
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.