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2019/20 Draft Pension Protection Levy Determination

Background

On 20 September 2018 the Pension Protection Fund (PPF) published their consultation document and draft Levy Rules for 2019/20. This is the second year within the triennium and so to maintain stable rules within this period there are no major changes proposed. Full details can be found on the PPF website: https://www.pensionprotectionfund.org.uk/levy/Pages/1920-Draft-Levy-Determination.aspx

Key actions and next steps

- Type A or B contingent assets that contain a fixed cap will need re-executing to be recognised for 2019/20. This can be a time consuming process so please consider whether any action is needed and speak to your advisors. In some cases not re-executing could significantly increase Levies.
- Consider obtaining a 2019/20 Levy estimate and possible mitigation actions that could be used to reduce your Levy.
- The final Levy Determination is expected to be published by the PPF in December 2018.

Re-execution for contingent assets

For 2019/20 the PPF are proposing to **only recognise Type A and B contingent assets which include a fixed sum maximum amount element (this includes those where the fixed sum element is within a 'lower of' formula) that are on the new standard form agreements published in January 2018**.

It can take time to put a new contingent asset agreement in place so the PPF are encouraging schemes to take early action to ensure everything is in place by the end of March 2019. Full details of the certification requirements are included in the draft Contingent Asset Appendix and Guidance.

If a Type B contingent asset is being re-executed this will require the creation of a new charge in favour of the pension scheme. The PPF will work with Experian to identify any such charges and it will mean schemes will not need to submit a mortgage exclusion certificate to maintain the existing age of the most recent charge (ignoring the new charge created as part of the re-execution). Note that the mortgage age variable only impacts the group turnover based scorecards 3, 4 and 5.

Type C contingent assets are not affected by the issue which requires re- execution of Type A and B contingent assets. Due to their nature, some Type C contingent assets are renewed annually and the PPF would prefer that schemes move onto the January 2018 standard forms when they refresh their Type Cs after expiry.

Key areas of the Levy calculation

There is **very limited change to standard Levy calculation** proposed in the consultation, in particular there are no proposed changes to the:

- Levy Scaling Factor (remains at 0.48)
- Scheme-based Levy multiplier (remains at 0.0021%)
- Risk-based Levy cap (remains at 0.5% of unstressed liabilities)
- Investment risk stress factors
- Levy rates

There are also no significant proposed changes to the PPF-specific model or the other new scoring methods. As a reminder, the 2019/20 Levy calculation will use 12 months of Scores (rather than 6 used for 2018/19).

Deficit Reduction Contributions (DRCs)

The DRC Appendix and Guidance has been updated to clarify:

- the **exclusion of investment management expenses** to be those which are 'clearly distinguishable as relating to investment'; and
- that a **'duly appointed substitute'** can complete the DRC certificate on Exchange.

There was also clarification that to use Option Beta a scheme must be closed to accrual in its entirety and that accrued benefits must not retain any element of salary linkage.

What the PPF expects for 2019/20 Levies

The PPF expects to see an **overall improvement in underfunding risk** compared to 2018/19 (as employers pay DRCs and funding levels improve). This is expected to be partially offset by the impact of recent market conditions (in particular, low gilt yields) on smoothed funding levels.

They also expect to see a **modest improvement in insolvency scores on average**.

Findings from 2018/19

There were **87 contingent assets that triggered the guarantor report requirement** and reports were received for the vast majority. These reports are currently being checked by the PPF who will report on any lessons learnt in the December policy statement. One observation is that the duty of care requirement appears to have been correctly included in the reports examined so far (from a wide range of covenant advisers).

Around **90% of DRCs certified were done so using Option Alpha** and 10% Option Beta (most without actuarial certification).

Other points covered in the consultation

- Despite large claims recently the PPF are estimating a **reduced Levy collection of £500m** (down from £550m last year). However, they do point out that if the level of claims continues to be high this may need careful thought for next year’s Rules.
- The PPF have confirmed that the **S&P credit model** will not be extended to score other regulated entities.
- The threshold for requiring a **bespoke investment risk stress test** is maintained at £1.5 billion of s179 liabilities. The exception to this is that a Scheme Without a Substantive Sponsor (SWOSS) or commercial consolidation vehicles who are expected to carry out a bespoke test regardless of size.
- The PPF are considering whether the option for a member to exchange future pension increases for a higher initial pension on retirement should be regarded as an **augmentation** for the purposes of certifying DRCs.
- The PPF have considered the possible impact of changes to **IAS 19 Employee Benefits**. The changes apply to accounting periods starting on or after 1 January 2019 (so would not be expected to impact monthly scores until 2020/21 at the earliest). The PPF do not believe that any of the change variables on relevant scores cards would be materially impacted and are therefore proposing not to make any adjustments or allow the flexibility of submitting a certificate.
- There is another forthcoming change (**IFRIC 14**), concerning the availability of refunds from defined benefit pension schemes which may have a more significant impact. The PPF will monitor this and make proposals if necessary.
- The PPF have set out proposals for how they will levy **consolidation vehicles** (although it is expected that the approach will evolve as the new regulatory framework for consolidators is defined). The approach is based on the methodology for calculating a Levy for SWOSS.
- If there are employers that believe they should be classified as **Special Category Employers** but did not apply in 2018/19 the PPF are encouraging them to apply in good time for 2019/20.
- The PPF also commented on the **recent ruling** that PPF members should receive at least 50% of the value of their accrued pension. They expect the number of members affected by this ruling to be very small and they will consider the ruling carefully, including what action to take prior to legislative change, and/or the conclusion of UK court proceedings. They will then consider whether any changes to s179 valuation guidance is needed and consult appropriately.
- There were some **minor changes** made to the Determination and Appendices which are shown in section 7 of the PPF’s consolidation document.

Key dates

Item	Key Dates
Monthly Experian Scores, Credit Ratings and credit model scores to be used in 2019/20 levy	Between 30 April 2018 and 31 March 2019
Deadline for submission of data to Experian to impact Monthly Experian Scores	One calendar month prior to the Score Measurement Date
Contingent Asset hard copy documents to be submitted as necessary to PPF	By 5pm, 29 March 2019
Submit scheme returns on Exchange	By midnight, 31 March 2019
Reference period over which funding is smoothed	5-year period to 31 March 2019
Contingent Asset Certificates to be submitted on Exchange	By midnight, 31 March 2019
ABC Certificate to be sent by email to PPF	By midnight, 31 March 2019
Experian certificates – covering mortgages, FRS102/102, employee information (e-mailed to Experian)	By midnight, 31 March 2019
Special category employer certificate	By midnight, 31 March 2019
Applications for Exempt Transfers	By 5pm, 30 April 2019
DRC Certificates to be submitted on Exchange	By 5pm, 30 April 2019
Certification of full block transfers	By 5pm, 28 June 2019
Invoicing starts	Autumn 2019

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