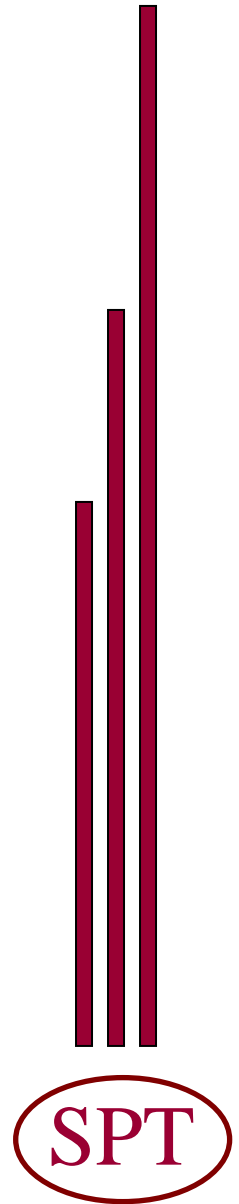


# PPF Compensation

## Examples



# Funding Updates

- The Pensions Act 2004 requires trustees to provide regular funding updates to members.
- This includes a requirement to include, “a reference to the protection offered by the Pension Protection Fund (PPF)”
- We have received a number of queries from members asking for more details about the PPF and the compensation provided.
- The purpose of these slides is to address some of these queries by illustrating the potential impact of the major differences between the benefits provided under the rules of the GEC 1972 Plan and the compensation which would be provided if the Plan were to be taken into the Pension Protection Fund (PPF).
- The provision of this information in no way implies that the Plan expects to apply for entry into the PPF.
- More information can be found on the PPF website

<http://www.thepensionsregulator.gov.uk>



# PPF Compensation

- The trustee of the Plan must apply for PPF entry if the participating employers in the Plan suffer an insolvency event
- Were the Plan accepted into the PPF, actual compensation would be determined by the PPF. Current levels of compensation are set out in legislation but:
  - the basis of revaluation and indexation could be reduced by the Pension Protection Fund if circumstances required it.
  - Levels of compensation could be reduced by the Secretary of State on the recommendation of the Pension Protection Fund.
- Were the Plan to apply to enter the PPF, it would undergo an “Assessment Period” during which benefits would be paid at the compensation level.
- Thereafter, if the Plan’s assets were below the level necessary to buy out PPF benefits, the Plan, if accepted, would enter the PPF and members would receive PPF compensation.
- Were the Plan’s assets of greater value, benefits may exceed this level.
- The examples which follow, are to an extent a simplification of actual PPF compensation. For example the PPF applied increases in January vs May for the Plan.



## Comparing PPF and Plan Benefits

- For members over the normal pension age for the Plan (65) the initial level of compensation would be 100% of Plan pension.
- For members (pensioners or deferred pensioners) below age 65 the initial level of compensation would be 90% of Plan pension, with the pension capped according to age (c£33K for a 65 year old).
- No increases would be awarded on pensions in payment relating to service before April 1997.
- Annual increases would be awarded on compensation relating to service post April 1997 at the rate of the consumer prices index (CPI), capped at 2.5%. Plan increases are RPI capped at 5%.
- Pensions in deferment would be revalued with CPI capped at 5% for benefits accrued before April 2009, 2.5% thereafter. Plan revaluation is at the rate of RPI capped at 5%.

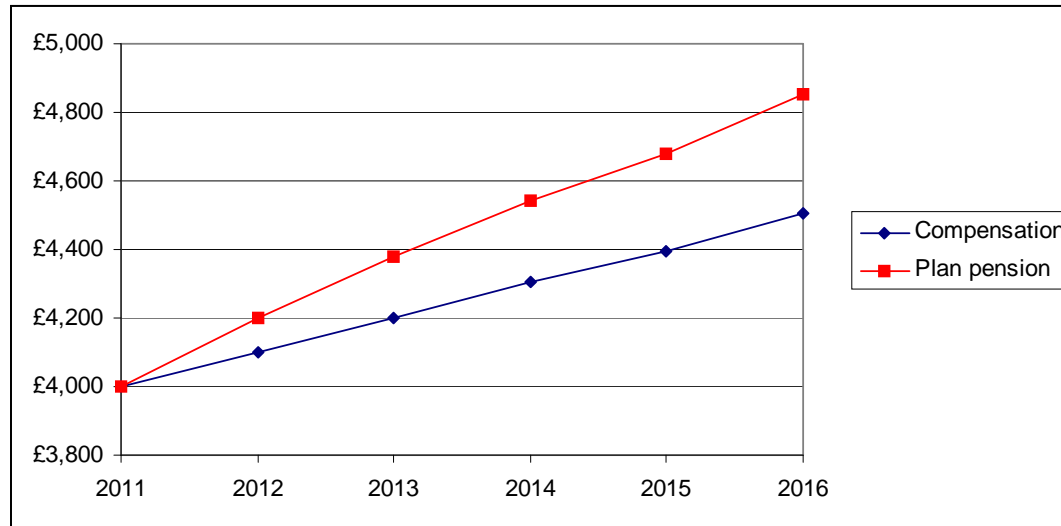


SPT

## Jane - Member 1 (Pensioner)

- She joined the scheme in 1999, left in 2008, built up a pension of £4000 per annum and is now age 66.
- She is over the normal retirement age of 65, so, her initial level of compensation would be the full pension, £4000.
- All of her pension was built up after April 1997, so she would receive increases on the whole pension.
- However, those increases would be based on CPI, capped at 2.5% per year.
- Assuming she started receiving PPF level of compensation in 2011, the table and graph below shows how her compensation and pension might increase with assumed levels of CPI and RPI.

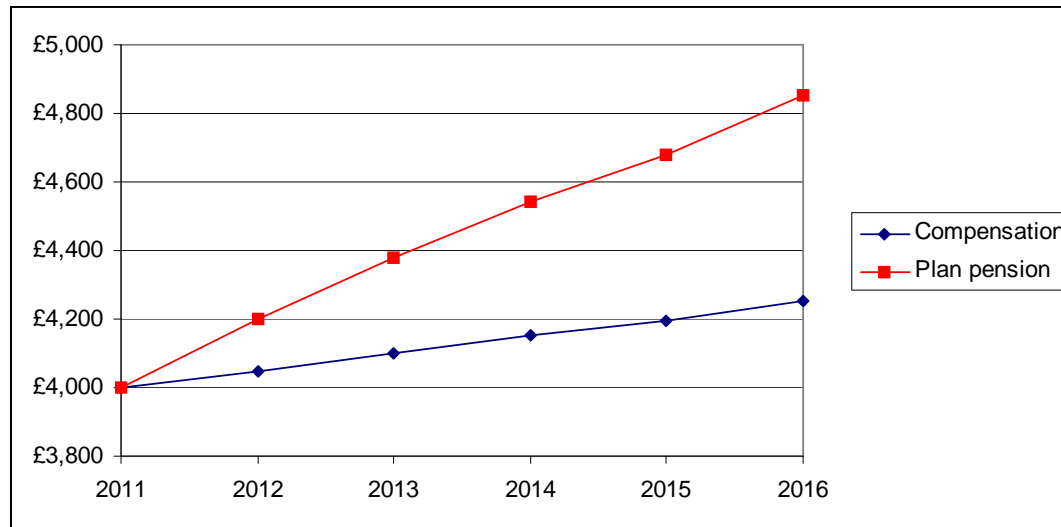
	2011	2012	2013	2014	2015	2016
<b>CPI</b>		4%	3.50%	2.50%	2%	3%
<b>RPI</b>		5%	4.25%	3.75%	3%	3.75%
<b>Compensation</b>	£4,000	£4,100	£4,203	£4,308	£4,394	£4,504
<b>Plan pension</b>	£4,000	£4,200	£4,379	£4,543	£4,679	£4,854



## John - Member 2 (Pensioner)

- He joined the scheme in 1990, left in 2004, built up a pension of £4000 per annum and is now age 67. £2000 of his pension relates to service before 1997, £2000 to service after
- He is over the normal retirement age of 65, so, his initial level of compensation would be the full pension, £4000.
- Only half of his pension was built up after April 1997, so he would only receive increases on half of the initial compensation
- Those increases would be based on CPI, capped at 2.5% per year.
- Assuming he started receiving PPF level of compensation in 2011, the table and graph below show how his compensation and pension might increase with assumed levels of CPI and RPI.

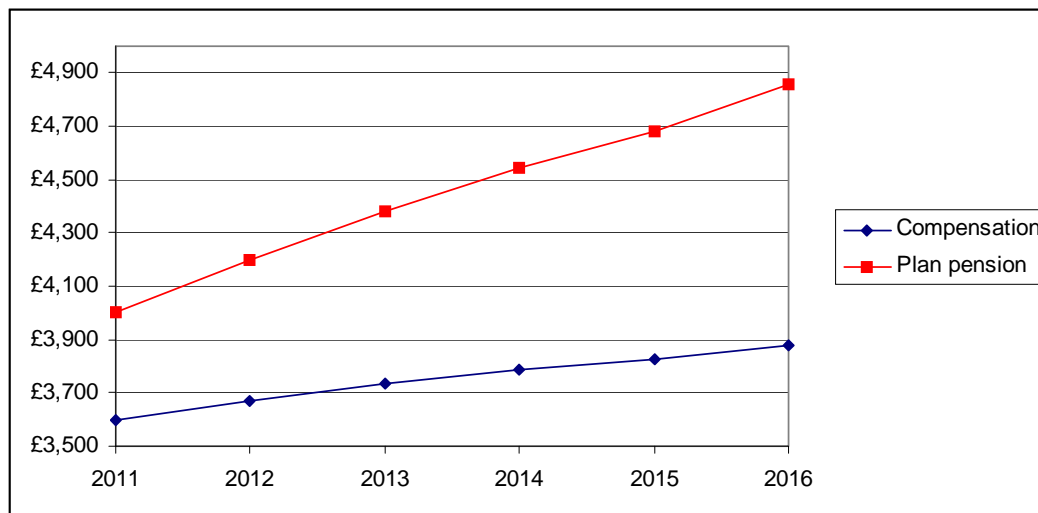
	2011	2012	2013	2014	2015	2016
<b>CPI</b>		4%	3.50%	2.50%	2%	3%
<b>RPI</b>		5%	4.25%	3.75%	3%	3.75%
<b>Compensation</b>	£4,000	£4,050	£4,101	£4,154	£4,197	£4,252
<b>Plan pension</b>	£4,000	£4,200	£4,379	£4,543	£4,679	£4,854



## Simon - Member 3 (Deferred Pensioner)

- He joined the scheme in 1990, left in 2004, built up a pension (under basis 1) of £4000 per annum and is now age 60. £2000 of his pension relates to service before 1997, £2000 to service after
- He is under the normal retirement age of 65, so, his initial level of compensation would be 90% of his accrued pension, £3600
- Only half of his pension was built up after April 1997, so he would only receive increases on half of the initial compensation
- Those increases would be based on CPI, capped at 5% per year before he takes his pension, 2.5% after.
- Assuming he put his PPF compensation into payment in 2013, the table and graph below show how his compensation and pension might increase with assumed levels of CPI and RPI.

	2011	2012	2013	2014	2015	2016
<b>CPI</b>		4%	3.50%	2.50%	2%	3%
<b>RPI</b>		5%	4.25%	3.75%	3%	3.75%
<b>Compensation</b>	£3,600	£3,672	£3,738	£3,786	£3,826	£3,876
<b>Plan pension</b>	£4,000	£4,200	£4,379	£4,543	£4,679	£4,854



## Sally - Member 4 (pensioner)

- She joined the scheme in 1975, left in 2008, built up a pension of £50,000 per annum from age 65 and is now age 60. £33,333 relates to service before 1997, £16,667 to service after.
- As she is age 60, her pension would be capped at £30164.09, and she would only receive 90% of this, £27147.68.
- Only 1/3<sup>rd</sup> of her pension was built up after 1997, so she would only receive increases on 1/3<sup>rd</sup> of the compensation.
- Those increases would be based on CPI, capped at 2.5% per year.
- Assuming she started receiving PPF level of compensation in 2011, the table and graph below shows how her compensation and pension might increase with assumed levels of CPI and RPI.

	2011	2012	2013	2014	2015	2016
<b>CPI</b>		4%	3.50%	2.50%	2%	3%
<b>RPI</b>		5%	4.25%	3.75%	3%	3.75%
<b>Compensation</b>	£27,149	£27,375	£27,607	£27,845	£28,039	£28,288
<b>Plan pension</b>	£37,250	£39,113	£40,775	£42,304	£43,573	£45,207

