Pension Protection Fund (PPF)

Overview The Pension Protection Fund (PPF) is run by an independent board established in April 2005 and is supported by, but not funded by, the Government.

Its purpose is to pay compensation to members of eligible defined benefit (Final Salary) pension schemes, whose employers have failed in the funding of the scheme and do not have sufficient assets to make the contracted pay-outs to its members. In 2016 much news was made in relation to the failure and demise of BHS and the furore over who was responsible for the failure to fund the pension scheme adequately.

The PPF is funded through a compulsory levy paid by eligible firms who have a final salary pension scheme, which is around 7,500 throughout the UK.
When a distressed firm approaches the PPF with problems, the company enters an assessment period, where the PPF looks to establish if a scheme is eligible for PPF compensation.

The scheme will withdraw from the PPF assessment process if it is rescued, but if the PPF takes on responsibility for a scheme, it will pay compensation to scheme members.

What will scheme members get? When a fund enters the PPF, anyone in it who is still working and under retirement age stops accruing benefits. The value of their pension at the point when the company goes bust will still increase with inflation.

At retirement, the value of their pension is capped at the level for the scheme's retirement age. They will receive 90% of either the actual annual value of the pension, or 90% of the level for their age, whichever is lower. The cap levels are regularly revised.

Example 1 - Mr A is a 55yr-old employee with a pension currently worth £37,000pa. He wants to retire at age 60, his scheme's normal retirement age. The cap at that age is £31,439. So, he will probably be capped at 90% of £31,439, meaning a payment £28,295pa from the PPF. This cap may revised each year in line with earnings, but if the employee's pension is less than the cap, they are not affected.

Example 2 - Mr B, 55yr-old employee, has a pension worth £15,000 a year. At retirement at age 60, he will be below the cap and will receive 90% of whatever his pension value at that time, so at least £13,500pa.

What about people who are already retired?
Anyone who is retired and over the scheme's normal retirement age will not be capped, and will continue to receive the same income. However, only the part of their pension which was accrued after April 5 1997 will be index-linked, up to a max of 2.5%, so those who did all or most of their work before that will lose some income due to inflation as time goes on.

Example 3 - Mrs C is a 64yr-old who retired four years ago at the scheme's normal pension age. She draws a pension of £45,000 a year. She will not be capped, because she is past the scheme's normal pension age. But only her earnings since 1997 will be index-linked – so any part of her pension earned before that will not rise in line with inflation.
Anyone who retired early, and is still under the scheme's normal retirement age, can still be capped. They will be capped at the level for the age they are when the scheme goes into the PPF.

Example 4 - Ms D is 59. She retired at age 55 with a pension worth £40,000 a year. She will be capped at 90% of the level for 59-year-olds – so her income will go down to £28,270 a year.

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