Pension Protection Fund

By Email
Debbie Abrahams MP
Chair, Work and Pensions Committee

19 December 2024

Dear Debbie,

Re: Pension Protection Fund compensation levels

Thank you for your letter of 17 December 2024 regarding the impact of increasing PPF and FAS payments. We welcome the opportunity to support the Committee in its work on the Defined Benefit (DB) pension schemes inquiry.

We initially shared figures regarding the estimated impact of changes to PPF compensation levels covering the 2021/22 financial year, in our written evidence to the Committee's DB pension schemes inquiry in April 2023. Subsequent to this, as you note, we shared updated figures on the estimated impact of changes to PPF compensation levels for the 2022/23 financial year in October 2023, as well as the estimated impact of changes to FAS indexation across a 10 year period in December 2023.

Since then, we have continued to hear concerns regarding the non-indexation of payments in respect of pre-97 service from individual members and member-led groups, such as the Deprived Pensioners Association (DPA) and Pensions Action Group (PAG), and through our regular Member Forum meetings. We share these concerns with government. While the Committee will understand that, because our compensation levels are set out in legislation, any significant changes to them are ultimately a matter for government, we would welcome any further government consideration of PPF and FAS indexation rules.

Following the publication of our 2023/24 Annual Report and Accounts, we are now able to provide updated calculations on the impact of paying indexation on pre-97 compensation for PPF members, as well as for FAS payments relating to pre-97 service. For consistency, we have set these figures out in the same format used respectively in our October 2023 and December 2023 correspondence.

In **Table 1** we have set out how indexing pre-97 compensation in the future at Consumer Price Index (CPI) capped at both 2.5% and 5% could impact the PPF. In addition to this, as set out in our October 2023 response, we have also set out the impact of removing the 90% factor for deferred PPF members (people who are currently under pension age and were not receiving an ill-health pension when their scheme entered the PPF).

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In **Table 2,** we have provided updated figures that set out the impact of paying pre-97 indexation **only to those PPF members whose scheme rules provided for this**[1]. As with our calculations for indexing pre-97 compensation in the future at CPI capped at 5% for all schemes, we have assumed that the increases would also apply for post-97 service too.

In **Table 3**, we have set out the estimated annual cost of changing the pension increases on FAS assistance for the next five years for pre-97 assistance (capped at CPI 2.5%) and post-97 assistance (capped at CPI 5%). In addition to this, we've also included the estimated total for years 6-10.

Further to this, as set out in previous correspondence, the cost of these changes is sensitive to market conditions, in particular the level of nominal yields. Specifically, in relation to PPF compensation, our 2023/24 Annual Report and Accounts shows that a decrease in yields of 1.0 percentage points leads to an increase in liabilities overall of 13.6 per cent. This can be applied to the cost of providing increases to pre-97 pensions to give an approximate impact. For example, the £2.2 billion cost of providing prospective pre-97 pension increases of CPI capped at 2.5% to PPF members would be closer to £2.5 billion if yields fell by 1 percentage point.

I hope the Committee finds this information useful and I would be pleased to assist if you or colleagues have any further questions.

Yours sincerely,

Michelle Ostermann
Chief Executive

[1] Written evidence from The Deprived Pensioners Association (DBP0053), p.3

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Table 1: Impact of changes to PPF compensation and indexation for all schemes (as at 31 March 2024)

Scenario	Assets (£bn)	Liabilities (£bn)	Funding level (%)	Reserve (£bn)	Increase in liabilities relative to Actual (£bn)	Increase in liabilities relative to Actual (%)	Increase in funding level relative to Actual (%)
Actual - 31 March 2024 PPF annual valuation	33.1	19.9	167%	13.2	-	-	-
Prospective changes							
(1): Removal of 90% factor for deferred members	33.1	20.6	161%	12.5	0.7	4%	-6%
(2): Prospective pre 97 pension increases of CPI capped at 2.5%	33.1	22.1	150%	11.0	2.2	11%	-17%
(3): Prospective pre 97 and post 97 pension increases of CPI capped at 5%	33.1	24.9	133%	8.2	5.0	25%	-34%
(3a): Prospective pre 97 pension increases of CPI capped at 5%	33.1	23.5	141%	9.6	3.6	18%	-26%
(3b): Prospective post 97 pension increases of CPI capped at 5%	33.1	21.3	156%	11.8	1.4	7%	-11%
(4): (1) and (2) combined	33.1	22.9	145%	10.2	3.0	15%	-22%
(5): (1) and (3) combined	33.1	25.8	129%	7.3	5.9	29%	-38%
Retrospective changes							
(6): Arrears for retrospective pre 97 pension increases of CPI capped at 2.5%	33.1	21.7	153%	11.4	1.8	9%	-14%
(7): Retrospective pre 97 pension increases of CPI	33.1	25.2	131%	7.9	5.3	27%	-36%

capped at 2.5% excluding arrears							
(8): Retrospective pre 97 pension increases of CPI capped at 2.5% including arrears	33.1	27.0	123%	6.1	7.1	36%	-44%
(9): Arrears for retrospective pre 97 pension increases of CPI capped at 5%	33.1	22.5	147%	10.6	2.6	13%	-20%
(10): Retrospective pre 97 pension increases of CPI capped at 5% and prospective post 97 pension increases of CPI capped at 5% excluding arrears	33.1	29.9	111%	3.2	10.0	50%	-56%
(11): Retrospective pre 97 pension increases of CPI capped at 5% and prospective post 97 pension increases of CPI capped at 5% including arrears	33.1	32.5	102%	0.6	12.6	63%	-65%

Notes:

1. The impact of scenario 1 is only for deferred members and doesn't include our members who are currently in payment and have had the 90% factor applied to them.
2. The impacts of scenarios 2 – 11 assume any increases would apply to all existing PPF members.
3. The impacts of scenarios 4 and 5 have been calculated by taking the compound percentage increases of the liabilities of scenarios 1 – 3. and then calculating the rest of the figures based on these compound percentage increases.

Table 2: Impact of changes to pre-97 indexation only for members of schemes that provided for indexation in their scheme rules (as at 31 March 2024)

Scenario	Assets (£bn)	Liabilities (£bn)	Funding level (%)	Reserve (£bn)	Increase in liabilities relative to Actual (£bn)	Increase in liabilities relative to Actual (%)	Increase in funding level relative to Actual (%)
Actual - 31 March 2024 PPF annual valuation	33.1	19.9	167%	13.2	-	-	-
Prospective changes							
(1): Prospective pre 97 pension increases of CPI capped at 2.5%	33.1	21.6	153%	11.5	1.7	9%	-14%
(2): Prospective pre 97 and post 97 pension increases of CPI capped at 5%	33.1	24.0	138%	9.1	4.1	21%	-29%
(2a): Prospective pre 97 pension increases of CPI capped at 5%	33.1	22.6	146%	10.5	2.7	14%	-21%
(2b): Prospective post 97 pension increases of CPI capped at 5%	33.1	21.3	156%	11.8	1.4	7%	-11%
Retrospective changes							
(3) Arrears for retrospective pre 97 pension increases of CPI capped at 2.5%	33.1	21.3	155%	11.8	1.4	7%	-12%
(4) Retrospective pre 97 pension increases of CPI capped at 2.5% excluding arrears	33.1	23.9	138%	9.2	4.0	20%	-29%

(5) Retrospective pre 97 pension increases of CPI capped at 2.5% including arrears	33.1	25.4	131%	7.7	5.5	27%	-36%
(6) Arrears for retrospective pre 97 pension increases of CPI capped at 5%	33.1	22.0	151%	11.1	2.1	11%	-16%
(7) Retrospective pre 97 pension increases of CPI capped at 5% and prospective post 97 pension increases of CPI capped at 5% excluding arrears	33.1	27.9	119%	5.2	8.0	40%	-48%
(8) Retrospective pre 97 pension increases of CPI capped at 5% and prospective post 97 pension increases of CPI capped at 5% including arrears	33.1	30.0	110%	3.1	10.1	51%	-57%

Notes:

1. The impacts in the table above are based on the 725 schemes that have transferred to the PPF or are relatively large schemes in assessment that provided for indexation on pre-97 pensions in their scheme rules. The impacts also include increases on post-88 Guaranteed Minimum Pensions for the 375 transferred schemes that don't provide for indexation on pre-97 pensions in their scheme rules.
2. The impacts for scenarios 2, 7 and 8 assume that the increases would also apply to post-97 service.

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Table 3: Estimated annual costs of changing the pension increases on FAS assistance (£m)

Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Years 6 – 10
Pre-97 assistance at CPI max 2.5% p.a.	3.0	5.0	8.0	11.0	13.0	93.0
Post-97 assistance at CPI max 5% p.a.	0.4	0.7	1.0	1.2	1.4	10.3

Definitions:

Arrears – this relates to past payments only. It is the difference between what PPF compensation was actually paid in the past to members and what would have paid in the past if the members had received higher historical pension increases.

Prospective – this relates to future payments only. It is the difference between what PPF compensation is expected to be paid in the future to members based on current PPF compensation levels and the PPF compensation that is expected to be paid in the future if the members receive higher pension increases **in the future only (and not the past).**

Retrospective excluding arrears – this relates to future payments only. It is the difference between what PPF compensation is expected to be paid in the future to members based on current PPF compensation levels and the PPF compensation that is expected to be paid in the future if the members receive higher pension increases **both in the past and in the future.**

Retrospective including arrears – this relates to both past and future payments. It is the same as the retrospective excluding arrears figures plus the arrears figures above.