14 October 2005

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PPF LEVY CONCESSIONS ANNOUNCED

1 INTRODUCTION

Following representations from the pensions industry, the Board of the Pension Protection Fund (PPF) has announced concessions to its proposed approach for assessing the risk-based levy. (The risk-based levy, which is relevant to all schemes potentially eligible for the PPF[1], will apply from financial year 2006/07.) The PPF's change in tack is set out in an update paper published on 14 October (final details on the structure of the PPF levy are scheduled for publication towards the end of November). The update takes account of three main themes emerging from responses to the PPF's original consultation paper[2], published back in July 2005.

2 KEY POINTS

The main risk-based levy concessions divulged by the PPF's update are that:

- The PPF is allowing an extra three months, until 31 March 2006, for valuations and information about the scheme to be submitted.

- When calculating the 2006/07 risk-based levy, the PPF will take into account any special contributions paid into the scheme since the last actuarial valuation so as to reduce a deficit.

- The PPF valuation process (under section 179 of the Pensions Act 2004) will be simplified and will therefore hopefully be less costly (actuaries can base the PPF valuation "on prudent approximations rather than detailed scheme member specific data").

- The PPF is "minded" to take account of "contingent assets" in calculating the risk-based levy (see 4 below).

[1] Broadly, defined benefit occupational pension schemes

[2] See our Sackers Extra Alert: "PPF News – Risk-based Levy" dated 13 July 2005

SACKER & PARTNERS

Solicitors specialising in pensions law

Sacker & Partners LLP
29 Ludgate Hill London EC4M 7NX
Tel 020 7329 6699 Fax 020 7248 0552

enquiries@sackers.com
www.sackers.com

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3 WHAT ELSE DOES THE UPDATE SAY?

- The update paper provides further clarification on how the PPF will adapt existing minimum funding requirement (MFR) valuation data so as to estimate the level of underfunding on a section 179 valuation basis.
- In addition, the update sets out detailed guidance on how the PPF proposes to calculate the insolvency risk element of the PPF levy in multi-employer schemes. The PPF is intending to take into account the structure of such schemes so as to be consistent "with its principle of fairness" (six categories of multi-employer scheme are identified in the update). The overall treatment of such schemes will depend upon whether the scheme is non-sectionalised or sectionalised (and, if so, on what basis). A weighted average probability of insolvency will be used in certain cases.
- Sample forms are also incorporated in the update paper.

4 NEWS ON CONTINGENT ASSETS

The PPF is considering to what extent reductions may be made in the levy for schemes holding contingent assets (alternative forms of security). Examples include bank letters of credit and parent company guarantees. The PPF is intending to put forward proposals for consultation. But the PPF refers to the fact that the inclusion of contingent assets may depend upon whether the production of necessary regulations is brought forward.

5 LINK TO UPDATE PAPER

A copy of the update paper (on which comments are invited) can be found at:

http://www.pensionprotectionfund.org.uk/rbl_update_oct05-2.pdf

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Sacker & Partners LLP
29 Ludgate Hill London EC4M 7NX
Tel 020 7329 6699 Fax 020 7248 0552
enquiries@sackers.com
www.sackers.com