Pension Protection Fund

By Email
Debbie Abrahams MP
Chair, Work and Pensions Committee

21 August 2025

Dear Debbie,

Re: Indexation on compensation for pre-1997 benefits

Thank you for your 25 July letter requesting an update of the estimated impact of changes to PPF compensation levels we provided to the Committee in December 2024. Following the publication of our 2024/25 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 in our previous correspondence and we have included some additional information for reference.

In **Table 1a** 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, with the effective date of the costs calculated at 31 March 2025 but assuming that the first increase, for prospective changes in pre-97 indexation levels, will be on 1 January 2027 (this being assumed to be the earliest implementation date). 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).

In **Table 1b**, we have provided updated figures that set out the estimated impact of paying pre-97 indexation **only to those PPF members whose scheme rules provided for this**[1]. For our calculations for indexing post-97 compensation in the future at CPI capped at 5%, we have assumed these increases would apply to all schemes given pension scheme legislation requires post-97 indexation to be provided by all schemes. Again, we have assumed the first increase will be on 1 January 2027 for prospective changes in pre-97 indexation levels.

In **Charts 1c and 1d**, we have shown how developments over the year have caused the prospective and retrospective costs of paying pre-97 indexation (to members whose scheme rules provided for this) to reduce from 31 March 2024 to 31 March 2025.

The reduction in the estimated **prospective cost** from £1.7 billion at 31 March 2024 to £1.2 billion at 31 March 2025 in **Chart 1c** is mainly due to moving the effective date of our calculations from 31 March 2024 to 31 March 2025 (thereby removing the impact of one year of pre-97 indexation), together with the large increase in market yields over the year that has driven down liability values and therefore driven down the costs as they are based on lower liability values.

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

Pension Protection Fund
12 Dingwall Rd, Croydon CR0 2NA
T 0330 123 2222 E information@ppf.co.uk
www.ppf.co.uk

Pension Protection Fund

The reduction in the estimated **retrospective cost** (including arrears) from £5.5 billion at 31 March 2024 to £3.9 billion at 31 March 2025 in **Chart 1d** is mainly due to an enhancement in methodology. The 31 March 2024 retrospective cost was calculated using a methodology based at scheme level, meaning the retrospective period started from the date a pensioner member's scheme entered PPF assessment. For the 31 March 2025 retrospective cost, we have introduced an enhanced methodology using more granular data based on individual pensioners, meaning the retrospective period starts from the later of either retirement date or the date a pensioner member's scheme entered PPF assessment.

In **Table 2a**, we have provided figures that set out the estimated impact of paying pre-97 indexation **to FAS members where we estimate the scheme rules would have provided for this**, with the first increase taking place on 1 January 2027 for prospective changes in pre-97 indexation levels. We have provided the figures at both 31 March 2024 and 31 March 2025. There has been little change in the overall estimated costs for FAS. This is because the costs for FAS have been calculated using the same methodology (with some improvements to the assumptions made) for both years and use Government prescribed discount rates that are based on long term expectations, which haven't changed much over the year.

In **Table 2b**, 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%), with the first increase taking place on 1 January 2027. We've also included the estimated total for years 6-10.

We know that there is also interest in the number of PPF and FAS members who have pre-97 service. We have therefore included a further table, **Table 3**, which provides the membership figures showing the number of male and female pensioners, dependants and deferred members with pre-97 compensation or pre-97 assistance, and members who are estimated to be from schemes where the scheme rules provided for pre-97 indexation.

Finally, 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 2024/25 Annual Report and Accounts shows that a decrease in yields of 1.0 percentage points leads to an increase in liabilities overall of 12.1 per cent. This can be applied to the cost of providing increases to pre-97 pensions to give an approximate impact. For example, the £1.2 billion cost of providing prospective pre-97 pension increases of CPI capped at 2.5% **only to those PPF members whose scheme rules provided for this** would increase to £1.3 billion – £1.4 billion if yields fell by 1 percentage point.

I hope the Committee finds this information helpful and I would be happy to assist with any further questions.

Yours sincerely,

Michelle Ostermann
Chief Executive

Pension Protection Fund

Table 1a: Impact of changes to PPF compensation and indexation for all schemes (as at 31 March 2025)

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 2025 PPF annual valuation	32.2	18.1	178%	14.1	-	-	-
Prospective changes, first increase on 1 January 2027							
(1): Removal of 90% factor for deferred members	32.2	18.7	172%	13.5	0.6	3%	-6%
(2): Prospective pre-97 pension increases of CPI capped at 2.5%	32.2	19.7	163%	12.5	1.6	9%	-15%
(3): Prospective pre-97 and post-97 pension increases of CPI capped at 5%	32.2	21.4	150%	10.8	3.3	18%	-28%
(3a): Prospective pre-97 pension increases of CPI capped at 5%	32.2	20.5	157%	11.7	2.4	13%	-21%
(3b): Prospective post-97 pension increases of CPI capped at 5%	32.2	19.0	169%	13.2	0.9	5%	-9%
(4): (1) and (2) combined	32.2	20.3	159%	11.9	2.2	12%	-19%
(5): (1) and (3) combined	32.2	22.0	146%	10.2	3.9	22%	-32%
Retrospective changes							
(6): Arrears for retrospective pre-97 pension increases of CPI capped at 2.5%	32.2	19.3	167%	12.9	1.2	7%	-11%
(7): Retrospective and prospective pre-97 pension increases of CPI capped at 2.5% excluding arrears	32.2	22.1	146%	10.1	4.0	22%	-32%

Pension Protection Fund

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 (%)
(8): Retrospective and prospective pre-97 pension increases of CPI capped at 2.5% including arrears	32.2	23.3	138%	8.9	5.2	29%	-40%
(9): Arrears for retrospective pre-97 pension increases of CPI capped at 5%	32.2	19.8	163%	12.4	1.7	9%	-15%
(10): Retrospective and prospective pre-97 pension increases of CPI capped at 5% and prospective post-97 pension increases of CPI capped at 5% excluding arrears	32.2	25.2	128%	7.0	7.1	39%	-50%
(11): Retrospective and prospective pre-97 pension increases of CPI capped at 5% and prospective post-97 pension increases of CPI capped at 5% including arrears	32.2	26.9	120%	5.3	8.8	49%	-58%

Notes:

1. The impact of scenario 1 is only for deferred members and would be higher if we also included PPF 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 scenario 4 have been calculated by adding the liability impacts of scenarios 1 and 2. Similarly, the impacts of scenario 5 have been calculated by adding the liability impacts of scenarios 1 and 3.
4. The retrospective impacts assume pre-97 pension increases are applied to pre 97 compensation before tax-free cash has been taken and assume pensioners that have taken tax-free cash will get a higher amount of tax-free cash. The total cost of retrospective and

Pension Protection Fund

prospective pre-97 pension increases of CPI capped at 2.5% including arrears in scenario 8 would fall from £5.2 billion to £4.3 billion if the pre-97 pension increases are instead applied to pre-97 compensation after tax-free cash has been taken.

5. The retrospective impacts have been calculated starting from the later of the retirement date and the date a pensioner member's scheme entered PPF assessment.
6. The impacts in the table above are based on both schemes that have transferred to the PPF and underfunded schemes in PPF assessment. As the impacts don't allow for closed schemes and overfunded schemes in PPF assessment that would become underfunded as a result of changes to PPF compensation levels, the full impact is potentially understated
7. The impacts in the table above are for pensioners and dependants that are alive at 31 March 2025. They do not allow for any payments that would be due to pensioners and dependants that died on or before 31 March 2025.

Table 1b: Impact of changes to pre-97 indexation only for members of PPF schemes that provided for mandatory pre-97 indexation in their scheme rules (as at 31 March 2025)

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 2025 PPF annual valuation	32.2	18.1	178%	14.1	-	-	-
Prospective changes, first increase on 1 January 2027							
(1): Prospective pre-97 pension increases of CPI capped at 2.5%	32.2	19.3	167%	12.9	1.2	7%	-11%
(2): Prospective pre-97 and post 97 pension increases of CPI capped at 5%	32.2	20.9	154%	11.3	2.8	15%	-24%
(2a): Prospective pre-97 pension increases of CPI capped at 5%	32.2	20.0	161%	12.2	1.9	10%	-17%
(2b): Prospective post-97 pension increases of CPI capped at 5%	32.2	19.0	169%	13.2	0.9	5%	-9%

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 (%)
Retrospective changes							
(3) Arrears for retrospective pre-97 pension increases of CPI capped at 2.5%	32.2	19.0	169%	13.2	0.9	5%	-9%
(4) Retrospective and prospective pre-97 pension increases of CPI capped at 2.5% excluding arrears	32.2	21.1	153%	11.1	3.0	17%	-25%
(5) Retrospective and prospective pre-97 pension increases of CPI capped at 2.5% including arrears	32.2	22.0	146%	10.2	3.9	22%	-32%
(6) Arrears for retrospective pre-97 pension increases of CPI capped at 5%	32.2	19.4	166%	12.8	1.3	7%	-12%
(7) Retrospective and prospective pre-97 and post-97 pension increases of CPI capped at 5% and prospective post -97 pension increases of CPI capped at 5% excluding arrears	32.2	23.6	136%	8.6	5.5	30%	-42%
(8) Retrospective and prospective pre-97 pension increases of CPI capped at 5% and prospective post- 97 pension increases of CPI capped at 5% including arrears	32.2	24.9	129%	7.3	6.8	38%	-49%

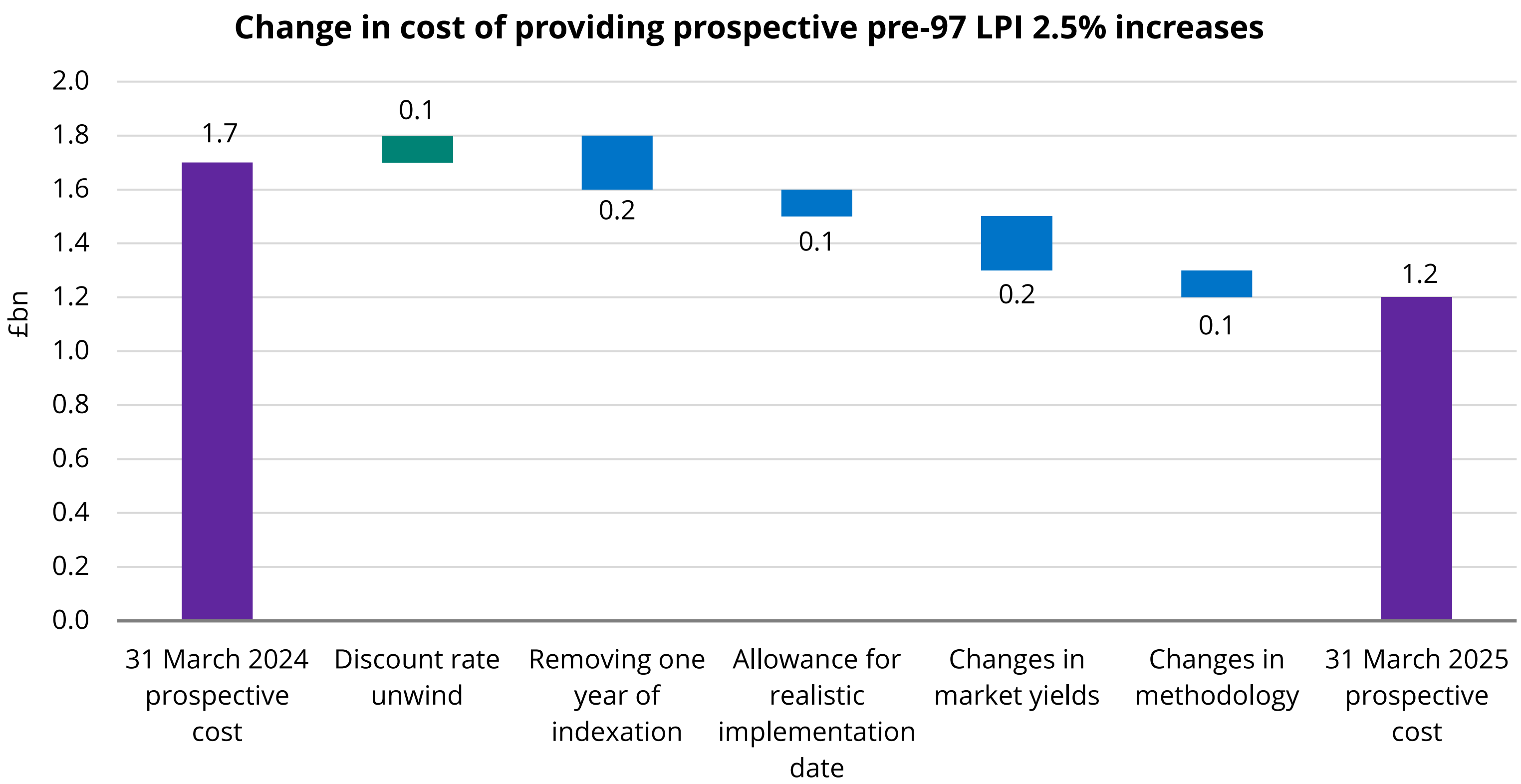
Pension Protection Fund

Notes:

1. The impacts in the table above are based on the c.725 schemes that have transferred to the PPF or are relatively large schemes in PPF 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 c.380 transferred schemes that don't provide for indexation on pre-97 pensions in their scheme rules. The impacts would be smaller if they didn't include increases on post-88 Guaranteed Minimum Pensions for these schemes.
2. The impacts for scenarios 2, 7 and 8 assume that indexation that relates to post-97 service would apply to all schemes given pension scheme legislation requires post-97 indexation to be provided by all schemes.
3. The retrospective impacts assume pre-97 pension increases are applied to pre-97 compensation <u>before tax-free cash has been taken</u> and assume pensioners that have taken tax free cash will get a higher amount of tax-free cash. The cost of retrospective and prospective pre-97 pension increases of CPI capped at 2.5% including arrears in scenario 5 would fall from £3.9 billion to £3.2 billion if the pre-97 pension increases are instead applied to pre-97 compensation <u>after tax-free cash has been taken</u>.
4. The retrospective impacts have been calculated starting from the later of the retirement date and the date a pensioner member's scheme entered PPF assessment.
5. The impacts in the table above are based on both schemes that have transferred to the PPF and underfunded schemes in PPF assessment. The impacts don't allow for closed schemes and overfunded schemes in PPF assessment that would become underfunded as a result of changes to PPF compensation levels.
6. The impacts in the table above are for pensioners and dependants that are alive at 31 March 2025. They do not allow for any payments that would be due to pensioners and dependants that died on or before 31 March 2025.

Pension Protection Fund

Chart 1c: Attribution of change in prospective cost of providing pre-97 LPI 2.5% indexation only for members of PPF schemes that provided for mandatory pre-97 indexation in their scheme rules, first increase on 1 January 2027

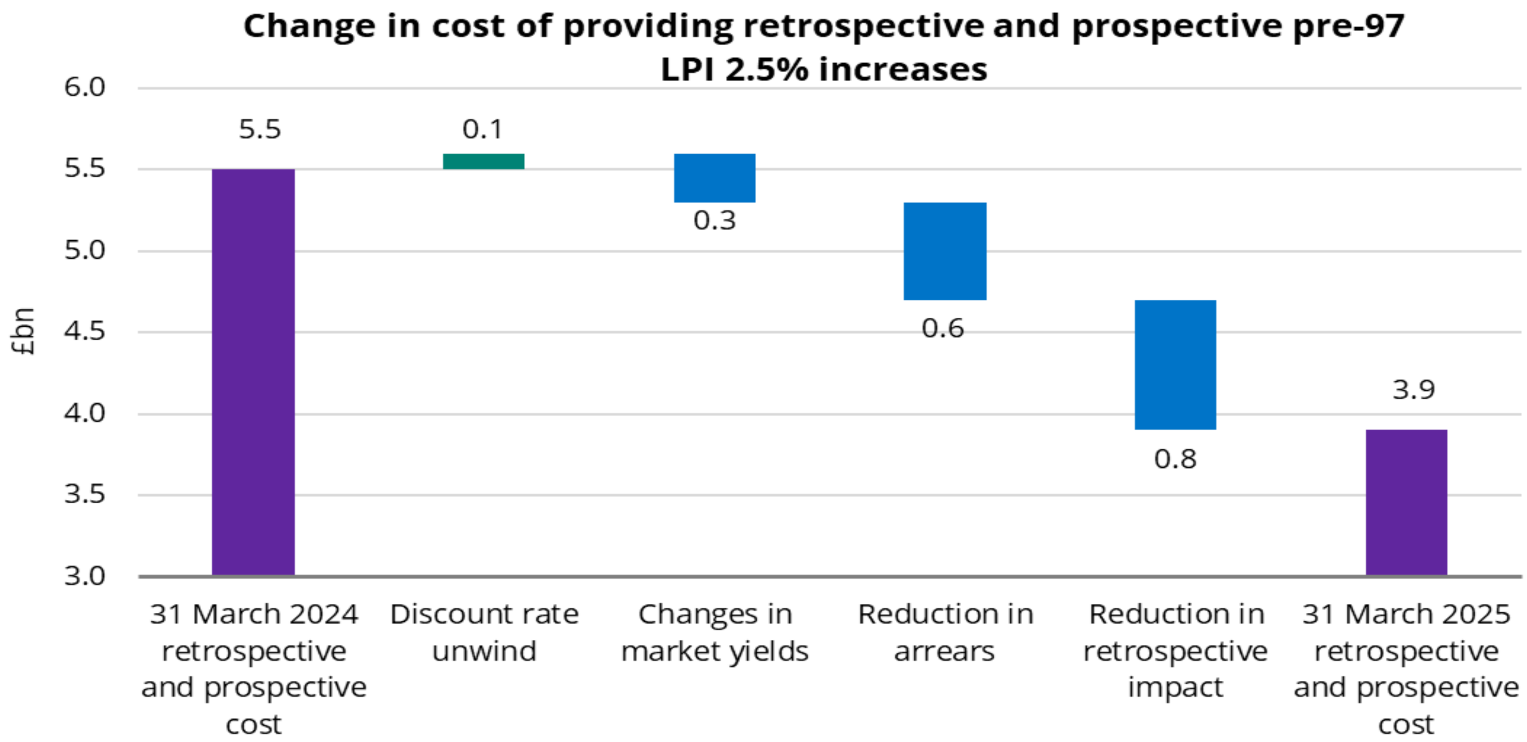


Pension Protection Fund

Below is a description of the changes set out in the chart above:

- **Discount rate unwind** – this is the increase in the cost due to all future pre-97 LPI 2.5% indexed compensation being one year closer to being paid.
- **Removing one year of indexation** – this is the reduction in the cost due to moving the effective date of our calculations from 31 March 2024 to 31 March 2025 (thereby removing the impact of one year of pre-97 indexation).
- **Allowance for realistic implementation date** – this is the reduction in the cost after allowing for a realistic implementation date, thereby removing the impact of one more year of pre-97 indexation so that prospective pre-97 indexation is awarded from 1 January 2027.
- **Changes in market yields** – this is the changes in long term interest rates and inflation rates. Long-term interest rates increased by around 0.8 percentage points over the year, which has reduced liability values and therefore reduced the cost as the cost is based on a lower liability value. Long-term inflation rates fell slightly over the year, which reduced the cost further.
- **Changes in methodology** – this is the use of an enhanced approach to calculate the prospective cost of providing pre-97 LPI 2.5% indexation using individual member data, which has reduced the cost.

Chart 1d: Attribution of change in retrospective and prospective cost of providing pre-97 LPI 2.5% indexation only for members of PPF schemes that provided for mandatory pre-97 indexation in their scheme rules



Below is a description of the changes set out in the chart above:

- **Discount rate unwind** – this is the increase in the cost due to all future pre-97 LPI 2.5% indexed compensation being one year closer to being paid.
- **Changes in market yields** – this is the changes in long-term interest rates and inflation rates. Long-term interest rates increased by around 0.8 percentage points over the year, which has driven down liability values and therefore reduced the cost as the cost is based on a lower liability value. Long-term inflation rates fell slightly over the year, which reduced the cost further.
- **Reduction in arrears** – this is the reduction in arrears as a result of using an enhanced approach to calculate the retrospective cost at 31 March 2025 using individual member data, which results in a smaller difference between total pre-97 compensation with and without

Pension Protection Fund

historical pre-97 LPI 2.5% increases and a shorter time for which the arrears are payable. This is because the enhanced approach for 31 March 2025 calculates the cost from the later of the retirement date and the date a pensioner member's scheme entered PPF assessment. The 31 March 2024 retrospective cost was calculated using aggregate data for each scheme where the retrospective period starts from each scheme's PPF assessment date.

- **Reduction in retrospective and prospective impact** – this is the reduction in the retrospective and prospective impact (excluding arrears) as a result of using an enhanced approach (described in the 'Reduction in arrears' point above) to calculate the retrospective cost at 31 March 2025 using individual member data. This results in a reduction in the future cost of providing retrospective pre-97 LPI 2.5% increases as the difference between total pre-97 compensation with and without historical pre-97 LPI 2.5% increases is smaller.

Pension Protection Fund

Table 2a: Impact of changes to pre-97 indexation only for members of FAS schemes that provided for mandatory pre-97 indexation in their scheme rules

Scenario	31 March 2024 increase in liabilities (£bn)	31 March 2025 increase in liabilities (£bn) first increase on 1 January 2027
Prospective pre-97 pension increases of CPI capped at 2.5%	0.4 – 0.7	0.3 – 0.6

Notes:

1. The discount rate and inflation assumptions are different for the 2024 and 2025 figures, and are based on the assumptions adopted for the FAS cashflow forecast.
2. The impacts in the table above assume that 80% of future FAS cash flows relate to pre-97 assistance.
3. Reliable data relating to which FAS schemes provided pre-97 indexation is not available. Therefore, the estimated impacts in the table above are necessarily based on a high-level global estimate. For the 2024 figures we assumed 90% of total pre-97 assistance was in respect of members of FAS schemes that provided for pre-97 indexation in their scheme rules. For the 2025 figures, we have refined this assumption to 75% of pre-97 assistance is in respect of members of FAS schemes that provided for pre-97 indexation in their scheme rules, including where only the Guaranteed Minimum Pension increased.
4. The impact is shown as a range instead of a single figure to allow for deviations from the global assumptions used in the calculations stated in the first two notes above.

Pension Protection Fund

Table 2b: Estimated annual costs of prospectively changing the pension increases on FAS assistance (as at 31 March 2025), first increase on 1 January 2027

Scenario	Year 1 (2025/26) (£m)	Year 2 (£m)	Year 3 (£m)	Year 4 (£m)	Year 5 (£m)	Years 6-10 (£m)
Pre-97 assistance at CPI max 2.5% p.a.	0	0.9	3.8	6.5	8.5	69.5
Post 97 assistance at CPI max 5% p.a.	0	0.2	0.7	1.1	1.3	10.8

Pension Protection Fund

Table 3: Membership figures (as at 31 March 2025)

Scenario	Male pensioners ('000s)	Male dependants ('000s)	Male deferreds ('000s)	Female pensioners ('000s)	Female dependants ('000s)	Female deferreds ('000s)	Total ('000s)
PPF members	125	4	59	48	32	33	301
PPF members with some pre-97 compensation	106	4	34	39	30	17	230
PPF members with some pre-97 compensation where their former schemes provided mandatory pre-97 indexation	78	2	25	27	20	13	165
FAS members	55	1	31	18	12	13	130
FAS members with some pre-97 assistance	51	1	25	16	12	11	116
Estimated FAS members with some pre-97 assistance where their former schemes provided mandatory pre-97 indexation	38	1	22	12	9	9	91

Notes:

1. The membership figures in the table above represent the number of member records and are consistent with how membership figures are calculated for the PPF's Annual Report and Accounts (Actuarial reports section) and the PPF report on the forecast of FAS assistance expenditure provided to DWP for the purposes of calculating a liability figure for inclusion in DWP statutory accounts. For example, this means a pensioner who is also a dependant of a pensioner that has died would count as two members in these membership figures.
2. The membership figures in the table above exclude members with post-88 Guaranteed Minimum Pensions where their former schemes did not provide mandatory pre-97 indexation but have Guaranteed Minimum Pensions.
3. The PPF membership figures are only for schemes that have transferred to the PPF, so they don't include members of schemes in PPF assessment.
4. For FAS membership figures, reliable data relating to which FAS schemes provided pre-97 indexation is not available. The estimated number of FAS members with some pre-97 assistance where their former scheme provided mandatory pre-97 indexation is therefore necessarily based on a high-level global estimate (we have assumed 70%).

Pension Protection Fund

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 / FAS assistance is expected to be paid in the future to members based on current PPF compensation / FAS assistance levels and the PPF compensation / FAS assistance 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 and the PPF compensation that is expected to be paid in the future if the members received higher pension increases **in the past.**

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.