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PPF Issues Policy Statement on Third PPF Levy Triennium and Starts Consultation on Draft Levy Rules

On 27 September 2017 the Pension Protection Fund (PPF) published a consultation paper in respect of key proposed changes to the calculation of the risk based element of the Pension Protection Fund levy that is planned to come in to force for the third triennium commencing with the 2018/19 levy year. It also started a consultation on the draft levy rules.

Levy Estimate

The PPF is proposing to seek a levy for 2018/19 of £550 million which is c10% lower than the amount it estimates will be collected in 2017/18 (£615 million).

Insolvency Risk Proposals

The PPF has confirmed the use of the new scorecards for their insolvency risk model, the use of public credit ratings for the largest entities and of specific score cards for entities in the regulated financial service sector.

Levy Bands and Rates

The PPF are maintaining ten levy bands with the same boundaries but they are proposing changes to Levy Rates for Bands 1 to 3 which will lessen the differential between them. The conclusion that the PPF reached from their consultation earlier this year was that they decided five new score cards should be adopted, and the group scorecards should be maintained as developed for the second triennium apart from being recalibrated.

Levy Scaling Factor

The PPF had disclosed an indicative Levy Scaling Factor (used in the calculation of the risk-based levy) for 2018/19 of 0.37 during the Third PPF levy Triennium consultation. This was a significant reduction from the 2017/18 equivalent figure of 0.65. The Levy Scaling Factor proposed as part of this consultation is 0.48.

Asset and Liability Stresses

The PPF are proposing updated asset and liability stresses within the 2018/19 consultation. These will generally improve the scheme funding figure used in the calculation of the levy.

Overall Impact

If the new rules applied this year, around two thirds of schemes would see a lower levy and around one in five would see an increase. Employers on the scorecard for the largest entities (unless credit rated) would see an increase in levy in aggregate while employers scored on all other scorecards see a reduction in levy in aggregate.

Small and Medium Sized Enterprises (SMEs)

In aggregate, SMEs will see a reduction in levy of 30%. In addition to developing new scorecards that score SMEs separately from larger companies other changes to help SMEs include a simplification of the process for certifying Deficit Reduction Contributions (DRCs) which the PPF expect will lead to greater levy recognition for these payments particularly by small schemes.

Use of Monthly Experian Scores

The PPF will maintain the averaging of monthly Experian scores rather than using a single point measurement - in response to clear stakeholder feedback. For 2018/19 the PPF will only use month-end scores between October 2017 and March 2018. For future years the intention is to use a 12 month average.

PPF/Experian Portal

The portal will shortly be updated with new credit rating data. The PPF has indicated that they wish to keep the portal open as much as possible as they want 2017/18 scores to continue to be available. The PPF intends to update the portal in the week commencing 2 October 2017, when it anticipates having credit rating data.

Other Changes

The PPF has modified its original proposal that covered Type A (group company) guarantees. The original proposal was that any guarantee above a certain threshold would need a covenant report. During the consultation an alternative proposal was that the threshold at which a covenant report would be required should be based on the possible amount of levy saving. The PPF agreed with this proposal and they have indicated that where a levy saving is in excess of £100,000 a covenant assessment report will be needed. This will apply to around 20% of guarantees that are currently in place.

The PPF will also consult further before issuing amended forms for contingent assets. This will mean new contingent asset agreements entered into for 2018/19 will have to be on the new forms. For existing Type A and Type B agreements the PPF do not require these to be resubmitted in the updated documentation format but are likely to require action for 2019/20.

The PPF proposes to set the Risk-Based Levy Cap at 0.5 per cent of smoothed liabilities for 2018/19, a reduction from the current level of 0.75 per cent.

The PPF has also introduced a new certification process for employers which are judged to be of very low risk because of their association to government. The PPF has decided to use the Office of National Statistics (ONS) classification of a central government body as the test. Assuming that the PPF accept a certification this would place the employer in Levy Band 1.

The PPF has also simplified the existing DRC regime for all schemes, by removing the requirement for investment management expenses (both implicit and explicit) to be deducted when calculating the certified amount.

In Closing

Whilst the overall amount that the PPF has indicated that they will be collecting for 2018/19 has reduced there will still be around 20% of schemes that will see an increase in their levy.

We would recommend that schemes review their levy banding under the new scorecards especially where there is a possibility that credit rating agencies will be used in the assessment. This information is provided via the www.ppfscore.co.uk website.

If you need any help or assistance to help you understand the possible implications of the proposed changes then please contact your usual Conduent adviser.

The consultation will close at 5pm on 1 November 2017. It is expected that the levy rules will be issued in late December 2017.

The table below shows the Key Dates that are included in the consultation document.

Item	**Key dates**
Monthly scores to be used in 2018/19 levy	Between October 2017 and March 2018
Deadline for providing updated information(to Experian) to impact on monthly Experian scores	One calendar month prior to the score measurement date
Submit scheme returns on Exchange	By midnight on Thursday 29 March 2018
Reference period over which funding is smoothed	5-year period to Saturday 31 March 2018
Certification of contingent assets	By midnight on Thursday 29 March 2018
Certification of asset-backed contributions	By midnight on Thursday 29 March 2018
Certification of mortgages and accounting standard changes (emailed to Experian)	By midnight on Thursday 29 March 2018
Certification of deficit-reduction contributions (DRCs)	By 5pm on Monday 30 April 2018
Certification of full block transfers	By 5pm on Friday 29 June 2018
Invoicing starts	Autumn 2018

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