XPS Pensions Group

XPS Insights
January 2022

PPF levies to reduce by £130m with new protection against large increases

What you **need to know**

- On 16 December 2021 the Board of the Pension Protection Fund (PPF) published the final Determination confirming the rules for the 2022/23 levy (to be invoiced in autumn 2022). This confirmed that the levy will be calculated largely in line with the consultation issued on 28 September 2021.
- The PPF has seen an improvement in scheme funding over the last year, and has confirmed that the total levy estimate for 2022/23 is £390m. This is a £130m reduction on the 2021/22 total levy estimate of £520m.
- To help combat large levy increases caused by forced business closures during the COVID-19 pandemic, one key addition to the consultation is a 25% limit on the increase in the 2022/23 risk-based levy compared to 2021/22. This measure will be in place for one year only.
- The PPF has confirmed it will continue to apply the rules introduced last year to help small schemes and to maintain the lower risk-based cap on the levy.

Actions you can take

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

- **Understand** what this could mean for your scheme's 2022/23 levy and ask for a levy estimate to help you plan ahead.
- **Assess** the impact of levy mitigation measures, as the changes may reduce or remove the savings from some typical levy saving actions.
- **Consider** how and when any impact of COVID-19 will be reflected in your levy and review actions that could help limit any detrimental impact.

Confirmed deadlines for the 2022/23 levy

Deadline	Information to be provided
Midnight on 31 March 2022	• Scheme return data • Online contingent asset and ABC certification • Special category employer applications
5pm on 1 April 2022	Contingent asset supporting paperwork
5pm on 29 April 2022	Certification of deficit reduction contributions and exempt transfer applications
5pm on 30 June 2022	Certification of full block transfers

The finer detail: Key items confirmed in the 2022/23 levy Determination

COVID-19 – impact on the PPF and funding	The pandemic has brought the possibility of significantly higher claims on the PPF. However, its strong funding position and hedging of risks has allowed the PPF to avoid short-term levy increases. Funding is smoothed over five years so the impact of short-term market conditions is limited. Market movements over the last year have led to an improved PPF funding position.
COVID-19 – impact on levies	D&B scores will allow for the impact of COVID-19 once accounts covering the impact of the pandemic have been filed. 2022/23 levies will use insolvency scores up to 31 March 2022 so the PPF expects COVID-19 to start to impact levies in 2022/23 and beyond. This means some sponsors may see a significant deterioration in insolvency scores compared to last year. As a result, the PPF has introduced a new one-off 25% limit on the increase in a scheme's risk-based levy between 2021/22 and 2022/23 in order to limit large increases due to the impact of forced business closures during the COVID-19 pandemic. The PPF retains the right to disapply this limit for individual schemes, for example if the increase in levy is due to an increase in liabilities as a result of a bulk transfer-in, or if an employer has experienced an insolvency event.
2022/23 levy – estimate of £390m	This £130m reduction compared to the 2021/22 total levy estimate is mainly attributed to an improvement in schemes' funding positions with the balance due to other factors such as changes to data received and credit rating improvements.
Impact analysis	The PPF's impact analysis from the consultation suggested that 82% of schemes paying a risk-based levy could see a reduction relative to their 2021/22 levy.
Insolvency risk model	The current D&B insolvency risk model has performed as expected and the PPF has not proposed any changes at this time, but will keep under review. The PPF has confirmed that it has made amendments to the way public credit ratings with S&P, Moody's and Fitch are mapped to D&B scores. These changes are backdated to 30 April 2021 and affect sponsors and ultimate parent companies with credit ratings. A quarter of sponsors with credit ratings saw an improvement of one levy band with three quarters seeing no change in levy band. Likewise, just under half of ultimate parent companies saw an improvement of one levy band with the remainder seeing no change.
Annual review of levy rules	For the time being, the PPF will continue to consider wider rule changes on an annual basis. This provides the flexibility to change the levy each year as the full economic impact of COVID-19 unfolds.
Support to small schemes and SME employers	The changes introduced for the 2021/22 levy aimed at helping small schemes who typically face the largest levies as a proportion of their PPF liabilities are to be maintained for 2022/23.
Reduction to the risk-based levy cap	The reduced risk-based levy cap of 0.25% of PPF liabilities, as introduced for 2021/22, also remains in place.
Other changes	The PPF has updated its funding assumptions to better reflect buyout pricing and this is expected to reduce the calculated liabilities for 99% of schemes and so improve funding. This change is responsible for a large proportion of the reduction to the levy estimate.

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

t 0118 313 0734

e emily.sturgess@xpsgroup.com

t 0118 313 0763

e kevin.burgess@xpsgroup.com

@xpsgroup

xpspensionsgroup

XPS Pensions Group