5 March 2007

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THE 2007/8 LEVIES LOWDOWN

1 INTRODUCTION

Occupational pension schemes are now subject to a dizzying array of levies. With various Pension Protection Fund (PPF) deadlines looming, we highlight the key information in respect of each levy and set out what can be expected for the year 2007/8.

2 KEY POINTS

Occupational pension schemes can be subject to the following levies:

- Pension Protection Levy (see section 3);
- PPF Ombudsman Levy (see section 3);
- PPF Administration Levy (see section 3);
- General Levy (see section 4);
- Board of Actuarial Standards Levy (see section 5); and
- Fraud Compensation Levy (see section 6).

3 PENSION PROTECTION FUND LEVIES

The PPF is funded by means of levies charged to all "eligible schemes" [1] and any assets remaining in schemes which transfer to the PPF at the end of an assessment period. In summary, there are three main PPF levies:

- The pension protection levy;

[1] Broadly, defined benefit occupational pension schemes

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- The PPF Ombudsman levy; and
- The administration levy - which funds the operating costs of administering PPF compensation.

Pension Protection Levy

The pension protection levy is made up of two elements: the scheme-based levy and the risk-based levy. The overall levy ceiling for the financial year 2007/8 will be £804,450,000.

All eligible schemes must pay the scheme-based element of the levy which takes account of the level of a scheme's liabilities relating to its members. All eligible schemes, except those that are more than 125% funded on a section 179 basis[2] as at 30 March 2007, must pay the risk-based element of the pension protection levy.

The risk-based levy is calculated on the basis of information provided in the scheme's annual return. The PPF takes into account:

- the level of scheme underfunding; and
- the risk of insolvency of the employer.

Schemes can submit additional information which may affect their levy calculation to the PPF by means of a voluntary certificate. The following are available for completion for the 2007/8 levy year:

- section 179 valuation certificate;
- the actuarial certificate of deficit-reduction contributions[3]; and

[2] This is an actuarial valuation carried out for the purposes of assessing the risk-based levy
[3] Contributions paid into a scheme since the last actuarial valuation to reduce any deficit

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- contingent asset certificates.

The deadline for submitting the contingent asset and section 179 valuation certificates is 30 March 2007, while the actuarial certificate of deficit-reduction contributions must be submitted by 5 April 2007.

Contingent Assets

The PPF will allow the following types of contingent assets to be taken into account for the 2007/8 risk-based levy:

- guarantees by parent/group companies and undertakings (Type A);
- security over cash, real estate and securities (Type B); and
- letters of credit and bank guarantees (Type C).

There is some increased flexibility since 2006/7. For example, there are more choices of liability cap for Type A and Type B arrangements. In addition, the PPF has introduced a second standard form for Type C arrangements, the Type C(ii) contingent asset. The new form has been introduced in recognition of the fact that a number of schemes use letters of credit and bank guarantees to support planned deficit reduction contributions.

For credit to be given for a contingent asset in the risk-based levy the arrangement has to be certified in the PPF's standard form (available from its website). Any arrangements that were in place for the 2006/7 levy need to be re-certified by 30 March 2007 to be valid for the subsequent year. Schemes that put in place acceptable contingent asset arrangements for the 2006/7 levy year should by now have received documents from the PPF. If trustees believe they should have been issued with a re-certification document but have not received one, they should contact the PPF as a matter of urgency at information@ppf.gsi.gov.uk.

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How are sectionalised/segregated schemes dealt with?

Each section of a sectionalised or segregated scheme is treated as if it were an individual scheme and so the PPF will request separate data and issue a separate invoice for each section. Getting a scheme's classification right is therefore vital as it has a direct bearing on the levy payable.

Not all multi-employer schemes will be segregated/sectionalised. The PPF's definition only applies to such schemes where:

- contributions payable to the scheme by an employer in relation to the scheme or by a member are allocated to that employer's or that member's section; and
- a specified proportion of the assets of the scheme is attributable to each section of the scheme and cannot be used for the purposes of any other section.

PPF Ombudsman Levy

This levy is calculated and payable based on the resources required by the PPF Ombudsman's office to consider complaints relating to the PPF. It has yet to be imposed as, to date, the office of the PPF Ombudsman has not heard any cases. For this reason, draft legislation which is due to come into force from 1 April this year will remove references to the PPF Ombudsman levy from statute. We expect a PPF Ombudsman levy to be imposed in 2008/9 and understand that any sums which are required to fund the PPF Ombudsman this year will be recouped retrospectively as part of this.

The administration levy

Schemes can expect the following charges for 2007/8:

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Number of members on the reference day	*Amount of levy calculated by Reference to number of members (M)*	*Minimum amount of levy*
2 to 11		£35
12 to 99	£3.70 x M	
100 to 999	£2.66 x M	£370
1,000 to 4,999	£2.07 x M	£2,670
5,000 to 9,999	£1.57 x M	£10,360
10,000 or more	£1.10 x M	£15,690

According to PPF estimates, the 2007/8 administration levy will bring in £20 million. This represents a relatively significant increase from the years 2005/6 and 2006/7 owing to a number of factors, such as:

- the PPF anticipate that running costs will increase from £12.4 million to £14.2 million for 2007/8;
- the cost to the Department for Work and Pensions of setting up the PPF; and
- a shortfall from the proposed administration levy collection in the previous two financial years.

4 GENERAL LEVY

The general levy covers the cost of running:

- the Pensions Regulator (TPR);
- the Pensions Ombudsman;

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- the legal assistance scheme for TPR's Tribunal; and
- any grants made to advisory bodies.

It is payable by all registrable pension schemes, based on the total number of members (excluding spouses and dependants) in the scheme. The levy is due on 1 April each year.

The general levy is banded, with the amount to be paid depending on the number of members in the scheme, subject to a minimum per band. For example, occupational pension schemes with between 100 and 999 members currently pay £1.80 per member (with a minimum payment of £250 per scheme), while schemes with 10,000 or more members pay £0.74 per member (the minimum payment being £10,600 per scheme). It is not yet clear whether this levy will be increased for 2007/8.

If a scheme meets the following conditions, it may be able to claim a general levy waiver:

- all the scheme's benefits (other than death benefits) are money purchase; and
- there are not enough unallocated assets in the scheme to pay the levy in full; and, either:

    - there is no longer an employer in relation to the scheme; or

    - the employer in relation to the scheme has become insolvent.

5 BOARD OF ACTUARIAL STANDARDS LEVY

The Board of Actuarial Standards (BAS) was set up following the Morris review of the actuarial profession in 2005 which recommended that the Financial Reporting Council (FRC) establish a regime to set actuarial standards and regulate the profession.

The cost of BAS is to be met in the following way: 45% by pension schemes, 45% by insurance companies and the balance from the actuarial profession.

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Occupational pension schemes with more than 1,000 members will have received invoices from the FRC in November 2006 with a request for each scheme's share of the levy (currently set at £2 per 100 members). At the moment the levy is voluntary. However, should this approach prove unsustainable, statutory powers may be invoked to secure payment of the levy and any outstanding contributions in relation to 2006/7.

6 FRAUD COMPENSATION LEVY

The Fraud Compensation Fund (the Fund) was established under the Pensions Act 2004 to provide compensation to occupational pension schemes that suffer a loss as a result of dishonesty. It is financed by the fraud compensation levy, which is imposed, when appropriate, on eligible occupational pension schemes.

We understand that there are currently no plans to charge this levy in 2007/8. However, as a "reactive" levy, its possible imposition cannot be ruled out.

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