

**2018 No. 95**

**PENSIONS**

**The Pension Protection Fund (Compensation) (Amendment)  
Regulations 2018**

<i>Made</i>	- - - -	<i>25th January 2018</i>
<i>Laid before Parliament</i>		<i>29th January 2018</i>
<i>Coming into force</i>	- -	<i>24th February 2018</i>

The Secretary of State for Work and Pensions makes the following Regulations in exercise of the powers conferred by sections 315(2), (4) and (5) and 318(1) of, and paragraphs 23, 25(1), 25A(1) and 33(1) and (2) of Schedule 7 to, the Pensions Act 2004(a).

The Secretary of State for Work and Pensions has, in accordance with section 317(1) of the Pensions Act 2004, consulted such persons as the Secretary of State considers appropriate.

**Citation and commencement**

1. These Regulations may be cited as the Pension Protection Fund (Compensation) (Amendment) Regulations 2018 and come into force on 24th February 2018.

**Amendments to the Pension Protection Fund (Compensation) Regulations 2005**

2.—(1) The Pension Protection Fund (Compensation) Regulations 2005(b) are amended as follows.

(2) In regulation 1(2) (interpretation)(c), after the definition of “the assessment date” insert—

““the basic element” and “the bridging element”, in relation to a pension which falls within regulation 28(1)(b) (variable-rate schemes which provide for a decrease in annual rate of pension: modification of Schedule 7 to the Act), have the meanings given in regulation 28(2);”.

(3) In regulation 2(2) (circumstances where a person shall be entitled to early payment of compensation)(d)—

- (a) at the end of sub-paragraph (a) omit “and”; and
- (b) at the end of sub-paragraph (b) insert—

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(a) 2004 c. 35. Section 318(1) is cited for the meaning it gives to “prescribed” and “regulations”. Paragraph 25(1) of Schedule 7 was amended by paragraph 19(3)(a) of Schedule 4 to the Pensions Act 2011 (c. 19). Paragraph 25A of Schedule 7 was inserted by paragraph 13 of Schedule 8 to the Pensions Act 2008 (c. 30) and substituted by paragraph 22 of Schedule 4 to the Pensions Act 2011. Paragraph 33 of Schedule 7 was amended by paragraph 15 of Schedule 8 to the Pensions Act 2008.

(b) S.I. 2005/670; relevant amending instruments are S.I.s 2005/2113, 2010/560, 2013/627 and 2016/294.

(c) The definition of “the assessment date” was inserted into regulation 1(2) by S.I. 2005/2113. There are other amendments to regulation 1(2) but none is relevant.

(d) Regulation 2(2) was amended by S.I. 2016/294.

“; and

(c) where regulation 29 (variable-rate schemes which provide for a decrease in annual rate of pension: modification of Schedule 7 to the Act) applies to the scheme and the notice referred to in sub-paragraph (a) relates, in whole or in part, to compensation in respect of a pension which falls within regulation 28(1)(b), that the notice—

(i) relates to both the compensation in respect of the basic element and that in respect of the bridging element; and

(ii) specifies the same date in relation to both for the purposes of paragraph (3)(a)(iii).”.

(4) In regulation 2C (conditions subject to which periodic and lump sum compensation can be postponed)(a), after paragraph (4) insert—

“(4A) The fourth condition is that where regulation 29 (variable-rate schemes which provide for a decrease in annual rate of pension: modification of Schedule 7 to the Act) applies to the scheme and the person elects to postpone any periodic compensation in respect of a pension which falls within regulation 28(1)(b), the person must—

(a) elect to postpone both the compensation in respect of the basic element and that in respect of the bridging element; and

(b) specify the same date in relation to both for the purposes of paragraph (5)(c).”.

(5) In regulation 4 (compensation for surviving dependants)(b)—

(a) in paragraph (3), at the beginning insert “Subject to paragraph (4),”; and

(b) after paragraph (3) insert—

“(4) Where regulation 29 (variable-rate schemes which provide for a decrease in annual rate of pension: modification of Schedule 7 to the Act) applies to the scheme, no compensation may be paid under paragraph (3) in respect of the bridging element of a pension which falls within regulation 28(1)(b).”.

(6) After Part 11 (career average revalued earnings schemes)(c) insert—

## “Part 12

### Variable-rate schemes

#### **Variable-rate schemes which provide for a decrease in annual rate of pension: modification of Schedule 7 to the Act**

**28.**—(1) Regulation 29 applies to a scheme if—

(a) an assessment period(d) in relation to the scheme begins on or after 24th February 2018; and

(b) under the admissible rules(e) of the scheme, immediately before the assessment date(f) a person (“the member”) is entitled, or has accrued rights or pension credit rights, to a pension (“the step-down pension”), the annual rate of which would (had no assessment period begun in relation to the scheme and the rules remained unchanged) have decreased on a date (“the scheme decrease date”) that falls on or after that assessment date.

(2) In this regulation and in regulation 29, in relation to the step-down pension—

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(a) Regulation 2C was inserted by S.I. 2013/627.

(b) Regulation 4(3) was amended by S.I. 2013/627; there are other amendments to regulation 4 but none is relevant.

(c) Part 11 was inserted by S.I. 2010/560.

(d) See section 132 of the Pensions Act 2004 for the meaning of “assessment period”.

(e) See paragraph 35(2) of Schedule 7 to the Pensions Act 2004 for the meaning of “admissible rules”.

(f) See regulation 1(2) of S.I. 2005/670 for the meaning of “the assessment date”.

(a) subject to paragraph (3)—

“the basic element” means the portion of the annual rate of the step-down pension to which the member was, or would have been, entitled for life under the admissible rules of the scheme; and

“the bridging element” means the portion of the annual rate of the step-down pension to which the member was, or would have been, entitled only until the scheme decrease date under the admissible rules of the scheme; and

(b) “the PPF bridging end date” means—

(i) in a case to which paragraph (4) applies, the date determined in accordance with that paragraph;

(ii) in a case to which paragraph (5) applies, the date determined by the Board in accordance with that paragraph; and

(iii) in any other case, the day before the scheme decrease date.

(3) In any case where the Board is satisfied that it is not possible to identify the portions of the annual rate of the step-down pension which constitute the basic element and the bridging element, the Board may, having regard to the admissible rules of the scheme, treat the basic element and the bridging element as meaning such respective portions of the annual rate of the step-down pension as it considers appropriate.

(4) In any case where—

(a) the scheme decrease date would, under the admissible rules of the scheme, have been determined by reference to an enactment as in force at a particular time; and

(b) that time falls after the assessment date,

the PPF bridging end date is the day before what would have been the scheme decrease date, if it were determined by reference to the enactment as in force on the assessment date.

(5) In any case where the Board is satisfied that it is not possible to identify the scheme decrease date, the Board may, having regard to the admissible rules of the scheme, determine the PPF bridging end date in such manner as it considers appropriate.

**29.**—(1) In this regulation—

(a) “the member” and “the step-down pension” have the same meanings as in regulation 28; and

(b) references to “Schedule 7” are to Schedule 7 to the Act.

(2) Schedule 7 has effect with the following modifications in relation to a scheme to which this regulation applies.

(3) Schedule 7 (apart from paragraph 33) and any regulations made under it (apart from regulation 28 and this regulation) have effect as if the basic element and the bridging element of the step-down pension were separate pensions.

(4) Where compensation is payable under paragraph 3 of Schedule 7 (pensions in payment at assessment date) in respect of the step-down pension, sub-paragraph (2) of that paragraph has effect in its application to the bridging element as if for the words from “for life” to the end there were substituted—

“until the earliest of—

(a) the date of the pensioner’s death;

(b) the PPF bridging end date; and

(c) in a case to which sub-paragraph (8) applies, the date on which entitlement to the pension would have ceased under the admissible rules”.

(5) Where compensation is payable under paragraph 5 of Schedule 7 (pension benefits postponed at assessment date) in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—

- (a) in sub-paragraph (2)—
    - (i) at the beginning there were inserted “Subject to sub-paragraph (2A),”; and
    - (ii) for the words from “for life” to the end there were substituted—
      - “until the earliest of—
        - (a) the date of the postponed pensioner’s death;
        - (b) the PPF bridging end date; and
        - (c) in a case to which sub-paragraph (7) applies, the date on which entitlement to the pension would have ceased under the admissible rules”;
  - (b) after sub-paragraph (2) there were inserted—
    - “(2A) No compensation is payable under this paragraph in respect of the pension if, on the PPF bridging end date—
      - (a) the commencement of periodic compensation in respect of the pension has been postponed by virtue of paragraph 25A; and
      - (b) that postponement has not ceased.”; and
  - (c) in sub-paragraph (3)—
    - (i) at the end of paragraph (a) there were inserted “and”; and
    - (ii) paragraph (aa) were omitted.
- (6) Where compensation is payable under paragraph 8 (active members over normal pension age at assessment date), 11 (active members who have not attained normal pension age at assessment date) or 15 (deferred members who have not attained normal pension age at assessment date) of Schedule 7 in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—
- (a) in sub-paragraph (2)—
    - (i) at the beginning there were inserted “Subject to sub-paragraph (2A),”; and
    - (ii) for “for life” there were substituted “until the earlier of the date of his death and the PPF bridging end date”;
  - (b) after sub-paragraph (2) there were inserted—
    - “(2A) No compensation is payable under this paragraph in respect of the pension if, on the PPF bridging end date—
      - (a) the commencement of periodic compensation in respect of the pension has been postponed by virtue of paragraph 25A; and
      - (b) that postponement has not ceased.”; and
  - (c) in sub-paragraph (3)—
    - (i) at the end of paragraph (a) there were inserted “and”; and
    - (ii) paragraph (aa) were omitted.
- (7) Where the commencement of compensation under paragraph 5, 8, 11 or 15 of Schedule 7 in respect of the bridging element of the step-down pension is postponed by virtue of paragraph 25A of that Schedule (postponement of compensation), paragraph 25A has effect in relation to that compensation as if sub-paragraphs (2) and (3) were omitted.
- (8) Where the annual value of the bridging element of the step-down pension falls to be determined under paragraph 26(6) of Schedule 7 (compensation cap) for the purpose of determining the periodic compensation payable to the member, or to another person in respect of the member, paragraph 26 has effect as if—
- (a) in sub-paragraph (6)—
    - (i) at the end of each of paragraphs (a), (b), (d) and (f); and
    - (ii) in paragraph (c)(i), after “paragraph 3(3)(a)”,

there were inserted “, actuarially reduced in accordance with sub-paragraph (8A)”;  
and

(b) after sub-paragraph (8) there were inserted—

“(8A) The Board must determine the amount of the actuarial reduction to be applied under sub-paragraph (6) having regard to the length of the period beginning with the date on which entitlement to compensation in respect of the benefit commences and ending with the PPF bridging end date.”.

(9) Where compensation is payable under paragraph 4 of Schedule 7 (pensions in payment at assessment date – compensation for survivors) in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if in sub-paragraph (2) for “for life” there were substituted “until the earlier of the date of the widow’s or widower’s death and the PPF bridging end date”.

(10) Where compensation is payable under paragraph 6 of Schedule 7 (pension benefits postponed at assessment date – compensation for survivors) in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—

(a) in sub-paragraph (2)—

(i) for “sub-paragraph (4)” there were substituted “sub-paragraphs (2A) and (4)”;  
and

(ii) for “for life” there were substituted “until the earlier of the date of the widow’s or widower’s death and the PPF bridging end date”;

(b) after sub-paragraph (2) there were inserted—

“(2A) No compensation is payable under this paragraph in respect of the pension if the postponed pensioner dies on or after the PPF bridging end date.”; and

(c) in sub-paragraph (3) “any actuarial increase under paragraph 25A and” were omitted.

(11) Where compensation is payable under paragraph 9 of Schedule 7 (active members over normal pension age at assessment date – compensation for survivors) in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—

(a) in sub-paragraph (2)—

(i) for “sub-paragraph (4)” there were substituted “sub-paragraphs (2A) and (4)”;  
and

(ii) for “for life” there were substituted “until the earlier of the date of the widow’s or widower’s death and the PPF bridging end date”;

(b) after sub-paragraph (2) there were inserted—

“(2A) No compensation is payable under this paragraph in respect of the pension if the active member dies on or after the PPF bridging end date.”; and

(c) in sub-paragraph (3) “any actuarial increase under paragraph 25A and” were omitted.

(12) Where the member dies after attaining normal pension age and compensation is payable under paragraph 13 of Schedule 7 (active members who have not attained normal pension age at assessment date – compensation for survivors) in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—

(a) in sub-paragraph (2)—

(i) for “sub-paragraph (4)” there were substituted “sub-paragraphs (2A) and (4)”;  
and

(ii) for “for life” there were substituted “until the earlier of the date of the widow’s or widower’s death and the PPF bridging end date”;

(b) after sub-paragraph (2) there were inserted—

“(2A) No compensation is payable under this paragraph in respect of the pension if the active member dies on or after the PPF bridging end date.”; and

- (c) in sub-paragraph (3)(a) “any actuarial increase under paragraph 25A and” were omitted.

(13) Where the member dies after attaining normal pension age and compensation is payable under paragraph 18 of Schedule 7 (deferred members who have not attained normal pension age at assessment date – compensation for survivors) in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—

- (a) in sub-paragraph (2)—
  - (i) for “sub-paragraph (4)” there were substituted “sub-paragraphs (2A) and (4)”;  
and
  - (ii) for “for life” there were substituted “until the earlier of the date of the widow’s or widower’s death and the PPF bridging end date”;
- (b) after sub-paragraph (2) there were inserted—

“(2A) No compensation is payable under this paragraph in respect of the pension if the deferred member dies on or after the PPF bridging end date.”; and
- (c) in sub-paragraph (3)(a) “any actuarial increase under paragraph 25A and” were omitted.

(14) Where the member dies before attaining normal pension age—

- (a) if compensation is payable under paragraph 13 of Schedule 7 in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—
  - (i) in sub-paragraph (2) for “for life” there were substituted “until the earlier of the date of the widow’s or widower’s death and the date specified in sub-paragraph (2A)”;
  - (ii) after sub-paragraph (2) there were inserted—

“(2A) The date specified for the purposes of sub-paragraph (2) is—

    - (a) where, by virtue of paragraph 25 (early payment of compensation), the active member became entitled to compensation under paragraph 11 in respect of the pension before the date of the active member’s death, the PPF bridging end date; and
    - (b) in any other case, the last day of the period which begins with the day following the active member’s death and is equal in length to the period—
      - (i) beginning with the day on which the active member would have attained normal pension age; and
      - (ii) ending with the PPF bridging end date.”; and
- (b) if compensation is payable under paragraph 18 of Schedule 7 in respect of the step-down pension, that paragraph has effect in its application to the bridging element as if—
  - (i) in sub-paragraph (2) for “for life” there were substituted “until the earlier of the date of the widow’s or widower’s death and the date specified in sub-paragraph (2A)”;
  - (ii) after sub-paragraph (2) there were inserted—

“(2A) The date specified for the purposes of sub-paragraph (2) is—

    - (a) where, by virtue of paragraph 25 (early payment of compensation), the deferred member became entitled to compensation under paragraph 15 in respect of the pension before the date of the deferred member’s death, the PPF bridging end date; and

- (b) in any other case, the last day of the period which begins with the day following the deferred member's death and is equal in length to the period—
  - (i) beginning with the day on which the deferred member would have attained normal pension age; and
  - (ii) ending with the PPF bridging end date.”.

(15) Paragraph 37(1) of Schedule 7 (other definitions) has effect as if after the definition of “pension credit rights” there were inserted—

““the PPF bridging end date” has the meaning given by regulation 28(2)(b) of the Pension Protection Fund (Compensation) Regulations 2005 (variable-rate schemes which provide for a decrease in annual rate of pension: modification of Schedule 7 to the Act);”.”.

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

25th January 2018

*Guy Opperman*  
Parliamentary Under-Secretary of State  
Department for Work and Pensions

#### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

The Board of the Pension Protection Fund (“the Board”) is established by section 107 of the Pensions Act 2004 (c. 35) (“the 2004 Act”) to provide compensation for members of certain occupational pension schemes in the event of the insolvency of the scheme’s sponsoring employer, where the pension scheme is underfunded below a certain level. The compensation payable to individual members is determined in accordance with Schedule 7 to the 2004 Act and regulations made under it, including the Pension Protection Fund (Compensation) Regulations 2005 (S.I. 2005/670) (“the Compensation Regulations”).

These Regulations make amendments to the Compensation Regulations to insert provisions modifying the effect of Schedule 7 to the 2004 Act in relation to certain schemes, and also make other related amendments to the Compensation Regulations.

Regulation 2(6) inserts new regulations 28 and 29 into the Compensation Regulations. New regulation 28 provides that the modifications to Schedule 7 apply to schemes in relation to which an assessment period begins on or after 24th February 2018 (when these Regulations come into force), where under the scheme immediately before the assessment date a member is entitled, or has accrued rights, to a pension the annual rate of which would have decreased on or after the assessment date (referred to as a “step-down pension”). New regulation 29 sets out details of the modifications to Schedule 7 which apply in relation to those schemes.

Under Schedule 7 to the 2004 Act, periodic compensation is usually calculated by reference to the annual rate of the pension immediately before the assessment date, or, where the pension is not yet in payment, what would have been the initial annual rate. The modifications set out in new regulation 29 of the Compensation Regulations provide for the annual rate of periodic compensation in respect of a step-down pension to decrease at a specified point in time, to reflect the decrease which would have occurred in the rate of the step-down pension under the member’s scheme. These Regulations also make other related modifications to Schedule 7, including to provide for the application of the compensation cap under paragraph 26 of Schedule 7 to a person who is entitled to compensation in respect of a step-down pension to take account of the decrease which will occur in the rate of that compensation.

A full impact assessment has not been produced for this instrument as no, or no significant, impact on the private, voluntary or public sector is foreseen.

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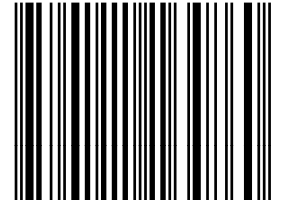
Printed and published in the UK by The Stationery Office Limited under the authority and superintendence of Jeff James, Controller of Her Majesty's Stationery Office and Queen's Printer of Acts of Parliament.

£6.00

UK201801261012 02/2018 19585

<http://www.legislation.gov.uk/id/uksi/2018/95>

ISBN 978-0-11-116486-0



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