PENSION PROTECTION FUND

The Pension Protection Fund (PPF) was set up by the Government in April 2005 to offer protection to members of eligible defined benefit schemes in the event that their employer goes bust. Its aim is to prevent employees from losing out because the pension scheme can no longer afford to pay the promised pension.

KEY ISSUES

The Pension Protection Fund (PPF) aims to protect defined benefit (final salary) scheme members in the event that their employer goes bust.

PPF compensation is generally 90% to 100% of the value of the pension at the date of insolvency. The amount members will get depends on whether they are retired or yet to retire when the scheme enters PPF.

There are strict criteria which schemes must meet in order to qualify. Eligible schemes must pay the PPF levy.

The PPF takes on the assets (funds) of schemes that transfer to it. They also collect what they can from insolvent employers as well as being funded by a compulsory levy (a bit like an insurance premium) on eligible schemes. The PPF is not funded by the Government, but it aims (as its investment portfolio grows) to be financially self-sufficient by 2030. It uses the funds it holds and collects to pay compensation to scheme members.

Which schemes are eligible?

The PPF covers certain defined benefit occupational pension schemes and the defined benefit elements of hybrid schemes. Eligible schemes will be liable to pay the PPF levies, and its members may be entitled to compensation if the scheme's employer goes bust. A scheme must satisfy certain criteria in order for the PPF to assume responsibility for it. In high-level terms these are:

- The scheme must not have commenced wind-up before 6 April 2005
- The scheme's employer must have had a qualifying insolvency event
- There must be no chance that the scheme can be rescued
- There must be insufficient assets in the scheme to secure benefits on wind up that are at least equal to the compensation that PPF would pay.

How does it work?

When an eligible scheme goes bust, it usually enters what's called the PPF assessment period. The assessment period usually starts as soon as the employer goes bust. During the assessment period the scheme's trustees remain in day-to-day control of the scheme. The trustees will also undertake two other important jobs during the assessment period:

- Work out how much money, and other assets, remain in the scheme
- And, make sure the details of all the scheme members are up-to-date and accurate

At the same, the PPF will recover what they can from the insolvent employer, by acting as a creditor on behalf of the pension scheme. The PPF aims to complete assessment periods for most schemes within two years. If they then take on responsibility for a scheme, then they will pay compensation to scheme members.

How much compensation does the PPF pay?

If you have retired:	If you retired early:	If you have yet to retire:
• Usually 100% compensation. • This may also apply if you retire early through ill-health or you're receiving a pension in relation to someone who has died.	• Usually 90% of what your pension was worth when your employer went bust. • The cap at age 65 is £37,420.42 (or £33,678.38 at 90% level).	• Compensation based on 90%, when you reach the scheme's normal retirement age (NRA). • The cap at age 65 is £37,420.42 (or £33,678.38 at 90% level).
• Payments relating to service after 5 April 1997 will rise in line with inflation each year • Payments relating to service before that date will not increase.		

There is a wealth of information about the PPF on their website. In particular you may wish to look at their information booklet, and their section on compensation.

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