



Pension Protection Fund

7th June 2023

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Agenda:

- Background
- PPF Levy
- What can we learn from the PPF?
- Questions

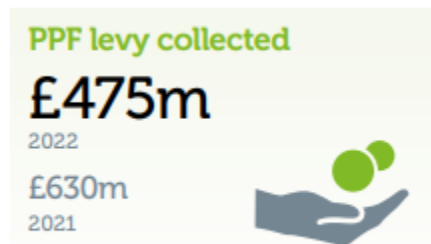
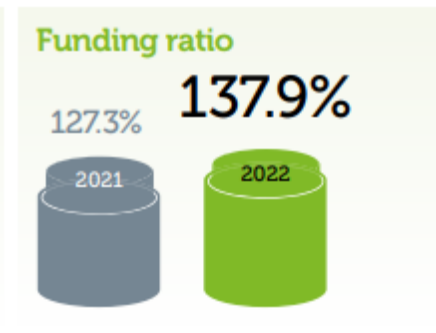
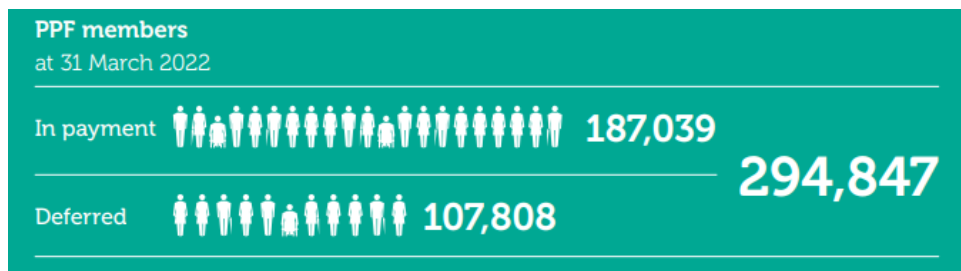
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Background

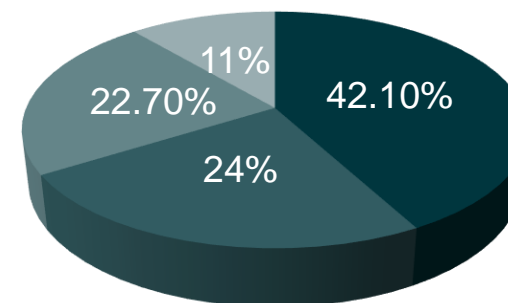


What is the PPF?

Set up in April 2005 to provide compensation in the event of sponsor insolvency



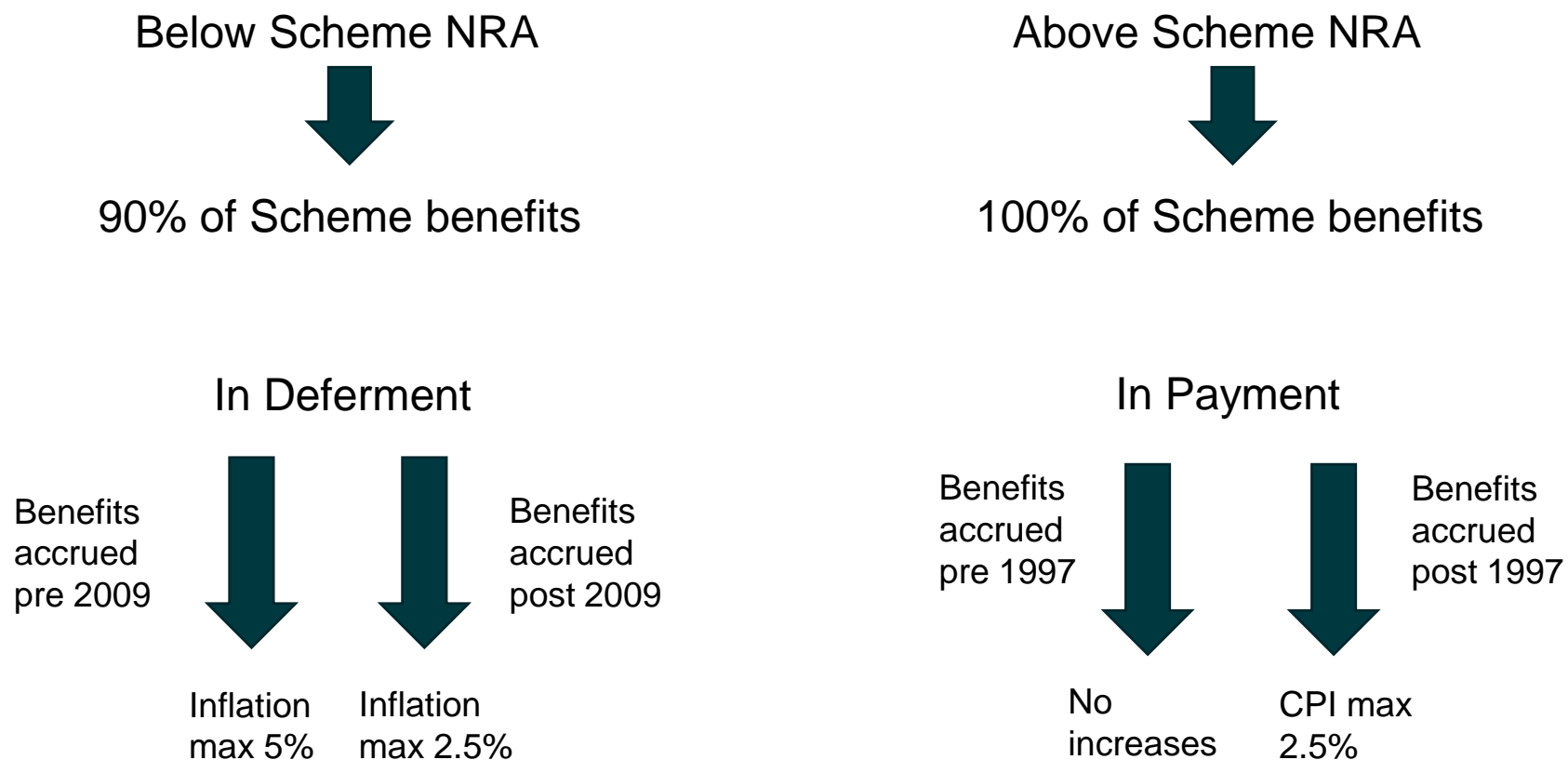
Funding sources at 31 March 2022



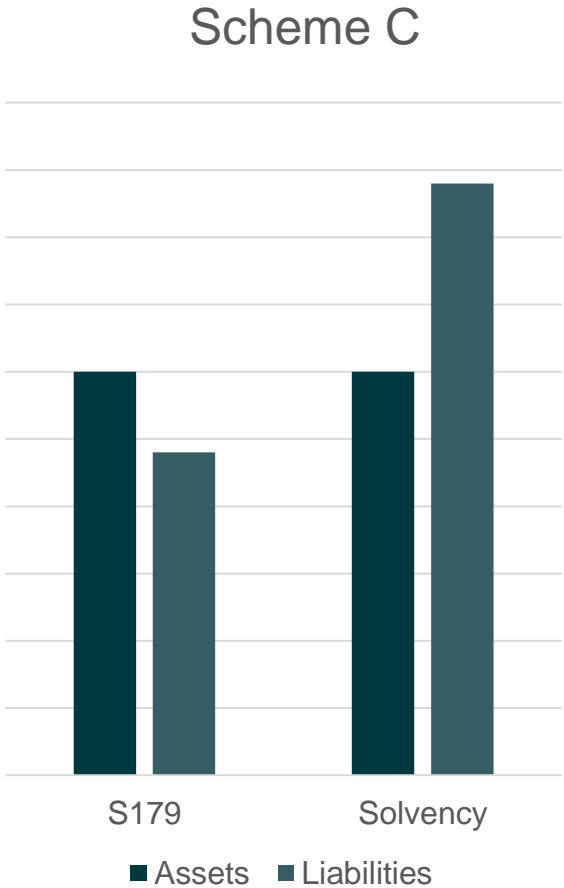
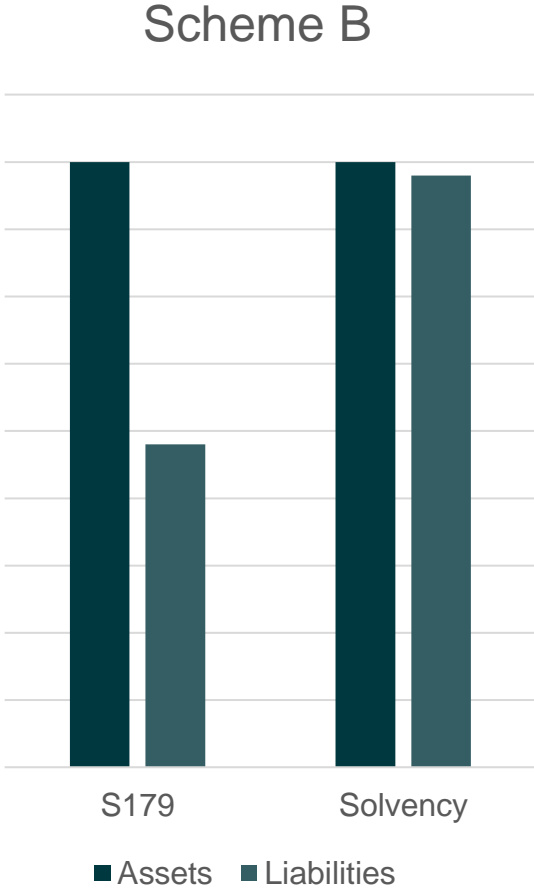
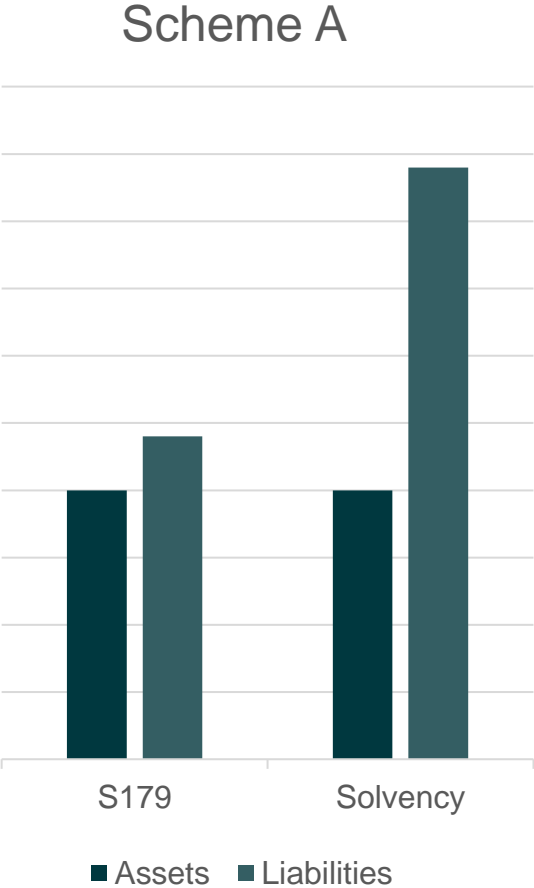
- Assets transferred
- Investment returns
- PPF levy
- Recovered assets

Source: PPF Annual report as at 31/03/2022

PPF Compensation



When might a Scheme be transferred into the PPF?



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PPF Levy



PPF levy is made up of two parts:

Scheme Based Levy

7% of total levy collected in 2021/22

- Based on size of liabilities
- Covers cross-subsidy of cap
- Liabilities x 0.0019%

Risk Based Levy

93% of total levy collected in 2021/22

- Based on likelihood of scheme entering PPF / funding position
- Halved if liabilities <£20m, sliding scale up to £50m
- Capped at 0.25% of liabilities

The PPF to review its methodology annually

Risk Based Levy Formula

Risk Based Levy = Underfunding Risk x Insolvency Risk x Levy Scaling Factor						
An example:						
£50,320	=	£40,000,000	x	0.34 %	x	0.37

Where:

- Underfunding Risk is the potential funding shortfall between the scheme's assets and liabilities should the scheme enter the PPF
- Insolvency Risk is the relative risk of the scheme's sponsoring employer becoming insolvent over the year
- Levy Scaling Factor is set by the PPF and is now 0.37 (was 0.48 for 22/23 levy year)

Underfunding Risk

$$\text{Underfunding risk} = \text{liabilities} - \text{assets}$$

To reduce underfunding risk need to reduce value of liabilities or increase value of assets

Which assets and liabilities are used?

Uses results from last S179 valuation rolled up to 31 March, then

- “Smoothed” by taking average market data from last 5 years, and
- “Stressed” to allow for investment and funding risk.

Insolvency Risk

- Employer placed in 1 of 10 bands (band 1 is best, 10 is worst)
- Average of monthly scores to March
- PPF-specific insolvency score model
 - Focused on sponsors of PPF eligible schemes only
 - Scores based on 1 of 11 scorecards
- Free web portal / 'What if' scenario tool

Band	22/23 Levy Rate	23/24 Levy Rate
1	0.28%	0.28%
2	0.31%	0.30%
3	0.35%	0.31%
4	0.40%	0.34%
5	0.53%	0.39%
6	0.81%	0.49%
7	1.26%	0.63%
8	1.76%	0.76%
9	2.39%	0.89%
10	3.83%	1.16%

PPF Risk Based Levy

Underfunding Risk	Insolvency Risk
<ul style="list-style-type: none">▪ Deficit Reduction Contributions▪ S179 valuation▪ Contingent Assets▪ Tier 3 Asset Breakdown	<ul style="list-style-type: none">▪ PPF Score (levy.ppf.co.uk)▪ Parental Guarantee▪ Last Man Standing

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What can we learn from the PPF?



What have we learnt from being on the PPF panel?



Ensure full suite of docs and legally valid



Appropriate and complete common and conditional data



Undertake benefit audit



Identify all Statutory Employers



Verify data with members to ensure complete and accurate



Identify if annuities in members' or trustees' name and sufficient increases and spouse pension information



Ensure Trustees properly appointed
Retired Trustees properly removed



GMPs reconciled with HMRC records and changes properly implemented



Is there evidence to support NRA equalisation?

What to do if concerned about employer solvency?



Ensure Pensioner Payroll independent from Sponsor or being independently shadowed



Trustee bank account independent from Sponsor



Investments appropriate – consider PPF guidance



Insufficiency report if underfunded on CETV basis and CETVs should be scaled back



Avoid action to increase PPF liabilities / deficit



Trustees consider appointing specialist advisers

Questions?



Appendix – D&B Scorecards

Scorecard	Name	Description
1	Non-subsidiaries (Ultimate Parent or Independent) and large subsidiaries	An ultimate parent or an Independent company that posts full accounts with turnover >£30m or an employer with a Turnover greater than £50 million and Total Assets of over £500 million
2		A non-subsidiary company that posts full accounts with a Turnover <£30m
3	Group £50m+	Companies that are part of a group (and are not covered by Scorecard 1 or 2), with a Turnover figure of over £50 million
4	Group £10m – 50m	Companies that are part of a group (and are not covered by Scorecard 1 or 2), with a Turnover figure of between £10 million and £50 million.
5	Group <£10m	Companies that are part of a group (and are not covered by Scorecard 1 or 2), with a Turnover figure of less than £10 million.
6	Group Small	Companies that are part of a group that do not post full accounts.
7	Independent Small	Companies with no active subsidiaries/parent that do not post full accounts.
8	Not-for-profit	Not-for profit companies such as a charities, housing associations or registered societies.
9	CRA rated	Companies that are CRA Rated
10	Industry-specific	Companies categorised as financial institutions
11	Special Category	Companies with links to government

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