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**ACA comments on the form of a PPF given that the Government has determined that one should be established.**

On 11 June 2003 it was announced that the Government would establish a **Pension Protection Fund (PPF)**, a compensation arrangement for private sector defined benefit scheme members whose firms became insolvent with unfunded liabilities in their pension scheme. If such an arrangement is to be established then the ACA believes:

- A** Its structure should encourage good funding and investment practice and minimise moral hazard.
- B** There should be clarity on who is carrying the risk and benefiting from the rewards.
  - a.** The economic cost of the insurance should be quantified and projections of the costs under various scenarios should be provided. We are happy to work with the actuarial profession and GAD to provide these costings.
  - b.** Further risk projections should be carried out if it is the intention that the PPF is invested in non-matching assets, eg equities.

**The government should act as Guarantor or be open and honest that no absolute guarantee can be provided** and detail examples of the circumstances in which PPF benefits may be cut back.

- C** The benefits should only be available in the event of insolvency, as the man in the street understands the word.

In order to meet the objectives stated in A, we believe that **the PPF structure should have the following main characteristics:**

- 1** The benefits should be set at a modest level with reductions for all members unless the assets of the scheme can provide a higher level, in particular:
  - a)** a clear, simple standard benefit structure should be provided for example, 50% pensions for spouses and dependants, no pension increases or revaluation or commutation.
  - b)** the 90% level should apply to pensions in payment as well as to deferred pensioners. Dependants and ill health pensioners should be treated as pensioners over normal pension age.

- c) **a benefit cap should be applied to pensioners and deferred pensioners.** A flat amount would be the simplest to apply, eg £20,000 per annum or 100% of the first £10,000pa and 80% of the next and nothing beyond.
  - d) **the pension should not be payable unreduced until State pension age or later.** A pension reduced for early payment could be an option from age 55.
  - e) **benefit improvements and enhancements granted in the five years prior to insolvency should be reviewed by the PPF** and reduced if appropriate.
- 2 **The priority order on wind-up would be amended to reflect PPF benefits as a first priority;** if the assets were more than sufficient to secure PPF benefits the scheme would not go into the PPF but could secure benefits in the current way. The regulations regarding wind-up and continuation as a closed scheme etc would need revision in view of the limitations in the insurance market.
- 3 **There should be a prudent funding standard** with minimum contributions to target PPF benefits, for example, a gilts basis.
- 4 **The levy should be based on a sound assessment of the risks using as much information as is possible** (eg. asset distribution, funding level, credit rating of sponsoring employer (if available) etc.) and this should apply to small schemes as well as large schemes. There should be no intended cross-subsidy between large and small schemes.
- 5 There should be restrictions on participating employers leaving liabilities in pension schemes which wind-up in the following 3 to 5 years with an insolvent employer.
- 6 **There should be a debt on a UK or overseas employer whose UK subsidiary becomes insolvent with an under-funded pension scheme.** For example this debt could be equal to the shortfall of the assets over the PPF liabilities.
- 7 **The PPF's objectives should specify the degree of care it owes to members of failing schemes** and levy paying employers as a group.
- 8 **It is important that once the above points are addressed there is further detailed consultation on a number of secondary issues that constitute the 'devil-in-the detail'.**

**For further details: contact Helen James, Chairman, ACA Pension Schemes Committee on 020 7222 8033**

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