

PPF Levies – Have your say

The Pension Protection Fund (PPF) has undoubtedly added an extra layer of protection for defined benefit pension scheme members, having taken over responsibility for payment of nearly 75,000 members' benefits. This protection has been funded by more than £2bn payable through levies.

Barnett Waddingham's third annual PPF survey showed that scheme sponsors and trustees continue to have doubts about the sustainability of the PPF as a self-financing entity. Many respondents continue to feel that the methods used for assessing the levy on an ongoing basis do not fairly reflect the risks posed by their schemes. However, there is some evidence to suggest that more people are accepting the PPF levy structure and hopefully some of the remaining concerns will have been addressed by the changes applicable from 2012/13 onwards.

In response to comments from a number of clients on the issue of fairness of the PPF's annual levy, Barnett Waddingham set up a website www.thelevyforum.co.uk in 2008 to enable scheme sponsors and trustees to have their say.

The results of our latest survey highlight that, while there is broad support for the aims and existence of the PPF, concerns still remain about how it is funded and the equity of the levy and D&B failures scores. In particular:

- 85% of respondents supported the existence of some form of discontinuance fund as a means of providing additional security on sponsor insolvency...
- ...but only 30% of respondents agreed with the PPF being funded solely by a levy on pensions schemes without an additional government subsidy.
- A quarter of respondents said that the levy structure represents a fair sharing of costs between schemes (up from 6% in 2008 and 14% in 2009) and that the current system for assessing employer strength is a fair reflection of the relative risks.
- Worryingly nearly 30% of trustee or company representatives continue to suggest that the PPF levy could seriously jeopardise the future of their business. This is a similar proportion to previous years.

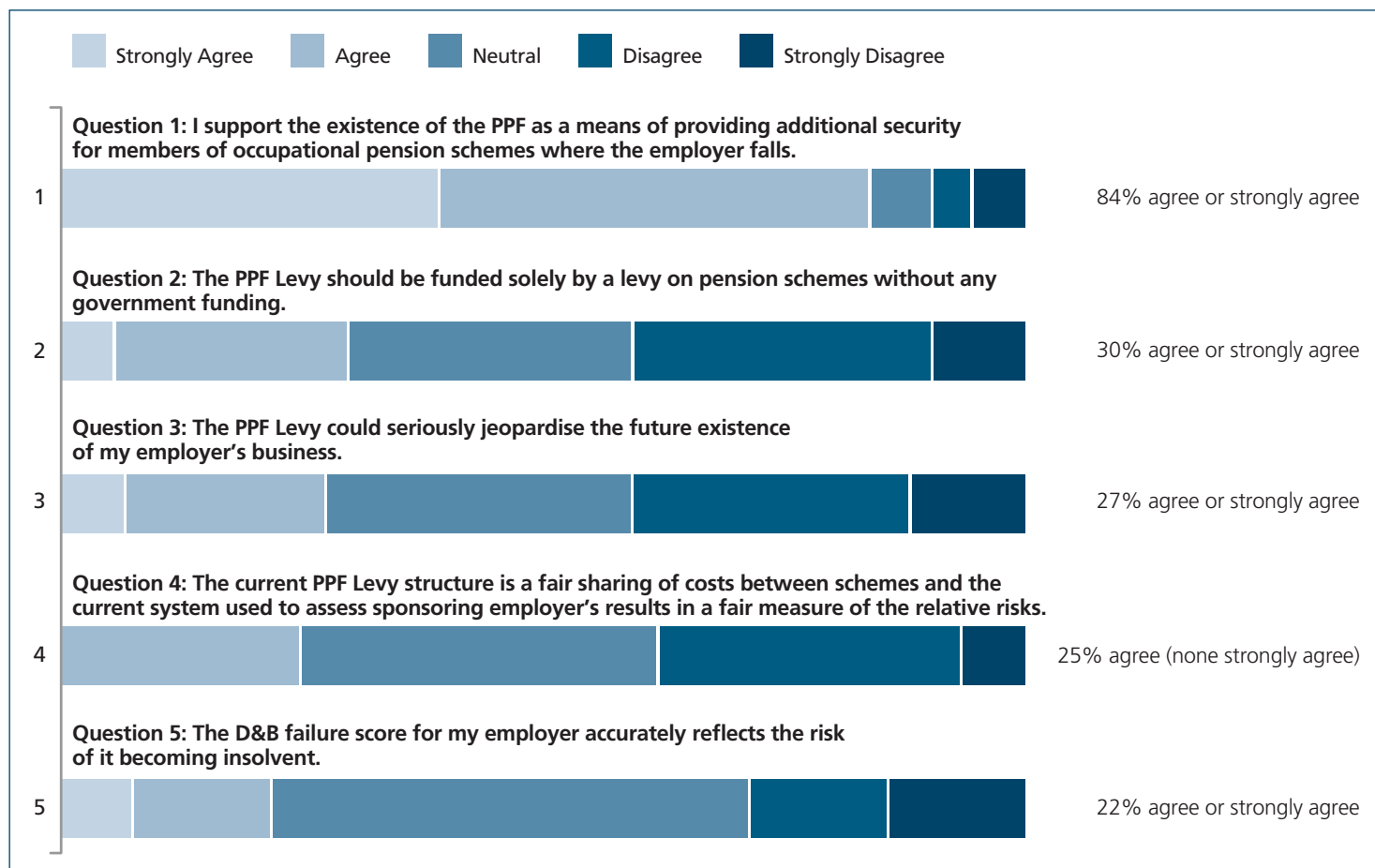
- There was no clear consensus from respondents on the issue of the factors used by D&B to assess the risk of employers becoming insolvent.

One of the major issues raised by our survey has been the year on year volatility in the levy. In last year's survey around half of respondents felt that stability in the PPF levy was more important to employers than the absolute amount they were asked to pay. The PPF has recognised this and has looked to address the issue in the revised calculation framework that will apply from 2012/13 onwards. The changes designed to reduce volatility in the levy include:

- using 10 bands to assess insolvency risk, down from the 100 bands currently used
- using a monthly average failure score rather than the score on 31 March each year
- fixing the scaling factor for three years, subject to legislative limits
- basing the funding level used in the levy calculation on a five year average of market yields rather than an assessment on 31 March each year.

The other major change is that investment risk will now be reflected in the levy calculation. In last year's survey around half of respondents agreed with this principle.

The table below summarises the responses to each of the survey questions:



This is a selection of the comments made by respondents to the survey:

On the PPF and fairness of the levy...

"There is an inflexibility and at times, a lack of common sense such as demanding a levy when it affects a schemes' ability to buy-out."

"The PPF is necessary to protect members, the cost has to fall somewhere, so probably the levy is the only option."

"A necessary evil."

On D&B failure scores...

"The D&B Score mechanism is extremely prejudicial to companies like mine that don't fit the normal 'trading' model. BUT new insolvency banding methodology does go some way to addressing this."

"The use of the D&B rating in the PPF Levy is its greatest weakness."

"The D&B Failure score complicates matters & a rating based on this measure should perhaps be removed - further encouraging stronger employers to improve the funding of their scheme."

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Chalfont Court Hill Avenue Amersham HP6 5BB Tel: 01494 788100 Fax: 01494 788800	Silver Springs House 2 Topaz Way Birmingham Road Bromsgrove B61 0GD Tel: 01527 300 000 Fax: 01527 300 090	St James's House St James's Square Cheltenham GL50 3PR Tel: 01242 538500 Fax: 01242 538501	163 West George Street Glasgow G2 2JJ Tel: 0141 243 4400 Fax: 0141 243 4432	West Riding House 67 Albion Street Leeds LS1 5AA Tel: 0113 394 3700 Fax: 0113 394 3760	Port of Liverpool Building Pier Head Liverpool L3 1BW Tel: 0151 235 6600 Fax: 0151 235 6640	Cheapside House 138 Cheapside London EC2V 6BW Tel: 020 7776 2200 Fax: 020 7776 3800
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