PPF
TN Technical News
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Pension Protection Fund

In this issue

Welcome...

...to Technical News, the Pension Protection Fund's (PPF) newsletter on topical issues including practical guidance for schemes in PPF assessment periods and Financial Assistance Scheme (FAS) qualifying schemes. Our aim is to provide you with regular updates about topics of interest.

This is a short edition to explain the implications of the legislative changes from April 2016 for schemes that enter a PPF assessment period and to make you aware of the revised PPF factors. It also makes reference to an increasingly common issue regarding members who have retired early due to ill health and is relevant to schemes that may transfer into the PPF at some time in the future.

If there are any technical issues about which you would like to hear from us, please do submit a comment via our website here: **www.pensionprotectionfund.org.uk/Pages/Feedback.aspx**

Where appropriate we will consider including an update in a future edition.

April 2016 PPF Regulations

New regulations (the Pension Protection Fund and Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2016) came into force on 6 April 2016.

The regulations impact the PPF in three main areas.

Firstly, the rules around scheme eligibility have been amended. This particularly applies to schemes entering the PPF via the "section 129" route. Schemes will be able to apply to enter the PPF this way if the centre of the employer's main interests is within a member state of the EU (other than the UK or Denmark) or is an EEA insurer or credit institution, but is not an individual, or partnership or a company registered in the UK.

This will mean that schemes of UK employers where there is an insolvency event in another EU country will be able to apply.

There are also some changes to procedures around how the PPF can discharge money purchase benefits which the trustees had not discharged prior to scheme transfer. One way to do this for pots of up to £2,000 is to pay a PPF Money Purchase Lump Sum. Previously, we were only able to pay these where the member was aged 60 or more. From April the minimum age has been 55 in line with other lump sum benefits.

The process has also been amended so that when writing to members about their money purchase benefits, we now remind them about the Pension Wise service which may help them in making a decision.

Finally, the rules about taking PPF Trivial Commutation Lump Sums have been amended to again reduce the minimum age to 55. This will also give greater flexibility to fully commute benefits during the assessment period.

It may also be noted that both of the legislative references to these minimum ages are now to the "normal minimum pension age" rather than to 55, so that any future changes to normal minimum pension age will automatically flow through to affect these benefits.

Regular readers may recall that the previous edition of the Technical Newsletter included a summary table showing lump sums that can be paid to totally commute benefits before, during and after a PPF assessment period. Given the above changes, an updated version of the table is shown on the next page.

This table is written as a general guide; it is not a substitute for specific legal advice.

	Outside an Assessment Period	During an Assessment Period	Post-transfer
Trivial commutation lump sum	• Minimum age 55 • No maximum age • £30,000 overall limit • 12 month 'window' applies • Only available for defined benefits, and must extinguish all rights to defined benefits.	• As for pre-assessment period • Can pay trivial commutation lump sum so long as it is no greater than the amount the PPF would pay as a PPF Trivial commutation lump sum.	• Not available since 6 April 2015
PPF Trivial commutation lump sum	n/a	n/a	• Only payable in respect of PPF compensation • Minimum age 55 • Must be under age 75 • £30,000 max overall benefits • 12 month 'window' applies (from 1st trivial commutation payment)
Small lump sum	• Minimum age 55 • No maximum age • £10,000 stand-alone limit.	• Can pay in respect of money purchase benefits • Not available for non-money purchase benefits (but trivial commutation lump sum may be available).	n/a
PPF money purchase lump sum	n/a	n/a	• Minimum Age 55 • No maximum age • £2,000 stand-alone limit • Must extinguish member's rights to money purchase benefits under the scheme.
Uncrystallised funds pension lump sum	• Available since 6 April 2015 • Only from a money purchase or cash balance arrangement • Limited to available LTA if under age 75 • Minimum age 55 • No maximum age.	• As for pre-assessment period • Only available in respect of a money purchase arrangement (not cash balance).	n/a

Compensation Cap and Actuarial Factors

The Secretary of State for Work and Pensions is required by legislation to review the compensation cap annually and to specify the cap for those whose compensation commences at age 65, effective from 1st April. The PPF then calculates the cap for all other ages.

This year the compensation cap at age 65 increased in line with wage inflation over the year. The cap at other ages is calculated by the PPF in a way that provides equivalence between members retiring at different ages. For example it is higher at older ages to reflect the fact that it will probably not be in payment for as long.

The PPF is responsible for calculating a number of other factors and these will be updated from 1st October. We usually publish these factors and implement them in April. This year we took the decision to delay the implementation to October so that members would have time to get quotes of their benefits using the new factors before they came into force.

All of the revised factors have now been added to our website and can be accessed through the following link: **www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/CompensationCapFactors.aspx**

Ill Health Retirement

An issue we frequently encounter when schemes transfer into the PPF involves members who have retired early from their pension scheme because of their ill health.

Schedule 7 of the Pensions Act 2004 provides that a member who is in receipt of their pension but who has not attained Normal Pensionable Age before a scheme's assessment date receives only 90% of their pension as compensation. Also, their compensation is tested against the compensation cap. However, if they had retired early on the grounds of ill health they would receive compensation equivalent to their full pension, and their compensation would not need to be assessed against the cap.

Some scheme rules provide enhanced benefits for members retiring as a result of ill-health. However many schemes allow early retirement on the grounds of ill health but apply early retirement factors. In such cases there may appear little advantage to the member in applying for ill health retirement if they have already attained the scheme' minimum retirement age.

As a result the PPF is often asked whether a member who has in fact applied for and been granted standard early retirement can be treated as having retired on the grounds of ill health, as they would have met the required conditions for ill health retirement, but had been advised there was no advantage in applying. Experience has shown that we generally can't. If a member applied for standard early retirement and had not attained Normal Pensionable Age before the assessment date, then their compensation will be reduced and assessed against the compensation cap.

If advising members that there is no advantage in their applying specifically for ill health retirement, trustees or administrators should bear in mind that if their scheme were to transfer into the PPF, a member's compensation may be affected.

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The information we provide is for guidance only and should not be taken as a definitive interpretation of the law.

PPF Technical Team, August 2016

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