### Lack of indexation of PPF compensation for pre-97 service

* Providing some inflation protection for PPF compensation in respect of pre-97 service would address cost-of-living pressures for c.300,000 members, and remove unfair gender and age discrimination in the current rules. This could be funded through the PPF’s existing surplus without recourse to taxpayers or the businesses and other organisations that pay the PPF levy.

The PPF is a statutory lifeboat for members of defined benefit pension schemes that were sponsored by employers who became insolvent and where there were not enough assets to pay all the benefits due. It is partly funded by a levy on sponsoring employers.

The PPF does not cover the value of all the benefits built up in the defined benefit scheme.

Scheme members over Normal Pension Age, or already in receipt of a survivor or ill-health pension, receive 100% of the benefit. Members under Normal Pension Age, including those already receiving pension, are generally entitled to 90% of the level of accrued benefit.

Compensation in relation to pensionable service after 6 April 1997 is increased every year in line with inflation (measured by CPI), subject to a maximum of 2.5%. Compensation in relation to pensionable service before 6 April 1997 does not attract any increase.

This very poor level of inflation protection (increases between 0% and 2.5%, depending on the proportion of service accrued before or after April 1997) has caused huge difficulties for members at a time when inflation has been significantly higher for a prolonged period.

The lack of any indexation for service before April 1997 is unfair and discriminatory (data from a FOI request shows that it disproportionately affects women and older members).

As at 31 March 2023, the PPF held £32.5 billion in assets, which was £12.2 billion above its estimated liabilities (ie the scheme was 156% funded).

The improved funding level has enabled the PPF to significantly reduce the levy paid by sponsoring employers in recent years (from £630m in 2020/21 to £200m in 2023/24).

The c.300k PPF members should also share these benefits. The PPF estimates that equalising inflation protection for pre-97 and post-97 accruals going forward (ie no back payment) would increase estimated liabilities by £2.6 billion (reducing funding to 139%).

This would still be a very healthy level of funding that would enable the PPF to further reduce the levy in future years (subject to the other legislative changes it needs to do this).

The Chief Executive of the PPF told the Work and Pensions committee that “there is a good case, on equity grounds” for the introduction of indexation on savings from pre-1997 contributions. The new Pensions Minister told the same committee that he has commissioned work to investigate this issue, following meetings with members affected.

Improving PPF compensation may result in pressure to make equivalent changes to the FAS (which is funded by taxpayers), but there are fewer members of the FAS and the estimated cost would be negligible (ie <£10 million per annum over the next Parliament).