



THE SOCIETY OF PENSION
PROFESSIONALS

making pensions work

From Lifeboat to Legacy:

What Next for the £14bn PPF Reserves?

May 2026

From Lifeboat to Legacy:

What Next for the £14bn PPF Reserves?

Foreword

The Pension Protection Fund (PPF) was established with a clear and vital purpose: to protect members of underfunded defined benefit (DB) occupational pension schemes when their sponsoring employers become insolvent. Created in the wake of several high-profile scheme failures in the early 2000s, the PPF has since become one of the most important pillars of the UK's pension system.

For thousands of members, it has provided the reassurance that the promise of a pension will not simply disappear if their current or former employer fails.

More than two decades on, the PPF represents a policy success story. The PPF pays out over £1.2bn a year to over 200,000 members of former DB schemes¹. Many of these members would undoubtedly be worse off in their retirement but for the PPF. As well as protecting members, through prudent risk management, a well-designed levy framework, and strong investment performance, the PPF has built up a substantial £14bn+ financial buffer to provide long-term security for its current and future members. This is something that few might have anticipated when the PPF was first established.

We are now in a very different place to when the PPF was created. Most DB schemes are better funded (with many in surplus), the number of potential future claims is falling, the levy has been reduced to zero for two consecutive years, and the number of eligible schemes will reduce further over time as more and more DB schemes wind up and transfer risk to an insurer or superfund.

In this new environment, policymakers ought to consider what an appropriate level of PPF reserves should be, what might happen to this reserve in the future and how the PPF should manage the resources it has already accumulated.

The Society of Pension Professionals (SPP), with its diverse professional membership, has also been considering this question and is keen to help stimulate both debate and action. This paper does not advocate a single outcome. Instead, it explores the legal framework surrounding the PPF, the factors that have contributed to its current financial strength, and the range of options that could be considered for the future use of its reserves.

Any changes to the role or finances of the PPF must be approached carefully and transparently. Full consultation with stakeholders will be essential to ensure the continued confidence of members, employers, trustees and the wider pensions community.

Jon Forsyth
Chair, SPP DB Committee



¹ PPF Purple Book, March 2024:
<https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf>

Introduction

The PPF was established under the Pensions Act 2004, created in response to a series of high profile DB pension scheme failures in the early 2000s that left thousands of members facing significant losses. Its founding purpose was clear: to act as the UK's pension "lifeboat", protecting members of underfunded DB schemes whose sponsoring employers become insolvent, by ensuring they still receive a minimum level of compensation in respect of their pension benefits.

More than two decades on, the PPF has become a mature and financially resilient institution. According to its 2024/25 Annual Report, the fund's £31bn of assets under management now includes over £14bn in (excess) reserves above a best-estimate liability value. The PPF attributes its assets (the c£31bn current figure plus the c£10bn paid out so far in claims) to a combination of funding sources: 11% from assets recovered from insolvent employers, 23% from levy receipts, 32% from investment returns, and 34% from the assets of schemes transferred into the PPF. This blend reflects its hybrid model as both a payer of member compensation and a consolidator of distressed pension schemes.

It is worth noting the use of the word "reserves" rather than "surplus" – the PPF has been very mindful of this language, noting the need for funds to be held to protect against future risk, volatility, and claims. This also reflects the fact that rather than being a pension scheme like those whose members and benefits the PPF acts to protect, it is actually more akin to an insurer.

Changes in the broader DB landscape are also reshaping the context in which the PPF now operates. The number of occupational DB schemes has shrunk from around 7,800 in 2007² to less than 5,000 today³ and The Pensions Regulator predicts that around 2,400 to 2,600 schemes with around £200-400 billion of assets will participate in insurance transactions over the next 10-years⁴. Recent trends also bring positive implications: most schemes are now significantly better funded (with many in surplus on a PPF basis), and the number of sponsoring DB employers at risk of insolvency is generally declining (although there is scope for this to change given the current geopolitical situation and associated economic uncertainty). This means the PPF's future claims pipeline is reducing, contributing to increased confidence in its long term financial outlook.

Before any consideration can be given to deploying some of these reserves, whether for benefit enhancements, returning funds to levy payers, or alternative policy uses, the PPF must undertake rigorous modelling to determine the appropriate size of its long term buffer. This analysis is essential to ensure that any use of its reserves is sustainable, responsible and aligned with the PPF's duty to protect its funding position.

A notable recent development in this regard is the government's announcement that the PPF will provide CPI linked increases (capped at 2.5%) on pre-1997 benefits going forward. Whilst this is generally good news for pensioners, there are still winners and losers, and the announcement came without any consultation with industry or relevant stakeholders. These issues underline the importance of ensuring that any further use of surplus funds is carefully designed and informed by industry input. The government should therefore commit to a thorough consultation with schemes, employers, trustees, insurers and advisers before taking decisions on any additional deployment of the PPF's reserves.

Even allowing for this recent change, given the scale of the PPF reserves and the changing market environment, two key questions now emerge – what level of reserves does the PPF genuinely need for the future; and what should be done with any "surplus" that exists in excess of this?

This paper explores these themes, setting the stage for a deeper examination of the strategic options for utilising the PPF's excess reserves while safeguarding its core mission as a lifeboat that protects underfunded DB scheme members whose sponsoring employers become insolvent.

² PPF, Index 7,800
<https://www.ppf.co.uk/blog-posts/ppf-7800>

³ PPF, September 2025:
<https://www.ppf.co.uk/press-releases/zero-levy-2025-26#:~:text=PPF%20decision%20saves%20%C2%A345m,and%20sufficiently%20progressed%2C%20this%20year.>

⁴ The evolution of occupational DB schemes 2025, The Pensions Regulator:
<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/evolution-of-occupational-db-schemes-2025#billion>

The legal framework

The PPF was established under the Pensions Act 2004 (the “2004 Act”) with effect from 6 April 2005. Unlike the trust deed and rules of most DB schemes, the Act does not specify what should happen to any “surplus” that arises, either while the PPF is ongoing or when it is ultimately wound-up. Therefore, it has not been predetermined what should happen to any excess reserves.

In fact, as things stand, the Board of the PPF has very limited powers that it can use in respect of its excess reserves.

The current options include:

- > Reducing the levy that it charges (prior to the passage of the Pension Schemes Act 2026, the PPF Board has been very reluctant to reduce the levy too far as there were limits on how quickly it could increase it again in future, should the need arise), and
- > Exercising its discretion, following consultation, to award higher rates of revaluation and indexation than those prescribed in the 2004 Act (in accordance with paragraph 29 of Schedule 7 to the 2004 Act). Use of this discretion for this purpose could however be open to legal challenge.

The Secretary of State also has limited powers to increase the compensation payable to certain eligible members under paragraph 30 of Schedule 7 to the 2004 Act.

Crucially, the Board does not currently have the power to return excess reserves to levy paying schemes or their sponsoring employers while the PPF is ongoing (and the Secretary of State does not have the power to direct this).

The Board even lacks the power to distribute surplus where the PPF is wound-up. This stands in contrast to the rules of most DB schemes, and the legislative changes contained in the Pension Schemes Act 2026 which are designed to make it easier for surplus assets to be returned to employers while a DB scheme is ongoing.

Therefore, legislative changes would be needed to enable the Board of the PPF to distribute excess reserves while the PPF is ongoing or when it is ultimately wound-up. As such, any use of the PPF reserves is ultimately a decision for policymakers rather than the PPF themselves.

The financial position

The PPF effectively now sits on the UK plc balance sheet – being a contributor to the public sector net financial liabilities (PSNFL)⁵, which is a measure designed to give a more comprehensive picture of the public sector’s balance sheet than the public sector net debt.

Simply put, what this means for the public finances is that if any of the PPF’s reserves are “spent”, that will reduce the government’s fiscal headroom. Conversely, were the PPF to charge more levies, this would improve the financial position (all else being equal).

However, the treatment of the PSNFL is complicated and in some cases unintuitive. For example were the PPF to invest in a fixed asset like UK property or infrastructure, this could actually cause a worsening in the position for public finances.

We have not considered in any detail in this paper how each option for use of the PPF reserves would feed through into the public finances, but policymakers would of course need to consider this carefully – making this question all the more complex.

Options for use of the PPF reserves

In this section we explore potential uses of the PPF’s reserves and some of the pros and cons associated with each option. As noted previously, we are not advocating any particular solution, and recognise that some may be used in combination with each other.

Retain as capital

Perhaps the most conservative policy option is simply to retain the PPF’s reserves as a prudent buffer against future risks of employer insolvencies and large scheme failures.

The PPF occupies a unique role in the UK pensions ecosystem and can be viewed as a statutory backstop underpinning confidence in the entire DB system – and indeed as noted earlier, it is in many ways more like an insurer than a pension scheme, and one that is unable to reinsure the risk that it is covering. From that perspective, maintaining exceptionally strong capital resilience can be justified as a financial stability measure rather than a narrow scheme-level funding decision.

The primary advantage of this approach is prudence. Pension liabilities are long-term and uncertain, and the PPF's funding position (as well as the positions of the DB schemes it stands behind) could deteriorate if there is a change in economic conditions or significant demographic changes (such as a material improvement in life expectancy). Maintaining significant reserves provides resilience against adverse scenarios such as market downturns, increased (or material) sponsor failures or demographic shifts.

In this context it is worth noting that although the aggregate position of schemes in the DB universe on a "section 179"⁶ (s179) basis is very healthy, the PPF's 2025 Purple Book showed that a sizeable minority of individual schemes remain in deficit - the aggregate deficit amongst those on an s179 basis was £21.8bn at 31 March 2025. In addition, many schemes in surplus (especially open schemes) retain sizeable allocations to growth assets, and as such continue to represent a risk to the PPF in the event of an economic shock.

Moreover, the PPF reserve figure of £14bn represents a position against a "best estimate" of the liabilities – the PPF liability estimate does not include prudence in the same way that UK DB schemes must on their funding basis. The PPF reserves are therefore also a buffer against those best estimate assumptions being incorrect.

Retaining these multi-billion pound reserves also preserves the PPF's independence and financial stability. Further, now that we are in an era of a zero PPF levy, maintaining strong reserves should help to ensure that it remains highly unlikely that schemes and employers will need to pay a levy again in the future.

Another advantage is that this option reinforces the PPF's core identity as a lifeboat fund rather than a policy deployment vehicle. Competing proposals that we outline further below, such as increasing compensation, returning funds to employers or using the reserves to support wider pensions policy, raise questions of fairness, legal / practical complexity and moral hazard. Preserving the reserves sidesteps these debates by maintaining the status quo.

The most significant disadvantage of this approach is that it may be seen as inequitable or inefficient, and it is likely to become increasingly so if, as expected, the reserves continue to grow over time. Political and public scrutiny is likely to increasingly focus on whether capital is being retained beyond what is prudentially necessary. This has an opportunity cost as the PPF reserves represents a pool of capital that could potentially be used to support the UK economy (e.g. by being repaid to sponsoring employers and invested in their businesses) or to address wider pensions challenges, which are considered further below. These arguments

could be combatted, in part, if the reserves are invested to support the UK economy. However as highlighted earlier, this could have an unintuitive impact on the PSNFL and any fiscal headroom.

That said, nearly a quarter (23%) of the PPF reserves are derived from levies paid by pension schemes and their sponsoring employers. Some would argue that if the PPF has materially more capital than could ever reasonably be required, retaining it indefinitely could be viewed quite simply as over-collecting insurance premiums. However, the opportunity to return surplus to those schemes and sponsoring employers that have paid the PPF levy will reduce over time, as more DB schemes wind-up and as businesses are restructured, acquired or wound-up. This means that if no action is taken now (or in the near future) the option of returning some of the reserves to many schemes and employers may be lost.

From a practical perspective, retaining the existing reserves is a straightforward option and requires no legislative change at this time. However, given the comments above, taking the 'easy' option now could lead to greater challenges in the future. Also, retaining the reserves may require development of a more formal capital management framework to establish clearer principles for managing them.

Improve compensation levels for members

Members entering the PPF do not receive benefits that fully mirror their original pension promise as there are a number of restrictions that are applied. However, it would be possible to consider using the reserves to narrow that gap.

The Pension Schemes Act 2026 Act will require the PPF to award inflationary increases on pre-1997 benefits (capped at 2.5% p.a.) for members whose original schemes provided inflation protection. While these increases will only be applied prospectively (from January 2027 at the earliest), this change represents a meaningful enhancement for members who previously lost such protection upon transferring to the PPF. The estimated cost of this change is £1.2bn – easily affordable considering with the PPF's total c. £14bn reserves.

However, whilst this is a win for many individuals receiving benefits from the PPF, this is not universally a good news story. For example, there will be a small number of PPF+ cases that have had to secure benefits outside of the PPF and so may have secured terms below the new PPF benefits. The position for the small number of PPF+ cases currently in buy in is also uncertain.

⁶ s179 liabilities represent, broadly speaking, what would have to be paid to an insurance company to take on the payment of PPF levels of compensation (rather than full scheme benefits).

Given the scale of the remaining reserves, there would likely be scope (subject to legislation, and retaining a sensible buffer for future potential claims) to consider further improvements to compensation. We discuss a few potential options in more detail below. It is important to note that such changes will have similar potential downsides and, whilst welcome to those members who benefit from such changes, other stakeholders, including sponsoring employers, may feel very differently. Those who have managed these additional costs, whilst also supporting their schemes and potentially now finding themselves very unlikely to ever use the PPF themselves, would face seeing their levies being used to provide even higher compensation in support of insolvent employers when it could reasonably have been used to benefit their own workforce or business.

It is also worth noting that it may be politically challenging to improve compensation in the PPF without equivalent changes being made to the Financial Assistance Scheme (FAS) which is of course funded differently, and doing so would have a more direct impact on public finances.

Any increase in PPF compensation would also immediately worsen the funding position of schemes not in the PPF when assessing their ability to meet PPF benefits (i.e. on a section 179 basis) – as they would be measuring their position against more generous benefits. Indeed, the PPF's 2025 Purple Book estimated that allowing for pre-1997 indexation could increase universal s179 liabilities by around £100 billion, or just under 12%. Such an impact would need to be factored into the PPF's risk modelling for future claims and would increase the need for reserves to cover these.

For any such options to further improve compensation, it would also need to be recognised that this is a departure from the original purpose for which the PPF funds have been collected.

A note on moral hazard risks

Increasing compensation towards original scheme benefit levels raises a theoretical moral hazard risk of trustees and employers taking decisions they otherwise would not (e.g. a riskier investment strategy), on the grounds that the benefits will be broadly covered by the PPF in any event. Compensation at or close to scheme benefit levels would also mean that a scheme entering the PPF could effectively receive benefits broadly equivalent to those under an insurance buy-out, without having to pay the full buy-out premium, under an employer insolvency event.

However, given the current regulatory environment, and noting the strong funding positions of many schemes, in practice it seems unlikely that this is a material risk for the PPF.

Potential options to consider

Options for additional benefit enhancements could include:

1. Increasing the compensation level for members under Normal Pension Age from 90% to 100%

Under current legislation, members under Normal Pension Age at the point of PPF assessment only receive 90% of their accrued pension. This "cliff edge" means that two otherwise identical members could receive pensions differing by 10% simply because one member is a day over Normal Pension Age at the PPF assessment date and the other is a day younger. Removing this cliff edge would improve inter-generational fairness for PPF members and make the compensation structure simpler for members to understand.

The PPF has estimated that providing 100% of accrued pension to all members (prospectively only) would increase the value of the PPF's liabilities by around £0.6bn – readily affordable within the current surplus. Making such a change on a prospective only basis would of course raise similar questions about intergenerational fairness as have been posed about the change to pre-97 indexation.

A retrospective change would be expected to be much more costly and presumably require a rectification style exercise for the PPF, albeit one that (unlike some of the other potential solutions) they could have all of the relevant data to be able to implement.

2. Providing enhanced pension increases

Although the new pre-97 indexation rule is a welcome enhancement, most members remain likely to receive lower overall pension increases in the PPF than they would have in their original scheme. For example, it is common for schemes to cap pension increases at 5% p.a. for certain periods of pensionable service (indeed, for benefits accrued between April 1997 and April 2005, a statutory cap of 5% p.a. applies), whereas all inflation-linked increases under the PPF are capped at 2.5% p.a.

There are several ways pension increases could be enhanced (further) for members, for example:

> Raising the cap on some or all post-97 pension increases from 2.5% p.a. to 5% p.a. to better mirror the statutory minimum.

This could potentially be considered for benefits accrued between 1997 to 2005 only (if suitable data is available to implement this), or for all post-97 benefits.

- > **Raising the cap on all pension increases from 2.5% to 5% per annum (i.e. including pre-97 benefits).** The cost of increasing the cap in this way would vary depending on whether the cap is increased only for members who received such increases in their original scheme, or for all members, and whether the cap is applied retrospectively or prospectively only. However, under all scenarios the total cost could be afforded by the current reserves⁷.

It should be noted that the PPF currently has discretion to raise the 2.5% p.a. cap on pension increases for post-97 benefits, and this discretion has been expanded for pre-97 benefits with the enactment of the Pension Schemes Act 2026. This means the PPF could potentially make such changes without any changes to existing legislation.

- > **Providing pre-97 pension increases (CPI max 2.5% p.a.) retrospectively for members who would have received inflation-linked increases in their original scheme.** The PPF has estimated the extra cost of providing such increases retrospectively would be £2.7bn (in addition to the £1.2bn cost for providing increases prospectively).

It is worth noting here that further administrative challenges apply where benefits are uplifted retrospectively – for example, if a member has since passed away should arrears provided be to the member’s estate?

- > **Extending pre-97 increases to apply to all members, regardless of whether increases were granted in the original scheme.** This simplifies administration and communication of PPF benefit levels and the PPF has estimated this would cost an additional £0.4bn if applied prospectively, or £1.3bn if applied retrospectively (in addition to the cost of providing these increases to members who received increases in their original scheme, as noted above).

This would however seem to present many potential issues, most notably it would mean some members would be better off in the PPF than in their original scheme. It would seem unfair to consider this when other areas of PPF benefits are still subject to material cutbacks. It would also potentially introduce moral hazard for trustees.



For many, providing increases in line with the original scheme may be deemed the gold standard option.



For former members of well-funded schemes with strong, levy-paying sponsors (whose benefits have already been secured at a lower level i.e. without pre-97 increases where Rules did not require them) this could be a difficult outcome to justify if introduced retrospectively. Similar considerations apply for historical PPF+ cases where scheme benefits were cut.

- > **Providing increases in line with the original scheme (either prospectively only or retrospectively as well), noting many schemes provide for increases in excess of the statutory minimum.** For many, providing increases in line with the original scheme may be deemed the gold standard option. However, the administrative burden this would cause the PPF would be significant, especially if scheme arrangements in relation to Guaranteed Minimum Pensions (GMPs) were also mirrored.

Providing different increases on pre-97 benefits for members with and without increases in the original scheme feels like a manageable change, but extending this to cover the wide variety of pension increases seen across different schemes is likely to be a step too far. There may also be data limitations and/or benefit uncertainties from the original scheme which makes mirroring original scheme increases even more challenging.

3. Improving other benefits

In theory the PPF could look to enhance other benefits such as spouse pensions, or the actuarial factors used for member options such as cash commutation or early and late retirement. However, there is unlikely to be much appetite (or indeed demand) for changes to other benefits.

4. Lump sum payments to members

The government is planning to amend the tax legislation from 6 April 2027 to make it possible for DB schemes to pay out surplus assets as lump sums to members over normal minimum pension age without the previous prohibitive tax consequences of doing so.

The government and PPF could introduce a similar option for PPF members too, e.g. enabling the PPF to pay out an annual “bonus” at Christmas. This would have the advantage of not increasing the PPF’s liabilities on an ongoing basis. However, there would be questions around fairness to members (whether a flat amount was paid to all, or a more administratively complex approach was adopted).

Repayment to employers

Around a quarter (23%) of the PPF’s current £14bn reserves have come from employers that sponsor DB schemes in the form of levy payments. As a result, there is a legitimate question to be asked as to whether or not the PPF should be returning some of these funds to those employers (or their DB schemes).

The reduction of the PPF levy on DB schemes to zero (as per current PPF policy), as well as the scrapping of the PPF administration levy, is of course helpful for sponsors that have paid billions of pounds into the PPF over the last 20 years. It is also simpler than refunding monies to levy payers as it avoids having to trace levy paying employers and schemes to apportion repayments between them.

However, this does not address the more fundamental question of whether it is right for the PPF to use some of the reserves to benefit other stakeholders at the expense of the employers who, it appears, have paid more into the PPF than they needed to.

The PPF could offer a rebate to employers who contributed to the levy over the years, calculated based on historical levy contributions or scheme size, effectively refunding part of their levy payments. This is possible but it would require a mechanism to calculate overpayments and to apportion “excess” reserves relative to the PPF’s risk exposure. Alternatively, steps could be taken to simply refund the few most recent levy payments.

Decisions would have to be taken about what should happen where a sponsoring employer has become insolvent or their scheme has already entered the PPF. In addition, some employers may no longer be part of the same corporate group they were in when they had to pay the levy, or they may no longer be connected with the relevant scheme. However, such challenges for refunding a minority of cases should not in

themselves be used as an excuse for not considering measures that could sensibly be rolled out to benefit the majority of cases.

More generally, there may be difficulties with the availability of historical data to work out what would be a “fair” distribution relative to levies paid in, and the time and cost associated with detailed historical research and modelling may be seen as disproportionate.

An alternative could be targeted returns for some employers linked to their current scheme health i.e. for employers whose pension schemes are well-funded and low risk, a partial return of historical levies could be considered, rewarding low-risk sponsors. This could potentially be reframed as a bonus for employers with very low-risk schemes, although it is likely it would only be possible to identify such schemes after extensive legal and actuarial review and careful consideration would be needed to a suitable measurement criteria. It would however be challenging to “accurately” reward historical longer term risk management behaviour.

The development of discussion around the repayment of any of the PPF reserves to levy-paying employers will need to be considered as part of wider discussions around the use of the reserves in other ways, such as improving compensation paid to members.

Public Sector Consolidator

The 2024 DWP consultation, “Options for Defined Benefit Pension Schemes”, explored the creation of a public consolidator administered by the Board of the PPF. This considered whether there could be a role for a consolidator to support schemes struggling to access commercial buyout or superfund options, or those that were in deficit.

At the time, the SPP stated that such a public sector consolidator “has many potential benefits”⁸. However, we also cautioned that the precise rationale for such a consolidator was unclear and significant care should be taken to avoid disrupting the well-functioning insurance market or stifling the development of the superfund market. The SPP also expressed significant concerns about the proposal to allow schemes in deficit to enter the vehicle, as that would be a clear commercial advantage and likely lead to significant market disruption.

The DWP proposal was not taken forward but, in its 2025 response, the DWP indicated⁹ that it was continuing to explore what role a public consolidator could play, noting that “a small, focused government consolidator, administered by the PPF, could offer an alternative solution for schemes and has the potential to help to address a fragmented pensions landscape.”

⁸ The SPP response to the DWP consultation, “Options for Defined Benefit Pension Schemes”, April 2024: <https://the-spp.co.uk/wp-content/uploads/SPP-response-DB-Options-Consultation-12.4.24-1.pdf>

⁹ DWP, Government response: Options for Defined Benefit schemes, May 2025: <https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes/outcome/government-response-options-for-defined-benefit-schemes#chapter-4-model-for-a-public-consolidator>

The DWP's consultation response noted that while there have been significant improvements in DB funding levels, there remain many schemes which are significantly underfunded. If the appropriate framework could be developed, a consolidator could provide an option for underfunded schemes, as they are unlikely to be able to access commercial solutions.

One potential use of some of the PPF's reserves could be to support the establishment of such a consolidator vehicle, which could be ring-fenced from the PPF's compensation fund. This could be designed for schemes where their size, funding levels and available employer support are such that it is unlikely that the scheme could achieve a funding level that would enable it to access a commercial solution.

This could help drive consolidation in the DB market, and pooling of assets of small schemes and improved governance may have the potential to improve member outcomes. But care would be needed to avoid disrupting the development of commercial solutions such as superfunds or other innovative routes.

Again, it would also need to be recognised that this is a departure from the original purpose for which the PPF funds have been collected. The basis of any support for the creation of a public consolidator vehicle would also need to be decided – for example, would this be a loan that would be repayable to the PPF Fund on commercial terms or some other arrangement? Assuming it is a loan, the question of how these funds should ultimately be used once they have been repaid would still need to be answered.

Wider public policy objectives

Alongside the other options outlined in this paper, there are some other broader and, perhaps, more ambitious alternatives that could be considered.

These include using some or all of the PPF reserves (either now or in the future) to provide seed capital, for example:

- > to establish a universal whole life or retirement collective defined contribution ("CDC") scheme that is open to all employers and to all pension savers at retirement,
- > to establish a sovereign wealth fund, which could help drive investment in UK productive assets,
- > to directly invest in UK productive assets, in line with government ambitions, or
- > to support the wider DC adequacy challenges whereby 15m people¹⁰ are not currently saving enough for their retirement.

> Universal CDC scheme

A universal CDC scheme is likely to improve retirement income stability, would help achieve scale quickly (key for CDC success) and supports the general policy direction of encouraging alternative approaches to traditional DB/DC options. This may be seen as "unfair" given DB-derived funds would be utilised for a broader population; would be complex to design; and there may not be universal political support. In terms of practicalities, it would require new legislation and a new governance structure. This would also need to be ringfenced from PPF core funds.



A bolder option to be considered alongside the PPF becoming a universal CDC provider would be to convert some or all legacy PPF DB liabilities into a CDC framework.



Converting from DB to CDC

A bolder option to be considered alongside the PPF becoming a universal CDC provider would be to convert some or all legacy PPF DB liabilities into a CDC framework. This could in theory allow an immediate improvement to member benefits; a more growth-focussed (and hence "productive finance" focussed) investment strategy; and certainty for employers that no future levies would become payable. Of course the same challenges as highlighted above would apply, and in addition this would clearly be a further move away from the core purpose the PPF was set up for. There would also be particular communication and political challenges if benefits for legacy DB members ever needed to be cut.

A national wealth fund

A national wealth fund would be a long-term national asset, likely produce higher returns and could support national economic strategy. The disadvantages are that it would be a rather weak link to the PPF's original purpose; there is a strong risk of political interference; and questions would be raised around fairness and legitimacy as to whose money this is. Furthermore, in terms of practicalities, this would require a major policy shift and new legislation; an independent governance model and would probably face considerable stakeholder resistance.

¹⁰ DWP, July 2025: <https://www.gov.uk/government/news/government-revives-landmark-pensions-commission-to-confront-retirement-crisis-that-risks-tomorrows-pensioners-being-poorer-than-todays>

Direct investment in UK productive assets

Direct investment in UK productive assets would support the UK growth agenda, is easier to justify within the PPF's existing mandate and arguably would generate stable long-term returns. As the SPP has made clear in its representations to the recent Investment Review, investing largely in the UK presents a home bias risk, may not always be the best financial decision and raises liquidity concerns. With regard to the PPF specifically, it may conflict with the low-risk PPF objective. The practicalities are likely to be more straightforward than other options, this could be done incrementally via asset allocation changes although it would need clear investment guidelines and limits, it is politically feasible in near term given both the current government and opposition support for greater UK focused investment.

Wider DC adequacy challenges

Addressing adequacy challenges could take many forms. For example, matching contributions (e.g. £1 for every £1 saved up to a cap) for low-income workers or the self-employed or those with small pots or helping providing lower investment or administration charges for DC savers with small pots. A more practical approach may be to fund access to financial advice for DC savers at the point of retirement. The establishment of a universal CDC scheme as described above, even if just a "decumulation only" vehicle, would also be expected to help address the DC adequacy challenge.

Each of these ideas would directly benefit DC savers, and helps address the issue of pensions adequacy.

Funding financial advice is likely to lead to better decisions at retirement, targets a key risk point (decumulation) where advice is most valuable and mistakes are costly; and it would also encourage savers to take pensions more seriously. However, there is also a risk of poor advice, those with higher-value pots may benefit more than small savers and arguably, again, a fairness issue around DB-derived funds supporting DC savers.

Issues for policymakers to consider

The objectives of different stakeholders

A range of stakeholders will inevitably want a say in how any reserves are distributed, including Government, the PPF Board, levy payers (past and present) and members (both those already in the PPF and prospective members).

Each of these groups has different, and in places conflicting, views and objectives. Understanding these different perspectives and also how and why the reserves have arisen will therefore be a critical starting point.

For levy payers, there are additional complications. Some sponsoring employers will no longer exist and so will be unable to receive any share of distributed reserves. Others will have paid higher levies in the past, whether due to a higher risk profile or larger liabilities, and may feel they have a stronger claim than those that paid less.

We should also recognise that, although DB scheme funding has improved significantly in recent years, employer insolvency risk is inherently cyclical. If PPF reserves are shared with members today, some employers may feel uneasy about the possibility of future levies being needed to support new claims, with no corresponding upside for them.

Intergenerational fairness

Any discussion about refunding reserves or enhancing members' benefits inevitably raises the issue of intergenerational fairness.

Two fundamental questions arise: how should the reserves be shared, and when should this be done?

If the PPF reserves are used to provide additional benefits for members, a number of design questions follow, including:

- > **Who should benefit, and how?**
Should enhancements apply only to new schemes entering the PPF, or to all existing members? Would they apply for the future only or retrospectively as well?
- > **Is the improvement fair across generations?**
While higher compensation for all members may appear even-handed, younger members will receive payments for longer and so may gain more overall. Can this genuinely be described as equal treatment?
- > **How are larger pensions treated?**
A uniform percentage uplift could result in a relatively small number of members with larger pensions receiving a disproportionate share of the reserves. These larger pensions may have arisen from more generous scheme designs in the first place, so clarity over which groups the enhancements are intended to support is essential.

The timing of any distribution, the "when", is also important. Deferring improvements risks favouring younger members and will naturally reduce the number of members alive to benefit.

Taken together, these considerations highlight that using PPF reserves to enhance member benefits is far from straightforward. Striking a balance that feels both fair and even across the PPF's current and future membership will be challenging.

Unintended consequences

If the government and the PPF Board decide to enhance members' benefits, they will need to be confident that the PPF's administrators can manage any additional complexity this may cause. There may also be tax implications for certain members, which should not be overlooked.

Changes to benefit expectations could also influence sponsoring employers' risk appetites. A more generous "back-up" option via the PPF may affect covenant and investment behaviour in the years ahead, although we would expect TPR's new DB Funding Code and wider factors to limit the number of such cases in practice.

The implications for PPF+ cases, and the risk of perverse outcomes such as members being better off in the PPF than in their original scheme will also need to be considered carefully.

The need for consultation

Against this backdrop, the SPP would strongly advocate that any decision by the Board or government to distribute the PPF's surplus should be subject to full and transparent consultation with stakeholders. There was considerable industry disquiet, particularly among employers and remaining eligible schemes, that the recent announcement on PPF pre-1997 pension increases was made without consultation, and such an outcome should be avoided when seeking to make future decisions around the PPF's remaining reserves.

Conclusion

The PPF was established as a lifeboat for struggling DB schemes whose sponsoring employers became insolvent. It has since grown into a large and robust financial institution with the capacity to consider a range of strategic options. Yet this very success (to the extent of establishing a £14bn funding reserve) presents both an opportunity and a challenge.

With the annual levy reduced to zero, the shrinking DB landscape, and most schemes now well-funded, the PPF's reserves are no longer purely an insurance buffer, they also constitute a significant pool of capital that could, in principle, be deployed for wider benefit. Equally, it could be argued this represents a degree of historic overfunding.

As we have set out in this paper, any consideration of using these reserves, whether to enhance member compensation, return funds to levy-paying employers, support a public consolidator, or even contribute to broader public policy objectives, must balance prudence, fairness, and the PPF's core statutory purpose.

Retaining the surplus entirely would preserve the PPF's independence and ensure long-term financial resilience, but may be viewed as overly conservative in light of changing risks and expectations. Conversely, deploying some of the reserves offers the potential to provide tangible benefits to members, reward responsible employers, or address wider economic and public policy challenges. However, it would also give rise to legal and operational complexities, questions around fairness and potential moral hazard risks.

Ultimately, the management of the PPF's reserves is as much a question of governance and stakeholder engagement as it is of financial prudence. Decisions must be informed by careful actuarial analysis, rigorous legal review, and full consultation with members, employers, trustees and other stakeholders. Only through such a deliberate and transparent process can the government and the PPF navigate the delicate balance between safeguarding its legacy as a lifeboat for underfunded DB schemes and using its accumulated resources to generate meaningful outcomes and in a way that is fair to all stakeholders.

In short, the £14bn in reserves presents both a responsibility and an opportunity: a responsibility to protect current and future PPF members, and an opportunity to consider how the PPF can evolve from a lifeboat into an entity providing a broader legacy that could be used to benefit members, levy payers and the wider UK economy.

Acknowledgements

The SPP is grateful to all its members for their contribution towards this publication, particularly Jon Forsyth, Rosie Twist, Sonya Fraser, Katie Bromley, Tim Smith, Mike Whittingham, Peter Hughes, Jeremy Goodwin, David Hamilton and Emma Moore.

About The Society of Pension Professionals

Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.

The SPP seeks to harness the expertise of its around 90 corporate members - who collectively employ over 20,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

Further information

If you have any queries or require any further information about this discussion paper, please contact the SPP's Director of Policy & PR, Phil Hall phil.hall@the-spp.co.uk or telephone 07392 310264

To find out more about the SPP please visit the SPP web site: <https://the-spp.co.uk/>

Connect with us on LinkedIn at: <https://www.linkedin.com/company/the-society-of-pension-professionals/>

Follow us on X (Twitter) at: <https://twitter.com/thespp1>



**THE SOCIETY OF PENSION
PROFESSIONALS**

making pensions work

A company limited by guarantee. Registered in England and Wales No. 3095982