

Expected change to 'high/low' pensions

We expect the Government to change the rules that affect 'high/low' pensions. This change would directly affect pensioners who chose to take a higher starting pension that will reduce to a lower pension after 29 March 2018. If the Government doesn't change the rules, this could affect the future of the new scheme, and so affect any member who wants to switch to it.

Who would be directly affected by the change?

The change in the rules would directly affect members who:

- are currently taking their pension, and
- have chosen to take a higher pension which will reduce to a lower pension when they reach their 'stepdown date' – usually their State Pension Age or age 65, and
- their stepdown date is after 29 March 2018.

How high/low pensions work at the moment

If you are directly affected as described above, and you switch to the new scheme, you would keep the high/low arrangement with the same reduction at the same stepdown date.

But the PPF works differently. Under current law, your PPF benefits would be based on your current 'high' level pension and there would be no reduction when you reach your stepdown date. As a result, your PPF benefits could be worth more than your current scheme benefits. If you're under your normal retirement age (usually 65) on 29 March 2018, the starting amount of your PPF pension would be reduced. It would be 90% of your current 'high' level pension, or less if the PPF cap applies. <http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx> (There will be more about this in your options pack in October.) Despite this reduction, the current law means your PPF benefits could still be worth more than your current scheme benefits.

The change and how it could affect high/low pensioners

The Government announced on 31 August 2017 that it intends to change the way PPF benefits are calculated for members with high/low arrangements. It is consulting about what the change should be. The consultation ends on 1 October 2017.

<https://www.gov.uk/government/consultations/pension-protection-fund-draft-regulations-to-take-account-of-bridging-pensions>

One approach for directly affected high/low pensioners would be for the PPF pension to be reduced at your stepdown date. This would have happened in the current scheme and will happen if you switch to the new scheme. If you're under your normal retirement age on 29 March 2018, your starting amount would be 90% of your current 'high' level pension, or less if the PPF cap applies.

Another approach, which is the Government's preferred approach, would mean that, when you start to move into the PPF, your pension would be reduced straight away instead of waiting for your stepdown date, but the reduction would not be as big. The amount of reduction would depend on how long you've been getting your pension at the 'high' level and how close you are to your stepdown date. The reduced amount would be less than the current scheme pension you would have had if you had not taken the high/low option. But it would be no less than the 'low' level pension that you would have had from your stepdown date. If you're under your normal retirement age on 29 March 2018, your PPF pension would then be reduced again, to 90% of the reduced amount, or less if the PPF cap applies.

For a pensioner with an average life expectancy, the overall value of the PPF benefits under the two approaches would be broadly the same as each other.

How the new scheme could be affected if the rules don't change

If the rules don't change, directly affected pensioners are likely to choose to move into the PPF. The PPF would then be faced with a significantly higher cost of providing benefits for those members. As a result, when the current scheme's assets are divided between the PPF and the new scheme, the PPF would get a larger share – and the new scheme a smaller share – than otherwise. This would weaken the financial position of the new scheme. As a result, benefits for members in the new scheme might be less secure, or the new scheme might not be viable at all – in which case all members would move into the PPF and get benefits at PPF levels.

When the rules could change and what you can do

We expect that the Government will change PPF benefits for pensioners with high/low arrangements before the current scheme starts moving into the PPF. If you're directly affected, we understand that you may want to be sure about the change, or to know more about it, before you choose your option. So we will write to you once we know more, and in good time before the deadline for choosing your option.

All members are welcome to respond to the Government's consultation. You can do this through the Government's website <https://www.gov.uk/government/consultations/pension-protection-fund-draft-regulations-to-take-account-of-bridging-pensions> The deadline for comments is 11.45pm on 1 October 2017.