

Equality Impact Assessment – Pension Protection Fund: revaluation

March 2011

Equality impact assessment for the Pension Protection Fund: revaluation

Introduction

The Department for Work and Pensions has carried out an equality impact assessment on the change being made to the revaluation methodology applied to the compensation provided by the Pension Protection Fund by way of amending regulations. It considers the impact of these changes on the individuals who receive compensation from the Fund. Parallel changes are being introduced in respect of indexation of compensation from the Pension Protection Fund (PPF). As the PPF indexation change is being brought into effect through the Pensions Bill 2011, an impact assessment has been produced for that legislation¹. Parallel changes are being introduced in relation to revaluation and indexation of payments from the Financial Assistance Scheme (FAS). An Equality Impact Assessment has been published in relation to those changes². This assessment considers the changes in line with the current public sector equality duties.

This process will help to ensure that:

- the Department's strategies, policies and services are free from discrimination;
- the Department complies with current equality legislation;
- due regard is given to equality in decision making and subsequent processes; and
- opportunities for promoting equality are identified.

Scope of this assessment

This assessment considers the impact of the change to the indexation and revaluation methodology used by the PPF and specifically the impact in terms of:

- disability,
- gender and transgender,
- race, and
- age.

¹ <http://www.dwp.gov.uk/docs/pensions-bill-2011-ia-annexc.pdf>

² <http://www.dwp.gov.uk/docs/fas-eia-feb-2011.pdf>

Brief outline of the policy or service

The Pension Protection Fund

Background

The Pension Protection Fund (PPF) is a statutory fund that protects members of defined-benefit and hybrid occupational pension schemes by paying a statutory level of compensation if:

- their scheme's sponsoring employer experiences a qualifying insolvency event,
- there is no possibility of a scheme rescue, and
- there are insufficient assets in the scheme to pay benefits at PPF compensation levels.

The fund is administered by the Board of the Pension Protection Fund, a public corporation.

The PPF started up for business on 6 April 2005.

PPF compensation is funded by:

- charging a compulsory annual pension protection levy charged to all eligible defined-benefit occupational pension schemes,
- the remaining assets of any insolvent company's scheme that transfers to the PPF at the end of an assessment period; and
- investment returns.

The day-to-day administration of the PPF is funded by a grant-in-aid from DWP recovered by the PPF Administration Levy, which is collected by the Pensions Regulator.

The PPF helps members who have lost some or all of their defined benefit occupational pension due to employer insolvency, so its rules generally reflect the minimum statutory requirements for revaluation and indexation in occupational pension schemes.

Pension compensation is calculated by reference to the pension accrued by members in their schemes before the schemes entered the PPF assessment period. These accrued pensions are generally re-valued until payments begin and indexed thereafter to take account of some of the impact of inflation. There are caps on the amount of revaluation and indexation which, once again, reflect those used in statutory minima for occupational pensions.

The Government announced on 8 July 2010 that it proposed to move to a different inflation measure - the consumer prices index (CPI) instead of the retail prices index - as the basis for revaluation and indexation of compensation provided by the PPF. This is part of a wider decision to use the CPI as the Government's general measure of inflation for social security benefits, State pensions, public sector pensions,

statutory minimum revaluation and indexation of private sector pensions and assistance provided by the Financial Assistance Scheme.

The Government believes that the CPI is an appropriate measure of price changes as it :

- provides consistency with the measure used as the Bank of England's inflationary target;
- is a better reflection of actual inflation experiences because its methodology takes account of substitution behaviour;
- is the headline and most high profile measure of inflation; and
- excludes mortgage interest payments, which are not relevant to most pension and PPF recipients.

The Government believes that it would be inappropriate to use a different measure for the PPF than for the legislation governing ongoing pension schemes themselves.

The changes to the PPF

Currently, revaluation of pension compensation is provided in line with scheme rules up to the date a scheme enters a PPF assessment period. Thereafter, revaluation in line with the increase in the RPI is provided up to the commencement of compensation payments. This revaluation is subject to a cap of 5 per cent per annum compound in respect of pensionable service to April 2009, and 2.5 per cent per annum compound in respect of pensionable service thereafter. This reduction in the revaluation cap reflects similar changes which were introduced to the statutory minima for occupational pensions around that time.

The Government is bringing forward draft Regulations to amend the way in which PPF compensation is revalued. The proposed changes will amend:

- the PPF rules so that accrued pensions would be revalued by reference to the RPI for periods before 31 March 2011 and could be revalued by reference to the CPI after that date. Relevant caps to revaluation increases would continue to apply as they do under current rules.

Under the draft Regulations those people reaching the point at which pension compensation starts to be paid before 31 March 2011 will have their revaluation calculated according to the RPI, subject to the cap. Those whose pension compensation starts to be paid on or after 31 March 2011 will have revaluation for periods starting from that date calculated in line with the CPI, subject to the cap, and any revaluation for periods before that date calculated in line with the RPI, subject to the cap.

Changes are also proposed to the indexation of relevant pension compensation payments so that relevant increases could be undertaken in line with the CPI in the future. These changes require amendments to primary legislation and are being

taken forward via the current Pensions Bill. Once the Parliamentary process is complete it is the Government's intention that pension compensation indexation payments paid on 1 January 2012 will be based on increases in the CPI, subject to the cap.

Consultation and involvement

As part of the consultation on the Regulations which will bring in these changes the Government sought views on whether they would impact on particular groups. Responses generally highlighted the impact of the revaluation changes on younger scheme members. This impact is considered below.

Impact of the way PPF Compensation is revalued

As with other matters of employment, occupational pension schemes and the Pension Protection Fund (PPF) are prohibited from discriminating on grounds of:

- disability,
- gender and transgender,
- race, and
- age.

Disability Equality

The rules on pension compensation includes provision for people who are over age 55 to have their compensation payments started early - before they reach their scheme's normal pension age.

The rules on pension compensation also include provision for people who are terminally ill and not in receipt of compensation to commute their future entitlement to compensation to a terminal illness lump sum.

A person who is currently in receipt of compensation as they have been paid early will not be affected by the revaluation changes, but may be affected by the changes proposed to indexation in the Pensions Bill. The Government intends that indexation paid from 2012 will be calculated by reference to the CPI, subject to the cap.

Gender and Transgender Equality

The Gender Equality Duty requires public authorities to actively address the individual needs of women and men. The PPF provides compensation to people who

were members of defined benefit occupational pension schemes and whose sponsoring employer had a qualifying insolvency event. In order to qualify for entry to the PPF the scheme has to have insufficient funds to pay benefits at the level of compensation paid by the PPF. In the private sector defined benefit schemes were more commonly adopted by larger-scale employers in male-dominated industries (such as engineering). In 2007, 61 per cent of active members of occupational pension schemes in the private sector were male³. It therefore follows that men are more likely to benefit from the PPF than women.

In addition, pension compensation is based on the rights accrued in the pension schemes at the start of an assessment period for the PPF. As women are more likely to have a broken work history and receive lower pay than men, their accrued pension rights and thus any pension compensation payments based on those rights are also likely to be lower.

These conclusions are supported by data from the PPF itself. As of January 2011, 26 per cent of members were female and the average compensation provided to female members was only 54 per cent of payments to their male counterparts. However, it should be noted that some of these female members will be receiving lower pension compensation under the rules relating to the payment of partners following the death of the member.

The change in the rate of revaluation which these regulations will allow will be applied equally to members of either gender. The effect of this change will therefore stem from the differences in benefit profile, including any difference in retirement age, and make-up of the occupational pension schemes, combined with differences in life expectancy as women live longer than men on average and not from any change in the rate of revaluation used.

Race Equality

Entitlement to the PPF is, by its very nature, restricted to members of defined benefit occupational pension schemes. Any considerations of race equality therefore rest upon the workforce demographic of the qualifying scheme's sponsoring employer at the time the pension accruals were built-up.

The changes to indexation and revaluation will consequently impact on individuals as members of eligible schemes. The Government does not envisage any specific race equality impacts stemming from these changes.

Age Equality

The PPF provides an income in retirement and is therefore governed by age-based rules concerning when compensation may be accessed. Younger qualifying members will be subject to the revised revaluation for a longer period than older qualifying members. Consequently, any long term difference between the RPI and the CPI will have larger impact on those younger members due to compounding

³ OPSS, www.statistics.gov.uk/downloads/theme_population/Occ-Pension-2007/03_06.xls

effects. However, younger members are likely to have accrued lower amounts of pension, so although the difference is greater in percentage terms, it is likely to be applied to a lower value of pension. Older members are likely to see a lower reduction in percentage terms, but this is applied to a higher value of pension.

Monitoring and evaluation

The DWP's policy intention is to ensure that pension compensation from the PPF is calculated on the inflation basis the Government considers most appropriate – currently the Consumer Prices Index (CPI). Given that the impact of this change stems primarily from the underlying make-up of occupational pension schemes from which qualifying members flow, it is not intended to specifically monitor the impact of the switch in the inflation measure.

The Board of the Pension Protection Fund will continue to monitor its service to customers overall, with special reference to those members who are disabled or members of ethnic minorities. This monitoring will involve annual Stakeholder Perception Audits that quantify and qualitatively measure how well the PPF is communicating with its members.

The PPF is committed to providing facilities suitable for disabled people. As part of this commitment the PPF website has been built to internationally-recognised accessible website guidelines produced by the World Wide Web Consortium.

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