

**EXPLANATORY MEMORANDUM TO THE
PENSION PROTECTION FUND (HYBRID SCHEMES) (MODIFICATION)
REGULATIONS 2005**

2005 No. 449

1. This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.
2. **Description**
 - 2.1 The Board of the Pension Protection Fund (PPF) is a body corporate established by section 107 of the Pensions Act 2004 (c. 35) (“the Act”) to provide compensation for members of eligible occupational pension schemes in the event of the insolvency of the scheme’s sponsoring employer, or following an application by the trustees or managers of the scheme, where the pension scheme is underfunded at a certain level.
 - 2.2 These regulations detail the way in which the Act is to be modified to apply to hybrid pension schemes. This modification power is in section 307(1).
 - 2.3 In addition, these Regulations make use of the power under section 135(4) in order to provide for the discharge of money purchase liabilities by the trustees or managers of the scheme during the assessment period.
3. **Matters of special interest to the Joint Committee on Statutory Instruments**
 - 3.1 None.
4. **Legislative Background**
 - 4.1 These regulations are made under the powers in sections 307(1) and 135(4) of the Act. This is the first use of these powers.
 - 4.2 These regulations will come into force on 6th April 2005.
5. **Extent**
 - 5.1 This instrument applies to England, Wales and Scotland under section 323(1).
6. **European Convention on Human Rights**
 - 6.1 Not applicable.

7. Policy Background

- 7.1 The Act establishes the Pension Protection Fund (PPF), which will pay compensation to members of eligible schemes where the sponsoring employer is insolvent, or where the trustees or managers make an application to the Board, and the scheme has insufficient assets to pay benefits at a level at least equal to the amount of compensation the PPF would provide.
- 7.2 Hybrid pension schemes are pension schemes which are neither purely defined benefit nor purely money purchase arrangements¹, but a combination of the two.
- 7.3 These Regulations modify the Act so that the protection offered by the PPF will extend only to the defined benefit element of hybrid schemes.
- 7.4 Much of the Act does not require special modification in relation to hybrid schemes, because the provisions already exclude rights to money purchase benefits. However, modification is necessary in some instances.

8. Impact

- 8.1 A Regulatory Impact Assessment has not been produced for this instrument as it has no impact on business, charities or voluntary bodies.
- 8.2 There is no impact on the public sector.

9. Contact

- 9.1 Sarah Ormerod at the Department for Work and Pensions tel: 020 7712 2757 or email: Sarah.Ormerod@dwp.gsi.gov.uk can answer any queries regarding this instrument.

¹ In very broad terms, in a defined benefit scheme a member's pension is calculated by reference to their salary, whereas in a money purchase scheme the pension a member would receive is calculated by reference to the 'pot' of money the member has accrued through contributions and any investment returns.