Pension
Protection
Fund

Rt Hon Frank Field MP
Chair of the Work and Pensions Committee
House of Commons
London
SW1A 0AA

10 December 2018

Dear Mr Field

Carillion

Thank you for your letter of 27 November on Carillion. Please find below the answers to your specific questions.

1. What progress has been made on estimating the cost to the PPF in covering shortfalls in Carillion's pension schemes?

Our latest estimates indicate there has been no material change in the funding position of the schemes since we last wrote to the Committees' in July. Back then, we estimated that the combined aggregate deficit of the defined benefit (DB) pension schemes associated with Carillion stood at around £800 million on a section 143 valuation basis.[1]

The shortfall on this basis will only be definitively known once all the 13 Carillion schemes have completed their PPF assessment periods and a section 143 valuation has been carried out for each scheme. These are typically completed towards the end of an assessment period, so in the case of the Carillion schemes we expect them to be carried out from next year. Our current working assumption is not all of the Carillion schemes may transfer to the PPF – a small number may be sufficiently funded to be able to look to secure their members' benefits at or above PPF compensation levels although that will only be conclusively known at the end of their assessment periods.

The true eventual claim to the PPF will be determined when all the schemes have completed PPF assessment and we know the funding shortfall and the extent to which this is offset by recoveries we may receive from the liquidation process. On potential recoveries, the Official Receiver (the Insolvency Service), supported by the Special Managers (PWC) would be better placed than us to provide a more detailed update. In broad terms, from the information we have received to date, we continue to work on the basis that the realisations we may receive (having taken on the creditor rights for the schemes) will be relatively small compared to the amount owed to the schemes.

Recognising that the prospective claim from the Carillion insolvency will likely be our largest to date, it may provide some measure of reassurance to the Committees, as well as

[1] This in broad terms is the valuation basis used to help determine whether a scheme is underfunded (in which case it will transfer to the PPF) or overfunded (in which case it will look to secure PPF level or above benefits with a commercial insurer).

members and our levy payers, that we remain in robust financial health. In July we published our Annual Report and Accounts for 2017/18, which included the Carillion claim, and reported a strengthening of our financial position. As at the end of March 2018 we had a healthy reserve of £6.7 billion and a funding position of 122 per cent. Furthermore, we have more recently announced that our levy estimate for the next financial year will be £500 million, which is lower than the £550 million we have sought this year.

2. What progress has been made on the assessment process for Carillion's pension schemes?

Despite the Carillion schemes combined representing not just one of our largest but also most complex claims to date, we have made significant progress on the assessment process for the schemes.

By way of background, the purpose of the assessment period is to determine if we need to take responsibility for the scheme. In broad terms this entails checking scheme data to ensure members are receiving the right benefits and evaluating whether the scheme has sufficient assets to be able to pay at least PPF level benefits (through a s143 valuation). If a scheme can't it will transfer to the PPF, if it can it will exit assessment and look to secure PPF level benefits for its members.

Throughout the assessment period up to the point of transfer, the trustees remain in day-to-day control of the scheme. Therefore trustees retain responsibility for paying benefits and communicating with members, dealing with member queries and administration. Given the often complex nature of the tasks required to be completed in order to establish whether a scheme is going to transfer to the PPF, assessment periods on average take 18-24 months. This is significantly lower than the typical length of time it used to take to wind up a scheme pre-PPF.

Specifically to update on Carillion, we can confirm that all 13 PPF-eligible schemes associated with Carillion are now in PPF assessment. At the time of writing in July, 12 of the 13 had entered assessment but there was one remaining scheme, the Alfred McAlpine Pension Plan, which hadn't. It began assessment shortly after we last wrote to you in July once it had been confirmed that all its sponsoring employers had gone insolvent.

For all 13 schemes, we have completed the initial stages of the assessment process. We have validated each scheme; appointed specialist trustees and advisors familiar with the PPF assessment process to assist with the administrative, legal, audit and actuarial requirements; and drafted and agreed project plans for each scheme, including indicative target transfer dates. We have additionally worked collaboratively with various parties to make progress in resolving some of the challenges posed in relation to a group of scheme members (concentrated in one of the Carillion schemes) with 'protected persons' status.

We have targeted concluding the assessment process for all the schemes within 24 months from the start of their assessment periods, which would mean the majority of schemes completing PPF assessment by the end of next year. If fulfilled this would be a considerable feat given the complexity and scale of the challenge posed by the Carillion schemes.

I hope this is helpful and I would be happy to assist further if you have any further queries.

Yours sincerely,

Oliver Morley CBE
Chief Executive

CC: Rachel Reeves MP, Chair of the Business, Energy and Industrial Strategy Select Committee