

# PPF Levies – Have your say

Barnett Waddingham's second annual PPF survey showed that scheme sponsors and trustees have doubts about the sustainability of the PPF as a standalone entity and continue to feel that the methods used for assessing the levy are not a fair reflection of the risks posed by their schemes.

In response to comments from a number of clients about the fairness of the Pension Protection Fund's annual levy Barnett Waddingham set up a website [www.thelevyforum.co.uk](http://www.thelevyforum.co.uk) in 2008 to enable scheme sponsors and trustees to have their say. We published the results of the responses to the first survey in 2008 and a similar survey was run in the final quarter of 2009 to coincide with our seminars on the PPF.

The results of the second survey highlighted that while there is broad support for the aims and existence of the PPF there are significant concerns about how it is funded and the fairness of the levy and D&B failures scores. In particular:

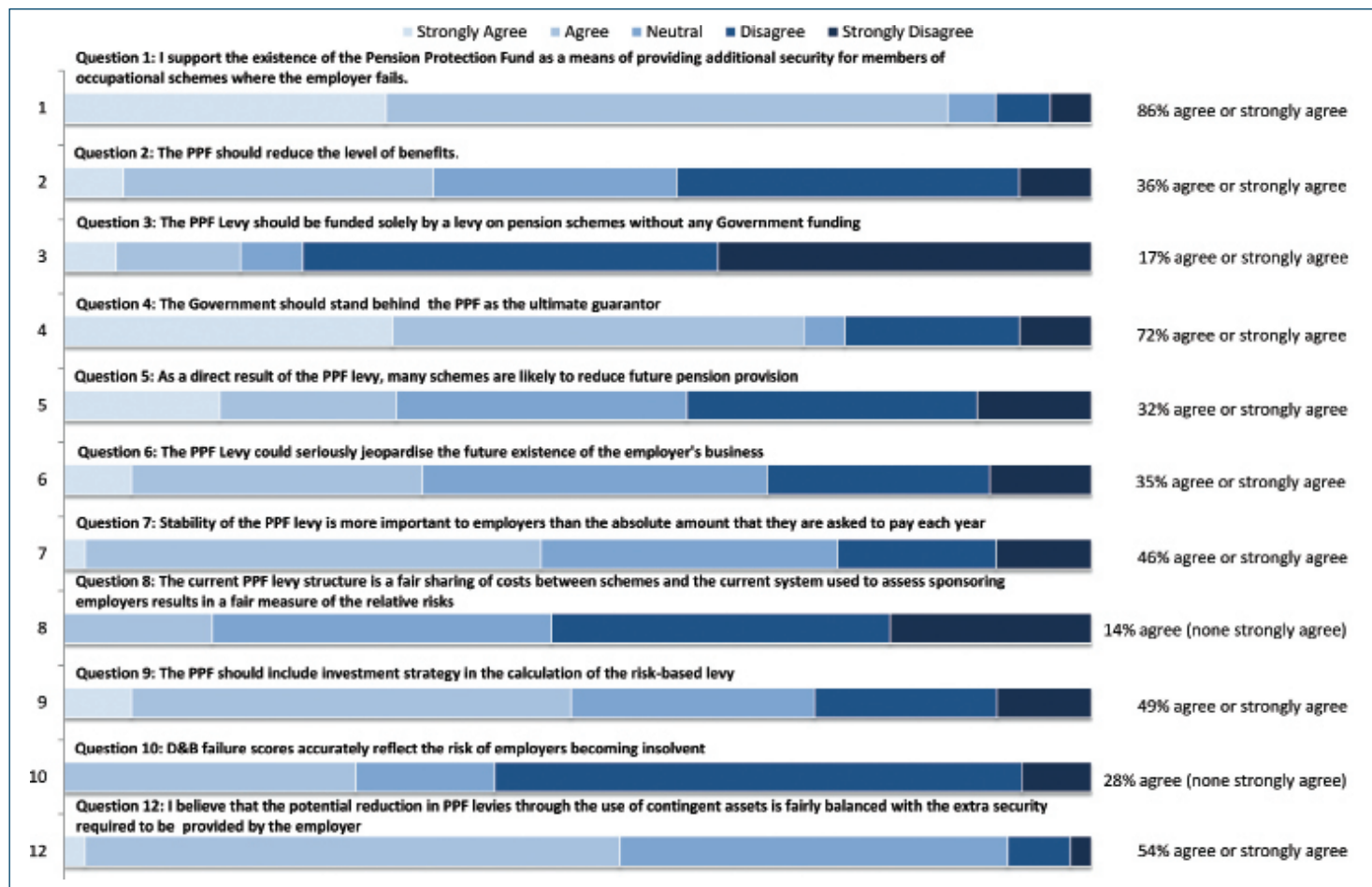
- 85% of respondents supported the existence of some form of discontinuance fund as a means of providing additional security on sponsor insolvency...
- ...but almost three quarters of respondents disagreed that the PPF should be funded solely by a levy on pensions schemes without government funding. A similar proportion said that the government should stand behind the PPF as the ultimate guarantor.
- Respondents were fairly evenly split on whether the level of compensation should be reduced given the number of schemes likely to enter the PPF in the next few years.
- Only 15% of respondents said that the levy structure represents a fair sharing of costs between schemes and that the current system for assessing employer strength is a fair reflection of the relative risks.
- Worryingly nearly 25% of Trustee or Company representatives suggested that the PPF levy could seriously jeopardise the future of their business.
- Less than a quarter of respondents agreed with the factors used by D&B to assess the failure score.



- The respondents were marginally in favour of including investment policy within the calculation of the risk based levy, although there was no clear consensus.

The method used by D&B to assess the probability of failure of an employer is clearly still a major issue for scheme sponsors. D&B have revised the methodology for calculating failure scores and this will affect scores as at 31 March 2010 which will be used for the 2011/12 levy. It is not clear that this will provide much comfort to sponsors though – in particular the changes are likely to make scores more volatile and planning more difficult.

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 Government backing...

"There needs to be a combination of levies and a guarantee of last resort from Government. Otherwise ever increasing liabilities of PPF will become an unsustainable burden on the few remaining schemes."

"Many problems faced by Pension Schemes are as a result of government legislation. It is only right that there should be an element of government funding."

counter-intuitive but the small drop in our case does not warrant a big investigation. I know of no reason why the score should drop."

"A very blunt tool (even if complex) - as you would expect from a computer programme working on the basis of a 'one size fits all approach'."

"Scores are far too generalised. No real knowledge of the true credit-worthiness of employers."

#### On the fairness of the levy...

"I have seen some cases where the levy is larger than the Employer contribution - it has to be a factor in driving Companies away from provision."

#### On allowing for investment strategy in the levy calculation...

"Too difficult to properly assess and will result in a herd mentality approach to investment."

"This may only serve to complicate an already unwieldy structure."

#### On D&B failure scores...

"Our D&B rating dropped slightly between the two years in question and I am told that a minor change could potentially increase the levy substantially. This seems to me to be

"This would be likely to drive out any risk and so increase funding requirements for employers."

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