

BBS briefing note

The 2010/11 Pension Protection Fund Levy Consultation

In line with previous years, the Board of the Pension Protection Fund (the PPF) has issued a Consultation report setting out its proposals for the calculation of the PPF levy for 2010/11.

The PPF has proposed some minimal changes to the levy calculation, which have, in part, been driven by the desire to lessen the burden on the weakest schemes during these challenging economic times. Whilst subject to consultation, the main proposals are considered firm and are unlikely to change.

This *BBS briefing note* summarizes the proposals.

THE PROPOSALS FOR 2010/11

A summary of the proposals for the main components of the levy calculation is as follows:

Levy Estimate

In 2007 the Board advised that it was their intention to retain a stable levy of £675 million indexed to earnings for the period up to 2010/11 provided there were no changes to the level of risk faced by the PPF.

Although there has been a decline in funding levels and an increase in perceived risks, the Board has determined that, reflecting the financial difficulty facing some levy payers, the levy will be maintained at £675 million, subject to indexation.

Accordingly, the levy estimate for 2010/11 will be £720 million (an increase from £700 million in 2009/10 or 2.9%).

Interest on late levy payments

The Board has also confirmed that, subject to legislation being enacted, it intends to commence charging interest on late levy payments for 2010/11.

No details have yet been provided on the timing or basis of such interest payments.

Levy Structure

The Board has confirmed that there will be no change to the structure of the levy calculation. In particular, 80% of the levy will continue to be collected by reference to risk based factors and 20% by reference to scheme based factors.

Levy Funding parameters and cap

The **levy multiplier** is the factor that determines the scheme based element of the levy and is applied to the total liabilities in the levy calculation. The Board proposes that the levy multiplier for 2010/11 will be 0.0145%, which compares with 0.0162% used for last year's levy.

The **levy scaling factor** is the mechanism by which the more significant risk based element of the levy is mapped to schemes. For 2010/11, the Board proposes that the levy scaling factor will be 1.64, which compares with 2.22 for 2009/10, largely reflecting the reduction in funding levels that most pension schemes will have observed.

For 2009/10, the risk based levy for the most vulnerable schemes was capped at 1% of the Section 179 liabilities ("**the levy cap**"). The Board has confirmed that the levy cap will reduce to 0.5% of the liabilities for 2010/11. In previous years, the levy cap has been set to assist the weakest 5% of schemes, whereas reducing the cap to 0.5% is expected to lead to 10% of schemes having their levy capped.

Underfunding Risk

The Board has confirmed that there will be no change to the method of calculating the degree of underfunding. Hence a scheme's underfunding is determined by reference to a benchmark funding level on the Section 179 funding basis of 120%, with underfunding tapered from 1% of liabilities to nil for schemes with funding levels between 120% and 140%.



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Insolvency Risk

Dun & Bradstreet (D&B) Failure Scores and associated probabilities of insolvency will continue to be used, with the insolvency risk for 2010/11 being fixed at 31 March 2009.

The maximum probability of insolvency has been reduced from 15% to 3% to assist the 50 or so weakest schemes in affording the levy.

The Board has proposed that the Failure Scores of overseas-based employers, as assessed by the local D&B office, be converted using a matrix to determine a UK equivalent Failure Score. For some employers this will lead to a reduction in their Failure Score whereas for others this will lead to an increase.

Proposals to refine the UK system for determining failure scores from 2011/12 are expected in November 2009.

Deadlines and Measurement Dates

A summary of the various deadlines for the 2010/11 levy year is as follows:

- 5pm on 31 March 2009 for the submission of scheme return data;
- The measurement date for the underfunding and insolvency risk is 31 March 2009;
- 5 pm on 31 March 2010 for the certification of contingent assets;
- 5 pm on 7 April 2010 for the certification of deficit reduction contributions;
- 5pm on 30 June 2010 for information on "full" block transfers.

The Board's intention is to enforce these deadlines strictly.

As applied in 2009/10, the certification of deficit reduction contributions and contingent assets must be made online through the Pensions Regulator's Exchange system. The PPF will not be issuing reminders of the need to recertify contingent asset agreements.

Revised standard contingent asset forms will be brought into force from the date of publication of the final determination. In addition, for any new agreements, the employer will have to formally confirm that they have considered whether putting in place the contingent asset is beneficial to the guarantor / charger.

Consultation Period

The consultation period will run until 11 November 2009 with a summary of responses and the final determination expected to be issued prior to the year end.

BBS VIEW

The PPF has acknowledged that many pension schemes and their sponsoring employers are under considerable strain during these challenging economic times. It is therefore welcome that the PPF has shown restraint in increasing the total levy only in line with indexation to £720 million. However as the number of schemes seeking assistance from the PPF increases, and the PPF's own funding deficit increases, there will inevitably be pressure to increase levies in future years.

The reduction in the levy cap from 1% to 0.5% will offer some relief to the weakest 10% of schemes. However, this will result in those that are not capped having to pay an increased levy to compensate for this easement.

The new method of assessing the insolvency risk for overseas employers could have a significant effect on a scheme's levy and those affected should review their position.

Whilst the main proposals are subject to consultation and the final determination, they are not expected to change. This is helpful in that it will permit schemes to better budget for their levy.

