SEPTEMBER 2020

PENSION PROTECTION FUND
A SUMMARY

THE PENSION PROTECTION FUND (PPF) WAS ESTABLISHED AS A STATUTORY CORPORATION BY THE PENSIONS ACT 2004. IT PROVIDES COMPENSATION TO MEMBERS OF ELIGIBLE DEFINED BENEFIT PENSION SCHEMES WHERE THE SPONSORING EMPLOYER BECOMES INSOLVENT AND THE SCHEME HAS INSUFFICIENT ASSETS TO PAY BENEFITS AT LEAST EQUAL TO THE PPF COMPENSATION LEVEL.

KEY FACTS

- **The PPF protects the interests of c.11 million people who belong to UK defined benefit pension schemes.[1]**
- **In January 2020, the PPF transferred in its 1000th scheme.[2]**
- **The PPF looks after close to 260,000 members.[2]**

WHAT ARE THE PPF'S RESPONSIBILITIES?

The PPF serves the following roles:

- assessing whether eligible schemes should transfer into the Pension Protection Fund,
- helping trustees to manage schemes through an assessment period,
- taking on schemes and paying compensation to people,
- setting, calculating and collecting pension protection levies, and
- prudent management of assets and liabilities.

The Board of the PPF is an independent statutory corporation under the stewardship of the Department for Work and Pensions. The Secretary of State for Work and Pensions is responsible for appointing the Chairman of the PPF, approving the remuneration of the Chief Executive, other executive Board members and the fees paid to non-executive Board members. The Board of the PPF is accountable publicly and to Parliament for its activities.

ASSESSING WHETHER ELIGIBLE SCHEMES SHOULD TRANSFER TO THE PPF

If an insolvency event occurs at a sponsoring employer, the insolvency practitioner will issue a section 120 notice to the PPF. The PPF will work with the scheme to determine if it is eligible to pass into the PPF. The PPF then has 28 days to gather the information required and to make a decision.

Figure 1: How a fund transitions to the PPF

1. Section 120 notice received

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2. Section 120 notice validated

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3. Assessment

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4. Transition

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5. PPF Scheme

In high level terms, in order for the PPF to assume responsibility for a scheme, it must satisfy the following criteria:

1. it must be a scheme which is eligible for the PPF;
2. an insolvency event must have occurred in relation to the scheme's employer which is a qualifying insolvency event;
3. there must be no chance that the scheme can be rescued; and
4. there must be insufficient assets to secure benefits at least equal to the compensation the PPF would pay, if it assumed responsibility for the scheme.

THE ASSESSMENT PERIOD

When does it start?

The assessment process starts from the date of the insolvency, but in practical terms it only begins when it is confirmed that a qualifying insolvency event has happened, and the scheme is eligible. If the scheme is eligible, the section 120 notice is validated, and the assessment period commences.

[1] www.ppf.co.uk/sites/default/files/file-2018-11/strategic_plan_2017_0.pdf

[2] https://www.ppf.co.uk/press-releases/ppf-1000th-scheme

How long does it take?

In most cases, an assessment period is likely to last at least a year, although this may vary significantly depending on the complexity of the financial situation of both the employer and the pension scheme, as well as any action taken by the Pensions Regulator and the possibility of a pension scheme rescue[3].

During the assessment period, the pension scheme will continue to pay pensions although these must be at the PPF levels of compensation. Typically, this means those members of the scheme already receiving a pension will continue to receive 100% of their entitlement. Those under normal pension age at the date the assessment period begins will receive 90% of their pension entitlement, subject to a compensation cap.

The potential outcomes

The scheme's actuary will be required to produce a section 143 valuation at the end of the assessment period, which indicates whether the scheme can pay member benefits at or above the PPF levels. There are then three possible outcomes:

- **Scheme rescue:** if at any time during the assessment period it is determined that a scheme can be rescued, i.e. an employer can support the scheme in the future, so it does not have to transfer to the PPF, the scheme will withdraw from the assessment period
- **Overfunded scheme:** if there is enough money, or other assets, at the assessment date (the date of the qualifying insolvency event) to pay out benefits greater than PPF levels of compensation, it will either:
  - be allowed to wind-up outside the PPF, generally through an insurer, or
  - continue to operate as a closed scheme
- **Transfer to the PPF:** a scheme will enter the PPF if it is determined that there are insufficient assets at the assessment date to pay out benefits at PPF levels of compensation.

Transition to the PPF

The Board of the PPF will take over the assets of eligible schemes that are unable to meet their financial obligations when the assessment period has ended (this will take place between 12-24 months). An eligible scheme would be transitioned to the PPF which also involves the transfer of member data and terminating any contracts (i.e. with lawyers or advisors) that are in place. The trustees will also cease to have any responsibility for the scheme.

Funding for transferred schemes

The PPF funds itself through a compulsory annual Pension Protection Levy charged to all eligible schemes, by the assets transferred to the PPF and by the respective investment returns on those levies and assets.

ELIGIBLE SCHEMES

The PPF covers defined benefit occupational pension schemes and defined benefit elements of hybrid schemes.

Schemes eligible for protection by the PPF will be liable to pay the PPF levies and their scheme members may be entitled to compensation should an insolvency event occur in relation to the scheme's employer.

Some schemes are exempt from the PPF. The following list while not exhaustive, shows the schemes which are exempt:

- unfunded public service schemes
- public sector schemes providing pensions to local government employees
- schemes to which a minister of the Crown has given a guarantee – schemes with a partial Crown guarantee will only be liable to pay the PPF levies for that part of the scheme that does not have a Crown guarantee
- schemes which are not tax approved (or tax registered from April 2006) nor relevant statutory schemes under the tax rules for pension schemes
- schemes under the tax rules for pension schemes
- schemes with fewer than two members
- schemes providing death in service benefits only
- schemes which are relevant lump sum retirement benefit schemes
- Chatsworth Estate Settlement Pension Scheme
- schemes with fewer than 12 members where all members are trustees of the scheme
- cross border schemes where the pension scheme in question is not UK registered;
- a superannuation fund as is mentioned in section 615(6) of the Income and Corporation Taxes Act 1988.

Schemes which began to wind up or were completely wound up prior to 6 April 2005 will be exempt from the PPF. In addition, except in certain circumstances, schemes where a compromise agreement has been reached between the scheme trustees and the employer concerning a debt under Section 75 of the Pensions Act 1995, will also be exempt from the PPF.

Exempt schemes will not be liable to pay the pension protection levies and their members will not be eligible for PPF compensation.

For more information, please visit:
www.pensionprotectionfund.org.uk/

[3] https://www.ppf.co.uk/sites/default/files/2019-07/general_guidance_on_insolvency_and_the_assessment_period.pdf

FIND OUT MORE

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