



PPF and FAS compensation increases

The PPF is paying compensation to about 180,000 members (with about 108,000 further members waiting to receive compensation in the future). The average amount of compensation is a little under £5,000 a year.

There are about 79,000 people receiving compensation under the FAS (with about 67,000 waiting to receive compensation). Average FAS compensation is around £1,500 a year.

The PPF is financially strong. Its reserves are close to what are needed to meet its funding objectives. It has proposed reducing the levy charged to scheme sponsors by nearly 50% (a reduction of £190 million). (FAS compensation is paid out of taxation.) So, levy payers are benefiting from the PPF's strong financial position, but members are not.

PPF / FAS compensation is less than the benefits members originally accrued. A number of reductions are applied. One is to the way that compensation increases while in payment.

The relevant legislation provides for different increases for compensation relating to pension accrued before April 1997 and pension accrued after 1997.

Generally, compensation in relation to pension accrued before April 1997 is not increased at all and compensation in relation to pension accrued after April 1997 is increased in line with inflation (as measured by CPI) up to a maximum of 2.5%.

Where there is an increase, this is applied on 1 January based on the increase in CPI in the 12 months to the previous May (9.1% this year). So real incomes will fall for PPF / FAS members next year (by up to 9.1%).

The argument for not having any increase for pre-'97 accruals is that there was no statutory requirement for schemes to increase pensions in payment before then. But, in practice, the vast majority of members were in schemes that gave increases for pre-'97 accruals (some gave full inflation with no cap). It seems perverse to take away all indexation rights from everyone, when a more targeted approach is obviously possible.

Over 80,000 PPF members (and a higher proportion of FAS members) will get no increase on their compensation at all in January.

The legislation governing increases for post-'97 accruals in the PPF (but not FAS) gives the Board of the PPF discretion to apply another rate of increase instead of CPI (capped at 2.5%). Many members who get some increase on their compensation will still get less than the 2.5% cap due to having some accruals pre-'97.

This level of reduction in the real compensation paid to PPF / FAS members will cause great hardship. The PPF has sufficient funds to pay its members more, the government could choose to improve FAS benefits.

Changes to legislation are required to give increases to pre-'97 accruals or more than 2.5% to post-'97 benefits paid by FAS. The Board of the PPF has the discretion (but does not appear to be using it) to pay higher increases in relation to post-'97 benefits to its members.