

2016 No. 82

PENSIONS

The Pension Protection Fund and Occupational Pension Schemes (Levy Ceiling and Compensation Cap) Order 2016

Made - - - - - *27th January 2016*

Laid before Parliament *3rd February 2016*

Coming into force in accordance with article 1(2)

The Secretary of State for Work and Pensions makes the following Order in exercise of the powers conferred by sections 178(1) and (6) and 315(2) and (5) of, and paragraphs 26(7) and 27(2) and (3) of Schedule 7 to, the Pensions Act 2004(a).

In accordance with section 178(5) of that Act, the Secretary of State has reviewed the general level of earnings obtaining in Great Britain during the period of 12 months ending with 31st July 2015. It appears to the Secretary of State that the general level of earnings has increased by 3.6% during that period.

On a review under section 148(2) of the Social Security Administration Act 1992(b), the Secretary of State concluded that the general level of earnings obtaining in Great Britain exceeds by 2.8% the general level at the end of the period taken into account for the last such review under that section.

Citation, commencement and interpretation

1.—(1) This Order may be cited as the Pension Protection Fund and Occupational Pension Schemes (Levy Ceiling and Compensation Cap) Order 2016.

(2) It comes into force—

- (a) for the purposes of this article and article 2, on 14th March 2016,
- (b) for the purposes of article 3, on 31st March 2016, and
- (c) for the purposes of articles 4 and 5, on 1st April 2016.

(3) In this Order, “the Act” means the Pensions Act 2004.

(a) 2004 c. 35. *See also* S.I. 2015/66 which sets the levy ceiling for the financial year beginning on 1st April 2015.
(b) 1992 c. 5. Section 148(2) was amended by section 37 of the Child Support, Pensions and Social Security Act 2000 (c. 19).

The earnings percentage

2. For the purposes of section 178(3)(a) of the Act (the levy ceiling), the percentage by which it appears to the Secretary of State that the general level of earnings has increased during the review period(a) is 3.6%.

The levy ceiling

3. For the purposes of section 177 of the Act (amounts to be raised by the pension protection levies), the levy ceiling for the financial year beginning on 1st April 2016 is £981,724,264.

The compensation cap

4. The amount specified for the purposes of paragraph (a) of the definition of “the compensation cap” in paragraph 26(7) of Schedule 7 to the Act (pension compensation provisions – compensation cap) is £37,420.42.

Revocations

5. The Pension Protection Fund and Occupational Pension Schemes (Levy Ceiling and Compensation Cap) Order 2014(b) and the Pension Protection Fund and Occupational Pension Schemes (Levy Ceiling) Order 2015(c) are revoked.

Signed by authority of the Secretary of State for Work and Pensions.

27th January 2016

Altmann
Minister of State,
Department for Work and Pensions

EXPLANATORY NOTE

(This note is not part of the Order)

This Order specifies the levy ceiling (articles 2 and 3) and the amount of the compensation cap (article 4) for use in relation to the Pension Protection Fund in the financial year beginning on 1st April 2016.

The Board of the Pension Protection Fund (“the Board”) is established by section 107 of the Pensions Act 2004 (c. 35) (“the Act”) to provide compensation for members of certain occupational pension schemes which are under-funded at a certain level and whose sponsoring employer has become insolvent.

Section 175 of the Act requires that the Board must impose pension protection levies for each financial year. Section 177(2) provides that the amount of the levies for a financial year must not exceed the levy ceiling for that financial year. The Pension Protection Fund and Occupational Pension Schemes (Levy Ceiling) Order 2015 (S.I. 2015/66) (“the 2015 Order”) specified that the levy ceiling for the financial year beginning on 1st April 2015 is £947,610,293. Section 178(3)(a) of the Act provides that the levy ceiling must increase in line with any increase in the general level of earnings obtaining in Great Britain.

(a) See section 178(4) of the Pensions Act 2004 and regulation 3 of S.I. 2006/2692 which provide that the review period is the period of 12 months ending with 31st July 2015.
(b) S.I. 2014/10. Articles 2 and 3 were revoked by S.I. 2015/66.
(c) S.I. 2015/66.

Article 2 of this Order specifies that the increase in the general level of earnings for the period from 1st August 2014 to 31st July 2015 is 3.6%. Accordingly, article 3 specifies that the levy ceiling for the financial year beginning on 1st April 2016 is £981,724,264.

The compensation cap is used by the Board to determine the amount of compensation payable to a person who is under normal pension age on the assessment date (as described in paragraphs 2 and 34 of Schedule 7 to the Act) and whose compensation is not derived from a survivor's pension or a pension payable on the grounds of ill health. Paragraph 26 of Schedule 7 to the Act can restrict the amount of compensation payable. When it does so, the Board uses the compensation cap to determine the amount of compensation payable.

Article 4 increases the amount of the compensation cap from 1st April 2016 to £37,420.42 to reflect a higher general level of earnings.

Article 5 revokes the 2015 Order, and revokes the Pension Protection Fund and Occupational Pension Schemes (Levy Ceiling and Compensation Cap) Order 2014 (S.I. 2014/10) so far as not previously revoked by the 2015 Order.

This Order amends an existing regulatory regime by a pre-determined formula and the associated administrative costs or savings for the private sector and civil society organisations are negligible. A full impact assessment is not necessary for such an Order.

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