

Guidance in respect of revaluation of Pension Protection Fund (PPF) compensation

This document is intended to provide guidance about revaluation to trustees of schemes in the assessment period. It is not intended to provide an overview of every aspect of the relevant legislation. Trustees should seek their own legal and/or actuarial advice where necessary.

During the assessment period, benefits payable to or in respect of members under the scheme rules must be reduced to the extent necessary to ensure that they do not exceed PPF compensation levels.

1. How does the assessment period affect the revaluation of a member's benefit?

Revaluation for the period between the day after pensionable service ended and the day before the assessment date is calculated in line with a scheme's admissible rules. Revaluation for the period from the assessment date until normal pension age (NPA) or early payment is calculated in line with the statutory levels of PPF compensation.

2. PPF Revaluation

Legislation changing the provisions in relation to the revaluation of PPF compensation came into force on 31 March 2011. This means that revaluation for periods on and after 31 March 2011 will be calculated in line with the ¹Consumer Price Index (CPI) instead of the Retail Prices Index (RPI) (capped at 5% for service prior to 6 April 2009 and 2.5% for service from and including 6 April 2009 (the "Relevant Caps")).

If the entire PPF revaluation period falls before 31 March 2011, revaluation will still be in line with RPI, subject to the Relevant Caps. Similarly, where part of the PPF revaluation period falls before 31 March 2011, revaluation for that part will still be in line with the RPI (subject to the Relevant Caps).

Please refer to Schedule 7 to the Pensions Act 2004, Schedule 5 to the Pensions Act 2008 and the Pension Protection Fund (Compensation) Regulations 2005 as amended by the Pension Protection Fund (Revaluation Amendments) Regulations 2011.

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Please note that the legislation introduced on 31 March 2011 refers to the general level of prices in Great Britain determined in such a manner as the Secretary of State may from time to time decide. The general level of prices is the Consumer Price Index (CPI). If this were to change in the future, this guidance document would also be subject to change.

3. Who is eligible to receive PPF revaluation?

Revaluation will apply to:

3.1 Active members

For members who were in active service and below NPA immediately before the assessment date, revaluation is calculated using the PPF rules in respect of the period between the assessment date and the day before NPA or early payment.

Please see below in relation to members of Career Average Revalued Earnings (CARE) schemes.

3.2 Deferred Members

For members who were not in active service but had a benefit entitlement not yet in payment and were below NPA immediately before the assessment date, revaluation is divided into two revaluation periods:

- First revaluation period:
 - from the day after the member's pensionable service ended;
 - to the day before the assessment date.

The revaluation amount for the first revaluation period is calculated in accordance with the scheme's admissible rules.

- Second revaluation period:
 - from the assessment date;
 - to the day before the member reaches NPA or the date of early payment.

The revaluation amount for the second revaluation period is calculated in accordance with PPF rules.

4. Who is not eligible to receive revaluation?

4.1 Pension Credit Members

Under the current legislation pension credit members are not eligible to receive revaluation. The Pensions Act 2008 makes provision for revaluation for pension credit members but this provision is not yet in force. The Pensions Act 2011 includes amendments to the provision made in 2008.

4.2 Scheme revaluation

Where, immediately before the assessment date, the admissible rules do not provide for any revaluation of the benefits payable to or in respect of any member, then revaluation will not be applied under PPF legislation.

4.3 Active and over NPA

Members who were active and over NPA immediately before the assessment date will not receive revaluation. Please refer to paragraph 8 of schedule 7 to the Pensions Act 2004 in respect of the compensation entitlements for these members.

5. How to calculate revaluation for deferred members:

Step 1	multiply the accrued amount at date of leaving active service by the 1st revaluation factor to produce the 1st period revaluation amount.
Step 2	add the accrued amount to the 1st period revaluation amount to produce the 2nd period amount.
Step 3	multiply the 2nd period amount by the 2nd revaluation factor to produce the 2nd period revaluation amount.
Step 4	add the 2 nd period amount to the 2 nd period revaluation amount to produce the final amount.

The following example illustrates the principle:

Example

Calculating the revaluation for a deferred member

- 1st period revaluation factor = 25%
- 2nd period revaluation factor = 50%
- accrued amount = £120

The above figures are for illustration purposes only.

Applying the step-by-step guidance to the example figures:

Step 1	Multiply the accrued amount by the 1 st period revaluation factor to produce the 1st period revaluation amount: $£120 \times 25\% = 1\text{st period revaluation amount} = £30$
Step 2	Add the accrued amount to the 1st period revaluation amount to produce the 2nd period amount: $£120 + £30 = 2\text{nd period amount} = £150$
Step 3	Multiply the 2nd period amount by the 2nd period revaluation factor to produce the 2nd period revaluation amount: $£150 \times 50\% = 2\text{nd period revaluation amount} = £75$
Step 4	Add the 2 nd period amount to the 2 nd period revaluation amount to produce the final amount:

	£150 + £75 = final amount = £225
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6. How is the revaluation factor calculated?

The PPF uses the published inflation factors to calculate the revaluation factor post assessment date. The formula for the determination of the percentage increase in the general level of prices in Great Britain during the revaluation period is:

- $100 \times (A/B) - 100$

6.1 Where the entire revaluation period falls before 31 March 2011:

A: is the level of the RPI for the *relevant month before the member attains NPA or becomes entitled to compensation under schedule 7 to the Pensions Act 2004.

B: is the level of the RPI index for the *relevant month prior to which the assessment date falls.

*Broadly, the relevant month is the month which falls two complete months before the month during which the member attains NPA or the month during which the assessment date falls (as appropriate), or equivalently **three months prior to each date**.

The exception to this is for periods that start or end in March 2011, when the month used is January 2011 as this is specified in the regulations (see examples 3.2 and 7.2).

6.2 Where part of the revaluation period falls before 31 March 2011 and part after 31 March 2011:

For the period before 31 March 2011:

A: is the level of RPI for January 2011; and

B: is the level of the RPI for the *relevant month prior to which the assessment date falls.

For the period which begins on 31 March 2011:

A: is the level of the CPI for the *relevant month prior to which the member attains NPA/early payment; and

B: is the level of CPI for January 2011.

6.3 Where the entire revaluation period falls after 31 March 2011:

A: is the level of the CPI for the *relevant month before the member attains NPA or becomes entitled to compensation under schedule 7 to the Pensions Act 2004; and

B: is the level of the CPI for the *relevant month prior to which the assessment date falls.

7. Examples

There are three examples in this section to demonstrate how revaluation is applied. For illustrative purposes, we have not split the compensation shown at the assessment date by service periods.

7.1 Example (using a revaluation period that falls entirely before 31 March 2011 and it is assumed that the revaluation amount for the first revaluation period has been calculated). The inflation indices below have been taken from the published tables:

NPA: 15/03/2011

Assessment date: 22/10/2007

Compensation as at the assessment date: £5000 i.e. accrued amount plus 1st period revaluation amount.

A would be RPI for December 2010: 228.4

B would be RPI for July 2007: 206.1

Step 1	Divide A by B, $228.4/206.1 = 1.108200$ Revaluation factor: $100 \times 1.108200 - 100 = 10.82\%$
Step 2	Check against the revaluation cap (5% pa for pre April 09 service). The cap is applied against years and months. In this example the years and months since the assessment date is 3 years 4 months. $= 1.05^{(3+(4/12))}$ $= 1.176606$ Revaluation cap factor: $100 \times 1.176606 - 100 = 17.6606\%$ The revaluation factor is lower than PPF revaluation cap, therefore the revaluation factor to apply will be 10.82%.

Apply the revaluation factor by following steps 3 and 4 under point 3.4. To illustrate this would be applied as follows:

Step 3	$£5000 \times 10.82\% = £541$
Step 4	$£5000 + £541 = £5541$

How did the change from RPI to CPI affect how revaluation is applied?

As mentioned above, legislation came into force on 31 March 2011 which means that revaluation for periods on and after 31 March will be calculated in line with the CPI instead of the RPI (subject to the Relevant Caps).

The examples below illustrate how to apply revaluation where part of the revaluation period fell before 31 March 2011 and also where the whole period fell on/after 31 March 2011.

7.2 Example (using a revaluation period where part falls before and part after 31 March 2011 and it is assumed that the revaluation amount for the first revaluation period has been calculated):

NPA: 15/06/2011

Assessment date: 10/07/2008

Compensation at assessment date: £5000

Revaluation period before 31 March 2011

Pre 31/03/2011 period (assessment date)

A would be RPI for January 2011: 229.0

B would be RPI for April 2008: 214.0

Revaluation period beginning on 31 March 2011

Post 31/03/2011 period (retirement date)

A would be the CPI for March 2011: 118.1

B would be CPI for January 2011: 116.9

Step 1	<p>Divide A by B</p> <p>Pre 31/03/2011 (assessment date)</p> <p>= A/B: $229/214$</p> <p>= 1.070093</p> <p>Post 31/03/2011 period (retirement date)</p> <p>= A/B: $118.1/116.9$</p> <p>= 1.010265</p> <p>The factors are combined to give the revaluation factor.</p> <p>= 1.070093×1.010265</p> <p>= 1.081078</p>
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	Revaluation factor: $100 \times 1.081078 - 100 = 8.1078\%$
Step 2	<p>Check against the revaluation cap (5% pa for pre April 09 service). The cap is applied against years and months. In this example the years and months since the assessment date is 2 years 11 months.</p> <p>$= 1.05^{(2 + (11/12))}$ $= 1.152928$</p> <p>Revaluation cap factor: $100 \times 1.152928 - 100 = 15.29\%$</p> <p>The revaluation factor is lower than PPF revaluation cap, therefore the revaluation factor to apply will be 8.1078%.</p>

Apply the revaluation factor by following steps 3 and 4 under point 3.4. To illustrate this would be applied as follows:

Step 3	$£5000 \times 8.1078\% = £405.39$
Step 4	$£5000 + £405.39 = £5405.39$

7.3 Example (where the whole revaluation factor falls after 31 March 2011 and it is assumed that revaluation for the first revaluation period has been calculated and that the member only has pre 6 April 2009 service).

Assessment date: 15/07/2011
NPA: 15/09/2012
Compensation at the assessment date: £5000

A would be CPI for June 2012: 121.0 (*this is a fictional figure for illustrative purposes*)
B would be CPI for April 2011: 119.3

Step 1	<p>Divide A by B, $121/119.3 = 1.014250$</p> <p>Revaluation factor: $100 \times 1.014249 - 100 = 1.425\%$</p>
Step 2	<p>Check against the revaluation cap (5% pa for pre April 09 service). The cap is applied against years and months. In this example the years and months since the assessment date is 1 year 2 months.</p> <p>$= 1.05^{(1 + (2/12))}$ $= 1.058573$</p> <p>Revaluation cap factor: $100 \times 1.058573 - 100 = 5.8573\%$</p> <p>The revaluation factor is lower than PPF revaluation cap, therefore revaluation factor to apply will be 1.425%.</p>

Apply the revaluation factor by following steps 3 and 4 under point 3.4. To illustrate this would be applied as follows:

Step 3	$£5000 \times 1.425\% = £71.25$
Step 4	$£5000 + £72.25 = £5071.25$

Revaluation in respect of CARE Schemes

The Compensation Regulations 2005 (as amended by the Pension Protection Fund (Miscellaneous Amendments) Regulations 2010) detail how revaluation is applied for such schemes. The regulations modify paragraphs 8, 10, 11 and 14 of Schedule 7 to the Act. However, due to the complex nature of applying revaluation for these schemes we recommend that Trustees seek guidance from their advisers and contact the PPF for further guidance where necessary.

Finally, if you have any queries in relation to the above guidance please contact your Scheme Delivery Associate.