

Manage your future levy costs or risk an increase in amounts payable

Pension Protection Fund (PPF) confirms levy methodology for next three years

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Companies may face significant increases in the levy payable over the next few years unless they start taking action now. Recent proposals published by the Pension Protection Fund (PPF) change the factors used to calculate the levy, which will result in changed costs for most organisations. Better funded schemes are likely to see a significant increase in their risk-based levy. There are plenty of risk reduction actions you can take before the deadline of 31 March 2008 to reduce your levy.

What you need to know

1. The total proposed levy for 2008/09 is £675 million (as for 2007/08). This consists of £135 million scheme-based levy plus £540 million risk-based levy. This will remain the same for the next three years unless there is a significant change in the level of risk faced by the PPF.
2. The PPF have changed some factors used to calculate a scheme's levy:
 - the funding level above which schemes pay no risk-based levy increases from 125% to 140% of liabilities;
 - the funding level at which schemes pay a reduced risk-based levy has been raised from 104% to 120% of liabilities;
 - for schemes with less than 120% funding, the under-funding risk will now be calculated as 120% (previously 105%) of liabilities less the funding level; and
 - reducing the levy cap from 1.25% of liabilities to 1%.

Note liability figures to be calculated on the PPF section 179 basis.
3. The increase in the level of funding at which schemes pay no risk-based levy means that better funded schemes may see their levy increase. In addition, contingent assets (such as guarantees, letters of credit, charge over assets, etc) already put in place to target the former thresholds may no longer be fully effective, and in any event will need to be recertified to be effective for the 2008/09 levy.
4. The 2008/09 levy will take into account the funding level as at 31 October 2007 and the employer insolvency risk as at 31 March 2008. However, the following will be considered where applicable:
 - the funding level will be adjusted for deficit contributions paid by 31 March 2008 provided the scheme actuary certificate is received by the PPF by 7 April 2008;
 - new contingent assets that meet the PPF criteria will be taken into account provided they are in place as at 31 March 2008 and the PPF has received the appropriate certificate from the trustees (or scheme manager) by that date;
 - existing contingent assets in place must be recertified. Schemes will be contacted by the PPF regarding this;
 - block transfers (above £1.5million or 5% of the scheme's asset value) that are made by 31 March 2008 will also be taken into account provided the scheme actuary certificate is submitted by 7 April 2008.

The employer insolvency probability is again capped at 15%.
5. A section 179 valuation ('PPF valuation') must be provided by 31 March 2008 to meet the requirements of the Pensions Regulator. If not submitted by this date,

the PPF will, when calculating the risk-based levy, reduce a scheme's rolled forward asset value by 5% for each year between the date of the minimum funding requirement (MFR) valuation and the levy calculation date. The actual basis for the section 179 valuation has not changed, even though the PPF has itself increased its own longevity reserves.

6. The PPF will not take into account any corrections made to the scheme return data held by the Pensions Regulator after 31 March 2008. Previously, the PPF has allowed schemes to correct information up to 28 days after receiving levy invoices.
 7. Dun & Bradstreet (D&B) has produced a revised table of probabilities of insolvency for the PPF. On receiving failure scores, employers/trustees must make representations about any errors in that calculation to D&B within 28 days, otherwise the PPF will not take into account any revised failure scores.
 8. For the 2009/10 levy:
 - the funding level and employer insolvency risk will be measured as at 31 March 2008;
 - the funding level will be adjusted to take account of any contingent assets put in place by 31 March 2009 and any deficit reduction contributions made by 31 March 2009.
3. By 31 March 2008:
 - submit a section 179 valuation if you have not already done so;
 - consider making additional contributions or putting contingent assets in place in order to reduce your 2008/09 levy – this may also bring a tax benefit as the corporation tax rate will be lower in 2008/09;
 - for contingent assets ensure that the trustees (or scheme manager) has provided the PPF with the appropriate certificate;
 - take steps to improve your D&B failure scores; and
 - ensure all correct information is included in the Pensions Regulator's scheme maintenance system (Exchange), including the most up-to-date list of participating employers.
 4. If you would like deficit contributions or block transfers to be taken into account, you must provide the PPF with the scheme actuary certificate by 7 April 2008.

What you need to do

1. Review any contingent assets or guarantees currently in place to assess if they remain effective in reducing levy costs. If you do not have any in place, consider the potential cost savings of using them.
2. Check you have provided D&B with up-to-date information for all participating employers.

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