XPS Pensions

Briefing

Note No. 15
November 2019

PPF consultation on the 2020/21 levy

In brief

- Total levy estimate for 2020/21 is considerably higher at £620m
- On average the PPF expects an 8% increase in levies
- Only minor changes proposed to levy methodology
- All levy parameters including scaling factors unchanged

Next steps

- Consider if your scheme is affected by the issues raised
- Understand whether your 2020/21 levy will increase, and whether it can be reduced
- Look out for information on the move from Experian to D&B and understand the impact on your scheme and whether any action can be taken

On 25 September 2019, the Board of the Pension Protection Fund (PPF) published a consultation document on the 2020/21 levy. The consultation closed on 5 November 2019 and only minor changes were proposed. Invoices are expected to increase by 8% on average. Some schemes could see little change, while others could face more significant levy increases.

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 to the formula are proposed for 2020/21 with more significant changes expected from 2021/22, but some schemes could still pay bigger levies.

Total levy estimate and scaling factors for 2020/21

There are no proposed changes to the levy parameters for 2020/21. The scaling factor will remain at 0.48, the scheme-based multiplier will remain at 0.000021 and the risk-based levy cap will remain at 0.5% of the smoothed liabilities.

Overall the PPF expects levy invoices to be around 8% higher in aggregate than for the 2019/20 levy. The total levy estimate is £620m compared to the latest estimate of £575m for total 2019/20 levies.

The increase in the total levy estimate is mainly due to the changes in investment market conditions. In particular, falling gilt yields are expected to increase the 'Underfunding' of some schemes under the levy formula, which would then result in an increase in the levy.

While the PPF expects levies to increase by around 8% on average for 2020/21, the levy increase for each individual scheme will depend on its specific circumstances. For example a scheme that has hedged its liabilities against falling gilt yields and whose employer stays in the same insolvency risk band for the 2020/21 levy year should see little to no increase.

2019/20 levy collection – higher than expected

The PPF now expects to collect £575m in respect of the 2019/20 levy, rather than the £500m initially estimated. As well as the impact of lower than expected gilt yields, the increase in collection for 2019/20 is due to lower than expected improvements in new section 179 valuations submitted and the absence of expected improvements in insolvency scores.

The total levy estimate of £620m for 2020/21 is considerably higher than the £500m originally estimated for 2019/20. This represents a 24% year-on-year increase, so is very close to the 25% statutory maximum annual increase to which the PPF is limited to. As a result, the PPF did consider reducing the scaling factor for 2020/21, but because the increase in levy estimate is driven by an increase in risk, uncertainty in global and UK investment markets and some uncertainty from recent court cases, the PPF decided not to lower the amount it intends to collect.

Insolvency risk

For most schemes, insolvency risk is measured by an Experian model Pension Protection Score or a public credit rating with Moody's, Fitch or S&P Global. There are no changes proposed to the Experian model scoring methodology for the 2020/21 levy.

However, there are around 70 financial institutions (listed on the Bank of England's Bank or Insurer list) that are scored on a separate industry specific S&P credit model. The PPF has confirmed that it will use a recalibrated version of this model which is expected to worsen the scores for some of those entities.

Month-end Experian model scores will continue to be relevant for the 2020/21 levy and so it is important to monitor these up until 31 March 2020.

From April 2020 the PPF will move back to using Dun & Bradstreet (D&B) to calculate the scores. We expect a consultation on the introduction of the new scoring shortly. This change could potentially lead to changes in the levy for some schemes. All schemes should investigate whether the move to D&B results in a different interpretation of any data, and whether any changes to the scoring methodology could influence the levy from 2021/22.

Contingent assets

As per last year, schemes with a parental company guarantee that is expected to reduce the levy by at least £100,000 are required to obtain a Guarantor Strength Report. The PPF has updated the guidance covering these reports, including a non-exhaustive list of items that it expects the report to cover.

The PPF has also clarified that trustees should consider the extent to which the immediate insolvency of all employers other than the guarantor impacts on the ability of the guarantor to provide the guarantee.

The address to send any hard copies of any contingent assets has changed to the Levy Operations Team and these must be received by 5pm on 31 March 2020.

GMP Equalisation and section 179 valuations

The PPF expects schemes to include an allowance for GMP equalisation when submitting new section 179 valuations, and has clarified that this allowance can be on a best estimate basis. Schemes will not be expected to submit an out-of-cycle valuation to the PPF to provide information on GMP equalisation. The PPF will not amend previously submitted section 179 information to try to reflect GMP equalisation.

Further information is provided in a separate note for actuaries, published by the PPF to help schemes allow for GMP equalisation when submitting a section 179 valuation or certifying deficit reduction contributions.

2019/20 PPF levy invoices

The PPF has started issuing the levy invoices for 2019/20. 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 the Bank of England base rate.

Any incorrect invoices should be appealed within the same timescales otherwise the right to appeal will be lost. Please contact your usual XPS consultant if you would like help with checking and possibly appealing your levy invoice.

What happens next?

The consultation on the 2020/21 PPF levy closed on 5 November 2019, with conclusions and the final Determination due to be published in December 2019.

The key deadlines for the 2020/21 levy are consistent with those for 2019/20 and are as follows:

- Midnight on 31 March 2020 for scheme return data, contingent assets and mortgage exclusion certificates.
- Contingent asset paperwork should be received by the PPF's Levy Operations Team by 5pm on 31 March 2020.
- 5pm on 30 April 2020 for certifying deficit reduction certificates.
- 5pm on 30 June 2020 for certifying block transfers.
- Invoicing is expected to start in Autumn 2020.

How we can help

We can advise you of your expected 2020/21 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.

In addition, we will soon be able to advise what impact the move to D&B could have on your insolvency risk and hence future levies, enabling you to take action to reduce the levy from 2021/22 onwards.

We will also be able to check your 2019/20 levy invoice and help you appeal any incorrect invoices. Please contact us if you would like further information.

For further information

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