Pension
Protection
Fund

Common misconceptions

about the PPF

JULY 2017

What is the PPF?

The Pension Protection Fund (PPF) was set up in April 2005 to protect millions of people who belong to defined benefit, e.g. final salary, pension schemes in the United Kingdom. If their employers fail, and their pension schemes cannot afford to pay what they promised, we will pay compensation for their lost pensions. If the PPF didn't exist members would simply receive their share of what was available in the scheme, which might be very little. Currently, hundreds of thousands of people are receiving compensation from the PPF, more than they would have received if the PPF didn't exist.

Around 900 pension schemes have transferred to the PPF. The schemes we look after range from those of small outfits to formerly FTSE-listed organisations.

We have now been protecting members' futures for over a decade. The PPF has evolved to an organisation which has over over £28 billion of assets under management and is responsible for more than 235,000 members.

Is the PPF taxpayer funded?

No. Compensation, and the cost of running the PPF, are paid for through levies on eligible pension schemes, income from our own investments, taking on the assets of schemes that transfer to the PPF – and recovering money, and other assets, from insolvent employers of the schemes we take on.

Is the PPF state-backed?

No. We are a public corporation, set up by the Pensions Act 2004, run by an independent Board which is responsible to Parliament through the Secretary of State for Work and Pensions.

Does PPF take on the scheme as soon as an employer goes insolvent?

No. The scheme enters an assessment period. While in assessment we – rather than the scheme trustees – exercise the scheme's creditor rights. But the scheme trustees remain in day-to-day control of the scheme and payments, and members still get paid.

What are the PPF's restructuring principles?

Sometimes we can take part in the restructuring or rescue of an otherwise insolvent business. By doing this the pension scheme must be much better off than it would have been if the business simply went bust. This involves removing, apportioning or compromising the pension debt from the company.

We will however only take part in restructures or rescues if certain principles are met – see principles here.

What is the PPF's relationship with the Pensions Regulator?

The PPF is a compensation fund and does not have regulatory powers. Discussions about the future of a pension scheme or restructuring negotiations therefore take place alongside the Pensions Regulator. The Regulator has the power to clear a deal before any agreement can be made.

Do members see their pension cut if the scheme enters the PPF?

The very fact a pension scheme ends up with the PPF is because it couldn't afford to pay what it had promised – without the PPF members would get much less.

Broadly if members are retired they get 100% of what was in payment when the company went bust. If a member is an early retiree or not yet retired they get 90% of what they were promised, subject to a cap - the vast majority of members are not affected by this cap.

The annual increases paid during someone's retirement are likely to be less than they would have expected.

PPF compensation levels are set by law.

Is there a cap on compensation and how many people are impacted by this?

Those members who receive the 100% compensation level aren't subject to a cap. There is an upper limit on the amount of compensation the PPF pays out to members who are an early retirees or not yet retired when the schemes enters assessment. This year this is about £38,500 at age 65 and is set by DWP. Our figures suggest that a small percentage of PPF members are affected by the cap – around 0.5 per cent.

The cap is increased by three per cent for each full year of pensionable service above 20 years, up to a maximum of double the standard cap.

Do current potential claims threaten the PPF?

No, even in the current climate we remain robust and are well-equipped to meet the challenges that exist. We have been protecting members' futures for over 10 years. The PPF is in a strong position, we had £6.1 billion in reserves in our last published accounts and have over £28 billion of assets under management and are responsible for more than 235,000 members.

The PPF in numbers

As of 31 March 2017 we have:

- **235,000** members…
- **£28.7bn** assets under management
- **£6.1bn** in reserves

894 schemes have transferred to the PPF since we were set up in 2005

The PPF is **121.6%** funded.

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