
EXPLANATORY NOTE

(This note is not part of the Order)

This Order specifies the earnings percentage used to calculate the levy ceiling (article 2), the amount of the levy ceiling (article 3) and the standard amount of the compensation cap (article 4) for use in relation to the Pension Protection Fund in the financial year beginning on 1st April 2018.

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 and Compensation Cap) Order 2017 (S.I. 2017/50) (“the 2017 Order”) specified that the levy ceiling for the financial year beginning on 1st April 2017 is £1,007,249,095. 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.

Article 2 of this Order specifies that the increase in the general level of earnings for the period from 1st August 2016 to 31st July 2017 is 1.7%. Accordingly, article 3 specifies that the levy ceiling for the financial year beginning on 1st April 2018 is £1,024,372,330.

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. The amount of compensation payable must be restricted in accordance with paragraph 26 of Schedule 7 to the Act in cases referred to in that paragraph. Where that paragraph applies, the Board uses the compensation cap to determine the amount of compensation payable.

Article 4 provides that the standard amount of the compensation cap under paragraph 26A(7)(a) of Schedule 7 to the Act is £39,006.18 from 1st April 2018. This is an increase on the previous standard amount (which was previously specified under paragraph 26(7) of Schedule 7 to the Act) to reflect a higher general level of earnings.

Article 5 revokes the 2017 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.