

Technical Briefing

No. 23



PPF announces changes to the Calculation Basis for Scheme Levies from 2008–2009

Summary of PPF Determination

The Pension Protection Fund (PPF) has published its 2008–2009 Levy Determination, setting out some significant changes to the rules for calculating the pension protection levy for the coming year. There have been various revisions to the approach the PPF have taken discussed over recent months and this announcement confirms the key decisions made after consultation.

The key points of the determination are:

- The existing funding limits above which schemes pay a reduced, or nil, rate of levy have increased to funding levels on the PPF basis of 120% and 140% respectively (from 104% and 125%).
- The levy cap, which limits the level of any individual levy to a percentage of total liabilities, has been reduced to 1% (having been increased from 0.5% in to 2006–2007 to 1.25% for last year).
- Although 31 March 2008 will be the measurement date for both the 2008–2009 and 2009–2010 levy invoices, the PPF will now allow for contingent assets and deficit reduction contributions certified by April 2009 in the later year's invoices. The PPF have urged all Trustees to ensure their returns to the Regulator are accurate and up to date.

The PPF has also confirmed that the levy estimate of £675m (which is unchanged from the figure set for the current year) will remain stable over the next three financial years, subject to any significant unexpected change in risk, albeit with indexation in line with earnings. This means that the overall levy should, on average, be unchanged although there

may be significant changes, either up or down, on a scheme by scheme basis reflecting the changes to the formulae and the individual circumstances of each scheme.

Revised Calculation Basis for Risk Based Levy (RBL)

Current Basis

Currently, for 2007–2008, the RBL, which globally constitutes 80% of the total levy payable, is calculated as follows:

1. Where assets are 104% or less of the liabilities:

$$RBL = \frac{\text{Insolvency Risk (P)}}{\text{Risk (P)}} \times \frac{\text{Underfunding Risk (U)}}{\text{Risk (U)}} \times \text{RBL \%age} \times \text{Scaling factor}$$

or $K\% \times \frac{\text{Value of PPF Liabilities}}{\text{Liabilities}}$ if less

P is the probability of employer insolvency

U is 105% of PPF liability value minus asset value

RBL %age is 80%

Scaling Factor is currently 2.47

K% is the cap, currently 1.25%.

2. Where assets exceed 104% of the liabilities, then the above calculation applies assuming that U = a figure between 1% of the PPF liability where assets are 104% of the PPF liability tapered down to nil where assets are 125% of the PPF liability or greater.

Revised Basis

For the next two years, the basis is amended as follows:





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1. Where assets are 120% or less of the liabilities, the same formula as above applies, but; U is now 121% of PPF liability value minus asset value
K% is the cap, now 1%.
2. Where assets exceed 120% of the liabilities, then the above calculation applies assuming that U = a figure between 1% of the PPF liability where assets are 120% of the PPF tapered down to nil where assets are 140% of the PPF liability or greater.

The value of the Scaling Factor for 2008–2009 has not yet been set, and will be announced in May once the data on which the calculations will be made has been collected. This is in effect a balancing item to match the formulae to the target £675m levy. The current estimate is that the factor will be approximately 1.6.

Implications of the Changes to RBL Basis

The change in basis will result in what is in effect a rebalancing of the application of the levy. Some schemes (those capped and those who are particularly poorly funded) might expect to end up paying less, whereas those who are relatively well funded may expect to pay more.

	Case 1	Case 2	Case 3
Assets (£m)	50	100	150
PPF Liabilities (£m)	120	120	120
Funding Level (%)	41.66	83.33	125.00
Insolvency Risk (%)	1.690	0.905	0.303
2007–2008 Basis (£k)	1,500 (Capped)	465	nil
2008–2009 Basis (£k)	1,200 (Capped)	524	3

It is also worthy of note that, for many schemes, the 2008–2009 levy will be based upon the first formal liability submission ("Section 179 valuation") made to the PPF, rather than an estimate based on

historic valuation data. Where a new Section 179 has been submitted, therefore, there may be a step change in the value of the assessed underfunding ("U" in the formulae) and hence some volatility in the levy calculated.

The direct impact on any specific scheme will, therefore, depend very much upon their specific funding position. If you have any questions about these new proposals, please contact your usual **cprm** contact.

Certification of Information and the Scheme Return

Whilst announcing these changes, the PPF also agreed an easement to the allowance they will make for contingent asset and deficit reduction contributions. Under industry pressure, as a result of more schemes recently identifying the potential advantages of applying contingent securities as the bases of levy calculations evolve, they will now allow for certificates submitted in 2008–2009 to be incorporated in levy calculations for 2009–2010. Previously they had proposed a complete freeze for the next two years.

Whilst commenting on the data they will be using to calculate levies, the PPF have urged schemes to make sure the information they supply to the Regulator is correct, as the PPF will not accept corrections to the Scheme Return data it gets from the Regulator. It is therefore imperative that, where Trustees are responsible for making their own submissions, they ensure they do so accurately.

Whilst the deadline for completing the PPF valuations for levies in the years 2008–2010 are past, it is still necessary to regularly update the Regulator Returns. If you require assistance with completing Scheme Returns to the Regulator, **cprm** can offer a cost-effective service that takes responsibility for all possible submissions, ensuring quality of data drawing on our experience of providing this service to the majority of our clients.