

Pension Scheme Levies 2008-09

Pension Protection Fund Levies

Each year the Pension Protection Fund (PPF) raises funds through collection of the **pension protection levy** and an **administration levy**. The PPF can also raise funds through a fraud compensation levy and a PPF Ombudsman levy, if required.

The pension protection levy is used to pay compensation to members of schemes for which the PPF has assumed responsibility. The PPF has stated its intention to collect a total levy of £675m in 2008-09 and for each of the next two financial years and has established a framework for the calculation of these levies and a set of dates for measurement of underfunding and insolvency risks for 2008-09, 2009-10 and 2010-11.

Calculation of Pension Protection Levy

The invoice for the pension protection 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 **scheme multiplier** is set each year by the PPF and has been confirmed as **0.000165** 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**. The **scaling factor** is set each year by the PPF and has just been confirmed as **3.77** for 2008-09. This compares to the 2007-08 scaling factor of 2.47 and is 136% higher than the preliminary factor of 1.6 published by the PPF at the end of 2007.

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 have a lower (worse) failure score at March 2008 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.

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.

PPF Administration Levy

The administration levy is used to pay for the ongoing administrative costs of the PPF and is calculated as a charge per member, depending on total number of members in each scheme, as shown in the table below.

Number of members	Levy per member 2008-09	Minimum levy
2 - 11		£42
12 – 99	£4.33	
100 – 999	£3.12	£430
1,000 – 4,999	£2.43	£3,120
5,000 – 9,999	£1.84	£12,150
10,000 and over	£1.29	£18,400

The Pensions Regulator General Levy

This levy covers the costs of the Pensions Regulator, the Pensions Ombudsman, the legal assistance scheme for the Pensions Regulator Tribunal and any grants made to advisory bodies. This levy is also calculated as a charge per member, as shown in the table below.

Number of members	Levy per member 2008-09	Minimum levy
2 - 11		£33
12 – 99	£3.35	
100 – 999	£2.42	£340
1,000 – 4,999	£1.88	£2,420
5,000 – 9,999	£1.43	£9,400
10,000 and over	£1.00	£14,300

The PPF administration levy and the Pensions Regulator general levy are invoiced alongside each other, but separately from the scheme based and risk based elements of the pension protection levy.

Financial Reporting Council (FRC) Levy

The FRC also imposes an annual levy on pension schemes, based on membership figures provided to the Pensions Regulator in scheme returns. For 2008-09 the FRC levy is set at £2.90 per 100 members, but with a de minimis contribution of £29 meaning that only schemes with 1,000 or more members are required to pay a levy.

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