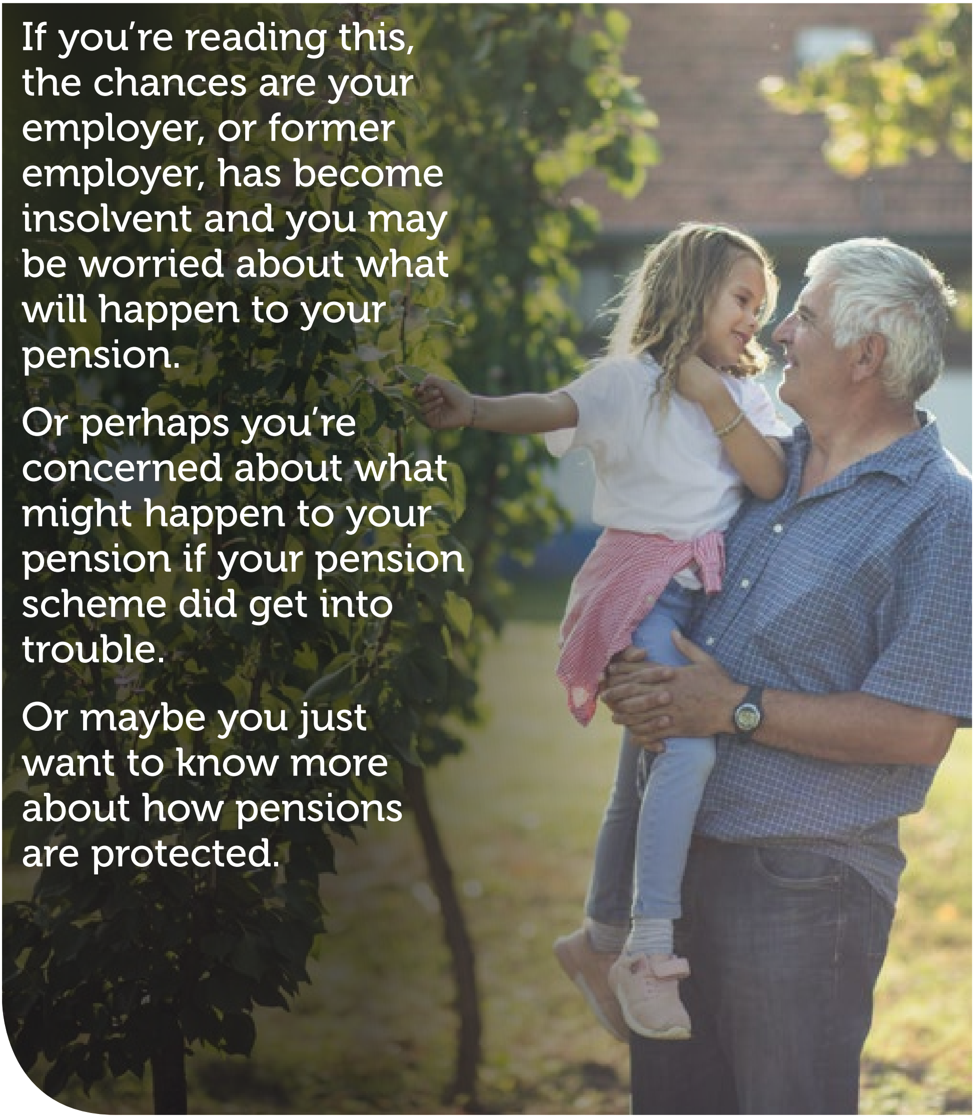
Pension
Protection
Fund

What is the Pension Protection Fund?

What we do and how we protect pensions

Why might this booklet be helpful?



If you're reading this, the chances are your employer, or former employer, has become insolvent and you may be worried about what will happen to your pension.

Or perhaps you're concerned about what might happen to your pension if your pension scheme did get into trouble.

Or maybe you just want to know more about how pensions are protected.

Introducing the Pension Protection Fund

If your employer, or former employer, has become insolvent your pension scheme may be eligible to enter the PPF.

The PPF was set up in April 2005 to protect you if your employer, and its pension scheme, can no longer afford to pay your promised pension.

This booklet explains more.

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A defined benefit pension scheme, e.g. a final salary scheme, provides pension benefits based on earnings and length of membership in the scheme.

A defined benefit pension scheme is separate from the company that sponsors it. Schemes are typically run by trustees, who are responsible for all aspects of the scheme.

The assets or money held by the scheme, and the liabilities of the scheme (the estimate of what it'll cost to pay the promised pensions) may vary. This means the pension scheme might have more money than it needs (a surplus) or too little (a deficit).You may hear the scheme referred to as 'underfunded', 'fully funded' or 'overfunded.

What happens if an employer becomes insolvent?

When the sponsoring employer(s) of an eligible defined benefit scheme becomes insolvent, the pension scheme will usually enter what is called the PPF assessment period.

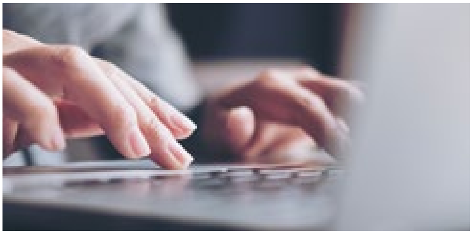
A scheme will only transfer to the PPF if it doesn't have enough assets or money to buy at least PPF levels of compensation from an insurance company.

A scheme will not transfer to the PPF if:

the scheme is rescued, i.e. when a new employer takes on responsibility for the scheme, or

the scheme has enough assets or money to buy benefits with an insurance company which are at PPF levels of compensation or higher.

Remember, we'll only need to step in if your pension scheme can't afford to pay you what we would. If the scheme is able to pay you more than what we'd pay you, that's what you'll get.



What happens during the assessment period?

The assessment process usually starts as soon as an employer who sponsors a pension scheme becomes insolvent. On rare occasions the insolvency might be part of a restructuring of the company agreed with the Pensions Regulator and PPF.

While the assessment takes place, your scheme trustees remain in day-to-day control of the scheme and responsible for making payments – if you're receiving a pension it'll continue to be paid by the scheme.

If you've reached normal pension age your pension payments will generally continue as normal.

If you haven't reached normal pension age – and if your scheme allows – you may be able to take early retirement and start receiving your pension during this period. Your pension will be reduced to reflect the fact that it will be paid over a longer period.

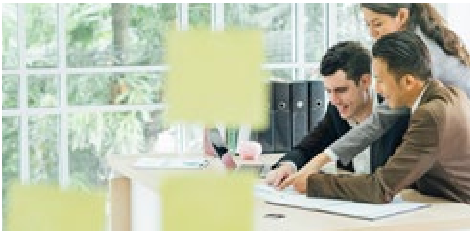
We take over responsibility for payments only when assessment is complete – and if the scheme can't afford to buy benefits from an insurance company which are equal to, or more than, the PPF would pay.

During the assessment period, the trustees of your scheme will:

- work out how much money, and other assets, remain in the scheme,
- make sure that the details and benefits for scheme members are up to date and accurate, and
- communicate with members to keep them updated on progress and any other issues.

At the same time, we'll recover what we can from the insolvent employer, by acting as a creditor on behalf of your pension scheme. We'll also, as necessary, work with the Pensions Regulator who can look at what's happened to the pension scheme. They can require a person or company to pay more money into the pension scheme or make them take responsibility for the whole scheme.

We aim to complete assessment periods for most schemes within two years – sometimes though a complicated scheme will take longer than that. If we ultimately take on responsibility for a scheme, we'll then pay compensation to scheme members.



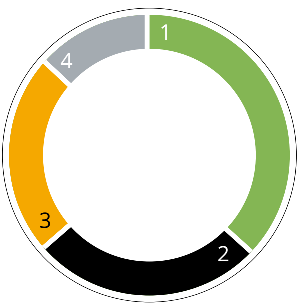
Where does our money come from?

The PPF is not funded by the Government or the tax-payer. Our funding comes from four main sources.

We take on the assets of schemes that transfer to us and we recover what we can from insolvent employers. We have to make up any shortfall.

We also collect a compulsory levy, a bit like an insurance premium, from the pension schemes that are eligible for PPF protection. This levy is based on how likely we think a scheme is to need our help.

Our investment portfolio is playing an increasing role in funding the PPF. We have a long-term, low-risk approach which is intended to perform better than just putting our money in the bank.



1. Assets from pension schemes transferred to us	**37%**
2. The return we make on our investments	**26%**
3. The levy we charge on eligible pension schemes	**23%**
4. Recovered assets we secure from insolvent employers	**14%**

How much does the PPF pay?

The PPF isn't a pension scheme. We don't pay the pension promised by a pension scheme, we pay compensation.

Members who have reached their scheme's normal pension age will generally receive the same amount in compensation as the pension they were receiving from their scheme at the time their employer became insolvent.

We'll also generally pay 100 per cent compensation to those who have retired on ill-health grounds, regardless of age, and those receiving a pension in relation to someone who had died at the time that the employer became insolvent.

PPF benefit payments will generally rise in line with inflation each year, subject to a maximum of 2.5 per cent. This will only relate to pensionable service after 5 April 1997. Payments relating to pensionable service before that date won't increase.

Members who have not reached the scheme's normal pension age at the assessment date will receive up to 90% compensation on reaching the normal pension age of their scheme.

Members who have retired but have not reached their normal pension age at the assessment date will also receive up to 90% compensation.

These 90% calculations are subject to a cap which is recalculated every year. But the vast majority of members are not affected by this cap. A higher cap may apply to members who paid into their pension scheme for 21 years or more.

Annual increases in PPF benefits may be different to the increases that members would have got from their pension schemes.

Members are able to take their compensation at a reduced rate before their normal pension age, or to postpone their compensation beyond their normal pension age, in which case their compensation will be increased. Members are usually able to give up some of their pension for a lump sum when they retire.

We use factors to work out the value of the lump sum you'll receive if you give up some compensation. Factors are also used to calculate how much your PPF benefits will decrease or increase if you retire before or after your normal pension age. Factors are intended to be 'cost neutral' to the PPF when you convert your compensation. This means they may be more generous than your scheme would have offered.

Details of the cap and our factors can be found on **https://www.ppf.co.uk/compensation-cap-factors**

So how does your compensation work?

Clearly, every individual is different. Every pension scheme is different as well.

Towards the back of this guide we have set out some examples which show how PPF members might be affected in different circumstances.

These examples assume, unless otherwise stated, that the scheme's normal pension age is 65.

They also assume that individuals will retire, or have retired, at normal pension age, except early retirees and dependants receiving a pension as a beneficiary of someone who has died.

More information about how your compensation is calculated – and other useful information – can be found on the PPF website: **www.ppf.co.uk**

What happens next?

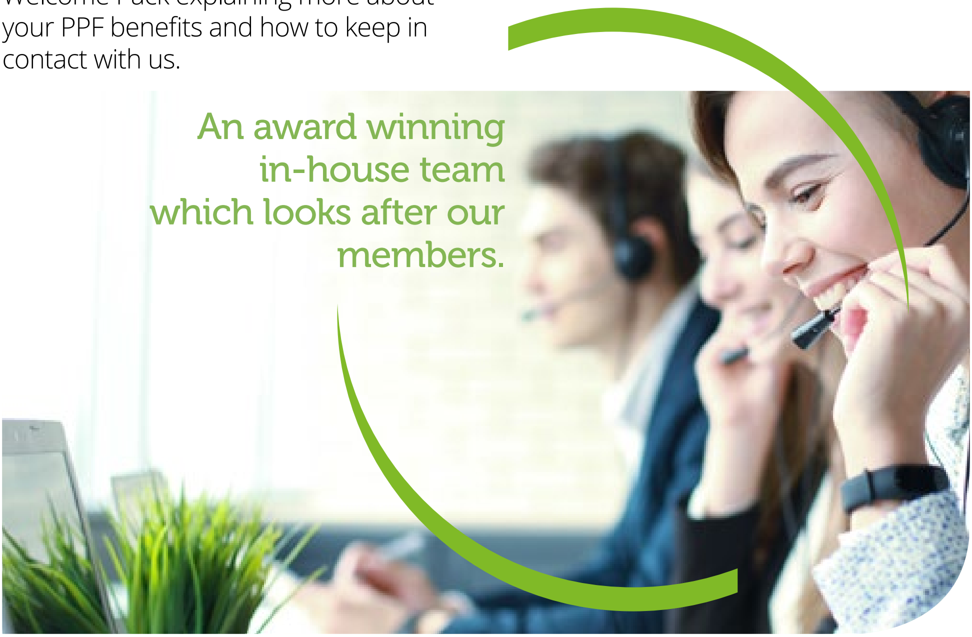
The trustees of your pension scheme will be able to let you know what you might receive in PPF benefits if your scheme were to come to the PPF.

By the end of the assessment period they will let you know if your scheme has enough money to be able to pay more than we would.

If we ultimately take on responsibility for a scheme, we will then pay compensation to scheme members. We'll let you know that the scheme has transferred to us. You'll receive a Welcome Pack explaining more about your PPF benefits and how to keep in contact with us.

We have an award winning in-house team which looks after our members. We also have a dedicated website for members where they can find more information about their PPF benefits and answers to their questions. You may even be able to retire online.

Please note, before a scheme transfers to the PPF we don't hold any information about members, so if you have any questions about your own PPF benefits your scheme is the best place to contact in the first instance.



Fred Culshaw

Pensioner

I took early retirement from my employer eight years ago, after working for them for 35 years. I'm now 68 years old and my pension was £40,000 a year when my employer became insolvent. This left the pension scheme without enough money to meet its pension promises.

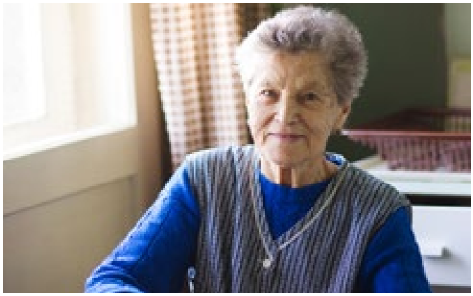
The PPF's involvement means I still receive my £40,000, as I was older than the scheme's normal pension age of 65 when my employer became insolvent.

My PPF benefits will rise year-on-year. But, because a big part of my pensionable service was before 5 April 1997, the part of my pension relating to that service won't increase.

Only the pension I accumulated after 5 April 1997 will rise in line with inflation, subject to a maximum of 2.5 per cent a year.

Ethel Kelly

Widow



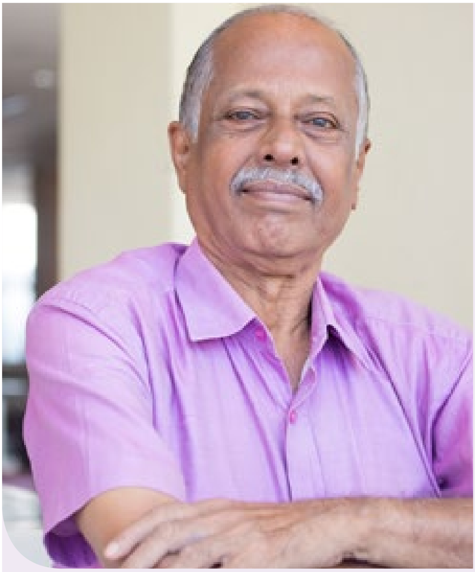
When my husband, Jim, died, he had worked for his employer for six years. On his death, I received a pension from his pension scheme which was £15,000 a year.

But, the company has now become insolvent without enough money or assets to meet all its pension obligations. Under the PPF, I'll receive enough compensation to replace my pension in full.

Because my husband's pensionable service began after 5 April 1997, the entire value of my pension will increase each year in line with inflation, subject to a maximum of 2.5 per cent a year.

Danish Akhtar

Early retiree



I'm 60 years old and took early retirement from my employer after 35 years service. My pension was £75,000 a year.

The company became insolvent – and the PPF became involved – before I reached the scheme's normal pension age of 65. The PPF will pay me 90 per cent of my benefits, capped at a specific level.

At that time the compensation cap was £34,285.88 at the age of 60. The cap is adjusted according to my age when the PPF assessment period began, as I was already receiving my pension. As I had 35 years' service in my former scheme the cap is increased to £49,714.24*.

As I hadn't reached the scheme's normal pension age when my employer became insolvent, my annual payments from the PPF will be £44,742.81 a year, after the cap and 90 per cent level have been applied.

Compensation relating to my service after 5 April 1997 will increase in line with inflation, subject to the 2.5 per cent annual maximum. Compensation relating to service before 5 April 1997 won't increase.

* This is an illustrative figure. For full details of the cap, see our website.

Lisa Berry

Active employee

I joined my pension scheme when I started work for my employer at the age of 35. I'm now 47 years old and my pensionable salary was £23,000 a year.

The compensation I'll receive from the PPF is based on the deferred pension I would have received had I left the company at the age of 47 – the time my company became insolvent. This is a total of £4,140 a year, taking into account the 90 per cent compensation level.

My deferred pension will increase broadly in line with inflation, up to a set limit, every year until I reach the scheme's normal pension age of 60. That's when PPF benefit payments will begin.

Payments will increase each year after I retire at 60 although, as a small proportion of my pension was accumulated before 6 April 1997, any increase will only be based on the compensation relating to my service after 5 April 1997.

David Jackson

Deferred SALS member

I worked for my former employer between 1998 and 2002. Like some others, their pension scheme promised a lump sum payment instead of a regular pension when I retired. When I left the company I built up a promise of a pension lump sum amounting to £16,000.

My former employer became insolvent five years ago and the pension scheme transferred to the PPF.

Last year I reached the age of 55 and decided to contact the PPF and ask how much my compensation would be worth. My lump sum had revalued to £20,000 and I was entitled to receive £18,000 after the 90 per cent level had been applied.

I took all my compensation as a one-off lump sum and have no further entitlement due from the PPF.

Maureen Donaldson

Step-down pensioner

I retired from my employer aged 60. I was receiving a pension of £7,000 a year when my former employer became insolvent.

£2,000 a year of my pension was provided by my pension scheme to help ensure I received a regular income throughout my retirement. This is known as a 'bridging pension' and was only going to be paid until my State Pension started.

The PPF's involvement means I'll receive enough compensation to replace my pension in full, including the bridging pension up until my State Pension Age. I'll continue to receive £7,000 a year but my PPF benefits will reduce at State Pension Age as intended.

Compensation relating to my service after 5 April 1997 will increase in line with inflation, up to a maximum of 2.5 per cent a year. Compensation relating to service before 5 April 1997 won't increase.

If I passed away before my payments dropped, any PPF benefits paid to my spouse would be higher until the date I would have reached my State Pension age.

Michael Tang

Member with multiple NPAs

I worked for my employer for four years, nearly thirty years ago. The pension I built up was worth £5,000 a year when my former employer became insolvent. The pension I would have been paid had two parts to it: £3,000 with a normal pension age of 60 and £2,000 with a normal pension age of 65.

Very shortly after my former employer became insolvent, I decided to retire at the age of 62. The compensation I receive therefore has two parts to it.

For the part with a normal pension age of 65, as I hadn't reached that age when my employer became insolvent my annual PPF benefits payments will be £2,521.80. This is after the 90 per cent level and a reduction to reflect the early payment being applied.

For the part with a normal pension age of 60, as I had reached that age when my employer became insolvent, my annual compensation payments from the PPF will be £2,182. The 90 per cent level doesn't apply and I get an uplift as I'm being paid later.

Notes

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This booklet is for guidance only. It is necessarily simplified and not a definitive statement of law or entitlement. Information in this document is based on current understanding of the legislation in force at the time of writing. Compensation will always have to be calculated in accordance with the law which will, therefore, override in the case of any conflict.

Please note that in extreme circumstances, levels of compensation can be reduced by the government on our recommendation.

If you're not currently a PPF member and want more information about your pension, you should contact your pension scheme. If you don't have their details you can look for them here:

www.gov.uk/find-pension-contact-details

For general information about pensions, or if you have questions, you can contact The Pensions Advisory Service:

Tel: 0800 011 3797
www.pensionsadvisoryservice.org.uk

You can write to them at:

The Pensions Advisory Service
11 Belgrave Road
London SW1V 1RB

You can find further information about the PPF, and our contact details, on our website:

www.ppf.co.uk

If you're already a PPF member, you can use our member website:

www.ppfmembers.org.uk

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