



Torsten Bell MP
Minister for Pensions
Caxton House
Tothill Street
London
SW1H 9NA
(via email)

28th February 2025

Dear Torsten,

Indexation of PPF / FAS compensation

Firstly, can I offer you my very sincere congratulations on your recent appointment as Minister for Pensions.

I am writing about the level of compensation payable to members of the Pension Protection Fund (PPF) and the Financial Assistance Scheme (FAS).

Recent correspondence¹ from the Secretary of State to the Chair of the Work and Pensions Committee suggests that you will be writing to the committee about this shortly.

The indexation of pre-1997 rights in the PPF and FAS is a crucial matter for many Prospect members, and I would like to raise some points about this with you on their behalf.

Our evidence² to the Work and Pensions Committee's inquiry in 2023 explained the impact that the lack of indexation is having on Prospect members.

The submission focussed on:

- (1) The impact of the lack of indexation of compensation for pension accrued before April 1997 and the hardship this had caused PPF and FAS members, particularly during recent periods of very high inflation (especially for those whose entire compensation related to this period, whose income was effectively frozen).
- (2) PPF data demonstrating that women and older members were disproportionately impacted by this issue, and the requirement for the Committee (and government) to have due regard to the need to minimise the disadvantages experienced by these groups of members.
- (3) The enormous strength of the PPF's funding position and its ability to take measures to improve the indexation of compensation in respect of pre-April '97

¹ committees.parliament.uk/publications/46449/documents/235366/default/

² committees.parliament.uk/writtenevidence/120560/pdf/

accruals, while also taking the steps needed for it to ultimately eliminate the PPF levy.

In her recent letter³ to you, the Chair of the select committee argued that the original justification for the lack of indexation, to limit costs to levy payers, no longer applied.

I strongly agree with this case and would argue that recent developments arising from the consultation on the 2025/26 levy rules only emphasise this point.

It is important to acknowledge that the main reason it is possible to make this case is due to the stellar performance of the PPF.

The very successful stewardship of the PPF's funds can be observed from the financial results reported in successive annual reports.

But our members who are in the PPF also comment on the quality of the communications they receive, and the level of service delivered by administrative staff.

The PPF's latest annual report⁴ showed that its reserves had increased to £13.2 billion by 31 March 2024, a funding ratio of 166.5%.

This level of funding has allowed the PPF Board to consider reducing the PPF levy to zero (as set out in the consultation document⁵ for the 2025/26 levy rules).

The main barrier to reducing the levy to zero has been the statutory limit on increases to the levy, and the risk that the Board would be unable to propose future increases if needed.

The outcome⁶ of the consultation on the levy referenced discussions with government about potential statutory changes.

These discussions enabled a reduction in the proposed levy (from £100 million to £45 million) and a new provision in the rules that would allow the Board to calculate a zero levy.

This reduction in costs for scheme sponsors is welcome. It is right that the levy be set at zero (in current circumstances) as soon as possible.

But it is crucial that PPF and FAS members also share some of the benefits of the fund's very strong funding position.

There are statutory provisions that prevent the PPF Board from addressing the rules that have the most detrimental (and discriminatory) impact on members.

In particular, the Board has no powers to apply any indexation at all in respect of pre-1997 rights. This disproportionately affects female and older members.

The PPF Chair stated that the Board would "welcome further government consideration of PPF and FAS indexation rules".

It would be very unfair, and unbalanced, if the statutory provisions that prevent the Board from indexing pre-1997 rights were not addressed at the same time as the levy rules.

Correspondence⁷ between the PPF and the select committee revealed that equalising indexation rules for pre- and post-1997 rights would increase liabilities by £1.7 billion.

³ committees.parliament.uk/publications/46629/documents/238493/default/

⁴ [Annual Report and Accounts 2023/24](#)

⁵ [Levy consultation document 2526](#)

⁶ [PPF welcomes government signal on levy changes | Pension Protection Fund](#)

⁷ [Response to the Chair of the Work and Pensions Select Committee](#)

While this is a significant amount, it would still leave the funding level at 153% (from 167%). It would have a positive exchequer impact as increases in compensation would be taxable.

There would be no direct cost to the Exchequer in respect of PPF members, indeed the increased tax payable by them would more than offset any direct cost incurred in respect of the FAS.

The PPF estimates that increasing pre-1997 FAS benefits, capped at 2.5%, would only cost £3 million in year one, rising to £13 million by year five.

These amounts are far less than the additional yield from improving compensation for PPF members.

You do not control the Parliamentary timetable, but members would greatly appreciate if the expected Pension Schemes Bill addressed this issue in time to affect the increase that is applied to compensation from 1 January 2026.

I would also urge you to frame any amendments to the Pensions Act 2004 so as to give the PPF Board the flexibility to allow for future funding levels in a way that balanced the interests of all stakeholders.

Tens of thousands of pensioners are affected by the lack of indexation of pre-1997 rights, they are looking to you to take the action needed to ease the significant reductions in their real incomes in recent years and the resulting unfairness this has caused.

Please let me know if you or your officials have any questions about the points I have made about this.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'S' followed by a long horizontal stroke that curves upwards at the end.

Steve Thomas

Deputy General Secretary