XPS Pensions Group

XPS Insights

October 2023

PPF slashes levies again to £100m but warns they will not go lower

What you **need to know**

- On 11 September 2023 the Board of the Pension Protection Fund (PPF) published its consultation on the rules for the 2024/25 levy to be invoiced Autumn 2024. The consultation closes on 30 October.
- The total levy estimate for 2024/25 is £100m, a significant reduction to the total estimate of £200m for 2023/24.
- The vast majority of schemes can expect to pay a lower levy in 2024/25 compared to 2023/24.
- The risk-based scaling factor is increasing from 0.37 to 0.40. The scheme-based multiplier will reduce from 0.0019% to 0.0015%.
- Without any further changes, the total levy would naturally reduce in future years as the number of schemes paying a risk-based levy falls. The PPF has warned any further decreases to the levy could harm its ability to respond to any potential future funding challenges. As such it will seek adjustments to the levy methodology from 2025/26 onwards to keep the total levy estimate £100m or higher.

Actions you can take

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

- **Obtain** an estimate of your 2024/25 levy to help you understand what the impact could be on your scheme's levy and to help you plan ahead.
- **Review** possible levy mitigation measures to understand which are cost effective.
- **Review** the accuracy of the data used by Dun & Bradstreet and the PPF.
- **Have your say!** Tell us at XPS what you think of the PPF's plans to keep levies at £100m or consider responding to the consultation.

Proposed deadlines for the 2024/25 levy

Deadline	Information to be provided
5pm on 30 October 2023	Consultation on the 2024/25 levy closes
End of December 2023 (expected)	Final 2024/25 levy rules to be published
Midnight on 31 March 2024	Deadline for scheme return data, online contingent asset and ABC certification, and special category applications
5pm on 2 April 2024	Contingent asset supporting paperwork
5pm on 30 April 2024	Certification of deficit reduction certificates and exempt transfer applications
5pm on 30 June 2024	Certification of block transfers

The finer detail: Key items covered in the PPF's 2024/25 levy consultation

Proposed changes to the factors	• The risk-based levy scaling factor is to increase from 0.37 to 0.40. • The scheme-based levy multiplier is to reduce from 0.0019% to 0.0015%. All other parameters are to remain the same, including the risk-based levy cap, levy rates and asset stresses.
2024/25 total levy estimate of £100m	The PPF has set a total levy estimate of £100m. This is a significant reduction compared to £200m in 2023/24. The reduction is largely due to the improvement in funding levels brought about by the rise in gilt yields. The PPF now holds significant funding reserves and so did not see a need to make significant changes to the levy.
Impact analysis	The vast majority of schemes can expect to pay a lower levy in 2024/25 compared to 2023/24. The PPF's own impact analysis shows that 99% of schemes can expect a lower total levy, with 98% expecting a lower risk-based levy.
The underfunding risk	The PPF assesses funding by smoothing the market conditions over a five-year period. As a result, the rise in gilt yields since 2022 has only had a partial impact on the PPF's measure of funding. If current market conditions remain, the PPF's measure of funding will continue to improve over the next few years. Unless the parameters change, this would lead to the total levy reducing significantly below £100m in future years.
Legislation and the future of the levy	Legislation currently restricts the amount by which the PPF can increase the total levy estimate each year to 25%. The PPF does not want to set the total levy too low in future years, in case risks to the PPF should increase in the future. Examples of risk include a deterioration in the PPF's funding or increases in sponsor insolvencies which could require the PPF to increase the levy quickly. Collecting £100m for 2024/25 already means it would take over six years for the PPF to return to charging the 2021/22 total levy amount (£400m) – effectively double the time taken to reduce it by the same amount.
Split of levy between risk- and scheme-based	Legislation requires at least 80% of the total levy estimate to be risk-based. With improvements to funding, the total risk-based levy across all schemes could have fallen below 80%. The PPF increased the risk-based levy scaling factor and reduced the scheme-based levy multiplier to satisfy this legislative requirement.
Mechanisms to keep the levy at £100m further in the future	The PPF is consulting on how to calculate levies to keep the total levy at £100m in future years. With the expected improvement in funding, less schemes will be subject to a risk-based levy under the current rule structure. Whilst this is good news for some schemes, it would place more costs on a reducing number of schemes sharing the £100m. In this scenario, the remaining schemes could be subject to a significant increase in levies, which the PPF acknowledges would not be welcome. Two possible alternatives are to amend the calculation of the liabilities, either through revised asset stresses or via a fixed factor to increase the calculated liabilities. The PPF is seeking views from stakeholders so do let us know your views. We expect further information from the PPF in early 2024.

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

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