Insuring benefits outside the PPF

Will Bennett looks at the practicalities faced by trustees when insuring benefits outside the PPF

Most schemes in PPF assessment are underfunded and will eventually enter the PPF. However there are a number of schemes where the assets will support better than PPF benefits. Such schemes exit the PPF assessment process and are wound up outside the PPF.

Record keeping

Whether a scheme enters the PPF or not, trustees will need to be confident in the scheme data and the benefits to be secured. Indeed, data quality may also be taken into account in the terms offered by insurers when securing the benefits. The data audit process should therefore start early. Ideally data checking will be carried out before PPF or wind up becomes an issue and we note that The Pension Regulator's guidance on record keeping is encouraging schemes to audit their data sooner rather than later.

Equalisation of GMPs

The PPF has issued guidance on GMP equalisation for schemes entering the PPF and has been carrying out a pilot study. Schemes winding up outside the PPF may not be bound by such guidance so trustees will need to consider the most appropriate approach given the circumstances of their scheme. It has to be remembered that expenses reduce the assets available to secure benefits and therefore a pragmatic and proportionate approach should be followed wherever possible.

Investment

When a pension scheme enters the PPF assessment period, trustees are expected to review their investment strategy to reflect the changed circumstances of the scheme. Typically, this de-risking process will involve implementing a broadly matching bond portfolio to reflect PPF benefits and the PPF funding level. However in cases where the scheme's assets may be able to provide higher than PPF benefits there can be additional investment strategy considerations in terms of minimising risks and maximising the potential for benefits that are better than the PPF. Any such considerations should take into account the extent to which any section 75 debt owed to the scheme might be forthcoming from an insolvent employer.

What level of benefits to pay?

Most of the schemes which emerge from PPF assessment will still not be able to afford full scheme benefits and therefore identifying the benefits to insure is not always straightforward. A scheme's rules can affect the level and type of benefits that can be secured in wind-up while statutory overrides on the benefit priority order also need to be taken into account. As such it is important to consider obtaining legal advice when deciding what benefits to pay members. Any actuarial advice on the design of the benefits to be secured should therefore be framed in accordance with any legal advice given.

Obtaining a bulk annuity contract

Schemes winding up outside the PPF have to secure a bulk annuity contract with an insurer. There are many issues to consider when purchasing bulk annuities including price, security of benefits, administration quality, handover and post-wind-up services. Trustees also need to consider how to align their investment strategy with movements in bulk annuity pricing. Experienced advisers in this area can add significant value to trustees through the buyout process.

Closed scheme status

A scheme may have sufficient assets to provide PPF benefits at the effective date of the PPF valuation but at a later date the position may have deteriorated. In such cases it is possible to obtain 'closed scheme' status and to open up further assessment period discussions with the PPF with the expectation of entering the PPF after all.

While most schemes in PPF assessment are underfunded there are schemes that could do better outside the PPF. It is important to plan carefully and ensure advisers are aware of and can deal with the additional challenges for schemes winding up outside the PPF.

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