Cantab
ASSET MANAGEMENT

Pension Protection Fund

The Pension Protection Fund (PPF) was established to provide compensation to members of eligible defined benefit pension schemes when the employer can no longer meet their commitments. It was created under the Pensions Act 2004.

The PPF was set up on 6 April 2005 in response to concern over occupational pension schemes going insolvent, which resulted in scheme members losing some or all their pension if the scheme was underfunded. The Government also anticipated that the provision of the PPF would improve general confidence in pension schemes.

The PPF is funded by a compulsory levy on all eligible defined benefit schemes. As at January 2020, one thousand schemes had been transferred into the PPF since it was set up in 2005.

Scheme Eligibility

If a defined benefit pension scheme cannot meet its liabilities and the employer who set up the pension scheme is also unable to meet the liabilities, the PPF will begin an assessment of the pension scheme to see if it should be transferred to the PPF. The scheme will not be transferred if it is rescued (by a new employer taking over responsibility for it) or if there are sufficient assets in the scheme to buy PPF-level benefits from an insurance company. During the assessment period, the pension scheme will continue to operate broadly as it was doing before the assessment period. Those already retired will continue to receive their pensions and those eligible will still be able to take early retirement if allowed by the scheme's rules. It will only be taken over by the PPF if it is determined that the scheme cannot be saved.

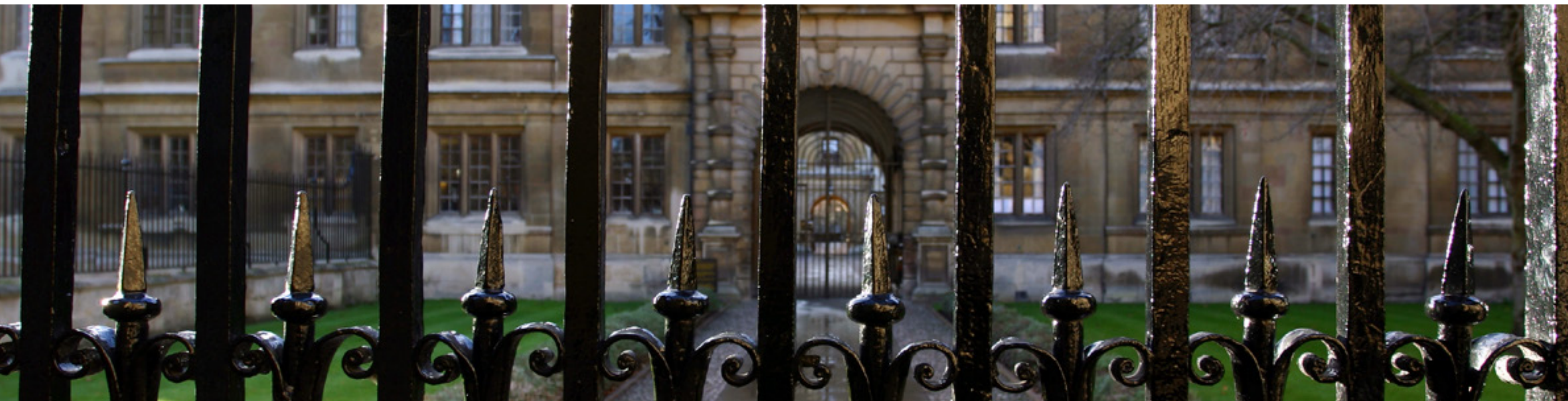
Assessment Period

Once a scheme has entered the assessment period, trustees are only allowed to make transfer payments in cases where the agreement to do so was already in place before the scheme entered assessment. Even in these cases, the trustees may only make payments where they feel doing so will not disadvantage members who remain in the scheme, and may revise the transfer offer in order to ensure that the transferring member is not paid more than the cost to secure the benefits they would receive under the PPF. If a scheme is transferred to the PPF, it is no longer permissible for members to transfer out.

Compensation

For those schemes which are transferred into the PPF, the fund will usually pay full benefits to those who have already retired, or who have reached their scheme's pension age. The PPF will also usually pay full benefits to those who have retired due to ill health or are receiving a pension in relation to someone who had died at the time the scheme was unable to meet its liabilities. Payments relating to pensionable service after 5 April 1997 will increase annually by the rate of inflation, subject to a cap of 2.5%. However, payments relating to pensionable service before 5 April 1997 will not increase.

For those who have not yet reached the scheme's retirement age, the fund will generally pay 90% of the benefits on retirement for which the employee would have been eligible, subject to an annually reviewed cap.



This applies to those who have not yet retired and to those who have taken early retirement but have not yet reached the scheme's standard retirement age. At 1 April 2019 the cap is £40,020 per annum for those aged 65 with full benefits (which equates to £36,018 when the 90% level is applied). The full details of the amount of the cap are available from the PPF.

Trustee Responsibilities

Overall, the PPF provides confidence for many people that, even if their employer fails to meet its pension liabilities then they will still receive almost all the income they expected in retirement. However, for higher earners, the cap can mean that if their scheme were to be taken over by the PPF they would see a dramatic drop in their retirement income.

Therefore, it is particularly important for schemes serving such individuals that the trustees carefully manage the assets of the scheme to cover the liabilities. Otherwise, high earners who have been long-serving, loyal members of the company which established the scheme can suffer substantial cuts to their retirement income.

Our Service

Cantab Asset Management provides advice on investments in pension funds. We provide recommendations to help schemes which are in deficit recover and help those in surplus to maintain the surplus. In doing so, we help trustees to deliver on their commitments to scheme members.

Please contact our Team on 020 3651 0570 (London) or 01223 52 2000 (Cambridge) to discuss in more detail or email advice@cantabam.com.

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