

# 11

## PPF Compensation

### 11.1 Summary

- When an eligible Defined Benefit (DB) scheme transfers into the PPF, the PPF generally pays a starting level of compensation of 90 per cent of scheme pension (subject to a compensation cap) to members who were yet to reach their normal retirement age (NRA) at the date the scheme entered assessment. The PPF will generally pay a starting level of compensation equivalent to 100 per cent of scheme pension to those who were already over their NRA at the start of the assessment period<sup>50</sup>.
- In 2011/12, the PPF made compensation payments of £203.3 million compared to £119.5 million in 2010/11.
- At 31 March 2012, 57,506 members were in receipt of PPF compensation, up from 33,069 in the previous year. Average compensation in payment stood at £4,024<sup>51</sup> a year. The number of members with compensation not yet in payment (deferred members) as at 31 March 2012 totalled 70,608. For these members, the average accrued periodic compensation (before any prospective application of the compensation cap at NRA) was £3,289 a year.
- As at 31 March 2012, males constituted 66 per cent of pensioner and deferred members.<sup>52</sup>
- Spouses and dependants account for 15 per cent of those currently in receipt of compensation. They receive 9 per cent of the total compensation in payment.
- Around 57 per cent of compensation is attributable to former employees of the manufacturing sector, down from 68 per cent the year before.
- The West-Midlands region has the largest receipt of compensation, currently at 17 per cent of total pensioner compensation.
- As at 31 March 2012, only 221 pensioners were affected by the compensation cap<sup>50</sup>.
- The vast majority of members are in receipt of (or have accrued) compensation of less than 25 per cent of the compensation cap.
- The majority of compensation (and liabilities) was accrued in relation to service before 6 April 1997 and is therefore not subject to indexation. Compensation accrued on or after 6 April 1997 is increased each year in line with Consumer Price Inflation (CPI) capped at 2.5 per cent with a floor of 0 per cent.

<sup>50</sup> For full details of the conditions and processes governing the payment of PPF compensation, please visit <http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx>

<sup>51</sup> The annualised average rate of compensation is calculated by scaling up compensation over one month to reflect one year. This measure, which excludes lump sum payments, is used in order to accurately represent periodic compensation in payment at 31 March 2012.

<sup>52</sup> Unless otherwise stated, totals and averages relating to pensioners include dependants.

- Deferred compensation is re-valued over the period to NRA in line with CPI capped at 5 per cent per annum (for compensation accrued before 6 April 2009) and CPI capped at 2.5 per cent per annum (for compensation accrued on or after 6 April 2009), subject to a floor of 0 per cent in both cases.
- In 2011, the government introduced new rules to move to the use of the CPI for the purpose of the indexation and revaluation (subject to the appropriate caps and floors as detailed above). Prior to 2011, increases were based on the Retail Prices Inflation index (RPI). These changes affect pension revaluation for deferred members from April 2011 and indexation for pensioners from January 2012. All figures of compensation presented in this chapter are, where relevant, based on historical RPI inflation indexation and revaluation.

### 11.2 Total compensation and number of members

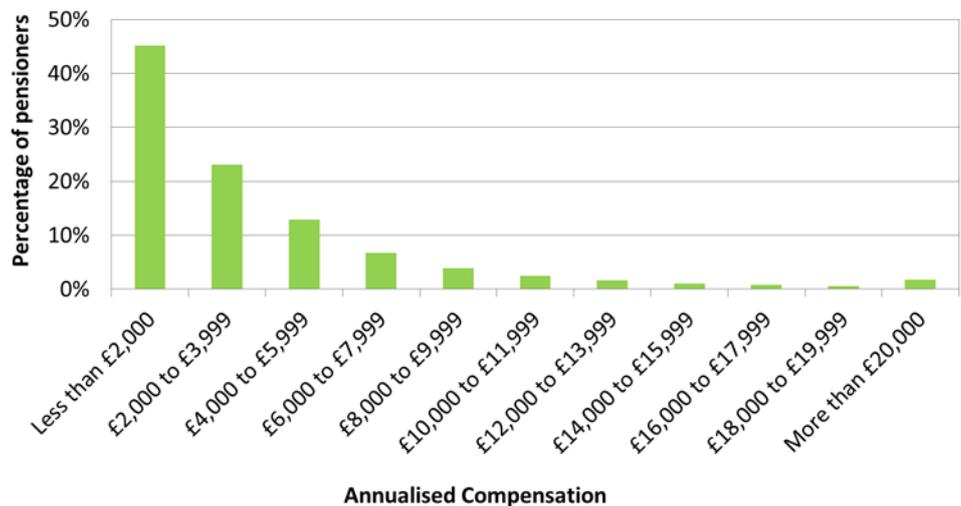
**Table 11.1** | Total compensation and number of members

	Year					
	2007	2008	2009	2010	2011	2012
Total compensation (£ million, year to 31 March)	1.4	17.3	37.6	81.6	119.5	203.3
Total pensioner members (31 March)	1,457	3,596	12,723	20,775	33,069	57,506
Total deferred members (31 March)	5,621	8,577	18,009	26,058	42,063	70,608

Source: PPF / The Pensions Regulator

### 11.3 Distribution of Compensation

**Chart 11.1** | Distribution of pensioners by annualised compensation level



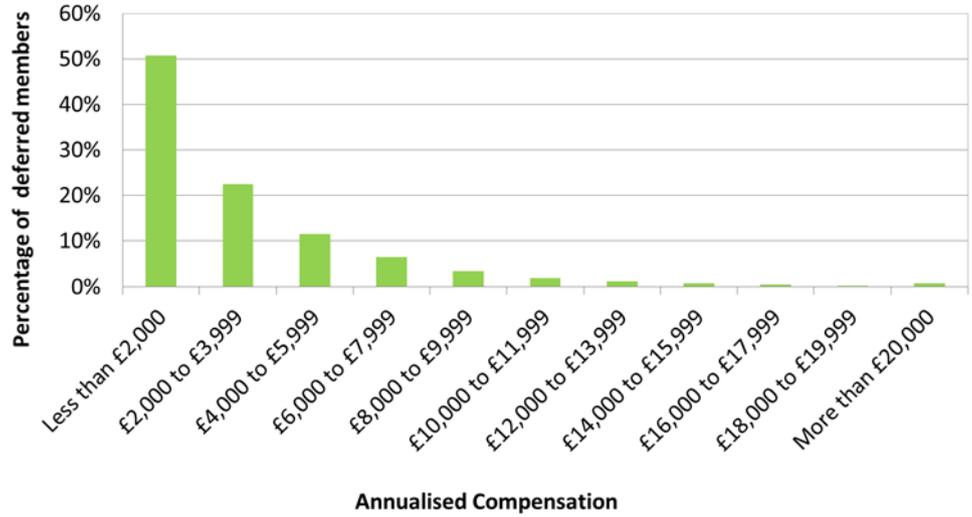
Source: PPF/ The Pensions Regulator

Total compensation has increased significantly over the year from £119.5 million to £203.3 million.

81 per cent of pensioner members are in receipt of annualised compensation of less than £6,000.

85 per cent of deferred members have accrued annualised compensation of less than £6,000.

**Chart 11.2** | Distribution of deferred members by annualised compensation level



Source: PPF/ The Pensions Regulator

**11.4 Gender**

**Chart 11.3** | Gender composition of pensioners and deferred members

Overall, males make up 66 per cent of members of transferred schemes (down from 72 per cent last year).



Source: PPF/ The Pensions Regulator

Dependants constitute only a small proportion of total pensioners and compensation.

### 11.5 Spouses and other dependants

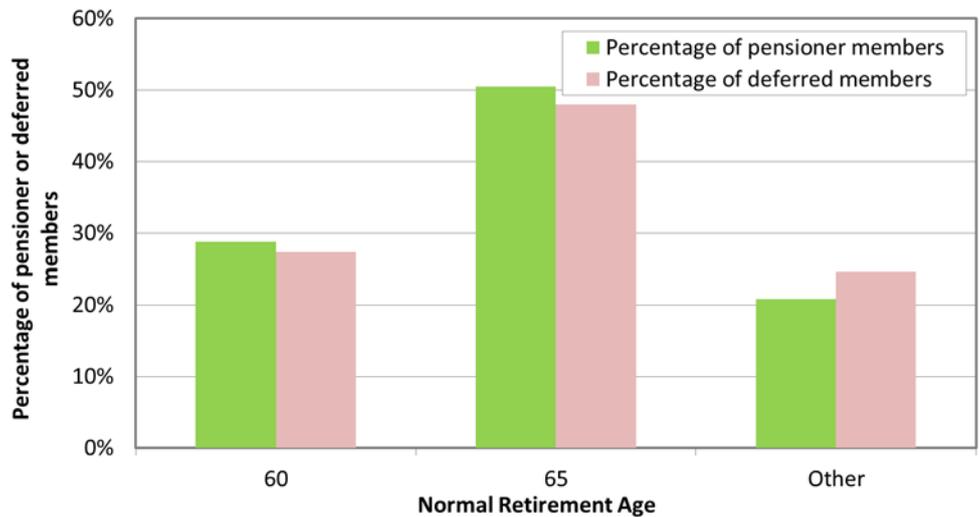
**Table 11.2** | Proportions of dependants and members within the PPF current pensioner population

	Number within pensioner population	Percentage of total population	Annualised compensation (£000, pa)	Percentage of total annualised compensation
Dependants	8,380	15%	21,759	9%
Members	49,126	85%	209,663	91%
Total	57,506	100%	231,422	100%

Source: PPF/ The Pensions Regulator

### 11.6 Normal Retirement Age (NRA)

**Chart 11.4** | Distribution of pensioner and deferred members by NRA of largest compensation tranche



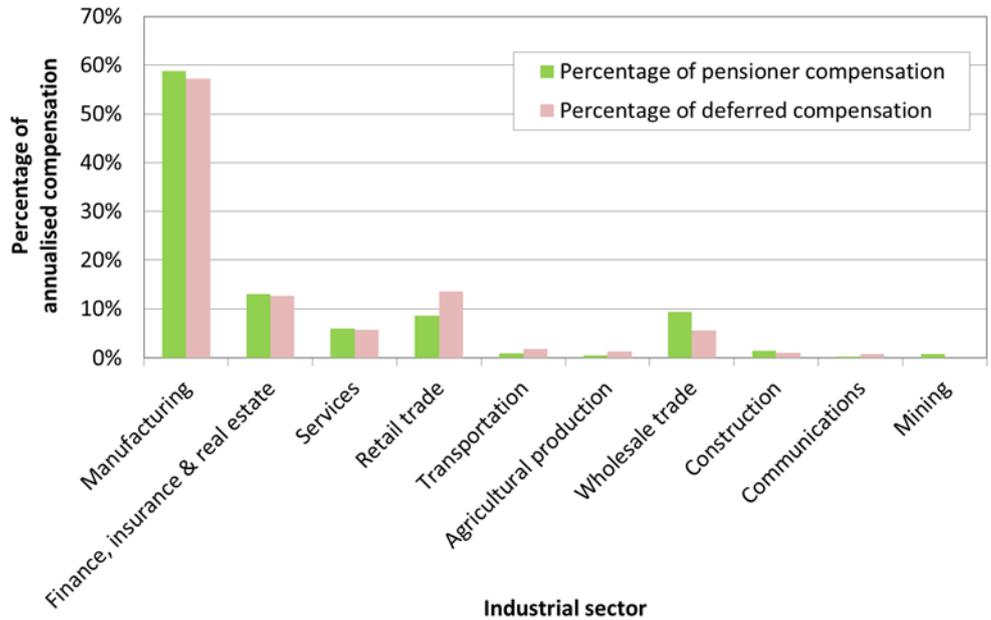
Source: PPF / The Pensions Regulator

Around half of pensioner and deferred members have an NRA of 65 for their largest tranche of compensation.

The proportion of compensation directed to former employees of the manufacturing industry has fallen to 57 per cent from 68 per cent the previous year.

### 11.7 Industry

**Chart 11.5** | Pensioner and deferred member annualised compensation by industrial sector\*

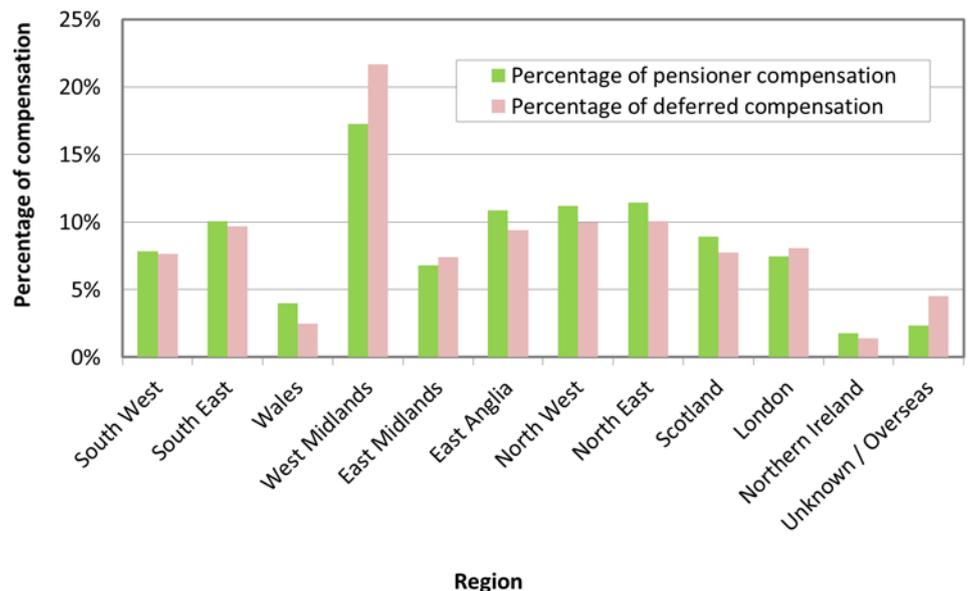


Source: PPF / The Pensions Regulator

\*Based on US 1972 Standard Industrial Classification.

### 11.8 Geography

**Chart 11.6** | Pensioner and deferred member annualised compensation by UK region



Source: PPF / The Pensions Regulator

The West Midlands clearly dominates as a destination for PPF compensation, due to the number of relevant sponsor insolvencies in the region.

The majority of compensation was accrued in relation to service before April 1997.

### 11.9 Period of service

**Table 11.3** | Pre- and post-April 1997 annualised compensation for pensioners and deferred members

	Pensioners		Deferred	
	Compensation (£000, pa)	Percentage of total	Accrued Compensation (£000, pa)	Percentage of total
Pre-April 1997	180,573	78%	117,324	51%
Post-April 1997	50,850	22%	114,893	49%
<b>Total</b>	<b>231,423</b>	<b>100%</b>	<b>232,216</b>	<b>100%</b>

Source: PPF / The Pensions Regulator

**Table 11.4** | Value of liabilities<sup>53</sup> attributable to pre and post April 1997 compensation for pensioners and deferred members

	Pensioners		Deferred	
	Liabilities (£000)	Percentage of total	Liabilities (£000)	Percentage of total
Pre-April 97	2,640,129	70%	1,891,219	44%
Post-April 97	1,148,380	30%	2,366,974	56%
<b>Total</b>	<b>3,788,509</b>	<b>100%</b>	<b>4,260,381</b>	<b>100%</b>

Source: PPF / The Pensions Regulator

<sup>53</sup> On the basis used for the PPF's Annual Report and Accounts 2011/12.