20 September 2006

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PPF LEVY PROPOSALS FOR 2007/8

1 INTRODUCTION

The Board of the Pension Protection Fund (the Board) has published revised guidance and standard documentation relating to contingent assets and also a consultation document setting out proposals for the 2007/8 risk based levy.

2 KEY POINTS

- Schemes accepting new contingent assets to be recognised for the 2007/8 levy will need to apply the Board's revised guidance and standard documentation.
- Schemes with existing recognised contingent assets do not have to amend their existing arrangements, but will need to re-certify these using standard certificates.
- The consultation does not propose radical changes to the way in which the risk based levy will be set, but does include some potentially significant changes to the process – see example, below.

3 CONTINGENT ASSETS, DOCUMENTS AND FORMS

The new guidance allows for the same types of contingent assets to be taken into account as for the 2006/7 risk based levy. These are –

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

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The Board will continue to recognise arrangements that were recognised for 2006/7 if the arrangements have not changed and the Trustees re-certify them by 30 March 2007. Re-certification forms should be available in November 2006.

New contingent assets must be completed on the new standard form documentation unless they were signed up on the old standard form between 1 April 2006 and 11 September 2006.

It is also possible for schemes with existing contingent assets to adopt the new post-September 2006 standard form documentation. There are some minor increases in flexibility, for example, more choices of liability cap for Type A and Type B arrangements.

It is possible that there may be some minor tweaks to the new standard forms as part of the consultation, although the Board does not expect significant changes.

4 CONSULTATION PAPER

The key proposals in the consultation paper include (together with proposed changes to the actuarial methodology in respect of the section 179 valuation) –

- The Board working with Dun & Bradstreet to review the way they assess the insolvency risk of the sponsoring employers;

- A requirement for multi-employer schemes to show in their next Scheme Return at least a reasonable estimate of the allocation of members, including “orphans”, to participating employers. (“Orphans” are members whose employer has previously left the scheme.) The consultation document recognises that this could be challenging and it will be interesting to see if this proposal is adopted.

If you have any queries relating to the application of this to your scheme, please get in touch with your usual Sackers contact.

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