

PPF LEVIES – HAVE YOUR SAY

Barnett Waddingham

The Pension Protection Fund (PPF) has published its consultation document for the 2009/10 risk-based levy. The consultation ends on 23 October.

The Chief Executive of the PPF acknowledges that the increased scaling factor for this year's levy, announced in May, caused difficulty for some schemes and understated the benefits that resulted from risk reduction exercises carried out by schemes and employers.

In recognition of this, the PPF have confirmed that they will not do the same in 2009. The scaling factor, once published in November, will be held fixed for the 2009/10 levy calculations. This means that, unlike last year, any actions taken by schemes to improve their funding position before 31 March 2009 will not be counteracted by an increase in the scaling factor (at least not until 2010, anyway). Schemes will therefore have greater certainty regarding the amount of their 2009/10 levy.

Proposals for 2009/10 risk-based levy

In summary:

- The total levy estimate for 2009/10 will be £700 million, broadly as expected (this year's £675 million increased with National Average Earnings).
- The scaling factor in the consultation is 2.22 (compared with 3.77 for 2008/09). This factor is used to adjust four-fifths of the levy calculation to the amount desired.
- The scheme-based levy multiplier in the remainder of the calculation is 0.000162 (similar to the 2008/09 multiplier of 0.000165).
- The risk-based levy cap of 1% of liabilities remains, as does the tapering for schemes that are funded between

120% and 140% of PPF liabilities. Schemes with a funding level above 140% will pay no risk-based levy.

- Dun & Bradstreet (D&B) continues to be the insolvency risk provider for the 2010/11 and 2011/12 levy years.
- The measurement date for the scheme's assets and PPF liabilities and for D&B ratings is 31 March 2008, ie 12 months in advance.

It may seem odd that the total levy amount to be raised has increased to £700 million, yet the scaling factor that applies to four-fifths of the risk-based levy has reduced to 59% of the 2008/09 factor. The main reason is that funding levels deteriorated significantly from 31 October 2007 to 31 March 2008 (so deficits have increased, so the scaling factor can be set at a lower level).

For schemes that have still not submitted a s179 valuation, the latest MFR valuation continues to be used with approximate adjustment as before, but there continues to be a penalty built in to the formula, effectively reducing the scheme's assets by 5% per year since the MFR valuation date.

There are proposals to change legislation so that interest can be charged on late payments of the levy.

Actions to reduce your PPF levy

There are three main ways in which schemes or employers can reduce their PPF levy:

- Put in place contingent assets, in a form acceptable to the PPF
- Make deficit reduction payments to the Scheme
- Improve the Dun & Bradstreet rating of participating employers

From November onwards, certifications of contingent security and deficit reduction payments are to be made through the Pension Regulator's online exchange service, and not by separate certification to the PPF. The deadline for submitting information and supporting documentation for contingent security arrangements is 31 March 2009 (including recertification of arrangements from previous years). The deadline for submitting information on deficit reduction payments is 7 April 2009.

Improvements in the Dun & Bradstreet failure score between now and 31 March 2009 will not be incorporated in the calculation of the levy until 2010/11.

Block transfers

Block transfer certifications to the PPF will be required to cover bulk transfers and scheme mergers – guidance on this is to be published. Certification is required if 100% of the assets and liabilities are transferred. Certification is expected if there is a transfer of more than 5% of the scheme's assets or more than £1.5 million. The deadline for block transfer certifications is 30 April 2009, although certifications of partial transfers will not be taken into account until the 2010/11 levy calculation.

Communication with stakeholders

The PPF recently announced the appointment of a management consultant to help it create a "fair levy based on risk" and to be responsible for discussing changes with stakeholders, addressing the issues raised and putting new rules in place. It remains to be seen how this will work in practice.

Having your say

The PPF's aims are laudable, with principles based on "fairness, proportionality and simplicity", and they face a difficult task to balance the interests of all concerned. The PPF has so far taken on about 16,000 members from failed schemes, providing welcome security for those affected. Meanwhile, sponsors of private sector schemes struggle with rising costs from increases in inflation and longevity and uncertainty in markets. Most defined benefit schemes were set up voluntarily, but successive layers of legislation and other external influences mean that sponsors have very little flexibility in controlling the increased costs.

It is welcome that the consultation document recognises the difficulties that were caused by the sudden and unexpected increase in May to the scaling factor for 2008/09, and has agreed to fix its factors for 2009/10 in November. This helps with planning.

However, in our view there needs to be a better balance between the burden on solvent employers and the protection for members with insolvent employers, otherwise the whole system might self destruct.

At Barnett Waddingham we have many clients who have questioned the fairness and proportionality of the current levy system. We therefore set up a website, www.thelevyforum.co.uk, to enable sponsors and trustees to have their say. So far we have received responses from schemes with assets totalling over £10billion. A summary of the responses to the questions is shown opposite.

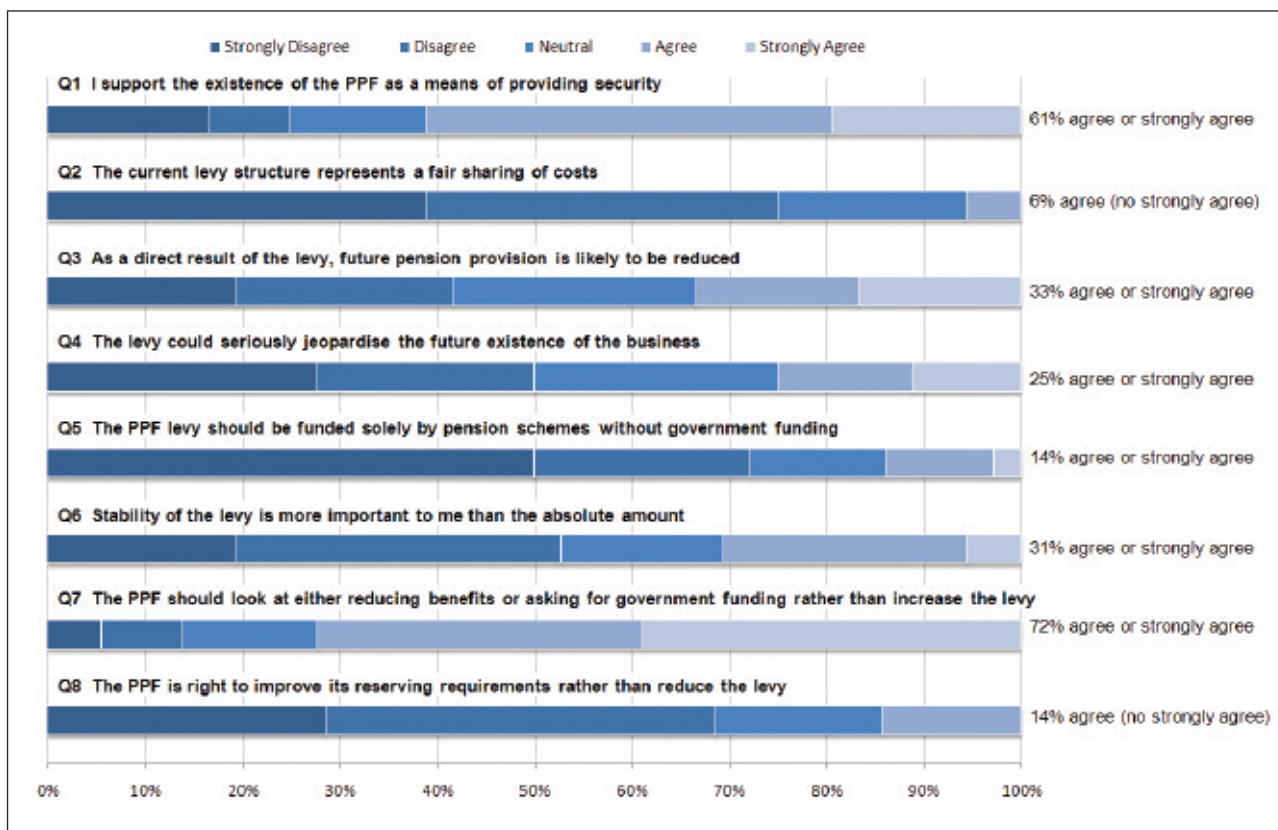
In particular:

- fewer than 10% of respondents regard the levy structure as a fair sharing of the costs
- one quarter of respondents stated that the PPF levy could seriously jeopardise the future existence of the business
- over 70% of respondents agreed that the PPF should look at either reducing benefits or asking for government funding, rather than increasing the levy

Some of the comments submitted to the website refer to the PPF levy as a corporate stealth tax which ultimately operates to the detriment of pension provisions in the UK. A selection of the comments received is shown opposite.

The results so far have been shared with the PPF and we will continue to pass comments received from clients on to the PPF. Partha Dasgupta, Chief Executive of the PPF until next year, has stated that the feedback is useful for the PPF and they will take it seriously.

If you wish to add your comments, please go to www.thelevyforum.co.uk.



Selection of comments received;

"It is not the duty of well run pension schemes to bail out other less well run schemes. The entire premise for the PPF is flawed."

"An insurance fund should be created which pension schemes would participate in voluntarily, rather than by force. If the government wants to help, even better."

"The PPF should live within its means, so if this equates to reducing the level of benefits then this is what should happen."

"A stronger safety net is a laudable aim, but not at the expense of already struggling schemes."

"Employees would prefer jobs now rather than close a company because of high PPF levies."

"Stop robbing good schemes to pay for bad. It is extremely damaging and extremely negative to business and employee relationships."

"The Levy itself is now threatening the future of schemes such as ours. The system is going to destroy the weakest schemes which seem to be the opposite of what surely was intended at the outset."

"Given the fact that it is voluntary for companies to set up DB schemes then it seems appropriate that there should be some kind of discretion of whether or not a scheme wants to participate in the PPF."

"The government need to recognise that they need to contribute more to the situation rather than leaving it all to the individual businesses."

"The Scheme will never work and is a waste of time and money."

See our website www.thelevyforum.co.uk for more comments





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