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THE PENSION PROTECTION FUND

Following the recent high profile demise of British Homes Stores, much of the focus of attention has been not only on the potential loss of approximately 11,000 jobs but also on the deficit on the company's pension scheme which is thought to be in the region of £571 million.

Likewise, the spotlight has also shone on the role of the Pension Protection Fund (PPF) as attempts are made to ensure that present and future pensioners are provided for.

The PPF is a statutory fund set up in 2005 and was established under the provisions of The Pension Act 2004.

The PPF is funded by a compulsory annual levy which is charged on all eligible pension schemes although it is hoped that by 2030, the PPF will be financially self-sufficient.

Following the insolvency of a sponsoring employer, the PPF carries out an assessment process which can take up to two years. Only defined benefit e.g. final salary schemes will be eligible for assessment by the PPF.

A scheme will not transfer to the PPF if:

- The scheme is rescued by a new employer who takes responsibility for the scheme, or
- The scheme has sufficient assets to buy benefits from an insurance company which are at the PPF levels of compensation.

Such compensation levels are as follows:

- For members who have already reached retirement age, those who have retired early due to ill health and those receiving a pension in relation to a member who has died, the level of compensation is set at 100 per cent.
- For those members who have not retired, the level of compensation is set at 90 per cent upon those members reaching the normal pension age.

Where the PPF takes on a scheme of an insolvent employer, the scheme's assets are transferred to the PPF to increase its investment portfolio. The PPF will also lodge a claim in the liquidation/administration for the calculated shortfall on the scheme. As it is invariably the largest creditor, the PPF takes an active role in ensuring that Liquidators/Administrators' fees are carefully controlled in order to maximise the return to creditors.

The cost to the PPF for rescuing the BHS pension scheme is estimated to be in the region of £275 million and such a pay-out is not thought to affect the Fund's finances. This is of course before any previous owners either voluntarily or otherwise provide a contribution towards the deficit.

The good news for existing BHS pensioners is that their full pensions are assured. Those retiring in the future will experience a reduction in what they expected to receive but the position could have been much worse were it not for the existence of the PPF.

Please note that should your clients require any confidential advice regarding any insolvency matter they are welcome to contact Ian, John or Robert. An initial consultation is provided free of charge and without obligation. Also, if you or any of your colleagues require any clarification regarding insolvency law or procedure, please do not hesitate to contact us.