

PPF Levies 2008-09

Background

The Pension Protection Fund (PPF) published its response to the August 2007 PPF Levy Consultation on 29 November 2007. The PPF has now established a framework for the calculation of levies for 2008-09, 2009-10 and 2010-11, has provided a preliminary scaling factor and multiplier for 2008-09 levies and has published a revised set of dates for measurement of underfunding and insolvency risks.

Although comments on this proposed framework will be accepted up until 11 January 2008, the PPF do not expect fundamental changes to be made.

Calculation of PPF Levies

The invoice for the PPF levy has two elements: a scheme based levy and a risk based levy.

The scheme based levy is calculated as **value of PPF liabilities x scheme multiplier**. The PPF has provided a preliminary scheme multiplier of 0.000152 for 2008-09. This compares to 0.00016 for 2007-08.

The risk based levy is calculated as **underfunding risk x insolvency probability x 80% x scaling factor**.

The calculation of the **underfunding risk** has changed significantly as a result of the new levy framework. Rather than last year's calculation (for most schemes) of **105% of the value of PPF liabilities less the value of assets**, the 2008-09 levy will calculate underfunding risk as **121% of the value of PPF liabilities less the value of assets**. This increased 'deficit' calculation is offset to some extent by a reduction in the scaling factor. The PPF has provided a preliminary **scaling factor** of 1.6 for 2008-09, compared to the 2.47 factor used for 2007-08. The overall impact is a slightly lower risk based levy for poorly funded schemes and a potentially large increase in risk based levy for well funded schemes.

The **insolvency probability** is determined by the participating employers' failure scores as allocated by Dun & Bradstreet (D&B). Please note that D&B revised its set of 1 to 100 failure scores and the associated insolvency probabilities in the summer of 2007. It is likely that many companies will now have a lower (worse) failure score than the score allocated in March 2007 but the associated insolvency probability may be similar to the March 2007 insolvency probability.

In order to reduce the risk based levy paid by the schemes most at risk, the levy cap has been reduced to 1.0% of the value of PPF liabilities (previously 1.25%). The risk based levy will be nil for schemes funded above 140%, up from 125% for the 2007-08 year.

The PPF will finalise the scheme multiplier and the scaling factor for 2008-09 in May 2008.

Measurement Dates

One of the stated intentions of the PPF Board was to give schemes greater certainty regarding the amount of their levy. In order to do this, the measurement dates for underfunding and insolvency risks will be 12 months in advance i.e. 31 March 2008 for the 2009-10 levy. However, deficit reduction certificates and contingent asset certificates will be accepted up until 7 April 2009 and 31 March 2009 respectively for the 2009-10 levy.

Please note that the failure score(s) as at 31 March 2008 will be used for **both** the 2008-09 and 2009-10 levy years. It is therefore important for companies to take what action they can to improve their D&B rating by 31 March 2008.

Actions to take to reduce your levies

In a series of seminars in September 2007, the PPF highlighted eight ways to reduce your levy.

1. Use a Type A contingent asset – group company guarantee
2. Use a Type B contingent asset – security over assets
3. Use a Type C contingent asset – letter of credit or bank guarantee
4. Submit a Deficit Reduction Contribution Certificate
5. Submit up to date Scheme Return information
6. Submit a (revised) Section 179 valuation
7. Update the list of participating companies
8. Monitor D&B failure score(s)

With regard to D&B failure scores, it is worthwhile obtaining and monitoring the failure scores of the companies participating in your scheme. Failure scores can be obtained for a small charge from D&B Customer Services on 0870 850 6209 or at customerhelp@dnb.com. You may also wish to check the data that D&B hold. Areas that may require updating or correction include listings of company directors, number of employees, secured charges, County Court Judgements, payments to suppliers, industry sector and version of latest company accounts.

It is important to ensure that data on the Scheme Return is correct. No changes can be made after 31 March 2008 for 2008-09 levy purposes so it is essential that the information is correct at that date. The Pensions Regulator's new online system 'Exchange', expected to be available from the end of 2007, will allow amendments to be made at any time up to the 31 March 2008 deadline.

All schemes which are eligible for entry to the PPF (and were registered schemes prior to 6 April 2007) must submit a Section 179 valuation by the deadline of 31 March 2008. If a scheme fails to do this, the PPF will penalise the scheme by reducing the value of its assets used in the levy calculation.

With regard to the use of contingent assets, these arrangements can be complex and time consuming to agree and put in place. Trustees and sponsoring employers may wish to progress these discussions with their lawyers early in the New Year.

The information in this note should not be relied upon or taken as an authoritative statement of the law.