

General information on PPF Factors for Commutation, Early Retirement and Late Retirement

General principles

Underlying assumptions

There are five types of factor needed to administer the PPF and for the use in section 179 (levy) and section 143 (PPF entry) valuations. These factors are for the compensation cap, the commutation of compensation, for converting a lump sum into pension equivalent and for early and late retirement. The Pensions Act 2004 requires the Board to set its factors based on actuarial equivalence

Our factors are intended to be broadly cost-neutral measured on the assumptions used to calculate the actuarial liabilities for the PPF's annual valuation. These are set out in our annual report and accounts but 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 payments paid by the fund. Here we consider risk-free to be the higher yielding of interest rate swaps less 15 basis points and government bonds. The mortality assumptions are based upon curves provided to us by Club Vita and calibrated to the PPF's membership, and CMI longevity improvements.

Frequency of review

The Board carries out a full annual review of factors but also monitors market movements on a monthly basis. Where the PPF believes that the impact of market movements is significant, new factors will be issued.

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 survivor's compensation payable – no survivor's compensation payable; and 50% survivor's compensation payable. This is determined based on the provision for dependant's pension as set out in the scheme rules prior to the scheme entering the PPF. It should be noted that members commute both their own compensation and the 50% attaching survivor's compensation, if applicable.

The factors currently in force were last updated on 1 April 2015. These factors were calculated on the assumptions used for the PPF's annual valuation using prevailing market conditions. Factors are calculated on a unisex basis and assume 50% of members are male and 50% female. The factors assume that, where the survivor's compensation is also commuted, 90% of males and 80% of female members have a relevant partner.

Annual equivalent of lump sum factors

Schemes that provide a lump sum benefit other than by way of commutation need this to be converted into a pension equivalent for the purpose of comparing with the compensation cap. These lump sum conversion factors are in effect the commutation factors "in reverse".

Early Retirement factors

The Board produces a single set of factors calculated on a unisex basis. The assumptions for the profile of the PPF membership and relevant partners are the same as those adopted for commutation factors.

The current factors assume that 65% of compensation is in respect of pre 6 April 1997 service and 35% of compensation is in respect of the period 6 April 1997 to 5 April 2009. This broadly reflects the pensionable service breakdown of the PPF membership.

It does not matter whether the member is entitled to survivor's compensation or not.

Early retirement factors are subject to a cap of 100% of 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 use were last updated on 1 April 2015.

Late Retirement factors

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

The Board has produced two separate 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%).

It does not matter whether the member is entitled to survivor's compensation or not.

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