sent out between 9 and 11 October 2017 at the beginning of the Time to Choose period.

2.2 The BSPS first entered the PPF assessment period on 29 March 2018. During the assessment period, the PPF considers whether the assets of the scheme can be used to secure benefits for the *consumer* in excess of those provided by the PPF. If they cannot, the scheme is transferred to the PPF. During the assessment period, *consumers* who retire receive benefits at PPF levels.

Table 2:

	Benefits and features of BSPS2	Benefits and features of the PPF	Comparison of BSPS2 to PPF
'Starting' income benefits by comparison to Old BSPS scheme – Consumers aged 65 or over at date of PPF assessment	No reduction	No reduction	Both options are the same.
'Starting' income benefits by comparison to Old BSPS scheme – Consumers below age 65 at date of PPF assessment	No reduction	All income benefits reduced by 10% AND subject to the benefit cap (see 3.1(3)): •April 2016 to April 2017 – £37,420.42 at age 65 •April 2017 to April 2018 – £38,505.61 at age 65	BSPS2 provides unreduced income benefits for all scheme *consumers*.
Revaluation of benefits in deferment (pre-retirement) Source: Time to Choose Information Pack (for BSPS2)	Benefits accrued: •Before 5 April 2006 – CPI with no cap •5 April 2006 to 5 April 2009 – CPI capped at 4% a year •5 April 2009 to 5 April 2012 – CPI capped at 4% a year •5 April 2012 to 5 April 2016 – CPI capped at 3% a year •From 5 April 2016 – CPI capped at 2.5% a year	Benefits accrued: •Before 5 April 2006 – CPI capped at 5% a year •5 April 2006 to 5 April 2009 – CPI capped at 5% a year •5 April 2009 to 5 April 2012 – CPI capped at 2.5% a year •5 April 2012 to 5 April 2016 – CPI capped at 2.5% a year •From 5 April 2016 – CPI capped at 2.5% a year	BSPS2 generally provides more favourable revaluation in deferment, except for: •benefits between 5 April 2006 and 5 April 2009 where PPF revaluation is better •benefits from 5 April 2016 which are revalued at the same rate

Table 2:			
Indexation of benefits in payment (post-retirement)	•GMP benefits between 5 April 1978 and 5 April 1988 – No increases •GMP benefits between 5 April 1988 and 5 April 1997 – CPI capped at 3% a year •Excess over GMP pre-5 April 1997 – No increases •Pension benefits between 5 April 1997 and 5 April 2005 – CPI capped at 5% a year •Pension benefits from 5 April 2005 – CPI capped at 2.5% a year	•GMP benefits between 5 April 1978 and 5 April 1988 – No increases •GMP benefits between 5 April 1988 and 5 April 1997 – No increases •Excess over GMP pre-5 April 1997 – No increases •Pension benefits between 5 April 1997 and 5 April 2005 – CPI capped at 2.5% a year •Pension benefits from 5 April 2005 – CPI capped at 2.5% a year	BSPS2 generally provides more favourable indexation in retirement except for: •GMP benefits between 5 April 1978 and 5 April 1988 where neither provide indexation; •excess over GMP pre-5 April 1997 where neither provide indexation; and •pension benefits from 5 April 2005 where indexation is at the same rate.
Spouse and dependents benefits	•Continued income benefits valued at 50% of the *consumer's* pension, calculated with reference to the *consumer's* pension **before** any is commuted for a PCLS. •In Time to Choose packs (issued between 9 and 11 October 2017), there was uncertainty over whether same sex spouses or civil partners would be eligible to pension payments relating to benefits accrued before 1997. •The scheme pays out a lump sum if the *consumer* dies less than 5 years after taking their pension. This equals the total amount of remaining pension they would have received in those 5 years. This is in addition to the spouse's pension. •Children's allowance paid for 'qualifying dependent children'.	•Continued income benefits valued at 50% of the *consumer's* pension, calculated with reference to the *consumer's* pension **after** any is commuted for a PCLS. •PPF treats same sex spouses and civil partners in the same way as an opposite sex spouse – they are eligible for a spouse pension relating to all benefits accrued, regardless of when they were accrued. •No lump sum death benefits are paid from the PPF. •Dependent's pension available for qualifying children either under 18 or over 18 but under 23 in 'qualifying education' or with a 'qualifying disability'. 50% of *consumers* compensation if there is one child, or 100% split equally if there are 2 or more children.	Death benefits under BSPS2 are generally more beneficial due to higher reference point for calculating spouses' pension plus the presence of a lump sum payment if death occurs in the first 5 years. However, there are question marks over eligibility for payments to same sex spouses and civil partners under BSPS2. These question marks do not apply to the PPF, which treats same and opposite sex spouses/civil partners the same.

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Table 2:			
Pension commencement lump sum (PCLS)	PCLS is available from BSPS2 by commuting income. The commutation factors range from £12.60 to £23 of lump sum for every £1 of income, depending on the age at which the *consumer* retires and when the *consumer* built up benefits in the old scheme. Where a significant proportion of the *consumer's* rights are in the form of GMP benefits, this may inhibit the amount of pension they are able to commute for a PCLS in BSPS2.	PCLS is available from the PPF by commuting income. The commutation factors range from £20.22 to £43.57 of lump sum for every £1 of income, depending on the age at which the *consumer* retires and when the *consumer* built up benefits in the old scheme.	The PPF provides more favourable PCLS commutation factors in all instances. Where a *consumer* wishes to take the maximum PCLS, the PPF will typically provide both a larger PCLS and a larger starting income (even after accounting for the 10% reduction in the PPF) than BSPS2.
Early retirement	Early retirement is available from BSPS2. The early retirement factor ranges from 0.73 to 0.97, depending on the age at which the *consumer* retires and when the *consumer* built up benefits in the old scheme. Where a significant proportion of the *consumer's* rights are in the form of GMP benefits, this may reduce the level of income they can withdraw if they seek early retirement.	Early retirement is available for the PPF. The early retirement factor ranges for 0.819 to 0.978, depending on the age at which the *consumer* retires.	The PPF provides more favourable early retirement factors than BSPS2 in all circumstances, regardless of the *consumer*'s age and when they accrued benefits. However, the PPF reduces starting income by 10% (BSPS2 does not). After this reduction is applied, BSPS2 typically provides a higher starting income.
Potential for future transfer requests	BSPS2 allowed *consumers* the option to transfer out at any time up to a year from the *consumer's* NRD.	Once a scheme enters the PPF assessment period, *consumers* are no longer permitted to transfer out of the scheme.	BSPS2 provided *consumers* with more flexibility of options, in regard to the ability to transfer out at a future date, than the PPF.

3 Information available to advisers during the relevant period

3.1 The following information was available to advisers about the PPF benefits:

(1) Once a scheme enters the PPF assessment period, the benefits that will be available to *consumers* of the BSPS who have not yet commenced drawing a pension are calculated by reference to provisions governing the PPF and will not be the same as the pension that would have been available in the BSPS.

(2) The PPF treatment of *consumer* benefits throughout the relevant period was published or available:

(a) on the PPF website (https://www.ppf.co.uk/);

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(b) directly from the PPF;

(c) through continuing professional development, including in the study material for the qualifications required to be a *pension transfer specialist*.

(3) In July 2021, the Court of Appeal ruled that the PPF compensation cap was unlawful on the grounds of age discrimination. The PPF confirmed that the compensation cap would no longer apply and it would be removed from affected PPF pensioners. Whilst this is the case now, advisers at the time would not have been aware of this change, so it would have been reasonable to assume that the cap would still apply to those *consumers* with benefits above the cap. More information is found at https://www.ppf.co.uk/trustees-advisers/valuation-guidance/compensation-cap-factors.

3.2 The information in Table 3 was available to advisers about BSPS2 benefits during the relevant period.

Table 3:

Date	Information
30 March 2016	Tata Steel Ltd announcement examining options for restructuring business and calling into question the future of BSPS.
26 May 2016	DWP launch consultation on BSPS outlining 4 options for the future of BSPS.
26 May 2016	Letter to consumers from BSPS Trustee (Allan Johnston) outlining Government consultation on potential changes to BSPS.
16 June 2016	BSPS Trustees response to the DWP consultation.
12 August 2016	Trustee update to consumers.
7 December 2016	Tata Steel UK announcement on proposal to close BSPS to future accrual.
7 December 2016	Trustee update to consumers following Tata Steel UK Ltd's announcement on proposal to close BSPS to future accrual.
12 January 2017	Trustee statement on potential future of the scheme.
27 January 2017	Trustee letter to consumers providing an update on developments.
31 March 2017	The old BSPS scheme closed to accrual and all active *consumers* became deferred.
1 April 2017	Trustee amendment to how the CETV was calculated resulting in most *consumers* seeing an increase in their CETV after 1 April 2017 compared to before.
16 May 2017	PPF and TPR announcements on key commercial terms for an RAA being agreed in principle.
11 August 2017	TPR announcement on initial approval of RAA for BSPS.
25 August 2017	Trustee announcement to *consumers* on CETV change.
11 September 2017	Trustee announcement on RAA.
9-11 October 2017	Time to Choose packs sent out to *consumers* (received by *consumers* between 9 and 11 October 2017) which detailed personalised benefits for *consumers* under BSPS2.
29 November 2017	The deadline for *consumers* to make a decision under Time to Choose was extended from 11 December to 22 December 2017.
16 February 2018	The trustees stated deadline for receiving transfer applications.
29 March 2018	The old BSPS scheme entered the PPF assessment period and was closed to transfer.