3 February 2005

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FIRST PPF LEVIES ANNOUNCED

1 FUNDING THE PPF

The Pension Protection Fund (PPF) is one of the key elements in the Pensions Act 2004. It is designed to provide a safety net for members of underfunded defined benefit (DB) schemes whose employers become insolvent. The PPF will be established from 6 April 2005.

The PPF will be primarily funded by a levy on potentially "eligible schemes" – namely, all schemes with a DB element, including hybrid schemes. But DB schemes already in winding-up before April 2005 and defined contribution (DC) only schemes are not liable for the PPF levy.

2 TYPES OF PPF LEVY

There will be several parts to the levy.

In the first year:

- an initial levy;
- an administration levy which will be charged on schemes to meet the set-up and on-going costs of running the PPF Board;
- a PPF Ombudsman levy.

Thereafter:

- a scheme-based levy which is a flat rate levy based on all members who are eligible for the PPF; and
- a risk-based levy.

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3 INITIAL LEVY ANNOUNCED

The Occupational Pension Schemes (Levies) Regulations 2005 were published in draft on 2 February 2005. The headline news is that for the first year (1 April 2005 – 31 March 2006) the initial levy has been set at:

- £15 each for all actives and pensioners; and
- £5 each for all deferred members.

If a member falls into more than one category or sub-category of membership – for instance, because he is both an active and a deferred member of the scheme – a separate amount is payable in respect of each category (or sub-category) the member falls into.[1]

The Regulations specifically exempt schemes from having to pay the initial "active member" levy in respect of life assurance only members. Members who have pure DC benefits are also excluded.

Going forward, we can expect the scheme-based levy to look very similar to the initial levy.

4 ADMINISTRATION LEVY

The PPF administration levy will be assessed using the following sliding scale depending on the size of the scheme (but subject in most cases to an overall minimum amount of levy being payable):

- there is a flat rate charge of £24 to pay for a scheme with 2-11 members;
- a scheme with 12-99 members will pay £2.50 per member;

[1] E.g. If a member is both an active member and a pension credit member of a scheme (because their spouse was a member of the same scheme), the levy for him would seem to be £20: £15 for his active status; and £5 for his pension credit deferred status

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- a scheme with 100-999 members will pay £1.80 per member (subject to a minimum of £250);
- a scheme with 1,000-4,999 members will pay £1.40 per member (subject to a minimum of £1,800);
- a scheme with 5,000-9,999 members will pay £1.06 per member (subject to a minimum of £7,000);
- a scheme with 10,000 or more members will pay 74p per member (subject to a minimum of £10,600).

5 NEWS ON OTHER LEVIES

In addition to the initial and administration levies, schemes will also need to budget for:

- the PPF Ombudsman levy – which will apparently be nil in the first year;
- the general levy – this is already payable in respect of Opra, the Pensions Ombudsman and the Pensions Advisory Service. We expect that this will go up to reflect the increased costs of pension regulation and the advent of the new proactive Pensions Regulator – but the figure has not yet been formally announced; and
- the fraud compensation levy – of which few details are available at present.

6 RISK-BASED LEVY

The scheme-based levy and the risk-based levy will be introduced in 2006. The risk-based levy will account for 80% of the overall "Pension Protection levy" once introduced – a percentage which is designed to give comfort to well-run schemes with a low risk of entering the PPF.

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7 APPROVAL REQUIRED

The draft Regulations are subject to the "affirmative procedure" by Parliament, which means that they have to be approved by both Houses. Therefore, the figures given are not set in stone as changes could yet be made to the draft Regulations.

The dates for consideration by Parliament have not been set but we expect these to be at the end of February or beginning of March.

8 WHEN WILL SCHEMES HAVE TO PAY?

We understand that schemes will be invoiced as soon as possible after the Regulations come into force on 1 April 2005. However, as the invoices will be sent out in batches and given the number of schemes required to pay, it may mean that invoices will not be received for several weeks. Once a scheme has received an invoice, the trustees will have 28 days within which to pay.

Nothing stated in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. Action should not be taken on the basis of this document alone. For specific advice on any particular aspect you should consult the usual solicitor with whom you deal. © **Sacker & Partners LLP February 2005**

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