

# PPF bulletin

● issue 9

PPF's bi-monthly electronic newsletter September/October 2011

## The levy is changing

The next year sees important developments for the pension protection levy which supports our ability to pay compensation to those who have lost their pension due to employer insolvencies. This bulletin sets out what those developments are, and what impact there will be on schemes. It also points out some key things scheme trustees and their advisors should focus on to ensure that they are charged the right amount.

On 21 September, we announced that the pension protection levy for 2012/13 would be £550 million. This is the lowest levy that we have ever set and marks a reduction from £600 million in 2011/12, the second cut in two years.

This further reduction in the amount of levy we want to collect recognises our desire to protect employers and pension schemes which are still navigating choppy waters – while remaining mindful that we have to protect our own financial position.

We also launched a consultation on the rules which will govern our new levy framework – including the parameters (such as the levy scaling factor) that we expect to use for calculating levy bills for the next three years (see Box 1).

In a significant break from the past – when we updated the way the levy is calculated every year – we expect these new rules to be fixed for three years and to provide greater

predictability for schemes wishing to plan for the future. We consulted on this new approach last autumn, reporting back our conclusions earlier this year (see box 2 on next page).

**“Our desire is to protect employers and pension schemes which are still navigating choppy waters”**

As a result of fixing the rules, the amount we collect overall will vary from year to year – if total risk for defined benefit pension schemes falls, then the PPF will collect less

levy overall. So we should no longer see the phenomenon that “my risk went down but my bill went up”.

A scheme's levy will still vary depending on movements in its risk, indeed the link between shifts in risk and shifts in levy should be closer than before. But we are also making changes to smooth the assessment of risks which should help make bills more stable. Together with the stronger emphasis on scheme funding in the new formula, this gives schemes more control over the level of their levy.



**Tell us what you think about the proposed levy rules for 2012/13**

Consultation document and draft 2012/13 levy determination can be found **here**.

**Box 1**

The consultation will run until Wednesday 2 November 2011.

Box 2

## Find out more about the New Levy Framework



The consultation exercise was launched in October 2010 and ran for three months. You can read about it [here](#).



A summary of the responses we received, and the changes that were made to our proposals is [here](#).

One aspect of our initial proposals that drew significant comment was the proposal to move to placing scheme sponsors in a limited number of bands for insolvency risk, rather than using the 100 Dun & Bradstreet failure scores directly. This change reflected our view that the evidence available – we looked both at our experience of schemes entering assessment periods and the more extensive experience credit rating agencies have – didn't support making very fine distinctions in risk.

**“ We are also making changes to smooth the assessment of risks which should help make bills more stable ”**

Consultation responses typically recognised the logic of our proposals, but expressed concern that broad bands could mean large jumps in levy if an employer were to move from one band to the next. So we listened to that concern, and increased the number of bands proposed to 10. Our analysis shows that this should deliver more stable levies than the current system does.

Another change, which should help stability, is that the D&B measurements that feed into the band will, where possible, be an annual average based on monthly scores for April 2011 to March 2012 – instead of just a single year-end score. So, we are expecting that schemes will generally find the assessment of insolvency risk applied to them varies less from year to year.

We will also reflect scheme investment strategies in the levy. This isn't about telling trustees what

strategy their scheme should adopt - we're very clear that is a trustee responsibility - but we do want to reflect the impact on our risk.

We will aim to reflect investment risk in a way that minimises burdens on schemes – so for most we will be able to do this using information already supplied to us. However, this does mean that information that trustees and advisers may not have focused on in the past will become critical in determining the levy the scheme pays.

To assess schemes with more complex strategies we have developed (including through a recent consultation) guidance to allow schemes to report their own assessment of investment risk in a comparable way. For the very largest schemes, with liabilities of £1.5 billion or more, undertaking this analysis will be compulsory.





## “This isn't about telling trustees what strategy their scheme should adopt – we're very clear that is a trustee responsibility”

For other schemes it will be optional, so scheme trustees and advisers may want to consider whether it would be worthwhile undertaking this analysis – which is more likely for those schemes that use derivatives to manage their investment risk, and whose bills warrant the cost of carrying out analysis.

This new approach to the levy will mark a real step forward in assisting those schemes that want to be able to plan for the costs of the levy. For example, it should make assessing the impact of deficit reduction payments or risk reduction measures – such as contingent assets – much easier than at present.



### Don't pay more than you need to!

There are a number of points trustees and their advisers should give consideration to in order to limit the size of bills.

The simplest is to make sure that the information that is provided through the Exchange system and to D&B is accurate. Every year we find that a few schemes provide inaccurate information and find that their bill is higher than it need have been.

One area to pay particular attention to this autumn is the information provided about the assets held by the scheme. From 2012, this information will be used to measure the investment risk of a scheme. In the past some schemes have reported large holdings in the “insurance” or “other” categories, rather than seeking to record the underlying assets held in a pooled fund. Taking the time to establish what the split of assets in a pooled fund is, and then reporting that underlying information, could lead to a significant levy reduction. Schemes with derivatives should also consider whether the bespoke investment risk approach may be more appropriate for them.

There are other things that trustees and advisers can consider in order to manage their bills. These range from securing payments into the scheme and having these recognised through deficit-reduction contribution certificates, to putting in place any of a range of contingent assets. The deadlines for these are listed [here](#).

It is also worth being aware that D&B are measuring insolvency risk scores throughout 2011/12, and that these will feed in to the 2012/13 levy. This means there is still time to affect the assessment of insolvency risk that is used in your 2012/13 levy – a contrast to previous years when measurement was a year in advance.

### Levies for this year (2011/12)

Invoicing for the 2011/12 levy year began this month. We are staggering the issuing of invoices to ensure that we are able to provide excellent customer service in relation to queries as they arise. However, the majority of schemes should receive their bill by the end of October. As we indicated last autumn, the aim for the 2011/12 levy is to collect a total of £600m in levy, a reduction on the total billed in the previous year.

Schemes are encouraged to pay their 2011/12 levy on time. We will again be making use of the power to charge interest on late levy payments, which contributed to an improvement in the speed with which bills were paid. With most schemes paying their bills on time, we think it is right that they not be asked to effectively subsidise those that chose not to.

We have been working with D&B to make the process of dealing with an appeal about the failure score for an employer more streamlined. Some stages in the process for previous levy years have been combined, so that there will be a three stage process. This should mean that schemes will be able to have their appeal escalated more quickly to senior levels within D&B.

# Assessment period gets into fifth gear

Following the successful completion of the Assess & Pay pilot project earlier on in the year, we have set up a panel of actuarial firms to carry out s143 valuations for pension schemes in assessment.

Barnett Waddingham, Jardine Lloyd Thompson, Punter Southall, Spence and Partners and Xafinity Consulting are the five firms to be selected to work with us.

Phillip Beecroft, Head of Operations at the PPF explains: "We currently have more than 200,000 members and 359 schemes in assessment. Our members have told us they wanted certainty sooner, trustees and advisors want a more pragmatic approach during the assessment period and levy payers want to see a more efficient programme to help reduce the cost of the levy. And we've been working on that.

"Our pilot demonstrated that using a dedicated actuary with specific knowledge and expertise to carry out underfunded s143 valuations, can bring many benefits. That is why we have decided to roll this out to other schemes in the assessment period."

Before this project was set up it took on average 140 days to produce a s143. Now we can turn it around in just 14 days. We have also managed to substantially reduce the costs of producing a s143 by a third from about £25,000 to around £8,000.

With effect from June 2011, the five firms have commenced undertaking s143 valuations for some of the schemes in the PPF assessment period, instead of the scheme actuary.

**“ Our pilot demonstrated that using a dedicated actuary, with specific knowledge and expertise to carry out underfunded s143 valuations, can bring many benefits. ”**

However, the panel will only conduct valuations for schemes that are both underfunded and standard. For all other schemes such as marginal, over-funded or high-profile cases, the scheme actuary will still be expected to carry out a s143 valuation.

The criteria for these schemes are that they:

- are projected to be under 90 per cent funded at the assessment date (based on actuarial assumptions)
- have less than 3,000 members and are not deemed by the PPF as high profile or complex cases
- have the first draft s143 valuation due to be commissioned after 1 August 2011
- are not part of an active Fraud Compensation Fund investigation, and
- are not subject to a potential rescue.

After this initial allocation, we will apply this criterion whenever a new scheme enters the assessment period. We will assign one of the five panellists to each selected scheme as soon as possible.

## In brief

# Revised Actuarial Factors published

We have published revised Commutation factors, Early Retirement factors and Annualised Value of Lump Sum factors.

These new factors should be used for all calculations.

The factors can be found on our website in the Technical Guidance section [here](#).

## Missing Beneficiary Insurance for FAS<sup>1</sup> Annuitising Schemes

This is a reminder to all trustees of FAS schemes that the PPF – who is responsible for the administration of FAS schemes – has published advice on Missing Beneficiary Insurance for FAS Annuitising Schemes.

Further details can be found by clicking on the **FAS news section** of the website.

## Key statistics at-a-glance

(as at 31 August 2011)

### PPF

- Number of schemes in the PPF: 322
- Number of members transferred: 85,114
- Average annual compensation: £3,900
- Our oldest member: 102 years
- Our youngest member: five years
- Total compensation paid out to date: £329 million
- Number of schemes in assessment: 359
- Number of members in assessment: 215,390
- Total PPF assets: £7.2 billion\*

\*this figure is as at 31 July 2011

### FAS

- Number of schemes that have qualified for FAS: 1,018
- Total assistance paid to date: £161 million
- Number of schemes that are pursuing qualification: 26
- Estimated number of members who will receive FAS assistance: 196,500

