Lifeboat rescue

With company insolvencies on the rise, Jack Gray investigates how and why affected schemes can enter and exit the Pension Protection Fund (PPF)

Entering PPF assessment may not be a pleasant situation for a pension scheme or its members, but there is still a chance that it will exit the PPF and members will receive benefits higher than PPF compensation levels. If, during the assessment period, a scheme is found to have or be able to secure sufficient assets to buyout benefits above the PPF payment level of 50 per cent, it can leave the pensions lifeboat.

"It is possible for a scheme to enter the PPF assessment period with insufficient assets, but by way of recoveries, the scheme assets become sufficient to allow the scheme to buyout benefits at or above PPF levels," explains PPF panel manager, Helen Beckinsale. "It may be that a scheme's liabilities also adjust when the assessment period tasks are carried out and the scheme is able to buyout."

According to the PPF, around 10 schemes entered and left PPF assessment in 2019/20. One such example is the Countrywide Farmers Retirement Benefits Scheme, which entered PPF assessment in March 2018 following the insolvency of Countrywide Farmers, before exiting the lifeboat in November 2019 after securing sufficient assets and agreed a £100 million bulk annuity deal with Legal & General (L&G).

The transaction, known as a PPF-plus buyout, allows for greater benefits than would have otherwise been provided by the PPF.

Describing the process, L&G Retirement Institutional director, pension risk transfer, Dominic Moret, says that scheme advisers typically look for assets of around 105 per cent of the PPF compensation level before approaching the insurance market.

"Advisers of the scheme would approach insurers and ask them to quote on providing benefits at the level they are provided in the PPF," Moret continues.

"If it is affordable for the scheme to be able to purchase those benefits from the insurer, so that rather than falling into the PPF the scheme will come out of PPF assessment and move to have their benefits provided by an insurer."

Moret notes that although the members will likely end up with a lower benefit than they may have been expecting from the scheme, it is higher than if they had fallen into the PPF.

The process length can vary significantly, with the time between the Countrywide Farmers' scheme entering PPF assessment and securing a buyout being under two years, whereas the Nortel Network Pension Plan began PPF assessment in 2009 before securing a £2.4 billion buyout in October 2018.

"The length of the process is largely determined by the timing of future recoveries to the scheme as trustees are unable to determine each member's individual uplift until all proceeds are received," says Beckinsale.

Regarding the Nortel deal, Moret notes that although members received benefits lower than they would have done without their company's fall into administration, the members valued the "certainty" following almost a decade of anxiety.

Company insolvencies have been on the rise due to the Covid-19 pandemic, with more expected in the near future, which is likely to see the number of schemes entering PPF assessment increase.

"Over recent years we have seen an increase in the number of PPF-plus cases that are being brought to us," comments L&G Retirement Institutional director, pension risk transfer, Rachel Cutts. "It is widely reported that many employers are struggling at the moment, so it does seem we are going to see more of them in the future too."

The number of potential PPF-plus deals may increase in the coming months and years, but Cutts warns that these types of transactions can be "complex".

"It really is quite an involved process and scheme scenarios can vary greatly," she concludes.

Written by Jack Gray