



Pensions Newsletter No 8

PPF RISK-BASED LEVY FOR 2006/07

The Pension Protection Fund (PPF) is financed by an annual levy on eligible pension schemes. Eighty percent of the levy for 2006/07 and later years is to be risk-based. The balance of the levy will be calculated as a percentage of scheme liabilities. The risk-based element of the levy paid by each scheme will depend on the extent of any deficit in the scheme and the credit-worthiness of the sponsoring employer.

The levy system is intended to balance the interests of scheme members who are at risk and those schemes and employers who can afford the levy payments. How this would be achieved has attracted widespread concern.

The Board of the PPF has just published details of their proposals for the PPF levy for 2006/07. They aim to collect a total of £575m from schemes. The paper* includes details of how the levy will be calculated and the process to be followed. Summary fact sheets with examples have also been published.

In response to earlier consultation the Board made some changes to its proposals for operating the levy. These include:

- The maximum risk-based levy that individual schemes pay has been reduced to 0.5% of their liabilities;
- The risk-based part of the levy will not be payable by schemes with a PPF funding level of 125% or more;
- Any contributions already paid by an employer towards a deficit identified at the last actuarial valuation can be taken into account;
- Similarly, contingent assets can now be used to offset existing deficits. These assets include guarantees from parent companies, letters of credit and pledging of assets.

Employers and their pension schemes are expected to take advantage of these incentives to reduce their assessed risk and so the amount of levy they have to pay. For the 2006/07 levy assessment schemes have until 31 March 2006 to take action.

PPF funding valuations, on which the levy will be based in future, will not now be needed outside the normal actuarial valuation cycle. They will not become mandatory until 31 March 2008. The PPF believes that simplifying the process will reduce valuation costs by 80%.

Unfunded public service pension schemes and schemes with a government guarantee are not covered by the PPF. The PPF does not cover schemes that commenced to wind up before April 2005.



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Comment

GAD sees these revised proposals as a definite improvement. It is reassuring that the PPF has acted on the representations it has received. Recognising steps already taken for restoring scheme finances is obviously sensible. There is however only a small window for putting in place new support arrangements before the 2006/07 levy is assessed. If they have not already done so schemes and sponsors should be considering their options.

The total levy is rather higher than the £300m estimated at the time legislation was being put in place. The risk the PPF is covering is complex. It is inevitable that the financing needs of the PPF will vary significantly over time as similar arrangements in Germany and the USA have found..

* A copy of the paper can be obtained from
(http://www.pensionprotectionfund.org.uk/rbl_dec_05.pdf)