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David Matthews

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**The Occupational Pension Schemes (Levy Ceiling) Order 2010 and
the Pension Protection Fund (Pension Compensation Cap) Order
2010**

During the debate of the above Orders on 9 February 2010, I agreed to write to you on a number of points which you had asked to be clarified.

I am also using this opportunity to make a minor correction to a figure I gave during the debate when I spoke about to aggregate funding position of schemes protected by the Pension Protection Fund.

Uprating – percentage figures

You asked why the Orders increased the levy ceiling and the compensation cap by different amounts; 0.9 per cent and 3.5 per cent respectively.

Both the levy ceiling and the compensation cap are uprated in line with the increase in average earnings within Great Britain. We use figures monitored and published by the Office of National Statistics (ONS) which are not seasonally adjusted and include bonuses.

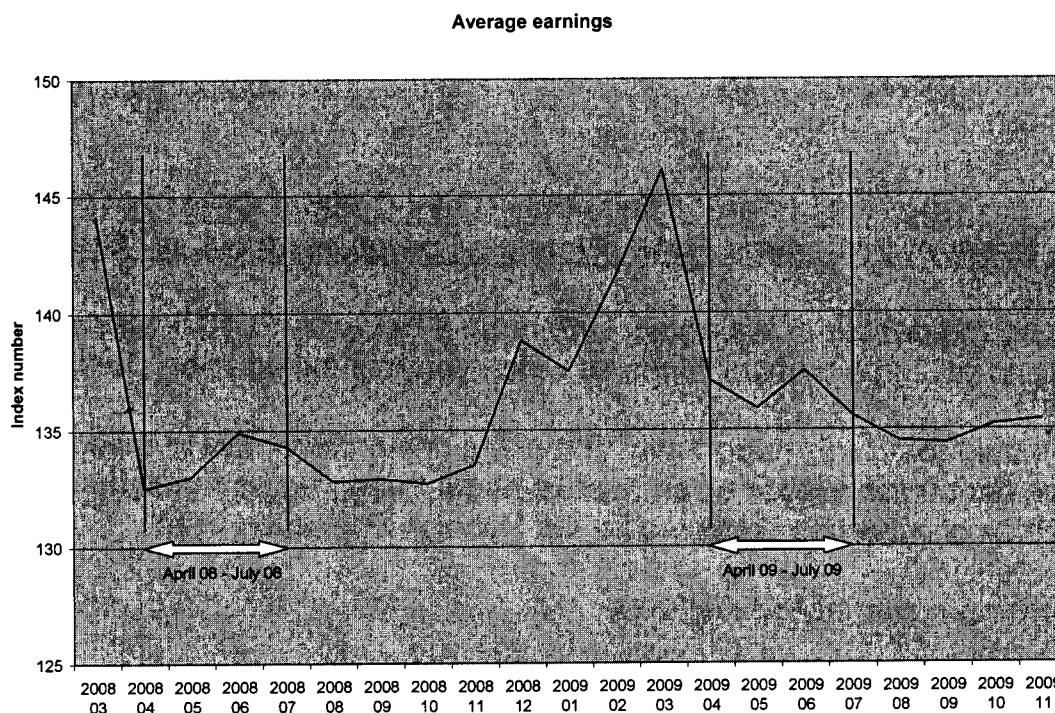
The periods used to measure the increase in average earnings for the purposes of the levy ceiling and the compensation cap this year are July 2008 to July 2009 and April 2008 to April 2009.

The periods have remained the same since the levy ceiling and the compensation cap and were first uprated in April 2007 and April 2006 respectively.

It is important that annual upratings are done on a consistent basis – that is why, for example, the compensation cap is always uprated using

the April figures. Changing the basis would mean that some people could lose out in the year that the change occurred.

Although the levy ceiling and the compensation cap are updated by reference to different periods, over time the effect is the same. For example, although the levy ceiling is only being updated by 0.9 per cent this time, as the end of the period included a very different earnings position to the beginning that data will be taken into account in the updating of the compensation cap next year.



As you will see from the chart, average earnings fell between April and July 2009. This meant that the increase from July to July was only 0.9% compared to the 3.5% increase from April 2008 to April 2009.

New membership and new accrual

You asked a number of questions about *The Purple Book 2009* which is published jointly by the Pensions Protection Fund and the Pensions Regulator.

You asked whether the 27 per cent figure (page 14 of *The Purple Book 2009*) refers to schemes that are open to both new membership and accrual. I can confirm that the 27 per cent refers to schemes that are open both to new members and to new accrual.

Aggregate funding position

You also asked about the decline in the funding position of the schemes that the PPF *Purple Book 2009* refers to. I confirmed that new figures had been published on 9 February 2010.

I am sorry to say there was, however, a slight error in what I had said. I said that "the aggregate funding position of the almost 7,400 schemes protected by the PPF is estimated to have worsened slightly over the month to a deficit of £51.9 billion at the end of January 2010 – compared with a deficit of £32.6 billion at the end of November 2009". I should have said "£32.6 billion at the end of December 2009".

Contingent Assets

On the total number of contingent assets which are pledged by companies to help support pension schemes, as quoted on page 20 of the *Purple Book*, you asked what the total value of those assets were in each year.

I understand from the Pension Protection Fund that the total value of contingent assets pledged by schemes cannot be measured accurately, as some are used to guarantee a pre-determined percentage of liabilities, and the value of those liabilities, and therefore the amount guaranteed, can change over time.

The Pension Protection Fund does, however, measure the amount that schemes save on their pension protection levy bills by pledging contingent assets. In the 2008/09 levy year, schemes that put contingent assets in place saved a total of £70 million on their levy bills. In 2009/10, schemes with contingent assets had their levies reduced by a total of around £100 million.

I would like to take this opportunity to thank you for the contribution that you made to the debate on the levy ceiling and compensation cap Orders.

I am copying this letter to other Peers who contributed to the debate and will arrange a copy to be placed in the House Library

Yours sincerely



Bill McKenzie