**Pension Schemes Bill: Public Bill Committee - Call for Evidence**

**Response from the Pension Protection Fund**

**About the PPF**

The Pension Protection Fund (PPF) protects the 8.8 million members of defined benefit (DB) pension schemes in the UK. When a sponsoring employer of a DB scheme becomes insolvent, if the scheme can't afford to provide its members at least PPF benefit levels, we will take it on and pay compensation to members on their lost pensions.

The PPF is a statutory corporation, established under the provisions of the Pensions Act 2004 (PA04). We became operational on 6 April 2005.

In 2009, the Board of the PPF was also given the responsibility of being the scheme manager for the taxpayer funded Financial Assistance Scheme (FAS). FAS provides assistance to eligible underfunded defined benefit schemes that started to wind-up between 1 January 1997 and 5 April 2005, or between 6 April 2005 and 27 March 2014 where an employer insolvency event occurred before 6 April 2005.

Since inception, we have consolidated over 2,000 DB schemes and now have over 425,000 members across the PPF and FAS. As at 31 March 2025, we had £31.2bn in assets under management, placing us among the largest pension funds in the country, and held reserves of £14.1bn.

We are also responsible for the Fraud Compensation Fund (FCF), which pays compensation to occupational (DC and DB) pension schemes where the employer is insolvent and the scheme has lost out financially as a result of dishonesty.

**Key points**

- The Pension Schemes Bill 2025 includes three clauses which would benefit our members and levy payers.
    - **Clause 95 (Pension protection levies)** would give our Board greater flexibility in setting the PPF levy, enabling us to further reduce it without compromising our ability to raise a levy again if we ever needed to.
    - **Clause 96 (Pensions dashboards)** supports the display of PPF and FAS compensation data on the pensions dashboards.
    - **Clause 94 (Terminal illness)** would enable us to make payments to terminally ill PPF and FAS members with a life expectancy of 12 months, increased from the current six months.
- We welcome new developments in the DB market that could improve member outcomes.
    - We support legislation to place the regulation of DB superfunds on statutory footing and the intention to enable schemes to transfer out of PPF assessment to **DB superfunds** at lower than full scheme benefits. We believe this could help improve the options for trustees of schemes which are overfunded on a PPF basis as they transfer out of our assessment process, and ultimately improve member outcomes.

    - The Bill's **surplus access measures** could also help to enhance member benefits and business investment and, with appropriate protections to support these measures, we expect they would not lead to a material increase in future claim risk for us.
- We recognise ongoing concerns in relation to our **pre-97 indexation provisions** and the recent resumption of the collection of the **PPF administration levy** and are continuing to work with government on these issues.

**Introduction**

1 We welcome this opportunity to support the Committee's examination of the Pension Schemes Bill 2025. The Bill includes several measures that would benefit our (PPF and FAS) members and levy payers, as well as measures that have a wider bearing on the DB pensions landscape.

2 We also recognise that those we serve have raised issues that aren't in the current scope of the Bill but may be raised during its passage through Parliament. Appreciating this, we have split out our response into three sections: the first covering the PPF-specific provisions in the Bill, the second covering the other DB-related provisions in the Bill, and the third covering other topical PPF-related issues.

**PPF-specific provisions in the Bill**

***Changes to the PPF levy (Clause 95)***

3 Existing legislation constrains us from further reducing the PPF levy, paid by the remaining 5,000 conventional DB schemes, to zero.

4 Legislation for the PPF levy and levy ceiling is set out in the Pensions Act 2004 ('PA04'). At the time the PA04 was written, a key concern was the extent of claims the PPF could face and the risk of the levy becoming a disproportionate burden on schemes and employers.

5 Legislation therefore sought to give us independence in setting the levy, whilst placing constraints on:
- The total levy that could be raised via the 'levy ceiling', which is set by order; and
- The speed it could be increased, limiting this to 25 per cent year-on-year, known as 'the 25 per cent rule'.
- The risk-based levy - which must be at least 80 per cent of the total PPF levy.

6 However, twenty years on from our establishment, we are now in a strong financial position and improvements in scheme funding mean the risk of future claims has fallen.

7 We have significantly reduced the levy paid by eligible conventional DB schemes in the last five years[1] and believe we can go further, down to zero, whilst maintaining a high level of financial security for our members. However, if we did move to a zero levy under the current legislative framework, we'd then be unable to raise a levy ever again – 25 per cent of zero is still zero.

8 The Bill includes provisions to give our Board greater flexibility in setting the PPF levy so we could reduce the levy to zero without compromising our ability to raise a levy again in the future in the event we ever needed to.

9 Should the levy provisions make sufficient parliamentary progress we expect to move to zero levy for conventional DB schemes this year (2025/26).

[1] Figure 9.1, [The Purple Book 2024]

*Who will benefit?*

10 This change would support the approximately 10,000 UK businesses that sponsor the remaining 5,000 conventional DB pension schemes. We have put invoicing on hold for this year, and if we moved to zero levy for 2025/26, that would mean not charging schemes collectively £45m in levy.

***PPF and FAS inclusion in Pensions Dashboards (Clause 96)***

11 We strongly support the intent of dashboards - to allow people to view their pensions picture, securely and in one place online – empowering individuals to better prepare for retirement. As the PPF and FAS are not pension schemes, they are not currently in scope of dashboards. However, individuals that are entitled to receive compensation or assistance payments from the PPF and FAS will generally consider this to form part of their 'pension', since it will form part of their future retirement income. Therefore, unless PPF and FAS information is included on pensions dashboard services, those individuals will not be able to see a full picture of their future retirement income.

12 As an organisation that prides itself on excellent customer service and a strong digital offering for members, we think it's right that FAS and PPF members should be able to see their pensions information on pensions dashboards. We've been working with DWP and the Pensions Dashboard Programme on this change and are pleased that these provisions support bringing PPF and FAS into scope.

*Who will benefit?*

13 Making this change will mean that approximately 140,000 PPF and FAS deferred members will benefit from improved financial transparency and management of their anticipated pensions[2].

***Changes to PPF and FAS terminal illness payment rules (Clause 94)***

14 Currently, PPF and FAS members, who are not yet in receipt of compensation payments / financial assistance, are able to access early payments when they are diagnosed with a terminal illness and have fewer than six months left to live. The payment is intended to help with expenses associated with end-of-life care and allow individuals to make the most of the time they have left. The Bill would extend the definition of terminal illness to include individuals with a life expectancy of 12 months, instead of six months.

15 This aligns with the definition used by the Department for Work and Pensions (DWP) for social security payments and will ensure that the definition of terminal illness in PPF and FAS legislation remains aligned with the social security special rules for end of life. It will also align with the definition of 'serious ill-health' in the tax rules. These rules allow private pension schemes to make a payment where the member has fewer than 12 months left to live.

*How is the terminal illness payment calculated?*

16 For members of the PPF, the calculation is a one-off (usually) tax-free lump sum equal to two years' compensation. Once a terminal illness payment is made, no more payments will be made to the member even if they live longer than their diagnosis.

[2] The PPF's 2024/25 Annual Report and Accounts lists 88,965 deferred PPF members and 49,849 deferred FAS members.

17 In FAS, the member becomes entitled to their monthly assistance payments on an ongoing basis earlier than they otherwise would and payments continue until the member's death.

*Who will benefit?*

18 The 10 – 15 PPF and FAS members who are, on average, diagnosed with a terminal illness every year, providing them with earlier access to payments during a critical period.

- In 2020, there were 12 PPF and 4 FAS terminal illness payments.
- In 2021, there were 6 PPF and 0 FAS terminal payments.
- In 2022, there were 8 PPF and 6 FAS terminal illness payments.
- In 2023, there were 9 PPF and 3 FAS terminal illness payments.
- In 2024, there were 5 PPF and 4 FAS terminal illness payments.
- Between 1 January 2025 and 17 June 2025, there was 1 PPF and 0 FAS terminal ill health payment.

19 If a member in either scheme has already started receiving compensation payments / financial assistance, they do not receive any extra payment if diagnosed with a terminal illness.

**DB-related provisions in the Bill**

***Powers to pay surplus to employer (Clauses 8 & 9)***

20 We recognise the government's ambition to give well-funded DB schemes, with effective member safeguards, greater flexibility in accessing surpluses which could be used to improve member outcomes and unlock investment. We stand ready to support government to achieve these objectives.

21 As part of its consultative process, the government when considering appropriate safeguards to protect members, considered options which entailed an additional role for the PPF. This included the possibility of a voluntary 100 per cent PPF underpin whereby schemes could opt in to pay a higher PPF levy (or 'super-levy') in return for full protection of their members' benefits.

22 We engaged closely with government as they evolved their thinking on this. We recognise that the government decided not to take this forward due to the challenges of making this work on an opt in basis including the likely levy charge, as well as moral hazard concerns.

23 We welcome the government's intention to consult on draft regulations that will govern surplus access for DB schemes, including on the funding level a scheme must be at before any surplus in a scheme can be accessed to make payments to any employer or additional payments to members.

24 We recognise that the government has said it is minded to replace the requirement that a scheme be more than 100 per cent funded on the buy-out basis, with a requirement that it be more than 100 per cent funded on the low dependency basis. This would mean that the scheme's assets are sufficient to cover all promised benefits to members, without future employer contributions.

25 The impact on the risk of claims on the PPF will depend on the specifics of the requirement and the take-up rate by schemes. If the requirements for surplus extraction are set in a way that means member benefits are well protected on an ongoing basis, we expect they would not lead to a material increase in future claim risk for us.

***DB superfunds***

26 We are supportive of innovation in the DB market that could help to improve outcomes for scheme members. While there have been several successful superfund transactions completed under the interim regulatory regime, placing the regulation of superfunds on a statutory footing should give greater confidence to those operating in the market already and those looking to enter.

27 As the backstop to the DB market, including superfunds, we believe that any superfund must provide a high-level of confidence that it will pay benefits it promises to members and that it won't need to claim on the PPF in the future. We consider the superfund provisions in the Bill achieve this and provide a suitable level of security to members and protection for the PPF.

28 The Bill also includes measures (Clause 59) that would enable schemes that have exited PPF assessment[3] and have assets that enable them to secure benefits at or above PPF compensation levels, to move to a superfund on less than full benefits for scheme members. Currently, schemes in this position would either have to buy out reduced benefits with an insurer or run on as a closed scheme. This represents an expansion of the options available to schemes that suffer the insolvency of a sponsoring employer and, alongside a robust regulatory framework for superfunds, should support improved member outcomes.

**Topical PPF issues**

***Pre-97 indexation***

29 Given the PPF's financial strength, we think it's the right time to consider the levels of indexation we pay our members.

30 Annual inflationary-linked increases to PPF compensation and FAS assistance payments, known as 'indexation', have been the subject of increased public and parliamentary discussion in recent years. This includes recommendations in the Work and Pension Committee's 2024 DB Pension Schemes inquiry report[4].

31 This discussion has particularly focused on PPF and FAS members with pensionable service accrued before 6 April 1997 ('pre-97'), as legislation does not allow us to increase payments relating to pre-97 service. We have heard directly from individual members and member groups about the impact of the lack of pre-97 indexation and we recognise that there are strong views about this issue. We have shared these concerns regularly with government and have sought to inform the discussion of this issue through the publication of our analysis of the cost impacts of changes to indexation levels. These can be found in our submissions to the Work and Pensions Committee.

32 Ultimately, any change to our pre-97 indexation provisions would require legislative change and this is therefore a matter for the government. The government recognised the importance of this issue for members in its response to the Work and Pensions Committee's

---

[3] When the sponsoring employer of a DB pension scheme becomes insolvent, the scheme will enter what is known as a PPF assessment period. During the assessment period, a pension scheme is assessed to determine whether the PPF should assume responsibility for it. A scheme can exit assessment following completion of a s143 valuation or funding determination, demonstrating that assets exceed the protected liabilities of the scheme (i.e. that the scheme should be able to afford to buy out with an insurer/consolidator at least the level of compensation the PPF could provide).

[4] Defined benefit pension schemes, pp. 57-58.

report in May 2025, and also recognised wider impacts regarding any use of the PPF reserve and increases in future liabilities.

33 The way the PPF Board's assets and liabilities are treated within the public finances does not affect the legal separation of the property of the Crown and Board. PPF funding cannot be used to fund other liabilities outside of the PPF. The purposes for which the PPF may use its funds are set out in the Pensions Act 2004.

34 Furthermore, it is also important to view our reserves in the context of our role as the backstop for the entire £1 trillion DB market. We hold this reserve to protect the PPF against future risks, including longevity and claims.

35 As the government's response to the Work and Pensions Select Committee inquiry said, introducing pre-97 indexation to the PPF and the FAS affects the measurement of the public sector fiscal metrics. This is because PPF's assets and liabilities are included in the measurement of the public sector fiscal metrics and granting indexation for pre-1997 benefits would increase the PPF's liabilities. This would directly affect measures of the public finances, such as Public Sector Net Financial Liabilities (PSNFL), which is targeted as one of the government's fiscal rules.

36 For FAS, which is taxpayer funded, the additional payments would be recorded as higher government spending, which would score directly against the current budget deficit.

37 The government has said it is giving this issue active consideration, recognising the need to strike a balance between all parties, including the interests of members of failed schemes, the levy payers who support the PPF and taxpayers (who would be responsible for funding any changes to FAS assistance payments).

38 We will continue to prioritise working closely with colleagues in government to support their consideration of this issue.

***PPF Administration Levy***

39 Legislation prevents us using the core PPF fund to cover all our administration costs. Costs associated with, for example, our scheme delivery functions and our management of the Fraud Compensation Fund, are funded by grant-in-aid from DWP. DWP recoup these costs through a PPF Administration Levy (or 'Admin levy') which is wholly separate to the PPF and FCF levies.

40 The Admin Levy is set by DWP and collected on their behalf by TPR. It is charged to all DB schemes on a per member basis. We received £14m in grant-in-aid in 2024/25.

41 In 2022, the DWP's departmental review of the PPF[5], led by Lesley Titcomb CBE, concluded that the Admin Levy was an 'unnecessary complication for both the PPF and its stakeholders' and recommended it be abolished. Recognising that we're in a position to be self-funding, we are supportive of implementing this recommendation. Furthermore, if the Admin Levy were abolished in the future, this likely wouldn't impact our existing plans on the PPF levy (i.e. reducing the levy further, including to zero).

42 The Admin Levy collection was suspended for two years in April 2023, as a surplus had been built up. However, by April 2025, that surplus had been run down, and collection was restarted. We recognise the strength of feeling from levy payers' about the renewed collection of the Admin Levy. Ultimately, decisions on the Admin Levy are for DWP. As we

[5] [Departmental Review of the Pension Protection Fund (PPF) - GOV.UK]

stated in our recent 3-year Strategy[6], securing the necessary changes on the Admin Levy are a priority for the PPF. We are continuing to work closely with DWP on this.

[6] Pension Protection Fund - Three-year strategy 2025-28