

General information on PPF Factors

General principles

Types of PPF Factor

There are six types of factor needed to administer the PPF, as well as for use in section 179 (levy) and section 143 (PPF entry) valuations:

- Compensation cap factors at each retirement age, to adjust the compensation cap at age 65, which is provided by DWP each year.
- Commutation factors to calculate the one-off cash lump sum that can be paid in return for giving up an amount of annual compensation.
- Factors to convert stand-alone lump sums into equivalent annual compensation amounts, for comparison against the compensation cap.
- Early retirement factors to reduce annual compensation and lump sum entitlements, if taken early.
- Late retirement factors to increase annual compensation and lump sum entitlements, if taken late.
- Step-down factors to convert temporary compensation into the equivalent lifetime compensation.

Actuarial Basis

The Pensions Act 2004 requires the Board to set its factors based on actuarial equivalence. For this reason, our factors are intended to be broadly cost-neutral when derived based on the assumptions used for the annual valuation of the Fund.

These assumptions are set out in our annual report and accounts, and the latest published copy is available on the PPF Website. At the time of writing, this can be found here:

<https://www.ppf.co.uk/annual-report>

At a high level, the discount rate is a term-dependent rate based on the concept of a portfolio of risk-free assets that replicates the compensation paid by the Fund. We consider the risk-free rate to be a mixture of interest rate swaps less 15 basis points (25 per cent weighting), and government bonds (75 per cent weighting). The mortality assumptions are based on curves provided to us by Club Vita and calibrated to the PPF's membership, together with CMI longevity improvements.

Frequency of Review

We carry out a full review of the factors annually, but we also monitor market movements on a monthly basis.

If we believe that the impact of market movements is significant, we carry out a full review part way through the year.

Note that we only update the factors if the review shows that the updated factors are materially different from those that are currently in force.

Compensation Cap factors

The Board produces a single set of compensation cap factors.

The compensation cap at age 65 is reviewed by DWP annually, and the new cap comes into effect on 1 April each year. The PPF produces factors to adjust that cap to be appropriate for other ages.

The compensation cap is used to determine the level of compensation payable by the PPF to individuals at each age. Paragraph 26 of Schedule 7 of the Pensions Act 2004 sets out the circumstances in which the compensation cap applies. Paragraph 27 of Schedule 7 of the Pensions Act 2004 sets out how and when the compensation cap should be increased.

The current factors assume that 55% of compensation is in respect of pre 6 April 1997 service and 45% of compensation is in respect of service during the period from 6 April 1997 to 5 April 2009. The factors are calculated on a unisex basis and it is assumed that 85% of male members and 75% of female members have a relevant partner.

The factors currently in force were calculated on the assumptions used for the PPF's 2018 annual valuation and using market conditions as at 30 November 2018.

Commutation factors

The Board produces four sets of commutation factors.

Different factors are produced in respect of pre 6 April 1997 PPF compensation (which receives no increases in payment) and post 5 April 1997 PPF compensation (which receives increases in payment in line with CPI, subject to a maximum of 2.5%).

In addition, separate factors are produced to reflect the different provisions for compensation payable to survivors after a member has passed away: no survivor's compensation payable, or 50% survivor's compensation payable. This is determined based on the provision for pension payable to dependants as set out in the rules of the scheme prior to it entering the PPF.

It should be noted that if a member elects to commute annual compensation for a one-off cash lump sum, they will be commuting both their own compensation and the 50% attaching survivor's compensation, if applicable.

The commutation factors are calculated on a unisex basis and assume 50% of members are male and 50% are female. The factors assume that, where the survivor's compensation is also commuted, 85% of male members and 70% of female members have a relevant partner.

The factors currently in force were published in July 2019, calculated on the assumptions used for the PPF's 2019 annual valuation and using market conditions as at 31 March 2019.

Annual equivalent of lump sum factors

Schemes that provide a lump sum benefit (other than by way of commutation) need to convert this into an equivalent annual pension for comparison against the PPF compensation cap. These factors are the inverse of the commutation factors.

The Board produces two sets of lump sum conversion factors, one for pre 6 April 1997 PPF compensation and one for post 6 April 1997 PPF compensation, both based on a 50% survivor's compensation being payable.

Early Retirement factors

The Board produces a single set of factors for reducing compensation on early retirement.

The current factors assume that 55% of compensation is in respect of pre 6 April 1997 service and 45% of compensation is in respect of service during the period from 6 April 1997 to 5 April 2009. This broadly reflects the pensionable service breakdown of the deferred pensioners within the PPF who will be eligible to take early retirement over the next year; that is, currently aged 55 or over.

As with the commutation factors, the early retirement factors are calculated on a unisex basis and assume 50% of members are male and 50% female. The factors assume that 85% of male members and 70% of female members have a relevant partner.

Early retirement factors are subject to a cap of 100% of a member's compensation at retirement (i.e. members will not be entitled to receive an uplift to compensation due to retiring early).

The factors currently in force were published in July 2019, calculated on the assumptions used for the PPF's 2019 annual valuation and using market conditions as at 31 March 2019.

Late Retirement factors

The option to postpone retirement, in specific circumstances, was introduced by the PPF Miscellaneous Amendment Regulations 2013.

The Board produces two sets of late retirement factors, one in respect of pre 6 April 1997 PPF compensation (which receives no increases in payment) and the other in respect of post 5 April 1997 PPF compensation (which receives increases in payment in line with CPI, subject to a maximum of 2.5%).

The factors are calculated on a unisex basis and use the same assumptions for relevant partners as the commutation and early retirement factors.

The factors currently in force were published in July 2019, calculated on the assumptions used for the PPF's 2019 annual valuation and using market conditions as at 31 March 2019.

Step-down factors

The Board produces two types of step-down factor for use with annual compensation that is paid for a temporary period rather than for the life of the member.

Lifetime equivalent step-down factors are used to convert temporary compensation into lifetime compensation, using the principle of actuarial equivalence. There are separate tables for pre 6 April 1997 and post 5 April 1997 compensation.

This is required to test against the compensation cap, which is set in the context of lifetime compensation. Additionally, if a member chooses to commute temporary annual compensation for a lump sum payment, the lifetime equivalent value of that temporary annual compensation will be required so that the commutation factors can be applied.

The early retirement step-down factors are used for reducing temporary compensation on early retirement. It is assumed that all compensation is from pre 6 April 1997 service.

The factors are calculated on a unisex basis, and it is assumed that 85% of male members and 75% of female members have a relevant partner.

The factors currently in force were published in July 2019, calculated on the assumptions used for the PPF's 2019 annual valuation and using market conditions as at 31 March 2019.