

Technical Briefing

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PPF Announces Provisional Levy Scaling Factor for 2009/2010

PPF Announcement

Only 4 months after the controversial details of the 2008/2009 factors, the Pension Protection Fund (PPF) announced details of the 2009/2010 PPF Levy on 25 September 2008. Further information can be found in the consultation document "The 2009/2010 Pension Protection Levy Consultation", available on the web at:

http://www.pensionprotectionfund.org.uk/levy_consultation_september_2008.pdf.

Recognising the disruption caused by the significant difference in the factor from the May announcement compared to the provisional factor from the previous October, the proposals contained in this document are declared to be firm ones and the PPF do not anticipate substantial change. The proposals will be confirmed and published in November.

Aggregate Levy and Scaling Factor for 2009/2010

The proposals estimate the aggregate levy will be £700 million for 2009/2010 year. This is actually the £675 million figure from 2008/2009 indexed in line with earnings. The PPF considered increasing the levy above the indexed £675 million level but decided against this in view of volatile markets and corporate uncertainty in the UK.

The levy scaling factor has been calculated as 2.22 for 2009/2010. This compares to 3.77 for 2008/2009. This was, in turn, an increase from 2.47 the year before although other changes to the overall formula applied from 2008/2009 as discussed in our Technical Briefing 23.

Impact of Changing Factor

The reduction in the scaling factor might suggest that, all other things being equal, levies would fall by the order of 40%. However the reality of the levy calculation is that the assessed Underfunding Risk is likely to be higher for "typical" schemes as asset values are likely to have fallen in line with investment markets. In this regard a "typical" scheme is one with a significant exposure to equity markets.

It is difficult to anticipate the exact impact for individual schemes at this stage, but consider the following example analogous to Case 3 in Technical Briefing 24. Assuming assets have fallen in line with markets over the period since the 2008/2009 assessment to, say, 83% of their value (this is broadly consistent with current market conditions) the Underfunding Risk correspondingly increases by almost 80%:

	2008/2009	2009/2010
Assets (£m)	120	100
PPF Liabilities (£m)	120	120
Funding Level (%)	100.00	83.33
Underfunding Risk (£m)*	25.2	45.2
Insolvency Risk (%)	0.513	0.513
Factor	3.77	2.22
Levy (£k)	389	412

* The Underfunding Risk is typically PPF liabilities loaded by 121% less assets.

In other words, the combined effect of market movements and the revision of the scaling factor is likely to have a broadly neutral impact on the calculation of the levy. This suggests that the PPF's





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aim to recoup broadly the same levy (but now indexed to £700 million) is likely to be met.

In reality the effect for individual schemes will vary considerably reflecting the details of each scheme's funded status.

Insolvency Risk Provider

Dunn & Bradstreet (D&B) has been reappointed as the provider of insolvency risk information to the PPF for the 2010/2011 and 2011/2012 levy years.

Longer Term Review of the PPF Levy

A consultation document will be published in October containing significant and wide-ranging proposals on the calculation of the levy and the way invoices are determined in future years.

This is likely to give trustees and companies an opportunity to make points on the future direction of the levy calculation. **cprm** propose to prepare a submission with input from clients, although any party can of course submit a specific and direct reply to the PPF.

cprm Commentary

Although the levy factors are not finalised it is expected that they will be substantially unaltered given the backlash the PPF received earlier this year over the scaling factor. The factors will be confirmed in November.

The decision to stick with the indexed £675 million aggregate levy target is welcome amidst the currently volatile market situation and corporate uncertainty in the UK. How this will affect different schemes will vary significantly, based upon their specific funding position. It is helpful, however, to have more certainty on the basis applying further in advance this year to minimise the possibility of a repeat of the confusion and uncertainty that pervaded the levy policy for 2008/2009.

Trustees and employers will have a good opportunity to air their opinions on the calculations of the levy for the long term in response to the consultation document due to be published in October.