

What is the Pension Protection Fund

...and what do we do?



Protecting **People's** Futures



Introducing the Pension Protection Fund and informing you about its assessment period.

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

It also means that your pension scheme may be eligible to enter the Pension Protection Fund (PPF).

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

This booklet explains more.

What happens now?

When the sponsoring employer(s) of an eligible defined benefit, eg final salary, scheme goes bust, the pension scheme will usually enter what is called the PPF assessment period.

A scheme will only transfer to the PPF if it does not 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, ie 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 above.

What happens during the assessment period?

The assessment process usually starts as soon as your employer goes bust.

While assessment takes place, your scheme trustees remain in day-to-day control of the scheme and your payments.

If you have 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, and
- make sure that the details of all the scheme members are up-to-date and accurate.

At the same time, we will recover what we can from the insolvent employer, by acting as a creditor on behalf of your pension scheme.

We aim to complete assessment periods for most schemes within two years. If we ultimately take on responsibility for a scheme, we will then pay compensation to scheme members.

Where does our money come from?

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

We are not funded by government. Instead, we collect a compulsory levy, much like an insurance premium, from eligible schemes.

But, as it grows, our investment portfolio will play an increasing role in funding the PPF which will help us achieve our target of becoming financially self-sufficient by 2030.

How much compensation does the PPF pay?

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 went bust.

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

Compensation payments will rise in line with inflation each year, subject to a maximum of 2.5 per cent. But this will only relate to pensionable service dating from 5 April 1997. Payments relating to pensionable service before that date will not increase.

Those members who have not yet retired will receive up to 90 per cent compensation on reaching the normal pension age of their scheme.

Members who have retired but have not reached their normal pension age will also receive up to 90 per cent compensation.

These 90 per cent calculations are subject to a cap which is recalculated every year. But the vast majority of members are not affected by this cap.

Annual increases in compensation may be different to the increases that members were getting from their pension schemes.

Details of the cap can be found under the compensation section of our website (see back of booklet for details).

So how does your compensation work?

Clearly, every individual is different.

But we have set out some fictitious examples which show how PPF members may 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 in relation to someone who has died.

They also assume an inflation rate of three per cent a year.

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 £30,000 a year when my employer went bust.

This left the pension scheme without enough money to meet its pension promises.

The PPF's involvement means I still receive my £30,000, as I was older than the scheme's normal pension age of 65 when my employer went bust.

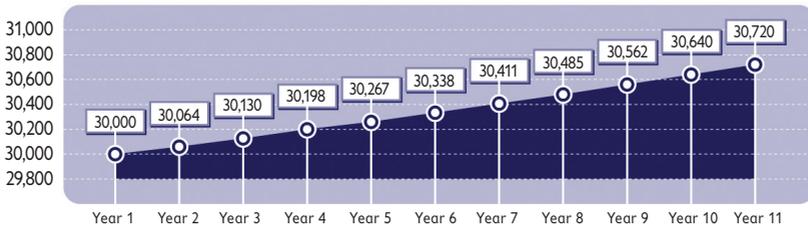
My compensation will rise year-on-year. But, because a big part of my pensionable service was before 5 April 1997, the part of my pension relating to that service will not increase.

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.

Over the next 10 years, I could receive the following compensation.



Estimated PPF compensation (£ per annum)



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 gone bust 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.

Over the next 10 years, I could receive the following compensation.



Estimated PPF compensation (£ per annum)



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 went bust – 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.

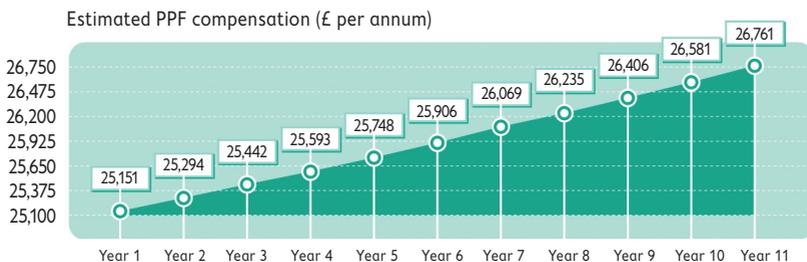
The compensation cap was £27,945 at the age of 60. The cap is adjusted according to my age when the PPF assessment period began, as I was already receiving my pension. (This is an illustrative figure. For full details of the cap, see our website.)

As I hadn't reached the scheme's normal pension age when my employer went bust, my annual compensation payments from the PPF will be £25,151 a year, despite the higher amount of pension I've built up. This reflects 34 per cent of my pension – that is, 90 per cent of the £27,945 cap.

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 will not increase.

Over the next 10 years, I could receive the following compensation.



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.

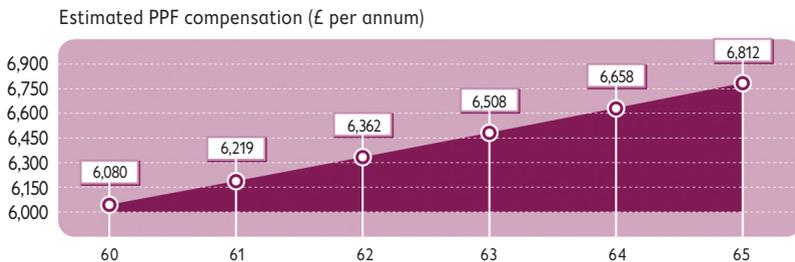
The compensation I'll receive from the PPF is based on the deferred pension I would have received had I left the company at the age of 47 – the time my company went bust.

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 when compensation 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.

After I retire at 60, I could receive the following compensation payments.



More information about how your compensation is calculated – and other useful information – can be found on the PPF website (see back of booklet for details).

If you want more information about the PPF, contact us by:

Tel: **0845 600 2541**

Textphone: **0845 600 2542** (for customers who are deaf or who have impaired hearing or speech).

Email: **information@ppf.gsi.gov.uk**

Or write to us at:

**Stakeholder Support Team
Pension Protection Fund
Knollys House
17 Addiscombe Road
Croydon CR0 6SR**

Or see our website at

www.pensionprotectionfund.org.uk

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 legislation 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.