



Levy payments

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# 9

The PPF is expecting to collect £651 million for the 2008/09 levy year.

## Levy payments

### 9.1 Summary

- The Pension Protection Fund (PPF) is expected to collect £651 million in respect of the levy in the 2008/09 levy year.<sup>35</sup>
- This is £24 million less than the £675 million levy estimate announced in November 2007. The final estimate is closer to the initial estimate than in earlier years because of better data, and changes to the timing of setting the levy scaling factor for the 2008/09 levy year.
- The levy raised in 2008/09 is £66 million more than the previous year, and more than double the amount collected in 2006/07.
- The number of schemes paying no risk-based levy was 608, similar to the 590 in 2007/08, while 564 schemes had their risk-based levy capped at one per cent of their £179 liabilities.
- The top 10 levy payers paid almost the same proportion, 10 per cent of levy in 2008/09 as in the previous year.
- Levy paid as a percentage of assets was unchanged in 2008/09 at 0.08 per cent.

### 9.2 Introduction

The PPF has been collecting a levy based on risk for three years, 2006/07, 2007/08, and 2008/09. This chapter looks at the levy payments over this three year period for the same 6,682 mainly private sector defined benefit (DB) schemes each year based on invoices, and is not based on the Purple 2009 dataset described in other chapters. For this reason, information from this chapter should not be compared with the rest of Purple 2009. It describes how levy payments vary over levy years in terms of scheme size, insolvency probability and funding level.<sup>36</sup>

### 9.3 Levy estimate

For the 2008/09 levy year, the levy estimate was set at £675 million. An 80:20 split between risk-based and scheme-based levy per scheme was again adopted for 2008/09. The average levy paid per scheme in the 2008/09 year across the sample was approximately £92,000 (around £54 per scheme member).

<sup>35</sup> For more information see A Guide to the Pension Protection Fund Levy 2008/09 at [http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/levy\\_guide\\_0809.pdf](http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/levy_guide_0809.pdf).

<sup>36</sup> When comparing levy invoices over the 2006/07 to 2008/09 period the analysis in this chapter uses a sample of 6,682 schemes for which full schemes information was available over all years. This constitutes £219.6 million, £476.5 million, and £607.6 million in levy invoiced in 2006/07, 2007/08, and 2008/09 levy years respectively. When discussing the 2008/09 levy year only a slightly larger sample of 7,053 schemes is used, which accounts for £650.5 million in levy.

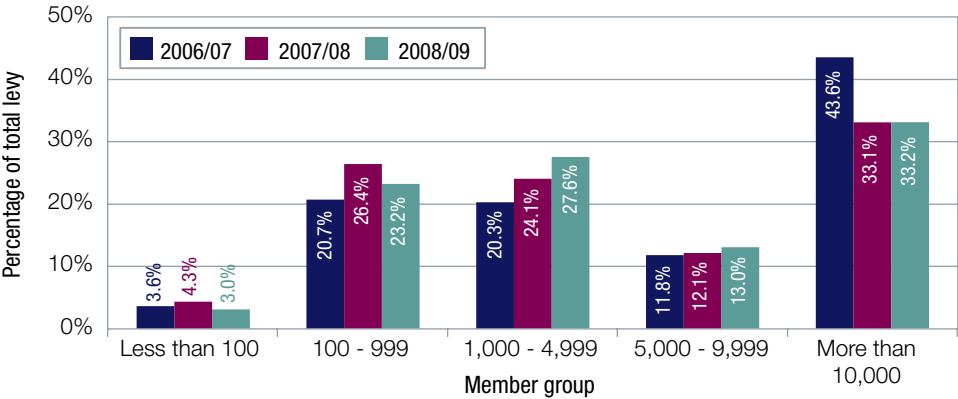
The PPF’s 2008/09 Annual Report and Accounts show that at the end of August 2009 the PPF had collected £582.9 million for the 2008/09 levy year. For 2008/09 the total collection is estimated to be £651 million.<sup>37</sup> This estimated collection is close to the initial estimate published in November 2007, and contrasts with the experience of previous years where a significant difference between the levy estimate and levy collected has occurred.

The closer alignment between the two estimated figures is the result of a number of factors, including the timing for setting the levy scaling factor (LSF) – the factor used to sum the individual levies to the levy estimate. The notification of contingent assets and deficit reduction contributions to the PPF did not reduce the levy estimate as it had in past levy years as the final LSF was set at the beginning of the year when these had been submitted to the PPF. For the 2008/09 levy year the insolvency probability of schemes was measured at 31 March 2008 and the funding position at 31 October 2007.

More accurate data was also an important factor in reducing the changes between the anticipated levy and that then invoiced and collected. The Pensions Regulator’s online web-based scheme return system, ‘Exchange’, which gave schemes greater flexibility to submit and check data held, was launched in December 2007. As a result of the improved opportunity to submit and check data, schemes were no longer able to correct data they had submitted incorrectly after the start of the levy year.

9.4 Levy by scheme size<sup>38</sup>

Chart 9.1 | Levy distribution by scheme size



Source: PPF/The Pensions Regulator

Larger schemes, those with more than 5,000 members, paid 46.2 per cent of the total levy in 2008/09, up marginally from 45.2 per cent in 2007/08. However, schemes with less than 1,000 members saw a decrease in the share of levy they paid from 30.7 per cent in 2007/08 to 26.2 per cent in 2008/09. The largest change was for schemes in the 1,000 to 4,999 category whose proportion of levy paid increased from 24.1 per cent to 27.6 per cent.

<sup>37</sup> For more detail on levy collection see the Annual Report & Accounts 2008/09 on the PPF website at [http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/ara\\_0809.pdf](http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/ara_0809.pdf). The total levy invoiced for 2008/09 was slightly higher than the expected total collection as stated in the Annual Report & Accounts due to accounting provisions which allow for un-collectable levy. As such, the levy invoice figures used in the analysis for Chapter 6 are scaled down by 0.02% to match the Annual Report & Accounts.

<sup>38</sup> Some of the figures quoted in this chapter will differ from those quoted in previous versions of the Purple Book due to the specific schemes included in the dataset between years. Please note that figures may not sum to 100 per cent due to rounding.

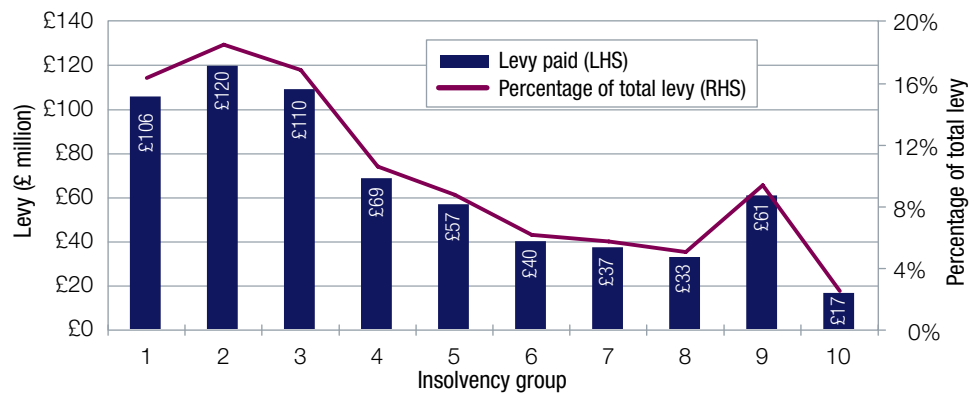
Total levy as a proportion of total scheme assets remained at 0.08 per cent.

### 9.5 Levy by insolvency group

Chart 9.2 shows how in 2008/09 levy payments were distributed across all the insolvency groups. (For definitions of insolvency groups, see Chapter 8 Risk developments). Those schemes in insolvency Group 2 contributed the most – £120 million or 18.5 per cent of the total.

Beginning from the 2008/09 levy year the PPF decided not to collect a levy from schemes in the PPF assessment period. As such the levy collected from schemes in insolvency Group 10 has fallen compared with the same group in Purple 2008.

**Chart 9.2** | Levy distribution by insolvency group\*

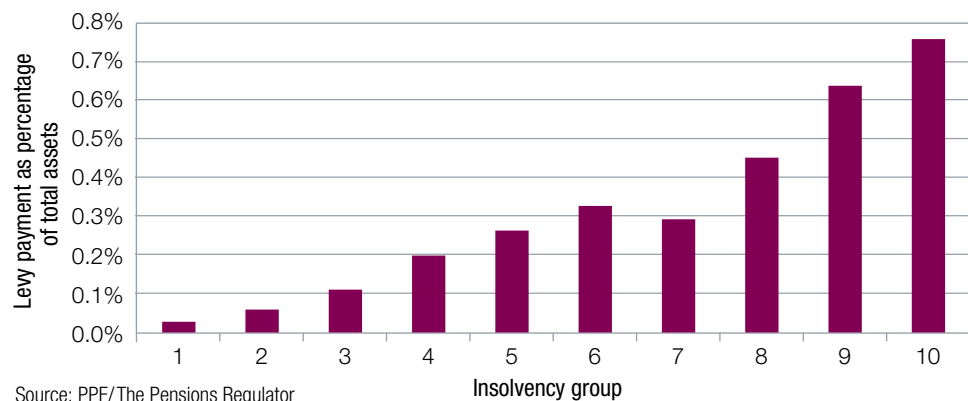


Source: PPF/The Pensions Regulator

\* Based on sample of 7,053 schemes for the 2008/09 levy year.

In general, levies are very small relative to total s179 assets – at around 0.08 per cent in 2008/09 (the same as in 2007/08). Chart 9.3 illustrates the breakdown in levy payments as a percentage of s179 assets across insolvency groups. In the worst insolvency group, Group 10, the levy paid in 2008/09 amounted to 0.8 per cent of total assets while in the best insolvency group, Group 1, the levy paid amounted to 0.03 per cent of assets.

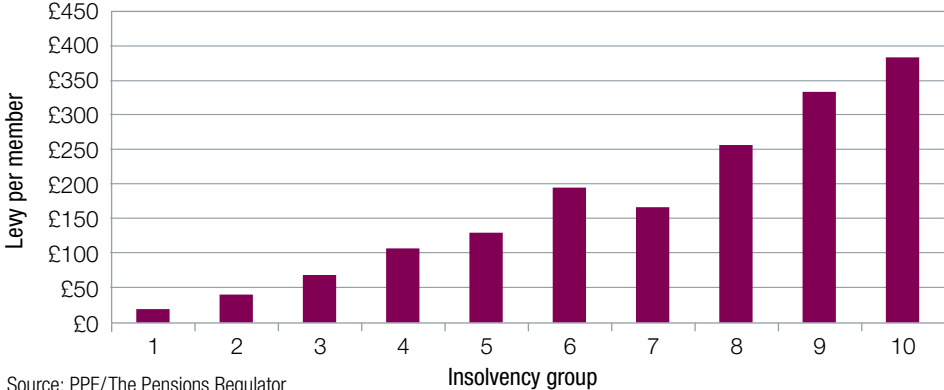
**Chart 9.3** | Levy payments as a proportion of assets by insolvency group



Source: PPF/The Pensions Regulator

In 2008/09, levy per member increases as the insolvency risk of the sponsoring employer rises (Chart 9.4).

**Chart 9.4** | Levy per member by insolvency group



**Chart 9.5** | Percentage of total levy that is scheme and risk-based by insolvency group\*

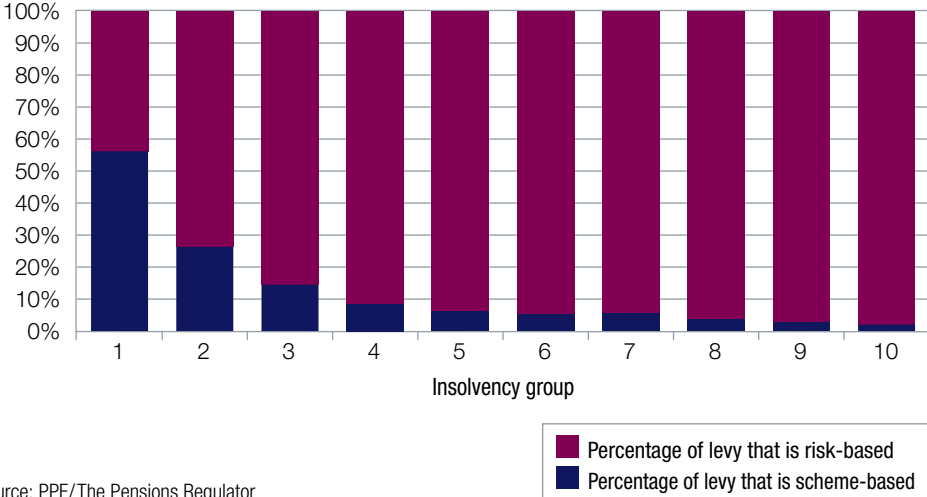


Chart 9.5 shows that in 2008/09 (as in previous years), the share of risk-based levy increases as the insolvency risk rises, and the share of scheme-based levy falls.

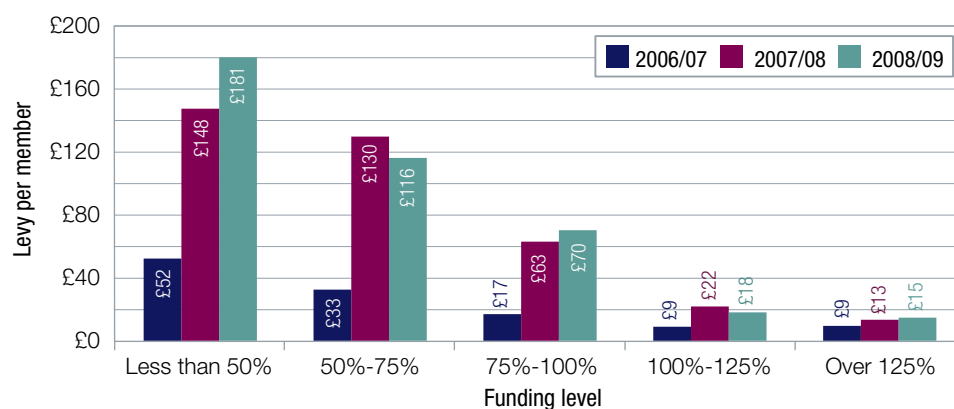
## 9.6 Levy by funding level

**Table 9.1** | Funding groups

Funding group	Funding position on s179 basis
1	Less than 50%
2	50% to 75%
3	75% to 100%
4	100% to 125%
5	Over 125%

Chart 9.6 shows that better funded schemes paid less levy per member in each levy year. Those schemes over 125 per cent funded paid no risk-based levy in 2007/08. For the 2008/09 levy year the funding level at which schemes paid no risk-based levy increased to 140 per cent.

**Chart 9.6** | Levy per member by funding level



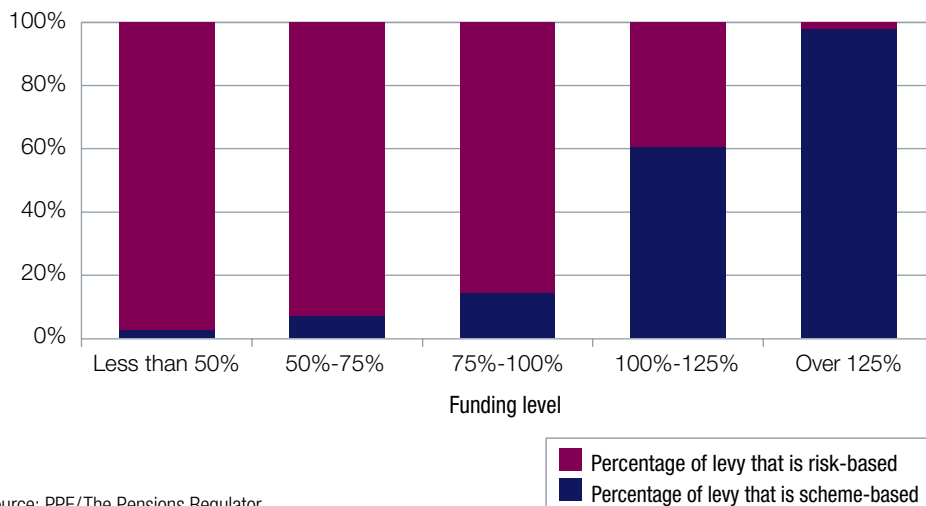
Source: PPF/The Pensions Regulator

**Better funded schemes pay less levy per member.**

The figures for the 2006/07 levy year in the chart above are much less than in subsequent years owing to under collection of the estimated levy. More details on the reasons for under collection can be found in Purple 2007.

Chart 9.7 shows the composition of total levy paid in the 2008/09 levy year. The proportion of risk-based levy declines as scheme funding improves.

**Chart 9.7 | Percentage of total levy that is scheme- and risk-based levy by funding level\***



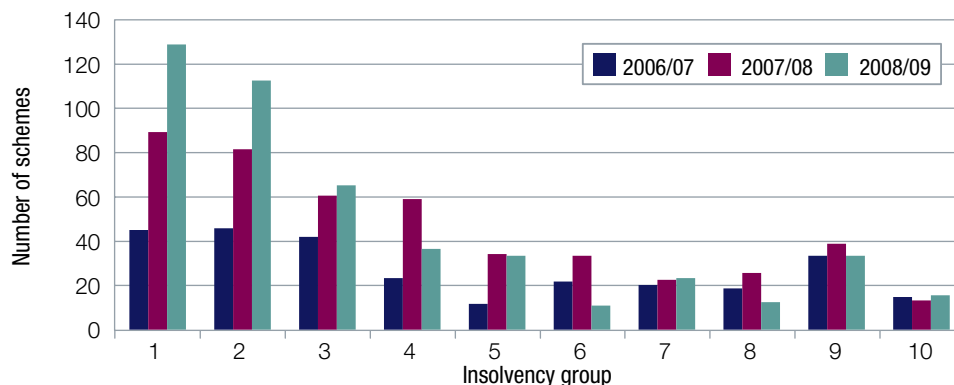
Source: PPF/The Pensions Regulator

\* Based on sample of 7,053 schemes for the 2008/09 levy year.

### 9.7 Schemes paying no risk-based levy

The number of schemes paying no risk-based levy increased to 608 in the 2008/09 levy year compared with 590 in 2007/08 (see Table 9.2).<sup>39</sup> In the 2008/09 levy year, this represented nine per cent of total schemes and 10 per cent of total liabilities, compared with nine and 12 per cent for 2007/08.

**Chart 9.8 | Number of schemes paying no risk-based levy**



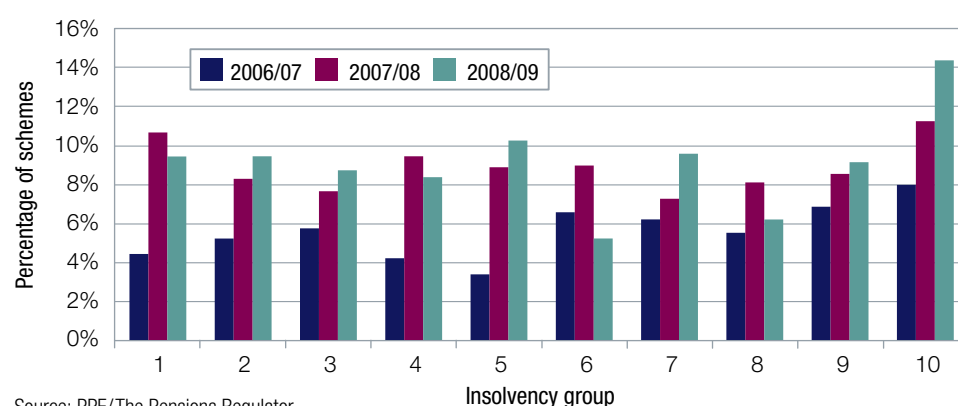
Source: PPF/The Pensions Regulator

A larger number of schemes in insolvency groups 1 to 3 paid no risk-based levy in 2008/09 than in 2007/08.

<sup>39</sup> These figures are based on the comparative sample used. 644 schemes did not pay a risk-based levy in the larger dataset used for 2008/09.

A larger number of schemes than in 2007/08 in the better insolvency groups, Groups 1 to 3, paid no risk-based levy in 2008/09 as the funding position of schemes in these groups improved taking them over the 140 per cent threshold. It is possible for very small schemes, which are in the higher insolvency groups, to be over the 140 per cent levy threshold and pay no risk-based levy.

**Chart 9.9** | Percentage of schemes in each insolvency group paying no risk-based levy



Source: PPF/The Pensions Regulator

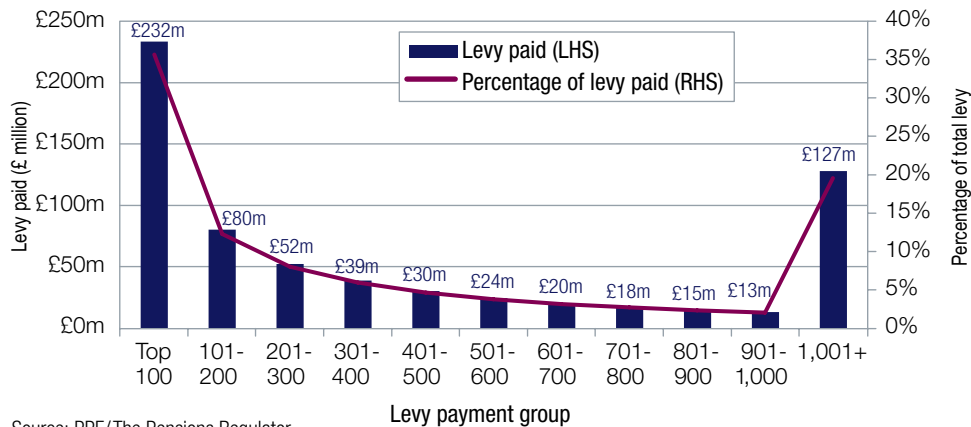
**Table 9.2** | Schemes paying no risk-based levy\*

	Number of schemes	Percentage of total number of schemes	s179 liabilities (£ billion)	s179 liabilities as percentage of total liabilities
2006/07	356	5%	44.3	6%
2007/08	590	9%	83.8	12%
2008/09	608	9%	72.6	10%

\* This represents the number of schemes paying no risk-based levy in the comparative sample of schemes used across levy years. The total number of schemes who do not pay a risk-based levy will be slightly higher, for example, in 2008/09 644 schemes will not pay a risk-based levy.

## 9.8 Levy paid by the largest levy payers

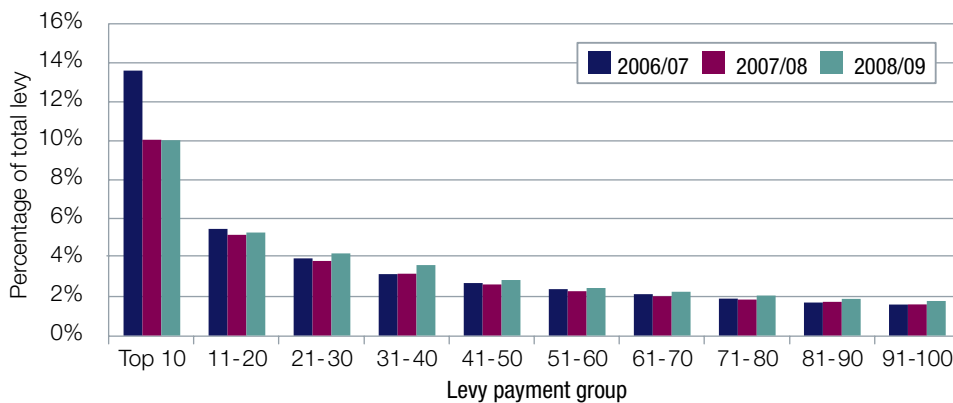
**Chart 9.10** | Distribution of levy payments by largest levy payers\*



Source: PPF/The Pensions Regulator

\* A full sample of 7,053 schemes for the 2008/09 levy year was used in constructing this chart.

**Chart 9.11** | Percentage of total levy paid by largest 100 levy-paying schemes



Source: PPF/The Pensions Regulator

Chart 9.10 shows that the top 100 levy payers in 2008/09 paid £232 million or 36 per cent of the total levy. These schemes account for approximately one per cent of the total number of schemes, but 35 per cent of total s179 liabilities. The composition of the top 100 levy payers has changed slightly from year to year.

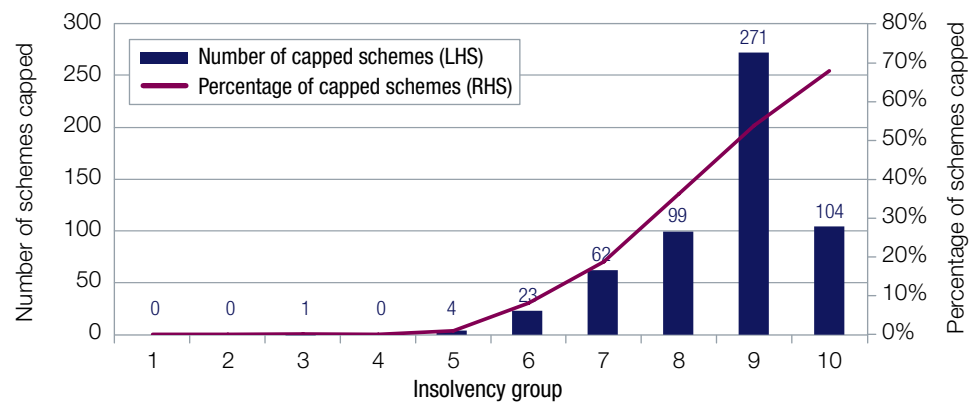
Comparing the top levy payers over 2007/08 and 2008/09, Chart 9.11 shows that the top 10 levy payers paid virtually the same percentage of total levy in 2007/08 – 10 per cent – as in 2008/09. Those schemes from 10 to 100 all paid slightly higher percentages of the levy compared with the previous year.

The top 10 levy payers continue to contribute approximately 10 per cent of the total levy.

## 9.9 Capped schemes

In 2008/09 the risk-based levy was capped at one per cent of a scheme's s179 liabilities compared with 1.25 per cent in 2007/08 and 0.5 per cent in 2006/07. In 2008/09, 564 schemes had their risk-based levy capped, eight per cent of the total. The liabilities of those capped schemes totalled £9.8 billion or one per cent of total liabilities.

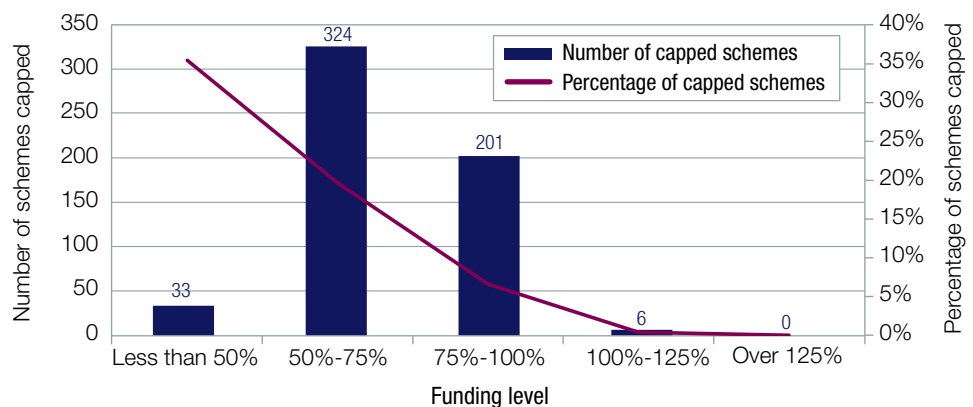
**Chart 9.12** | Number of schemes with capped risk-based levies by insolvency group\*



Source: PPF/The Pensions Regulator

\* Based on a sample of 7,053 schemes for the 2008/09 levy year.

**Chart 9.13** | Number of schemes with capped risk-based levies by funding level



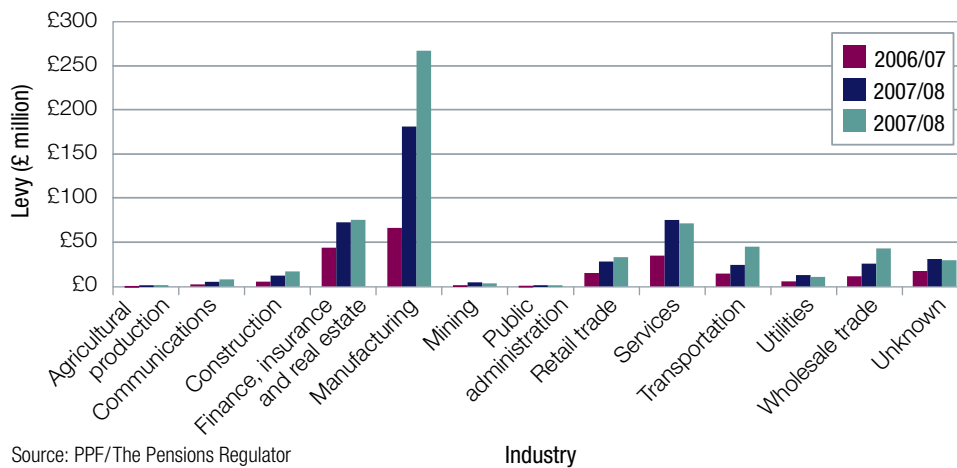
Source: PPF/The Pensions Regulator

Charts 9.12 and 9.13 above show that schemes with higher insolvency probabilities, or poorer funding, are most likely to have their risk-based levy capped. Of the 564 capped schemes, 375 were in Insolvency Groups nine and 10.

## 9.10 Levy paid by industry category

Chart 9.14 shows that the finance, insurance and real estate, manufacturing, and services continue to be the highest levy payers. These industries accounted for 68 per cent of the total levy in 2008/09 (69 per cent in 2007/08), and 68 per cent of the total number of schemes. Manufacturing saw the largest monetary increase in levy payments from £181.6 million to £267.8 million.<sup>40</sup>

**Chart 9.14** | Total levy by industry

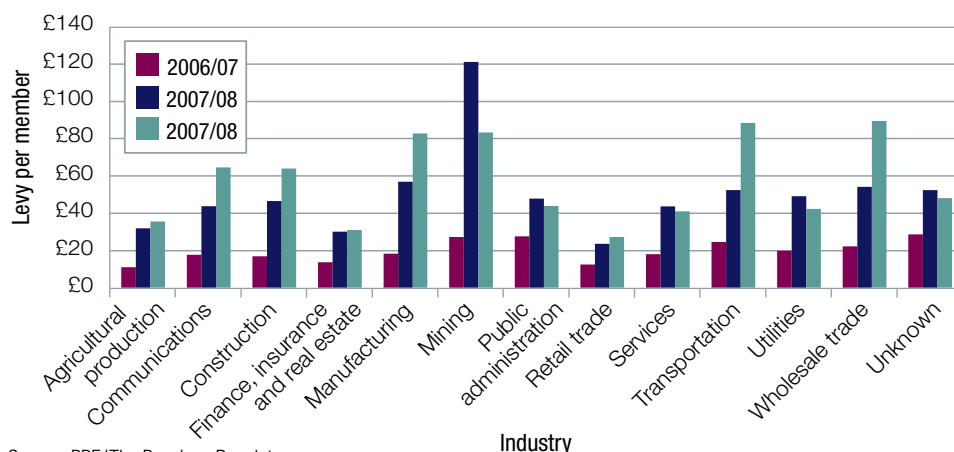


Source: PPF/The Pensions Regulator

The manufacturing sector pays the largest amount of levy, but the mining sector pays the most levy per member.

Chart 9.15 shows the levy paid per member by industry across levy years. Eight industries had an increase in their levy per member between the 2007/08 and 2008/09 levy years, while five saw decreases. The biggest monetary increase in levy per member was in the transportation industry. The levy per member for this industry increased by £36, from £52 in 2007/08 to £88 in 2008/09. The mining industry has the largest decline in levy per member, falling from £121 in 2007/08 to £83 in 2008/09.

**Chart 9.15** | Levy per member by industry



Source: PPF/The Pensions Regulator

<sup>40</sup> Industry classification is based on 1972 US Standard Industry Classification (SIC) codes.