Pension Protection Fund

Other Data Requests

PPF Compensation Cap

1. Number of members subject to the compensation cap

In the course of assisting the DWP with its proposals to introduce the long-service provisions modifying the compensation cap, the PPF sought to identify all capped pensioners then in receipt of compensation. Our ability to do this with complete accuracy was limited by the fact that there was at the time no data flag on our systems to identify capped pensioners (because the cap is applied as a one off exercise at the time when PPF compensation comes into payment, there was no necessity to set up the systems in a way that allowed capped individuals to be readily identified again in the future). Therefore we know that we will not have captured all individuals. However, we estimated that around 0.5% of PPF pensioners had then been subject to the cap.

Since then we have been able to obtain information taken from our pension management system based on the number of members who have transferred to the PPF. As at February 2020, the number of members subject to the compensation cap is 599. We are however dependent on trustees correctly flagging capped members when they transfer data to us and we are aware of some data quality issues in this area.

We do not know with precision how many non-pensioners in schemes which have entered the PPF will be subject to the cap in the future, as the cap is applied at the later of the assessment date and the date that the member reaches normal pension age or retires prior to that. However, based on our understanding and experience of PPF membership, we would expect that a somewhat smaller proportion of these non-pensioners would be capped. That is because they are likely to have shorter service periods - many capped pensioners are individuals who ended their careers and drew their pensions immediately upon leaving the relevant employment. Those who have yet to retire when the scheme enters the PPF are more likely to have had their service for the purposes of that scheme cut short – either because they left the sponsor's employment earlier, or as a result of the insolvency triggering the assessment period. Accordingly, our view is that the proportion of capped members would be no more than 0.5% of PPF membership, and may be a little less than that.

Whilst we do not have any data on members in assessment or members whose schemes have wound up outside the PPF, we would not anticipate the proportions to be materially different as compared with schemes which have already entered the PPF.

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2. Estimated impact on the PPF's balance sheet of removing the compensation cap

The PPF have estimated that removing the current compensation cap would add approximately £200 million (discounted to present values) to the liabilities of the PPF in respect of future compensation (which is just under 1% of all such liabilities). A number of material assumptions have been made in determining this estimate and therefore it should be viewed as indicative only.

We have obtained this figure by running our normal financial model for the cost of providing compensation to non-pensioner members with the cap in it and again without limiting compensation by reference to the cap. The increase in liabilities for non-pensioners was around £100 million. In deriving these costs assumptions have been made on the future level of the cap. Therefore if experience is different to assumed the actual cost will be different.

We assumed that the percentage impact on total pensioner liabilities would be the same as for non-pensioners. On the one hand there is an argument to say that the impact on pensioner liabilities would be lower because those members who retired before the assessment date and are above normal pension age are not subject to the cap. But for those who are subject to the cap there is an argument that their liabilities would increase by more than that for deferred pensioners (because they are likely to have longer service). Overall we think the impact on total pensioner liabilities is likely to be of a similar magnitude to the impact on total non-pensioner liabilities. This assessment was not revisited following the work to identify capped members from our pensions management system, as discussed in section one above.

This cost relates to pensioner and deferred members of schemes which have entered the PPF. Therefore there would be an additional cost arising from the removal of the cap for members of schemes which have not yet entered PPF assessment but will do so in the future. We are unable to forecast the absolute amount of that cost with any accuracy. However, it is reasonable to expect that liabilities for future schemes coming into assessment would be around 1% higher than would otherwise be the case.

The figures above ignore the extent to which the PPF’s liabilities will in any event be increased by its approach to the implementation of the Hampshire judgment. This is difficult to assess at this stage, because we have so far only been able to do very rough estimates (based on modelling) to assess that impact. However, we have estimated that the cost of uplifting the benefits of capped members to the minimum Level is likely to be around 0.1-0.2% of total PPF liabilities.

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