



October 2024

Dear Halcrow Pension Scheme (No.2) 'HPS2' member

The PPF underpin protection for HPS2 members

The Trustee has received some questions from HPS2 members about how the PPF underpin protection afforded to members is administered.

Accordingly, the Trustee is pleased to set out some more information to remind members of the terms of that transfer, and also how the Trustee administers the PPF underpin to ensure members benefits are always at least at parity with the PPF.

Background to PPF underpin

As part of the transfer of members to HPS2, a 'PPF underpin' was added to the HPS2 rules. The intention of this underpin is that members would receive at least the same benefits had they remained in the Halcrow Pension Scheme ('HPS1') and HPS1 had entered the Pension Protection Fund ('PPF'). This PPF underpin is based on the compensation rules and legislation in force at the time of the transfer and ignores subsequent changes to PPF legislation that took effect after that date.

A summary of the PPF underpin was set out in a Booklet provided to HPS1 members in 2016.

The removal of the "Compensation Cap"

At the time of the transfer to HPS2 in 2016, the PPF legislation set out a cap that limited a member's PPF compensation if the member was under their Normal Retirement Age when a scheme went into the PPF. In 2021, in a decision known as the 'Hughes' case, the courts clarified that this cap is unlawful on the grounds of age discrimination and should be disapplied. Accordingly, the Trustee has now disapplied the compensation cap when determining the PPF underpin.

When does the PPF underpin vary?

Due to the number of different elements used to calculate your pension, the amount of a member's HPS2 benefits and PPF underpin element may vary over time. As a result, it is possible that the HPS2 benefits may be higher than the PPF underpin at one point in time, and vice versa. This means that the Trustee must carry out regular checks to ensure that you are being provided with the higher of the two.

To ensure a member's pension is never lower than what the PPF would have paid, the Trustee tracks the PPF's revaluation rules; early, late and cash commutation factors; and PPF pension increases, when in payment. The Trustee also reviews members' pensions at the following junctures, amongst others:

- When a pension is put into payment for the first time and a member selects to take tax free cash or not
- When a temporary pension is put into payment
- When a temporary pension ceases to be paid at a member's State Retirement Age

- When a pension increase is payable
- When a member dies, and dependants' pensions, if any, are put into payment

Further court rulings

Separate from the Hughes case, in a couple of decisions in 2018 and 2019 (known as the 'Hampshire' and 'Bauer' cases), the European Court of Justice stated that EU law requires that employees receive at least 50% of their accrued pension benefits on their employer's insolvency. The Trustee is still working with its advisers to understand whether these judgments impact its PPF underpin checks, or the benefits being provided. More information will be shared with members when the outcome of this work is complete.

Should you have any questions regarding this communication, please do not hesitate to contact the Trustee.

Leon Power

Chair of Halcrow Pension Scheme No.2 Trustee Board