PPF consultation on the 2019/20 levy

On 20 September 2018, the Board of the Pension Protection Fund (PPF) published a consultation document on the 2019/20 levy. The consultation closes on 25 October 2018. Only minor changes are proposed.

Background

When the levy rules were set for the 2018/19 levy, they were designed to remain in force for three levy years until 2020/21. As a result, only minor changes are proposed for 2019/20, with more significant changes expected from 2021/22.

Total levy estimate and scaling factors

The scaling factor will remain 0.48, the scheme-based multiplier will remain 0.000021 and the risk-based levy cap will remain at 0.5% of the smoothed liabilities. The resulting levy estimate is £500m, which is lower than the £550m estimate for 2018/19. The PPF notes that, whilst market conditions are detrimental to funding, recent valuations submitted to the PPF have been better than anticipated on the roll-forward approach, contributions have been paid to improve funding and insolvency scores have improved. That is why the levy estimate for 2019/20 is lower than in 2018/19 despite the fact that the levy parameters remain unchanged.

Insolvency risk

The PPF is content that the revised insolvency risk methodology is working well, so is not proposing any changes apart from some minor clarifications. The PPF had been considering extending the industry-specific scorecard to regulated utilities, but has confirmed that it will not be proceeding with this.

For the 2018/19 levy, the PPF introduced a special category of employer that could apply to be treated as levy band 1 due to their low risk, for example because they have government backing. The PPF has confirmed that, for employers to retain their special category status, they will need to provide certain information to the PPF by 31 March 2019.

The 2019/20 levy will be based on the 12-month average insolvency scores over the period from April 2018 to March 2019.

Contingent assets

The PPF is concerned about a potential loophole in the wording of contingent assets. As a result, all schemes with a contingent asset which incorporates a cap of a fixed amount will need to re-execute the contingent asset on the new form or lose the credit on the levy. This covers schemes with a stand-alone fixed amount (for example £100m) and schemes with a ‘lower of’ guarantee (for example the lower of £100m and 105% funded on the section 179 basis). To continue receiving the levy saving, affected schemes must submit information online by 31 March 2019 and provide paperwork to the PPF by 5pm on 29 March 2019.
Deficit reduction contributions (DRCs)
Simplifications were made to the DRC certification process for 2018/19 including removing the need to deduct investment management expenses. The PPF has clarified the wording on the exclusion of investment expenses.

In 2018/19, option beta was introduced to allow some small schemes, which were closed to future accrual and had liabilities less than £10 million, to certify DRCs based on their recovery plan without the need for an actuary to certify the amount. The PPF has clarified that closed schemes that retain a salary link on benefits cannot use option beta.

The PPF has also amended the guidance to make it easier for a duly appointed substitute to submit the information online via Exchange. This is in response to concerns raised by advisers about whether the Scheme Actuary had to log physically into Exchange and submit the information, or whether a member of their team could submit it instead.

Commercial consolidators
The Government’s recent White Paper on defined benefit pensions supports the establishment of commercial entities to consolidate pension schemes. The PPF has given consideration to how to calculate a levy on commercial consolidators, given that the risk is focused on the investments rather than the sponsor’s covenant. The methodology is similar to the methodology proposed last year for schemes without a substantive employer.

Assisting levy payers
The PPF indicates that it is keen to help levy payers and has considered two elements. Firstly, the PPF is considering how to help schemes understand the size of future levies by providing levy estimates. Secondly, the PPF is giving thought to helping schemes pay their invoices by considering payments in instalments.

2018/19 PPF levy invoices
The PPF has started issuing the levy invoices for 2018/19. These should be paid within 28 days of the date of the invoice to avoid interest being added at the rate of 5% per annum above bank base rates. Any incorrect invoices should be appealed within the same timescales otherwise the right to appeal will be lost. Please contact your usual XPS contact if you would like help with checking and possibly appealing your levy invoice.

Legal case
The Court of Justice of the European Union recently ruled that the value of PPF compensation should be at least 50% of the accrued pension. This only affects a small proportion of members and the PPF will consider whether any changes need to be made to the section 179 methodology and hence to the levy. Please see our forthcoming briefing note, ‘CJEU rules PPF compensation is inadequate’, for further details.

What happens next?
The consultation on the 2019/20 PPF levy closes on 25 October 2018, with conclusions and the final Determination to be published in December 2018.

The deadlines for influencing the 2019/20 levy are consistent with those for 2018/19 and are as follows:
- Midnight on 31 March 2019 for scheme return data, contingent assets and mortgage exclusion certificates. Contingent asset paperwork should be received by the PPF by 5pm on 29 March 2019.
- 5pm on 30 April 2019 for certifying deficit reduction certificates.
- 5pm on 28 June 2019 for certifying block transfers.

How we can help
We can advise you of your expected 2019/20 levy. We can also advise whether there is any scope to reduce the levy by analysing your insolvency score, explaining how it is calculated and whether anything can be done to improve the score. This will include an analysis of whether providing additional information to the PPF could reduce your levies. We will also be able to check your 2018/19 levy invoice and help you appeal any incorrect invoices. Please contact us if you would like further information.