XPS Pensions Group

XPS Insights
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PPF levies to reduce by £105m

What you **need to know**

- On 28 September 2021 the Board of the Pension Protection Fund (PPF) published its consultation on the rules for the 2022/23 levy (to be invoiced autumn 2022). This consultation will close on 9 November 2021.
- The PPF has seen an improvement in scheme funding over the last year, and is proposing to reduce the total levy estimate for 2022/23 by £105m (from £520m to £415m). This continues the trend from last year where the total levy estimate was also reduced by £100m.
- According to the PPF's impact analysis, around 82% of schemes can expect to pay a lower risk-based levy for 2022/23. However, around 8% of schemes are expected to see a rise of over 25% (compared to 2021/22) in their risk-based levy for 2022/23.
- The PPF has also confirmed that rules introduced last year to help small schemes and to reduce the size of the levy cap will remain in place.
- In the current climate the PPF continues to consider rule changes on an annual basis.
- The PPF has a maximum year on year increase rule of 25%. The reduction in levy for 2022/23 therefore also has the knock on effect of limiting future years' levy estimates, which may be welcome in the light of the higher number of future insolvencies anticipated by the PPF.

Actions you can take

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

- **Understand** what this could mean for your scheme and ask for an estimate of your 2022/23 levy to help you plan ahead.
- **Assess** the impact on other 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 consider actions that could help limit any negative impact.

Proposed deadlines for the 2022/23 levy

Deadline	Information to be provided
5pm on 9 November 2021	Consultation on the 2022/23 levy closes
End of December 2021 (expected)	Final 2022/23 levy rules are published
Midnight on 31 March 2022	Scheme return data, online contingent asset and ABC certification, and special category 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 block transfers

The finer detail: Key items covered in the PPF's 2022/23 levy consultation

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.
2022/23 levy estimate of £415m	The £105m reduction compared 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 suggests that 82% of schemes paying a risk-based levy could see a reduction relative to their 2021/22 levy. For small schemes this percentage reduces to around 75% and increases to around 85% for medium and large schemes.
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. The PPF is conscious that it will need to keep its model under review especially to see if insolvencies increase once COVID-19-related government support is removed. The PPF has confirmed 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 £65m 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.

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