The 2019/20 Pension Protection Levy Consultation

The Board of the Pension Protection Fund (the "PPF") has released the draft Determination for the PPF Levy for the 2019/20 levy year. An associated Consultation document sets out some proposals on a small number of technical changes on which feedback is being sought, none of which are expected to be material in an overall sense (although some could impact on individual schemes).

This *BBS briefing note* provides a summary of the proposals for next year's levy.

Background

Each year, the PPF issues a Determination which sets out the basis of the PPF Levy, including the Levy Estimate, the Levy parameters, and the associated rules and guidance. Prior to issuing the Determination, a Consultation document is issued setting out the PPF's proposals in relation to any changes, for feedback from stakeholders.

The PPF's stated aim is to maintain stability in the Levy over each triennium as far as is possible, and this means that changes are only typically made to the Levy parameters and rules where necessary. However, experience in relation to the Levy evolves and certain technical changes may be proposed where the PPF considers this enhances the calculation of the Levy.

2019/20 is the second year of the current triennium and the PPF is proposing that the Levy calculation will remain substantially unchanged. However, changes are being proposed on a small number of technical points considered below.

The Levy Estimate and Parameters for 2019/20

Each year, the PPF estimates the total risk faced for the forthcoming levy year based on various modelling assumptions. These assumptions relate to the financial conditions that apply, the extent that schemes will submit new valuations and contingent asset and deficit reduction contribution certificates, and future changes in the insolvency risk of sponsoring employers. Based on this modelling, the PPF then considers whether any changes are required to the underlying Levy parameters.

Despite a record level of claims on the PPF last year, the PPF's funding position is strong and the PPF remains on track to achieve its long-term funding objective. Accordingly, the PPF has determined that the Levy Estimate, i.e. the total amount it expects to collect, for 2019/20 will be £500 million, reduced from £550 million last year.

To achieve this, the levy scaling factor will be 0.48, the scheme-based levy multiplier will be 0.0021%, and the PPF Levy Cap will be 0.5% of the unstressed PPF liabilities, all unchanged from 2018/19.

Other levy parameters, including investment risk stress factors, levy rates etc, are also unchanged.

Insolvency Risk

Fundamental changes were made to the insolvency risk model for the third triennium, with five of the scorecards being rebuilt and the remaining three being recalibrated. The PPF has reviewed the performance of the revised model and, whilst there has been only limited experience over the last year, has concluded that the model has performed in line with expectations. Accordingly, there are to be no significant changes to the insolvency model for 2019/20.

Type A and Type B Contingent Assets

The PPF has confirmed that Type A and Type B contingent assets containing a fixed sum element in the cap will need to be re-executed using new standard form agreements (issued in January 2018). The PPF is recommending that schemes affected start planning for this as soon as possible.

Where a guarantor strength report was provided for 2018/19, and a report for the same guarantor is required for 2019/20, the PPF is proposing that a "refresher report", explaining what has changed, would be acceptable.

Consolidation Vehicles

In March 2018 the government announced its intention to introduce policies to support the consolidation of DB schemes into "Consolidator Vehicles". Although details are not yet available, the PPF expects these Consolidator Vehicles to operate as occupational pension schemes and be eligible for PPF protection.

The PPF is consulting on new rules to reflect the additional risks posed by Consolidator Vehicles, compared to "conventional" schemes, to ensure that there is no cross-subsidy.

The PPF is proposing to base its levy for Consolidator Vehicles on the existing methodology for schemes without a substantive sponsor (known as SWOSS) but with some adjustments:

- Increasing the levy if there is no requirement for the arrangement to wind up if funding falls below a minimum threshold;
- Additional tests at the year-end to take account of any profits withdrawn and new transfers in;
- Using more prudent assumptions if key information on funding and investment risk is not provided voluntarily

Levy Payment

The PPF is also considering what help it can provide schemes (and employers) to better plan ahead and to avoid having to find a large sum of money over a short time.

The PPF is therefore inviting feedback on:

- What support it can provide to help stakeholders estimate the PPF levy ahead of time, and
- The timing of paying the PPF levy, including if payments could be made in instalments.

Key Dates

The key deadlines for submitting information for the purposes of the 2019/20 Levy are as follows:

- Scheme Returns - midnight on 31 March 2019
- Insolvency risk will be measured by the average of the employer's Insolvency Score over the month ends from April 2018 to March 2019
- Certification of Contingent Assets – 5 pm on 29 March 2019
- Certification of Deficit Reduction Contributions – 5pm on 30 April 2019
- Certification of Block Transfers – 5pm on 28 June 2019

BBS View

The Consultation confirms that there are to be few changes to the levy calculation and this is to be welcomed. The changes to contingent assets were expected, and most schemes affected will have already started planning for this.

We welcome any proposal that helps schemes plan ahead and BBS will communicate any changes when they are known.

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