Pension Protection Fund

Information for valuing benefits in respect of the Hampshire, Hughes and Bauer judgments in a section 143 valuation

Version 1

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Contents

Note: This document is intended to provide additional information, relevant to actuaries carrying out s143 valuations, to that already available. It is not a legal document and nothing in this document overrides the formal s143 guidance or the requirements of the legislation or overriding case law (in particular, the July 2021 Court of Appeal Judgment in PPF v Hughes regarding the removal of the compensation cap). It remains the responsibility of the appointed actuary to ensure that the s143 valuation report is compliant with all relevant law in force at the date of signing the report. However, we hope this will help you in achieving that goal. (The formal s143 guidance and assumptions are available separately on the PPF website.)

Section 1 – Background and Purpose

This information note sets out the methodology for dealing with the Hampshire, Hughes and Bauer judgments in s143 valuations.

The rulings in question are as follows:

- **Hampshire v PPF -** the Court of Justice of the European Union ruling in September 2018 that Article 8 of the Insolvency Directive requires each individual member to receive at least 50% of the value of their accrued old age benefits if their employer becomes insolvent.

- **Hughes v PPF -** the Court of Appeal ruling in July 2021 that the PPF compensation cap is unlawfully discriminatory and has to be disapplied, and that a one-off actuarial valuation approach is a lawful means of providing the 50% minimum level of protection required by the Hampshire ruling.

- **PSV v Bauer -** the Court of Justice of the European Union ruling in December 2019 that Article 8 of the Insolvency Directive means that a loss of less than 50% of the value of accrued scheme benefits could nonetheless be 'manifestly disproportionate' if as a result of the reduction, the member would have to live below the at-risk-of-poverty threshold determined by Eurostat for the Member State concerned.

These judgments should be taken into account when determining the value of protected liabilities for the purposes of s143 valuations and, if applicable, other calculations using the s143 method and assumptions, such as funding determinations, s156, s152 and s158 valuations. As matters evolve and become clearer, especially in relation to the implementation of any adjustments required by the Bauer judgment, this information note may be subject to review.

This information note is only for use in s143 valuations and other calculations based on the s143 method and assumptions and has no wider application. In particular, it is down to trustees to seek their own professional advice on the impact of the Hampshire, Hughes and Bauer judgments on members' benefits and the allocation of funds if they are winding up a scheme and securing benefits outside the PPF (for example, via a buy-out).

Section 2 – s143 valuation process

A key part of the valuation process will be a discussion between the appointed actuary and a PPF actuary to determine what allowance should be made for the judgments in the initial s143 valuation results.

For all schemes, since the Hughes judgment in July 2021, the PPF compensation cap no longer applies for any period. Therefore, the compensation cap must not be used in the calculation of PPF compensation in the s143 valuation.

The discussions will focus on the potential for the impact of the judgments to reduce the funding level below 100% on the s143 basis. Part 5 of the valuation guidance allows for simplifications, generally needing prior agreement from the PPF Board, that will not alter whether or not the value of the assets of the scheme was less than the value of the protected liabilities of the scheme at the relevant time by overstating the liabilities for an overfunded scheme or by understating the liabilities for an underfunded scheme. For valuations being conducted under version H7 or under later versions of the guidance, it is not necessary to seek the Board's approval for the use of simplifications described in this information note.

It is envisaged that schemes will fall into one of five broad categories for the purposes of allowing for the Hampshire and Bauer judgments (the removal of the compensation cap will be allowed for in the same way for all schemes):

- **Underfunded before any allowance is made for the judgments** – a scheme that is expected to be underfunded on the s143 basis with no allowance for the judgments. In such cases no additional calculations need to be conducted since any allowance would only act to reduce the funding level further. If the initial results then show the scheme is, in fact, over 100% funded on that basis then the scheme's status will move into one of the other categories and additional calculations will be needed.

- **Overfunded having made a prudent allowance for the judgments** – a scheme that is expected to be over 100% funded on the s143 basis prior to any allowance for the judgments and thought capable of being proved to still be above 100% funded with a prudent allowance without the need for more rigorous calculations. A **Simplified** methodology that will overstate the allowance can be employed. If such a scheme shows itself to in fact be underfunded after such an allowance for the judgments then a more **Detailed** methodology may need to be employed.

- **Overfunded having made a more rigorous allowance for the judgments –** a scheme that is expected to be over 100% funded on the s143 basis without an allowance and thought only capable of being proved to still be above 100% funded with an allowance by application of more **Detailed** methodology. A **Detailed** methodology may be employed from the outset.

- **Overfunded with no allowance for the judgments but underfunded having made a more rigorous allowance –** a scheme that is expected to move from above 100% funded on the s143 basis to below 100% upon the application of more rigorous calculations of the value of the additional protected liabilities arising from the judgments. A **Detailed** methodology may be employed from the outset. If, having conducted the calculations, a scheme falls into this category then it may need to be put on hold, especially if it is the allowance for Bauer which puts it in this category.

- **Impossible to tell without initial s143 calculations** – a scheme which cannot be reasonably placed into any of the above categories without initial s143 calculations. The approach should then be discussed with a PPF actuary.

The purpose of the initial discussions is to determine which category the scheme is expected to fall into. However, it is expected that in all cases initial s143 calculations will be conducted making no allowance for the judgments, which will help determine how to proceed with the allowances for the judgments. This in itself may result in the scheme moving category.

Consideration will also need to be given to use of any alternative actuarial assumptions for the purposes of the s143 valuation more generally. The regulations concerning the use of alternative assumptions are not changing, and are set out within the s143 guidance, but the circumstances in which they are appropriate may be impacted by the judgments. Alternative assumptions, as set out in the guidance, can only be used with the prior agreement of the Board of the PPF.

Sections 3, 4 and 5 detail calculations that will be required, and how these will vary in different circumstances. Key factors that will influence the types of calculations conducted are:

- Funding level
- Ability to buy out or otherwise secure benefits at levels equal to or greater than PPF compensation (allowing for the judgments)
- Impact of Hampshire – scheme pension increases (both in payment and deferment) will be particularly relevant.
- Impact of Bauer – proportion of members with low levels of PPF compensation will be particularly relevant, as well as scheme pension increases and contingent beneficiary benefits.

Section 3 – Calculations required

This section considers the calculations required. In particular, the order in which calculations are conducted, and whether Simplified or Detailed calculations may be required.

Order of calculations

1. **Conduct s143 valuation making no allowance for the judgments except for the removal of the compensation cap**
   Since it will be necessary to separately identify the impact of the allowance made for the judgments the starting point is to conduct the s143 valuation making no allowance for Hampshire or Bauer. This must, however, allow for the removal of the compensation cap (that is, uncapped benefits must be valued for all members). Please note that the separate 90% factor (where applicable) will still continue to apply as it has done in the past.

2. **Make allowance for Hampshire**
   Value the additional PPF compensation to ensure that the present value of the PPF compensation (including any contingent benefit) for each member is equal to at least 50% of the present value of the benefits that their scheme would have provided – see section below.

3. **Make allowance for Bauer**
   Make allowance for the Bauer judgment which could potentially require some individual pension scheme members to receive up to the full (100%) value of their accrued scheme pension if they would otherwise be at risk of poverty – see section below.

In practice, it may be possible to conduct 2 and 3 in either order, but it is likely to be preferable to consider Hampshire first since that is the approach taken by the Bauer judgment.

Allowance for Hampshire

The Hampshire judgment requires that members receive at least 50% of the value of the benefits their former scheme would have provided. The PPF has decided to implement that using a one-off present value test. The PPF compensation and former scheme benefits should, therefore, be valued as at the assessment date on the s143 basis (with any additional assumptions required being chosen consistently). The value of the scheme benefits should allow for the scheme's deferred revaluations (including on GMP), pension increases, spouse proportion as well as any additional benefits, such as death in deferment benefits, guarantee payments, other death benefits, GMP step-ups etc.

It should be noted that PPF compensation includes a contingent spouse's (or other eligible dependant's) pension of 50% of the post-commutation member's pension (except where the former scheme did not provide a contingent spouse's pension). Most pension schemes instead provide a spouse's pension as a given percentage of the pre-commutation member's pension. Allowance should be made for that difference between PPF benefits and former scheme benefits when allowing for the impact of the Hampshire judgment on the contingent spouse liabilities where pensions are in payment at the assessment date. (For pensions not yet in payment at the assessment date, it can be assumed that cost-neutral single- or joint-life commutation factors would be used as appropriate, so there is no effect on the liability.) If the actual contingent spouse pension in the former scheme is not known, an assumption can be made assuming the maximum permitted cash was taken (e.g. assuming 66.67% post-commutation pension as a proxy for 50% pre-commutation pension)

Where assumptions not included in the standard s143 basis are required, for example for alternative pension increases that were relevant to the former scheme, they should be set consistently with the s143 basis in a similar way to assumptions used to value annuities held as assets of the scheme.

We expect that future discretionary pension increases should be disregarded, on the rationale that they are not already accrued benefits at Assessment Date.

If the value of the PPF compensation is less than 50% of the value of the scheme benefits for a given member then the value of the protected liabilities for that member that is included in the s143 valuation should be 50% of the value of the scheme benefits (the difference between the two is referred to as a Hampshire uplift).

Where scheme benefits are particularly complex, it may be appropriate to make prudent simplifications as part of a Simplified calculation, in line with our valuation guidance.

Allowance for Bauer

In theory, allowing for Bauer with as much precision as possible requires individual cashflow projections for each future year. However, any Bauer allowance will inevitably be approximate since it is highly likely the individual financial circumstances of each member and their household (e.g. other sources of income) will not be known. Therefore, an individual by individual present value approach can be used, and allowance is made for Bauer by reference to a "Bauer Threshold", detailed later in this note. Any member whose PPF compensation is less than the Bauer Threshold may be eligible for an uplift to the minimum of the threshold and 100% of the member's "full scheme" benefit in the former scheme. Allowance will need to be made for future increases to PPF compensation, scheme benefits, and the Bauer Threshold.

Allowance may also be made for assumed additional occupational benefits a member may have, and the interaction with Pension Credit, each of which would serve to reduce the allowance required so are only necessary in a Detailed calculation.

Further details are provided in section 4.

Simplified vs Detailed

Allowance for Bauer may be Simplified or Detailed. Simplified calculations are less rigorous than Detailed calculations and typically take the form of assuming very prudent scenarios that will act to overstate the impact of the judgment. Simplified calculations are appropriate where it is considered a scheme can be still be seen to be over 100% funded on the s143 basis even allowing for such very prudent scenarios. Where this is not the case, as detailed in section 2, Detailed calculations will be required.

Allowances for removal of the compensation cap and, in most cases, Hampshire are considered to be straightforward and so no simplifications are appropriate.

Section 4 – Allowance for Bauer

Allowance should be made for Bauer as follows:

Simplified

- 2021 Bauer Threshold of £4,600 pa. This represents the Eurostat at risk of poverty threshold (based on a single person and expressed on 'National Currency' basis) as at 2018 (the most recently published figures), and then allowing for expected increases since latest publication figures, minus the level of Basic State Pension in 2021 for those reaching State Pension Age prior to April 2016 (whether the individual in fact reached State Pension Age prior to or after that date),
- 2021 Bauer Threshold for current dependent members or future contingent dependent members should also be £4,600 pa
- The Bauer Threshold should be assumed to increase in line with CPI, as implied by the s143 assumptions.

For Assessment Dates in 2019 and 2020, the above figures can still be used. For Assessment Dates before 2019 or after 2021, a consistent approach can be taken.

The calculation requires two steps:

Firstly, calculate the minimum of:

1. the present values of the Bauer Threshold (including future CPI increases); and
2. the present value of the full former scheme benefits (including former scheme increases).

Secondly, compare the result in the first step to the present value of PPF compensation, including any Hampshire uplift, to determine whether a Bauer uplift is required. If the value in the first step is greater than the value of the PPF compensation, then a Bauer uplift is required and the additional liability is the value in the first step minus the value of the PPF compensation.

As per the Hampshire calculations set out in section 3, when calculating the present value of the full former scheme benefits, this should include the contingent spouse (or other eligible dependant) benefits, bearing in mind that PPF compensation for contingent spouse benefits is generally 50% of post-commutation compensation whereas for most schemes the full former scheme benefits will be based on a percentage of pre-commutation pension, and this difference should be allowed for in respect of members with pensions in payment at the assessment date. Again, if the actual contingent spouse pension in the former scheme is not known, an assumption can be made assuming the maximum permitted cash was taken (e.g. assuming 66.67% post-commutation pension as a proxy for 50% pre-commutation pension). When valuing the Bauer Threshold for contingent spouses within the calculation, this should be the same figure (e.g. £4,600 pa in 2021) as for members, ie. the present value of the Bauer Threshold should allow for a spouse proportion of 100%.

This calculation should be adopted for all members, whether they are above or below State Pension Age as at the date of calculation and / or date pension commenced. This assumes that, where the compensation comes into payment before the State Pension that there is some other income equivalent to the State Pension.

Where a member has multiple NPAs, the £4,600 threshold should be pro-rated and each tranche compared to the relevant portion of the threshold.

Prudent approximations are allowed within this calculation, e.g. simply valuing the full former scheme benefits for impacted members or using the highest prevailing pension scheme increase where several exist within the scheme.

Detailed

As per Simplified, but with the following amendments:

- Individuals (both deferred and in payment) with the present value of current full former scheme benefits (at Assessment Date) below the present value of £2,000 pa (increasing in line with CPI) who reached State Pension Age by 5 April 2016 should be excluded from the calculation. £2,000 pa is broadly the gap between the level of annual Basic State Pension for those reaching State Pension Age by 5 April 2016, and the threshold for Pension Credits. For Assessment Dates in 2019, 2020 and 2021 the figure of £2,000 pa can be used. For Assessment Dates before 2019 or after 2021, a consistent approach can be taken.

  This exclusion is on the basis that any such members either have sufficient additional income from other sources such that they are not eligible for a Bauer uplift, or are eligible for (or in receipt of) Pension Credits. Therefore, any additional Bauer uplift claimed will be deducted pound for pound from Pension Credits, meaning such members are unlikely to claim an uplift in practice. While members could in practice claim in some years and not in others, we propose the use of a one-off value test for relative simplicity.

- Allowance should be made for individuals having additional income from other pension arrangements accrued during the portion of their working life outside the scheme being assessed as follows:

  Males: 33% of full scheme pension x $\frac{(35 - Y)}{Y}$

  Females: 33% of full scheme pension x $\frac{(30 - Y)}{Y}$

  Where Y is the service (years and complete months) in the scheme. (33% is an approximate allowance for benefits accrued while not in the scheme being less valuable than those in the scheme, since they may be Defined Contribution pension benefits or there may be periods with no pension accrual.)

  Where this methodology of allowing for assumed additional pension income from other pension arrangements is adopted, actuaries should also calculate and confirm what the Bauer liabilities would be without this allowance. This allows the actuary and the PPF to see the impact of this allowance in isolation, and in particular to see what the implied proportion of members with PPF Compensation below the Bauer threshold being assumed to claim an uplift is, as part of review checks.

  For contingent benefits the additional income should be assumed to be in the same proportion as the survivors' pensions within the scheme e.g. if survivors' pensions are 50% of members' pension the additional income for the contingent benefit should be 50% of that derived above.

  This additional income should be deducted from the Bauer Threshold of £4,600 pa. The Simplified calculation methodology should then be applied.

Where these adjustments are being made, care should be taken to be consistent. The £2,000 pa threshold for excluding members due to them being unlikely to make a claim should be compared to their former scheme benefits plus their assumed other income.

As with the Simplified methodology, approximations in line with the s143 guidance are permissible.

There may be circumstances where other changes to these assumptions and methodology may be appropriate, and these should be discussed with PPF actuarial team.

Section 5 – Additional information to provide

Liabilities arising from Hampshire and Bauer can be very sensitive to the specific assumptions and approximations used. It can therefore be very informative to understand any key sensitivities. The extent to which this may be necessary will depend on the pension scheme in question, for example the level of complexity and the funding level, both before and after any allowance for Hampshire and Bauer. The appointed actuary should therefore discuss at the outset with a PPF actuary what may be required, as the appropriate level of detailed scrutiny required by PPF actuaries may vary.

For Bauer liabilities in particular, this may include:

- Sensitivities to the initial level of the Bauer Threshold
- Sensitivities to the assumed future increase rate of the Bauer Threshold and other limits
- Any separate allowance for members with Normal Pension Age less than State Pension Age
- Any sensitivities relating to the allowance made for other income

For Hampshire and Bauer liabilities, the appointed actuary should ensure that reported liabilities are broken down into groups as shown in section 6, to facilitate review. Any further sensitivities can then be discussed on a case-by-case basis if required.

Section 6 – Reporting

Data and Liability component information

This should continue to be provided using the electronic version of the Data and Liability Information spreadsheet, which is available on the PPF website.

The information submitted in this format should be in respect of the s143 valuation **before** any allowance for the Hampshire and Bauer judgments (but based on benefits **without** a compensation cap).

Impact of the Hampshire and Bauer judgments

The impact of each of the judgments should be reported separately as follows:

- Impact of Hampshire. This should be provided separately for pensioners and non-pensioners.
- Impact of Bauer. This should be provided separately for pensioners and non-pensioners.

The reported s143 liabilities, both within the body of the report and the certificate, should be those that **include** allowance for the judgments.

Where a s143 valuation is submitted that makes no allowance for the judgments, generally because the scheme is underfunded on a s143 basis before making such an allowance, a statement to that effect should be made within the report.

Data

The report should include an explanation of the process the actuary has used to derive any additional liabilities in respect of the judgments. This should reference the data, benefits and assumptions used. Additionally, any approximations made should be explained.

In order to facilitate review of the Bauer liabilities in particular, the actuary should include a split of the PPF compensation (before any allowance for the judgments). This should be provided separately for pensioners and non-pensioners and should include the numbers of members with total PPF compensation in the bands shown below:

Compensation band (£ pa)	Number of members
Below £1,000	
£1,000 - £2,000	
£2,000 - £3,000	
£3,000 - £4,000	
£4,000 - £4,600	
Over £4,600	

Section 7 – Worked Examples for Bauer calculations

We provide examples of several scenarios. For each example, we first show how the first year's compensation would be determined if the assumptions used for a s143 valuation were realised – this is not directly used for the present value calculation but is helpful for illustration and understanding. We then show how the present values are compared for s143 purposes.

Assumptions

Basic state pension: £7,000 pa (rounded for illustration)
Eurostat threshold (single person): £11,600 pa (rounded for illustration)
Pension Credit threshold: £9,000 pa (rounded for illustration)

Implied Bauer Threshold: £11,600 pa - £7,000 pa = £4,600 pa
Implied Pension Credit exclusion threshold: £9,000 pa - £7,000 pa = £2,000 pa
Assumed working life: 35 years for men (30 for women)
Assumed accrual per year of working life not in scheme: 33% of scheme accrual

Assumed state pension age: Before 6 April 2016

Example annuities

	Spouse proportion	Pension increase	Annuity
PPF compensation	50%	0% pa	22
Scheme pension	66.67%	3% pa	35
Bauer Threshold/BSP/Pension Credit	100%	2% pa	33

Example 1 (uplift to full scheme pension or exclude due to Pension Credit)

Full scheme pension: £1,000 pa
PPF compensation before any Bauer uplift (but after any Hampshire uplift): £900 pa
Years of service in scheme: 3

Simplified method

Simply uplift compensation to the lesser of full scheme pension and Bauer threshold (Eurostat threshold minus BSP: £11,600 pa - £7,000 pa = £4,600 pa)

Uplifted compensation: MIN(£1,000 pa , £4,600 pa) = £1,000 pa
Uplift: £1,000 pa - £900 pa = **£100** pa

Present values:

PPF compensation: £900 pa * 22 = £19,800
Full scheme pension: £1,000 pa * 35 = £35,000
Bauer Threshold: £4,600 pa * 33 = £151,800

MIN(£35,000 , £151,800) = £35,000
£35,000 is greater than £19,800, therefore liability uplift is £35,000 - £19,800 = **£15,200**

Detailed method – Pension Credit

If member would still be eligible for Pension Credit after uplift, assume they do not claim the uplift, as the uplift would simply be eroded by a £ for £ reduction in Pension Credit.
Uplifted compensation: £1,000 pa
which is less than exclusion threshold (£9,000 pa - £7,000 pa = £2,000 pa), so uplift: **£0** pa

Present values:

Uplifted compensation: £1,000 pa * 35 = £35,000
Pension Credit exclusion threshold: £2,000 pa * 33 = £66,000

£35,000 is less than £66,000 so liability uplift is **£0**

Detailed method – Allowing for other assumed pension scheme income

Years of working life outside scheme: 35 – 3 = 32
Accrual per year in scheme: £1,000 pa / 3 = £333.33 pa
Accrual per year outside scheme: £333.33 pa * 33% = £110 pa
Other income: £110 pa * 32 = £3,520 pa

(Adjusted) Bauer threshold: £11,600 pa - £7,000 pa - £3,520 pa = £1,080 pa
Uplifted compensation: MIN(£1,000 pa, £1,080 pa) = £1,000 pa
Uplift: £1,000 pa - £900 pa = **£100** pa

Present values:

PPF compensation: £900 pa * 22 = £19,800
Full scheme pension: £1,000 pa * 35 = £35,000
(Adjusted) Bauer Threshold: £1,080 pa * 33 = £35,640

MIN(£35,000 , £35,640) = £35,000
£35,000 is greater than £19,800, therefore liability uplift is £35,000 - £19,800 = **£15,200**

Detailed method – Pension Credit and other income

As previous calculation, but check if will still be eligible for Pension Credit.

Other income plus uplifted compensation: £3,520 pa + £1,000 pa = £4,520 pa
Greater than £2,000 pa so uplift: **£100** pa (as calculated above)

Present values:

Other income plus uplifted pension: £3,520 pa * 35 + £1,000 pa * 35 = £158,200
Pension Credit exclusion threshold: £2,000 pa * 33 = £66,000

£158,200 is greater than £66,000 so liability should be uplifted by **£15,200** (as calculated above).

Example 2 (uplift to full scheme pension or adjusted Bauer Threshold)

Full scheme pension: £2,500 pa
PPF compensation before uplift: £2,250 pa
Years of service in scheme: 10

Simplified method

Simply uplift compensation to the lesser of full scheme pension and Bauer threshold (Eurostat threshold minus BSP: £11,600 pa - £7,000 pa = £4,600 pa)

Uplifted compensation: MIN(£2,500 pa, £4,600 pa) = £2,500 pa
Uplift: £2,500 pa - £2,250 pa = **£250** pa

Present values:

PPF compensation: £2,250 pa * 22 = £49,500
Full scheme pension: £2,500 pa * 35 = £87,500
Bauer Threshold: £4,600 pa * 33 = £151,800

MIN(£87,500 , £151,800) = £87,500
£87,500 is greater than £49,500, therefore liability uplift is £87,500 - £49,500 = **£38,000**

Detailed method – Pension Credit

If member would still be eligible for Pension Credit after uplift, assume they do not claim the uplift, as the uplift would simply be eroded by a £ for £ reduction in Pension Credit.

Uplifted compensation: £2,500 pa
which is greater than £2,000 pa, so uplift: **£250** pa

Present values:

Uplifted compensation: £2,500 pa * 35 = £87,500
Pension Credit exclusion threshold: £2,000 pa * 33 = £66,000

£87,500 is greater than £66,000 so liability should be uplifted by **£38,000** (as calculated above).

Detailed method – Allowing for other assumed pension scheme income

Years of working life outside scheme: 35 – 10 = 25
Accrual per year in scheme: £2,500 pa / 10 = £250 pa
Accrual per year outside scheme: £250 pa * 33% = £82.50 pa
Other income: £82.50 pa * 25 = £2,062.50 pa

(Adjusted) Bauer threshold: £11,600 pa - £7,000 pa - £2,062.50 pa = £2,537.50 pa
Uplifted compensation: MIN(£2,500 pa , £2,537.50 pa) = £2,500 pa
Uplift: £2,500 pa - £2,250 pa = **£250** pa

Present values:

PPF compensation: £2,250 pa * 22 = £49,500
Full scheme pension: £2,500 pa * 35 = £87,500
(Adjusted) Bauer Threshold: £2,537.50 pa * 33 = £83,737.50

MIN(£87,500 , £83,737.50) = £83,737.50
£83,737.50 is greater than £49,500, therefore liability uplift is £83,737.50 - £49,500 = **£34,237.50**

Detailed method – Pension Credit and other income

As previous calculation, but check if will still be eligible for Pension Credit.

Other income plus uplifted compensation: £2,062.50 pa + £2,500 pa = £4,562.50 pa
Greater than £2,000 pa so uplift: **£250** pa

Present values:

Other income plus uplifted compensation: £2,062.50 pa * 35 + £2,537.50 pa * 33 = £155,925
Pension Credit exclusion threshold: £2,000 pa * 33 = £66,000

£155,925 is greater than £66,000 so liability should be uplifted by £34,237.50 (as calculated above).

Example 3 (uplift to Bauer Threshold or do not uplift due to other income)

Full scheme pension: £5,000 pa
PPF compensation before uplift: £4,500 pa
Years of service in scheme: 10

Simplified method

Simply uplift compensation to the lesser of full scheme pension and Bauer threshold (Eurostat threshold minus BSP: £11,600 pa - £7,000 pa = £4,600 pa)

Uplifted compensation: MIN(£5,000 pa, £4,600 pa) = £4,600 pa
Uplift: £4,600 pa - £4,500 pa = **£100** pa

Present values:

PPF compensation: £4,500 pa * 22 = £99,000
Full scheme pension: £5,000 pa * 35 = £175,000
Bauer Threshold: £4,600 pa * 33 = £151,800

MIN(£175,000 , £151,800) = £151,800
£151,800 is greater than £99,000, therefore liability uplift is £151,800 - £99,000 = **£52,800**

Detailed method – Pension Credit

If member would still be eligible for Pension Credit after uplift, assume they do not claim the uplift, as the uplift would simply be eroded by a £ for £ reduction in Pension Credit.

Uplifted compensation: £4,600 pa
which is greater than £2,000 pa, so uplift: **£100** pa

Present values:

Uplifted compensation: £4,600 pa * 33 = £151,800
Pension Credit exclusion threshold: £2,000 pa * 33 = £66,000

£151,800 is greater than £66,000 so liability should be uplifted by £52,800 (as calculated above).

Detailed method – Allowing for other assumed pension scheme income

Years of working life outside scheme: 35 – 10 = 25
Accrual per year in scheme: £5,000 pa / 10 = £500 pa
Accrual per year outside scheme: £500 pa * 33% = £165 pa
Other income: £165 pa * 25 = £4,125 pa

(Adjusted) Bauer threshold: £11,600 pa - £7,000 pa - £4,125 pa = £475 pa
PPF compensation before uplift £4,500 pa is greater than Bauer threshold, so uplift: **£0** pa

Present values:

PPF compensation: £4,500 pa * 22 = £99,000
Full scheme pension: £5,000 pa * 35 = £175,000
Bauer Threshold: £475 pa * 33 = £15,675

MIN(£175,000 , £15,675) = £15,675
£15,675 is less than £99,000, therefore liability uplift is **£0**

Detailed method – Pension Credit and other income

As previous calculation, but check if will still be eligible for Pension Credit.

Uplift is £0 pa, so not applicable. Uplift still **£0** pa.

Similarly, liability uplift is £0, so not applicable. Liability uplift is still **£0**.

Example 4 (uplift to full scheme pension or do not uplift due to other income, do not exclude due to Pension Credit despite initial pension being below exclusion threshold)

Full scheme pension: £1,950 pa
PPF compensation before any Bauer uplift (but after any Hampshire uplift): £1,755 pa
Years of service in scheme: 3

Simplified method

Simply uplift compensation to the lesser of full scheme pension and Bauer threshold (Eurostat threshold minus BSP: £11,600 pa - £7,000 pa = £4,600 pa)

Uplifted compensation: MIN(£1,950 pa , £4,600 pa) = £1,950 pa
Uplift: £1,950 pa - £1,755 pa = **£195** pa

Present values:

PPF compensation: £1,755 pa * 22 = £38,610
Full scheme pension: £1,950 pa * 35 = £68,250
Bauer Threshold: £4,600 pa * 33 = £151,800

MIN(£68,250 , £151,800) = £68,250
£68,250 is greater than £38,610, therefore liability uplift is £68,250 - £38,610 = **£29,640**

Detailed method – Pension Credit

If member would still be eligible for Pension Credit after uplift, assume they do not claim the uplift, as the uplift would simply be eroded by a £ for £ reduction in Pension Credit.
Uplifted compensation: £1,950 pa
which is less than exclusion threshold (£9,000 pa - £7,000 pa = £2,000 pa), so uplift: **£0** pa

Present values:

Uplifted compensation: £1,950 pa * 35 = £68,250
Pension Credit exclusion threshold: £2,000 pa * 33 = £66,000

£68,250 is greater than £66,000 so liability uplift is **£29,640** (as calculated above).

Note: There is an uplift in liability despite there being no uplift at retirement because the compensation increases faster than the exclusion threshold, so exceeds it after a few years.

Detailed method – Allowing for other assumed pension scheme income

Years of working life outside scheme: 35 – 3 = 32
Accrual per year in scheme: £1,950 pa / 3 = £650 pa
Accrual per year outside scheme: £650 pa * 33% = £214.50 pa
Other income: £214.50 pa * 32 = £6,864 pa

(Adjusted) Bauer threshold: £11,600 pa - £7,000 pa - £6,864 pa = - £2,264 pa

Since the adjusted Bauer threshold is negative, there will not be a Bauer uplift either at retirement or in present value terms.

Detailed method – Pension Credit and other income

As above, there will not be a Bauer uplift.