

Note to trustees:

The following information is designed to assist you in drafting a communication to your scheme members. It is drafted as if written by trustees. If you wish to use this you will need to ensure that this material is amended to reflect the specific circumstances of your scheme.

Under the Pension Protection Fund (Provision of Information) Regulations 2005, trustees are required to provide certain information to members within 28 days of being notified by the Pension Protection Fund that the scheme is in an assessment period. This document is only intended to provide some example questions and answers which may assist you in providing that information to their members. It is not intended to be used solely to comply with that obligation and the Pension Protection Fund can give no assurance that this document would satisfy the trustees' statutory obligation. You will need to consider how best to satisfy that obligation in light of the circumstances of your scheme.

Whether or not you choose to use this material to assist when drafting a communication the Pension Protection Fund asks that you provide a draft of the communication you intend to issue to your caseworker to comment on.

MEMBER ANNOUNCEMENT

THE PENSION PROTECTION FUND

The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund (the “Board”), a statutory corporation established under the provisions of the Pensions Act 2004. It has been established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

THE ASSESSMENT PERIOD

If a qualifying insolvency event occurs in relation to an employer of an eligible scheme, this will trigger the beginning of an assessment period. During this period the Pension Protection Fund will assess whether or not it is required to assume responsibility for the scheme.

(Please insert one of the following paragraphs as appropriate, however, if your scheme does not fit the categories above you will need to add different text)

The Insolvency Practitioner xxxxx has notified the Pension Protection Fund that an insolvency event has occurred in relation to xxxx, and the Pension Protection Fund is currently investigating whether an assessment period has commenced in relation to xxx scheme [or the xxxx section of the xxxx scheme]

Or

The Insolvency Practitioner xxxxx has notified the Pension Protection Fund that an insolvency event has occurred in relation to xxxx, and the Pension Protection Fund has confirmed that an assessment period has commenced in relation to xxxx scheme. [or the xxx section of the xxx scheme]

The assessment period commenced on the date the insolvency event occurred which was xxxx in the case of xxxxx

[Or in case of application under s129]

Either

We have made an application on [date] to the Pension Protection Fund for it to assume responsibility for the Scheme and the Pension Protection Fund is currently investigating whether an assessment period has commenced in relation to xxx scheme [or the xxxx section of the xxxx scheme].

Or

We made an application on [date] to the Pension Protection Fund for it to assume responsibility for the Scheme, and the Pension Protection Fund has confirmed that an assessment period has commenced in relation to xxxx scheme. [or the xxx section of the xxx scheme]

The assessment period commenced on the date of the Trustees' application which was xxxx.

During the assessment period the Pension Protection Fund looks to determine whether it is required to assume responsibility for the scheme. During this period we, the trustees, continue to administer the scheme, subject to certain restrictions and controls.

During the assessment period the Pension Protection Fund will look to establish the following:

1. Can the scheme be rescued? (For example, can the original employer continue as a going concern, or is another employer going to assume responsibility for the scheme); and
2. Can the scheme afford to secure benefits which are at least equal to the compensation that the Pension Protection Fund would pay if it assumed responsibility for the scheme?

If the answer to either of these questions is 'yes' then the Pension Protection Fund will cease to be involved with the scheme once the relevant processes and procedures have been completed.

If, however, the answer to both questions is 'no', and the relevant process and procedures have been completed, then the Pension Protection Fund will assume responsibility for the scheme and compensation will then become payable.

How long will the assessment period last?

It is not possible at this stage to say how long the assessment period will last however normally it is at least a year. We will, however, keep you informed.

How is the Scheme affected by an assessment period?

As trustees we will continue to be responsible for the day to day running of the Scheme, including the payment of pensions, and will work with the Pension Protection Fund in completing the necessary processes of the assessment period. During the assessment period no further contributions can be paid to the scheme, unless they were due for a period prior to the assessment date, there is no benefit accrual and generally speaking no transfers can be made.

How are scheme members affected by the assessment period?

During the assessment period, pensions must be reduced to the Pension Protection Fund level of compensation:

For individuals that have reached the scheme's normal pension age or, irrespective of age, are either already in receipt of survivors' pension or a pension on the grounds of ill health, the Pension Protection Fund will pay **100% level of compensation**.

In broad terms and in normal circumstances, this means a starting level of compensation that equates to 100% of the pension in payment immediately before the assessment date (subject to a review of the rules of the scheme).

The part of this compensation that relates to pensionable service on or after 6 April 1997 will be increased each year in line with the Retail Prices Index capped at 2.5%.

If you fall into this category of member please see appendix 1 for more detailed information.

The Pension Protection Fund may review the benefits for any members who have not yet reached normal pension age and retired on the grounds of ill-health in the 3 years prior to the assessment date.

For the majority of people below their scheme's normal pension age, the Pension Protection Fund will pay **90% level of compensation**.

In broad terms and in normal circumstances, this means 90% of the pension an individual had accrued immediately before the assessment date (subject to a review of the rules of the scheme) plus revaluation in line with the increase in the Retail Prices Index between the assessment date and the commencement of compensation payments (subject to a maximum of 5% each year). This compensation is subject to an overall cap. After allowing for the 90% level of compensation, the cap is currently £26,050.00 at age 65 (the cap will be adjusted according to the age at which compensation comes into payment). The cap is reviewed each April and is applied at the point at which the compensation comes into payment, or the assessment date where the pension is already in payment.

Once compensation is in payment, only such part of the compensation that derives from pensionable service on or after 6 April 1997 will be increased each year in line with the Retail Prices Index capped at 2.5%.

If you fall into this category of member please see appendix 2 for more detailed information.

Data Protection

During the assessment period the trustees will be required to provide the Pension Protection Fund with personal data about members of the Scheme to enable the Pension Protection Fund to carry out its assessment of the scheme, to exercise its statutory functions during the assessment period and, depending on the outcome of the assessment period, to pay compensation to members. In order to carry out these functions the Pension Protection Fund may need to pass personal data to appropriate third parties. The trustees may also pass need to pass personal data to the Pension Protection Fund in order to administer the Scheme in accordance with the trustees' statutory duties. If you have any concerns about this please contact us.

What if I have any queries about the scheme or my pension?

You should contact us with any queries about your personal circumstances or benefits under the scheme rules or any questions you have about the scheme. The Pension Protection Fund operates an information service (see below), however it is not in a position to answer specific questions about the Scheme or individual member's circumstances.

You can contact us:

[insert trustee contact details]

Further information about the Pension Protection Fund

For general information about the Pension Protection Fund please visit www.pensionprotectionfund.org.uk or contact it at:

Pension Protection Fund

Knollys House

17 Addiscombe Road

Croydon

Surrey

CR0 6SR

Tel: 0845 600 2541

Fax: 0208 633 4903

Email: information@ppf.gsi.gov.uk

APPENDIX 1

MEMBERS ENTITLED TO 100% LEVEL OF COMPENSATION

What will happen to my pension?

You should continue to receive your pension as normal.

We are required by the Pensions Act 2004 to review certain changes to the scheme rules and any discretionary increases which have made in the last three years. If those changes or increases are "inadmissible" in accordance with the Pensions Act your pension may be affected. If your pension is affected, it will be reduced to the level it would have been if the change or increase had not been made. You will be informed if any such reduction affects you.

Will it still be paid on the same day?

Yes. However, if the Pension Protection Fund assumes responsibility for the scheme, there may be different payment dates but you will be informed of any changes nearer the time.

Will I have to pay back any of the tax free cash sum I received when I retired?

No.

Will I still receive an increase to my pension each year?

Future pension increases will be at the levels specified by Pension Protection Fund rules.

The part of your pension that relates to pensionable service on or after 6 April 1997 will be increased each year in line with the Retail Prices Index, subject to a maximum of 2.5%. No other part of your pension will increase.

Increases will apply from 1 January each year. [Except for schemes entering the assessment period in the previous December]

What happens to my life assurance or death benefits during an assessment period?

Once an assessment period has commenced, any life assurance or other benefit providing a lump sum on death under the pension scheme will cease. (Trustees may want to add information on the effect of a scheme rescue on life assurance benefits)

Is my spouse or partner entitled to a pension/compensation on my death?

During the assessment period, survivors' pensions which are payable under the scheme rules must be reduced to the Pension Protection Fund level of compensation.

If the Pension Protection Fund assumes responsibility for a scheme, compensation is payable as follows:

- to spouses where there was provision (including discretionary provision) under the admissible rules of the scheme to pay a spouse's pension ¹
- to civil partners where there was provision (including discretionary provision) under the admissible rules of the scheme to pay a survivor's pension to a spouse or civil partner.¹
- to unmarried partners where there was provision (including discretionary provision) under the admissible rules to pay a survivor's pension to an unmarried partner.¹

Broadly speaking the amount of the survivor's benefit will be 50% of the member's compensation entitlement.

¹ Where a member is married or in civil partnership, compensation will be paid to the spouse or civil partner unless a valid nomination has been made in favour of an unmarried partner. Where such a nomination has been made (and there is provision under the admissible rules to pay a survivor's pension to an unmarried partner), the unmarried partner will receive compensation and the spouse or civil partner will not receive compensation.

What about my children?

During the assessment period, children's pensions which are payable under the Scheme rules must be reduced to the Pension Protection Fund level of compensation.

If the Pension Protection Fund assumes responsibility for a scheme compensation will be payable to dependent children up to the age of 18 (or 23 in specified circumstances). The amount of the compensation will depend on whether compensation is also payable to a surviving spouse or partner. Broadly speaking the amount of compensation payable where compensation is also payable to a surviving spouse or partner is as follows:

One child - 25% of member's compensation

Two or more children - 50% of member's compensation, divided equally between the children

I also have money purchase benefits in the scheme – are these affected?

No. Money purchase benefits are not affected.

I have an ill health pension – is this affected in any way?

The Pension Protection Fund has the power to review certain ill health pensions that were granted in the 3 years leading up to the assessment date. Any members affected by this process will be notified separately. If payments are affected this will not be until the end of the assessment period

APPENDIX 2

MEMBERS WHO ARE ENTITLED TO THE 90% LEVEL OF COMPENSATION

I took early retirement. How much pension will I receive?

You will receive 90% of your current pension up to a maximum overall limit known as the compensation cap. After allowing for the 90% level of compensation, the cap is currently £26,050.00 at age 65 (the cap will be adjusted according to the age at the assessment date). Future increases will be at the levels specified by the Pension Protection Fund rules.

My pension is not due yet. How much am I entitled to?

Your pension will be calculated in line with the Pension Protection Fund rules. As you are under the Scheme's normal pension age you will receive 90% of your accrued pension subject to a maximum overall limit (see below). Future increases will be at the levels specified by the Pension Protection Fund rules.

We are required by the Pensions Act 2004 to review certain changes to the scheme rules and any discretionary increases which have been made in the last three years. If those changes or increases are "inadmissible" in accordance with the Pensions Act your pension may be affected. If your pension is affected, it will be reduced to the level it would have been if the change or increase had not been made. You will be informed if any such reduction affects you.

What is the "cap" and how will it affect me?

The 90% level of compensation is subject to an overall maximum known as the compensation cap. The cap level will be adjusted according to the age of the member when the compensation comes into payment or the age at the assessment date where the pension is already in payment. For illustration purposes, after allowing for the 90% level of compensation, the cap is currently:

£26,050.00 of pension per annum at age 65

£23,009.29 of pension per annum at age 60

£20,790.10 of pension per annum at age 55

Every April the Secretary of State will review the amount of the cap and, where appropriate, make an order to increase the amount of the cap.

For members retiring in the future their compensation will be subject to the cap levels which are in force when their compensation comes into payment.

If you have retired and you took a cash free lump sum upon retirement, this is taken into account in measuring whether the cap will apply to your compensation. If the overall level of benefit you received, taking into account the commuted lump sum, is in excess of the compensation cap, the lump sum will be taken into consideration when calculating compensation. If your benefit, taking into account the commuted lump sum, does not exceed the compensation cap, the lump sum will not be taken into account when calculating your compensation.

When will my pension be reduced?

Give indication of when this is likely to occur

My pension will have been overpaid – will I have to repay the trustees?

In most cases we will implement a plan to recover overpayments.

I am already receiving a pension. Will I still receive an increase to my pension each year?

Future pension increases will be at the levels specified the by Pension Protection Fund rules.

The part of your pension that relates to pensionable service on or after 6 April 1997 will be increased each year in line with the Retail Prices Index, subject to a maximum of 2.5%. No other part of your pension will increase.

Increases will apply from 1 January each year. [Except for schemes entering the assessment period in the previous December]

I was a deferred pensioner before the assessment period began. Under the Scheme rules my pension is "inflation proofed" until I retire. Will this still happen?

Yes – this is known as revaluation.

Your accrued benefits will be revalued in accordance with the Scheme rules up to the day before the assessment period started. Your compensation will be revalued in line with the Retail Prices Index, subject to a maximum of 5% from the assessment date until the day before you start receiving your compensation.

(You may wish to comment on how this revaluation compares to what members would have received under scheme rules)

Is my spouse or partner entitled to a pension/compensation on my death?

During the assessment period, survivors' pensions which are payable under the scheme rules must be reduced to the Pension Protection Fund level of compensation.

If the Pension Protection Fund assumes responsibility for a scheme, compensation is payable as follows:

- to spouses where there was provision (including discretionary provision) under the admissible rules of the scheme to pay a spouse's pension [trustees may wish to comment on whether the scheme rules make provision for a spouse's pension].¹
- to civil partners where there was provision (including discretionary provision) under the admissible rules of the scheme to pay a survivor's pension to a spouse or civil partner.¹

¹ Where a member is married or in civil partnership, compensation will be paid to the spouse of civil partner unless a valid nomination has been made in favour of an unmarried partner. Where such a nomination has been made (and there is provision under the admissible rules to pay a survivor's pension to an unmarried partner), the unmarried partner will receive compensation and the spouse or civil partner will not receive compensation.

- to unmarried partners where there was provision (including discretionary provision) under the admissible rules to pay a survivor's pension to an unmarried partner.¹

Broadly speaking, the amount of the survivor's benefit will be 50% of the member's compensation entitlement.

What about my children?

During the assessment period children's pensions which are payable under the Scheme rules must be reduced to the Pension Protection Fund level of compensation.

If the Pension Protection Fund assumes responsibility for a scheme compensation will be payable to dependent children up to the age of 18 (or 23 in specified circumstances). The amount of the compensation will depend on whether compensation is also payable to a surviving spouse or partner. Broadly speaking the amount of compensation payable where compensation is also payable to a surviving spouse or partner is as follows:

One child 25% of member's compensation

Two or more children 50% of member's compensation, divided equally between the children

I also have money purchase benefits in the scheme – are these affected?

No. Money purchase benefits are not affected.

I am over 50. Can I still take early retirement?

DN: Insert the following paragraph if this is appropriate for your Scheme's rules

During an assessment period members may apply for early retirement if it would be permitted under the Scheme rules. Benefits will be payable at Pension Protection Fund levels using the Pension Protection Fund's own early retirement reduction and cash commutation factors.

Where the Pension Protection Fund has assumed responsibility for a scheme, a member will be able to take early payment of compensation from age 50, subject to actuarial reduction. Normally a member must apply for early payment of compensation 6 months in advance of when they wish to start receiving payment of compensation.