XPS Pensions Group

XPS Insights
December 2022

PPF to dramatically reduce levies

What you **need to know**

- On 29 September 2022 the Board of the Pension Protection Fund (PPF) published its consultation on the rules for the 2023/24 levy to be invoiced autumn 2023.
- Despite significant market turmoil over the last year the PPF's funding position remains strong which enables the PPF to reduce the total levy estimate for 2023/24 to £200m, down from £390m in 2022/23.
- The levy scaling factor and scheme based multiplier are to reduce, and the levy rates will be lower, especially for the weaker levy bands.
- The PPF has removed the maximum year on year increase of 25% to the risk-based levy.
- According to the PPF's impact analysis, around 96% of schemes can expect to pay a lower risk-based levy for 2023/24, with the greatest savings for those schemes in levy bands 4 to 10.
- Schemes where the underfunding or insolvency risk has increased significantly, or where they previously benefitted from the 25% risk based levy increase cap, could still see an increase in levy.
- The planned moved to the three-tiered approach to collecting asset information has now come into force. The PPF has published further detail of how this will work in practice. For many schemes with liabilities over £30m this may require new and/or more detailed information.

Actions you can take

Along with being aware of the changes, it will be important to reflect changes in decisions being made now:

- Understand what the new rules could mean for your scheme's levy. Obtain an estimate of your 2023/24 levy to help you plan ahead.
- Assess the impact of the new rules on other levy mitigation measures. Given the likely reduction in levies, schemes should ensure any levy saving actions are still cost effective.
- Liaise with your investment advisors to ensure the correct asset split information is available depending on your allocated tier.

Proposed deadlines for the 2023/24 levy

Deadline	Information to be provided
5pm on 10 November 2022	Consultation on the 2023/24 levy closed
End of December 2022 (expected)	Final 2023/24 levy rules to be published
Midnight on 31 March 2023	Deadline for scheme return data, online contingent asset and ABC certification, and special category applications
5pm on 3 April 2023	Contingent asset supporting paperwork
5pm on 28 April 2023	Certification of deficit reduction certificates and exempt transfer applications
5pm on 30 June 2023	Certification of block transfers

The finer detail: Key items covered in the PPF's 2023/24 levy consultation

Proposed changes to the factors	The risk-based levy scaling factor reduced by 23% from 0.48 to 0.37. The scheme-based levy multiplier reduced by 10% from 0.0021% to 0.0019%. The gaps between levy rates have been broadly halved, which will significantly reduce the levy rate, and hence levies, for weaker employers.
2023/24 total levy estimate of £200m	The £190m reduction in total levy estimate compared to 2022/23 (£390m) is partly attributed to a general improvement in schemes' funding positions (£70m). The changes to the levy scaling factor and scheme based levy multiplier (£60m) and the levy band rates (£60m) account for the remainder.
Caps on levies	The risk-based levy cap of 0.25% of PPF liabilities remains in place. However, the 25% cap on the year-on-year increase to risk-based levies has been removed.
Impact analysis	The PPF's impact analysis suggests that 96% of schemes paying a risk-based levy could see a reduction relative to their 2022/23 levy. For schemes in levy band 1 the risk-based levy reduction is expected to be around 45% rising to over 70% in band 9. Some schemes in levy band 10 will see a slightly smaller reduction if their levy has previously been capped at 0.25% of section 179 liabilties. However, the typical reduction for band 10 is still expected to be around 66%. The PPF's analysis suggests the majority of schemes will also see a reduction of more than 10% in the scheme-based levy relative to 2022/23.
Insolvency risk model	The PPF is satisfied that the current D&B insolvency risk model has performed as expected in the majority of cases. The only exception is scorecard 6 (Group Small Companies) where the parameters have been adjusted to better reflect the risk profile of the underlying companies.
Asset breakdown	Schemes with liabilities below £30m can provide a simplified asset split. Those with liabilities over £30m will be required to provide a more detailed breakdown than previously. Schemes with liabilities over £1.5bn will also need to provide additional stressed asset information.
Longer term evolvement of the PPF levy	The PPF has identified four key design principles that it believes should inform how the levy methodology should evolve in future years: • Increased flexibility in the amount of the levy collected (including permitting a zero levy) • Increased flexibility to charge on the basis of the size of the scheme (scheme-based levy) • Rebalancing the risk-based levy to focus more on underfunding and less on employer insolvency • Openness to different approaches to how the levy is calculated depending on scheme size. It is clear that any substantial changes to the levy methodology will take several years and may require legislative change.

For further information, please get in touch with **Emily Sturgess, Kevin Burgess** or speak to your usual XPS Pensions contact.

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