



Rt Hon Thérèse Coffey MP  
Caxton House  
Tothill Street  
London  
SW1H 9NA  
(via email)

19 May 2022

Dear Secretary of State,

### **Inflation increases for PPF / FAS compensation**

I am writing about the impact of the rules about increases to compensation payments from the Pension Protection Fund (PPF) and Financial Assistance Scheme (FAS).

As you will be aware, under the Pensions Act 2004 and related regulations, the annual increases for compensation from the PPF are quite limited. Compensation in relation to benefits accrued on or after 6 April 1997 is generally increased in line with inflation as measured by the Consumer Prices Index (CPI), but capped at 2.5%. Compensation in relation to benefits accrued before 6 April 1997 generally receives no increase at all. Increases in compensation from the FAS follow the same principles.

The effect of these rules greatly restricts the inflation protection for compensation payments. Many Prospect members whose schemes have transferred to the PPF are receiving compensation in relation to pre-April 1997 service only, and consequently have their entire compensation completely frozen.

In the context of very high and fast-rising inflation, this is both an unacceptable burden and a disproportionate hardship for members of the PPF. Based on the latest Bank of England forecasts, PPF members in this situation could see their compensation fall by nearly 20% in real terms by the start of 2026. This is in addition to real-terms reductions already incurred and often to a 10% cut applied to compensation when it was first paid.

Few other groups of retirees or social welfare recipients are being forced to endure a freeze on a substantial portion of their income at this time. It is particularly galling for pension scheme members who were originally promised full inflation protection to be in this situation. It is unfair for members of the PPF to have to face these particular difficulties during the current cost of living crisis.

Clearly, the scale of these real-terms reductions in compensation will bring many PPF members close to, or below, the threshold of at least 50% of the value of their accrued entitlement as the minimum level of compensation established by the CJEU in *Grenville Hampshire v The Board of the Pension Protection Fund (Hampshire)*. It is not clear whether the PPF's implementation of the Hampshire judgment fully allows for the current cost of living crisis. There is a real risk of a further legal challenge on this point.

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Rather than waiting many years for the courts to assess whether compensation levels met the minimum legal standards, it would be preferable for you to urgently review whether the compensation rules are sufficient to properly protect members of the PPF and FAS.

I therefore ask that you:

- (1) Urgently review whether the level of compensation increases in the PPF and FAS properly protect all members from the current cost of living crisis and bring forward appropriate reforms if necessary.
- (2) Assess whether the PPF's approach to the Hampshire judgment properly takes the current inflationary environment into account and request that the Board consider appropriate changes if necessary.

Yours sincerely,

A handwritten signature in cursive script that reads "Sue Ferns".

Sue Ferns

Senior Deputy General Secretary