

**How will the Pension Protection Fund treat members' benefits where different parts of the benefits have different normal pension ages, for example where the member has "Barber" service?**

**(Please note that although some parts of the calculation are only shown to 2 decimal places, you should only round after the final stage of the calculation)**

There are 2 scenarios to be considered here: where the member is in receipt of all benefits and where the member is not yet in receipt of any of his benefits.

**Background facts**

- Member's benefits are equal to £40,000 per annum
  - £10000 per annum has a normal pension age of 60 (NPA60)<sup>1</sup>
  - £30000 per annum has a normal pension age of 65 (NPA65)<sup>2</sup>

**Scenario 1: Member in receipt of benefits**

- Member is aged 59 immediately before the assessment date and in receipt of all benefits
- Cap at age 59 = £23888.89 (cap factor of 0.86)
- The member is below normal pension age in respect of all benefits and therefore all his benefits are subject to the 90% level of compensation and the cap

<b>Circumstances</b>	The member has not commuted any part of his benefit for a lump sum.	The member has commuted a part of his benefit for a lump sum.	The member also received a separate scheme lump sum.
<b>Additional Information</b>		Pension he would have received had he not commuted	Separate lump sum was £15,000

<sup>1</sup> Please see guidance in respect of normal pension age

<sup>2</sup> Please see guidance in respect of normal pension age

		<ul style="list-style-type: none"> <li>○ £12000 per annum has a normal pension age of 60 (NPA60)<sup>3</sup></li> <li>○ £32000 per annum has a normal pension age of 65 (NPA65)<sup>4</sup></li> </ul>	<p>Actuarial factor (for example purposes only): 15</p> <p>Annualised value of the lump sum: £1000 (15,000/15 = 1000)</p>
<b>Calculations</b>	<ol style="list-style-type: none"> <li>1. Member's total benefits are in excess of the cap, so need to apply cap.</li> <li>2. Calculate cap fraction - <math>23888.89/40000 = 0.597222</math></li> <li>3. Apply cap fraction to rate of pension in accordance with paragraph 3(5) of schedule 7 - <math>0.597222 \times 40000 = 23888.89</math></li> <li>4. Apply 90% level of compensation - <math>23888.89 \times 0.9 = 21500</math></li> </ol>	<ol style="list-style-type: none"> <li>1. Member's total benefits are in excess of the cap, so need to apply cap.</li> <li>2. Calculate cap fraction - <math>23888.89/44000 = 0.5429293</math></li> <li>3. Apply cap fraction to rate of pension in accordance with paragraph 3(5) of schedule 7 - <math>0.5429293 \times 40000 = 21717.17</math></li> <li>4. Apply 90% level of compensation - <math>21717.17 \times 0.9 = 19545.46</math></li> </ol>	<ol style="list-style-type: none"> <li>1. Member's total benefits are in excess of the cap, so need to apply cap.</li> <li>2. Calculate cap fraction - <math>23888.89/41000 = 0.5826559</math></li> <li>3. Apply cap fraction to rate of pension in accordance with paragraph 3(5) of schedule 7 - <math>0.5826559 \times 40000 = 23306.23</math></li> <li>4. Apply 90% level of compensation - <math>23306.23 \times 0.9 = 20975.60</math></li> </ol>

- Member is age 61 immediately before the assessment date and in receipt of all benefits
- Cap at age 61 = £25000.00 (cap factor of 0.9)
- The member has exceeded NPA for his NPA 60 benefit therefore this part would be payable at the 100% level of compensation, and no cap would be applied to it, unless the member has previously become entitled to a separate scheme lump sum (regulation 22 of the compensation regulations). Applying paragraph 34(2) of Schedule 7, we treat the benefits at NPA 60 as a separate pension from the benefit at NPA 65

<sup>3</sup> Please see guidance in respect of normal pension age

<sup>4</sup> Please see guidance in respect of normal pension age

- In respect of the NPA65 benefit, this would be payable at the 90% compensation level subject to the cap, as actuarially adjusted in accordance with the factors published by the Board. This would be calculated in accordance with paragraph 26 of Schedule 7. No account is taken in such a calculation of the NPA 60 benefit.

<b>Circumstances</b>	The member has not commuted any part of his benefit for a lump sum.	The member has commuted a part of his benefit for a lump sum.	The member also received a separate scheme lump sum.
<b>Additional Information</b>		NP 65 pension he would have received had he not commuted <ul style="list-style-type: none"> <li>£32000 per annum</li> </ul>	Separate lump sum was £15,000  Actuarial factor (for example purposes only): 15  Annualised value of the lump sum: £1000 (15,000/15 = 1000)
<b>Calculations</b>	<ol style="list-style-type: none"> <li>Calculate cap fraction - <math>25000/30000 = 0.833333333</math></li> <li>Apply cap fraction to rate of pension in accordance with paragraph 3(5) of schedule 7 - <math>0.833333333 \times 30000 = 25000.00</math></li> <li>Apply 90% level of compensation <math>25000.00 \times 90\% = £22,500.00</math></li> </ol> <p>Total benefit NPA60 + NPA65 = <math>10000 + 22,500 = 32500</math></p>	<ol style="list-style-type: none"> <li>Calculate cap fraction - <math>25000/32000 = 0.78125</math></li> <li>Apply cap fraction to rate of pension in accordance with paragraph 3(5) of schedule 7 - <math>0.78125 \times 30000 = 23437.5</math></li> <li>Apply 90% level of compensation <math>25000.00 \times 90\% = 21093.75</math></li> </ol> <p>Total benefit NPA60 + NPA65 = <math>10000 + 21093.75 = 31093.75</math></p>	<ol style="list-style-type: none"> <li>Work out previous cap percentage <math>(1000 \times 100)/25000 = 4\%</math></li> <li>Work out cap percentage <math>(30000 \times 100)/25000 = 120\%</math></li> <li>Aggregate the cap percentages = 124%</li> <li>calculate revised cap - <math>100/124 = 0.80645</math></li> <li>Calculate periodic pension: <math>30000 \times 0.80645 = 24193.50</math> <math>24193.50 \times 0.9 = 21774.15</math></li> </ol> <p>Total benefit NPA60 + NPA65 = <math>10000 + 21774.15 = 31774.15</math></p>

**Scenario 2: Member is not in receipt of benefits at the Assessment date**

In this scenario the benefit may be affected by how the member chooses to take his benefits i.e. whether he takes each tranche of compensation as it becomes payable or if he choose to take it in a single lump sum.

- Member is:
  - aged 58 at time of assessment period
  - aged 59 when the Pension Protection Fund assumes responsibility
- Cap at age 59 (for example purposes only) is 24250
- Cap at age 60 (for example purposes only) is 25000 when member reaches age 60
- Cap at age 65 (for example purposes only) is 29500 when member reaches age 65
- Assume no commutation or separate lump sums
- Member cannot postpone benefits beyond their normal pension age

<b>Circumstances</b>	Member takes all his benefits at 59	Member takes all his benefits at age 60	Member takes one tranche at 60 and one tranche at 65
<b>Calculation</b>	Apply early retirement factors $10000 \times 0.953 = 9530$ $30000 \times 0.738 = 22140$  Member's benefits are above the cap  1. Calculate cap fraction - $24250/31670 = 0.7657088$ 2. Apply cap fraction to rate of pension in accordance with paragraph 3(5) of schedule 7 –	Apply early retirement factor to NPA 65 benefit $30000 \times 0.774 = 23220$  Member's benefits are above the cap  4. Calculate cap fraction – $25000/33220 = 0.7525586$ 5. Apply cap fraction to rate of pension in accordance with paragraph 3(5) of schedule 7 –	Regulation 22 will apply here when the second tranche is taken because the member will have previously received relevant compensation  NPA 60 benefit £10000 is less than compensation cap Calculate cap percentage $10000/25000 \times 100 = 40\%$ Member receives benefit at 60

	<p><math>0.7657088 \times 31670 = 24250.00</math></p> <p>3. Apply 90% level of compensation <math>24250.00 \times 90\% = \text{£}21825</math></p>	<p><math>0.7525586 \times 33220 = 25000</math></p> <p>6. Apply 90% level of compensation <math>25000 \times 90\% = \text{£}22500</math></p>	<p>subject to 90% level of compensation = 9000</p> <p>NPA 65 benefit Cap Percentage is <math>30000/29500 \times 100 = 101.6949</math> – this is more than 100% so all future payments will be capped Calculate revised cap fraction <math>100/(101.6949 + 40) = 0.70575</math></p> <p>Calculate periodic compensation, To do this Current NPA 60 pension (allowing for indexation on original 10000 in preceding 5 years, so say 11250) multiplied by revised cap fraction – <math>11250 \times 0.70575 = 7939.59</math> NPA65 multiplied by revised cap fraction – <math>30000 \times 0.70575 = 21172.50</math> Total = 29112.09 Reduce by 90% <math>29112.09 \times 0.9 = 26200.88</math></p>
--	---	---	---

Further examples of how regulation 22 affects compensation with multiple tranches can be found in Appendix 3 of the Trustee guidance