Broadstone

The Pension Protection Levy - 2024/25 Consultation

September 2023

Introduction

The Board of the Pension Protection Fund (the "PPF") has released its consultation on changes to the PPF Levy for the 2024/25 levy year.

The consultation document sets out the changes the PPF is proposing and the rationale for change. It also signposts some changes it would like to introduce in future years.

Overall, it is expected that almost all schemes will see a reduced PPF levy next year, largely as a result of improved funding conditions.

This briefing note provides a summary of the PPF's proposals.

Summary of proposals for 2024/25

- The total amount the PPF plans to collect next year is £100 million, compared to £200 million this year and £400 million last year.
- The Levy Scaling Factor will be set at 0.40 (currently 0.37).
- The Scheme-based Levy Multiplier is to change to 0.0015% (currently 0.0019%).
- The Small Scheme Adjustment and risk-based levy cap both remain, although no schemes are expected to hit the levy cap in 2024/25.

Background

Each year, the PPF issues a consultation, inviting feedback from stakeholders prior to issuing their formal determination that sets out the basis for the coming year's PPF Levy. This covers the Levy Estimate, the levy parameters, and the associated rules and guidance.

The PPF's stated aim is to maintain stability when calculating the levy from year to year and so changes to the methodology or calculation tend to be limited. This remains the case this year.

The PPF has, however, set out the challenges that it faces in managing the future levy and sharing the burden fairly across eligible schemes. The PPF is also therefore asking for feedback and suggestions on the long term future of the levy.

The Levy Estimate and parameters for 2024/25

The PPF has determined that the Levy Estimate, i.e. the total amount it expects to collect, for 2024/25 will be £100m, which is half of the equivalent figure for 2023/24.

Legislative constraints – Due to the strong funding position of the PPF and improvements seen in pension scheme funding positions, the PPF believes it could be justified in not raising **any** PPF levy next year.

However, the Pensions Act 2004 requires that:

a) The PPF must charge a levy each year, and

b) The levy cannot be increased more than 25% year to year, in order to protect levy payers.

As a result, the PPF suggests that £100m is the minimum levy it can reasonably raise. Reducing the total any further would limit the amount it could raise in a five year period if the PPF was to experience a funding shock.

A further legislative constraint relates to how the Levy is calculated. The PPF Levy charged to levy payers is made up of two parts; the Risk Based Levy, and the Scheme Based Levy. The Risk Based Levy element is calculated based on the funding level of the scheme and risk of insolvency of the employer whereas the Scheme Based Levy is simply a multiple of the size of the scheme's liabilities. Legislation currently limits the Scheme Based Levy to no more than 20% of the overall levy that it raises.

With improvements in funding positions over the last 12-18 months, the number of schemes that pay the Risk Based Levy element of the PPF levy has fallen significantly. In fact, the PPF say that 61% of schemes will have a zero risk based element next year (compared to 45% this year). Therefore, the PPF is having to tweak its calculations to ensure the 20% limit is not breached.

As a result, the Levy Scaling Factor used to calculate the Risk Based Levy will be increased from 0.37 to 0.40 and the Scheme-based Levy Multiplier is to be reduced from 0.0019% to 0.0015%. This will allow the PPF to reach their £100m target whilst ensuring the Scheme Based Levy remains below 20% of the total raised.

Other elements – Beyond this, the rules are to remain broadly unchanged, with the PPF not proposing any changes to the Small Scheme Adjustment or risk-based levy cap.

In the interests of maintaining stability, the PPF is proposing that the current valuation assumptions (version A10) continue to be used and retaining the current asset stress test. Moving to the newer, A11, assumptions would significantly reduce the Levy Estimate but would arguably need to be balanced by reflecting increased asset volatility. Given that most schemes will not yet have figures based on the A11 rates, the PPF has proposed to maintain the status quo.

Overall, the PPF estimates that 99% of schemes will pay a lower levy, with some big winners among those currently still paying a Risk Based Levy.

Cost management - Finally, the PPF is also consulting on the following potential changes for 2024/25 in the interests of simplifying (and reducing costs within) their approach. However, these are not expected to affect the majority of schemes:

- Reduce the number of credit rating providers it uses (subject to commercial negotiations with the providers).
- Simplify the process for Special Category employers (i.e. those with some form of government backing).
- Removing the option to apply for a COVID easement plan.

Future changes

Barring any changes to pension legislation, the PPF expects that it will continue to need to raise PPF levies of around £100m per annum. However, this burden would currently fall on a rapidly reducing group of schemes as funding improves.

Whilst the PPF acknowledges that they would prefer to charge no levy (based on current figures) and simply reintroduce it in future if the need arose, the consultation implies that the chance of primary legislation being passed in the short term in order to facilitate this is unlikely. As a result, the focus is on how a levy of around £100m should be fairly distributed across eligible schemes.

The number of schemes currently expected to pay a Risk Based Levy is projected to halve again by 2026/27 and simply sharing the cost amongst these employers would appear unrealistic. Also, given the risks now being protected against are of a more extreme nature, there are arguments that the required funding target to identify those schemes at risk should be higher. The PPF is therefore looking at ways it can share the levy amongst a wider pool of levy payers, whilst still remaining fair and proportionate.

To achieve this the PPF is considering two alternative approaches:

An additional factor to be applied to scheme liabilities - This will raise the bar for all and mean that some schemes that do not currently pay a Risk Based Levy would (once again) start to do so. This will still have the biggest impact on those that are currently underfunded, as it will make the level of underfunding used to calculate the PPF Levy even worse, but would help to share the load. Larger schemes will also tend to be affected more by this approach.

Increase investment risk stress factors - This solution is also intended to reduce the 'stressed' funding levels within the levy calculation and so mean more schemes pay a Risk Based Levy. However, this approach should reward those with lower risk investment strategies. Whilst this might seem the fairer of the two approaches, it adds complexity at a time that the PPF is generally trying to simplify the approach and reduce administrative costs. More importantly, the PPF does not believe it will be sufficient, in isolation, and so would need to be combined in some way with increased scaling factors in order to deliver the total PPF levies required.

Key dates

The key deadlines for submitting information for the 2024/25 Levy are as follows:

End of consultation	**30 October 2023**
Outcome of consultation and publication of Rules	**By end of December 2023**
Scheme Returns and electronic contingent asset certificates	**Midnight on 31 March 2024**
ABC certificates and special category employer applications	**Midnight on 31 March 2024**
Send contingent documents by post	**5 pm on 2 April 2024**
Start of 2024/25 levy year	**1 April 2024**
Certify Deficit Reduction Contributions	**5pm on 30 April 2024**
Exempt transfer applications	**5pm on 30 April 2024**
Certify full block transfers	**5pm on 30 June 2024**
Publication of mean scores	**July 2024**
Invoicing starts	**Autumn 2024**

Broadstone comment

The PPF's proposals, combined with general funding level Improvements, are expected to result in 99% of schemes paying a lower PPF levy in 2024/25. Overall, the average reduction in the risk-based levy component is expected to be around 40% (with a large group of schemes seeing this element reduce to zero), and the average reduction in scheme-based levy around 25%.

We see this as positive news for trustees and sponsors and welcome the general stability in approach. However, it is clear that the PPF would like more flexibility in how it raises the PPF Levy and it is deeply frustrating that **any** levy is being charged when it is not currently seen as necessary.

Unfortunately, the main barrier to reducing the levy further is pensions legislation from when the PPF was originally set up and changes to this seem unlikely to happen quickly. In an ideal world we would like to see the government move to allow the PPF to reduce the overall levy that it charges schemes, but instead we face the prospect of future levy rises for some as steps are (understandably) taken to redistribute the £100m p.a. burden.

Of course, a lot can change in a year (as we know only too well from the past twelve months) so we will continue to monitor the PPF's future plans. In the meantime, trustees and scheme sponsors should check to ensure they are not one of the 1% that Is expected to see their levy increase next year.

Broadstone

PPF Trustmark

You may be aware that Broadstone is on the PPF panel for administration and actuarial services. We have successfully been awarded a PPF Trustmark.

The PPF recently announced the establishment of the Trustmark. The Trustmark badge Is designed to recognise providers' specialist knowledge and commitment to high levels of service, as set by the PFF. You can read more about the Trustmark here.

Liz Loosmore, a Senior Actuarial Director who leads our PPF team, commented on the announcement "We are delighted to start to use the Trustmark as part of our PPF Specialist Administration and Actuarial Services work. It demonstrates the high-quality and strong reputation for these services that panelists have worked so hard to cultivate."

Find out more

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