

Technical Briefing

No. 32



Recent PPF Announcements

Levy Estimate for 2010/2011

The PPF have announced their estimate for the overall sum to be levied for the 2010/11 year. The key points of this announcement (which has been made earlier in the year than usual to help planning) are:

- The PPF are honouring the announcement in 2007 that the levy for the next three years would be stable, in real terms, to give as much certainty to levy payers as possible.
- The 2010/11 levy will be £700m (the same as the 2009/10 levy) plus wage related indexation.

As a result, schemes should expect that their 2010/11 levy will be only marginally higher than their 2008/9 and 2009/10 levies all other things being equal. That said, as discussed in Technical Briefing 26 there will be potentially significant differences for different schemes based upon their specific circumstances. The actual amount of a levy cannot be accurately estimated until later in the year when the other factors (scaling factor and indexation allowance) are made public.

Although this gives relative certainty through to 2011, there are many questions about how the levy will develop over the following years. In particular:

- Consultation on the future development of the levy issued around the turn of the year (see Technical Briefing 28) will potentially make significant changes to the shape of the levy calculation, affecting different schemes in different ways.
- The economic downturn will undoubtedly put additional strain on the PPF with potentially more schemes than expected falling into its

remit (see announcement below on volumes).

- The future levy requirements have been signposted in the announcement as potentially growing faster than inflation, although the Pensions Act 2004 restricts the growth of the total levy in one year to 25% of the previous year's estimate.

We will issue further details of the factors for the 2010/11 levy when they become available (expected to be in the autumn).

Compensation Cap within PPF

When schemes fall into the PPF, who then take responsibility for payment of compensation pensions, scheme members receive broadly 90% of their scheme benefits if they are yet to attain retirement age, or 100% if already past normal retirement age. This is however subject to a cap.

From 1 April 2009 this cap was raised by 3.5% to £31,936.32, meaning the effective cap for those yet to retire is £28,742.68 being 90% of this figure.

The significance of this figure is relatively limited, the average member payout currently standing at £4,000 p.a. although it will clearly be very significant for a small number of those receiving compensation.

Over 100 Schemes in the PPF

At the end of March this year, the transfer of its 100th scheme, Bristol based Brooks Service Group plc Pension Scheme with 343 members, into the PPF was announced. The announcement came with some interesting statistics:





No. 32

- Brooks Group suffered an insolvency event in February 2007, meaning the growth in membership relates to business failures two years previously, a typical PPF assessment period.
- The 100th scheme came as a result of the 148th assessment for eligibility, meaning that 1/3 of schemes considered were assessed as being sufficiently well funded to provide benefits without help from the PPF.
- There are a further 290 schemes in the assessment process which implies that, if experience to date on proportions entering the PPF is replicated, already the true liability is nearer to 300 schemes.

Extrapolating these figures and considering both the growing number of business failures and the worsened funding position of many scheme as a result of the economic downturn would suggest that the PPF liabilities may well grow very significantly in the next 2-3 years, and almost certainly ahead of initial projections. There is no doubt this will have significant implications for the future levy rates.

As discussed in previous Technical Briefings, management of the PPF levy will get more and more important as time goes by. If you wish to discuss developing your PPF strategy further, please contact your usual cprm representative or email info@cprmlimited.co.uk