alert

sackers extra

PPF RISK-BASED LEVY – 2008/09 DETERMINATION

1 INTRODUCTION

The Pension Protection Fund (PPF) was established in April 2005 to provide compensation for members of eligible schemes where benefits cannot be paid in full because: (a) there has been an insolvency event in relation to the employer; and (b) the scheme is underfunded on winding-up. Compensation is funded partly by the assets of the schemes for which the PPF assumes responsibility, and partly by an annual levy raised from potentially eligible schemes.

The overall levy is made up of two parts – the scheme-based and risk-based levies. Each year the PPF is required to publish a determination setting out the methodology for calculating the levy. The 2008/09 levy determination (the Determination) was published on 19 February 2008[1].

The Determination confirms the aim of promoting a stable levy estimate - the total levy for 2008/09 will be £675 million (the same as for 2007/08).

2 KEY POINTS

- The PPF funding level at which no risk-based levy is payable will rise to 140% (up from 125% for the 2007/08 levy) (see section 3).
- ***The deadlines for submitting information aimed at reducing the PPF levy payable by a scheme are fast approaching*** (see section 4).
- Quite separately, the PPF have also announced a consultation on possible changes to valuation assumptions (see section 5).

[1] http://www.pensionprotectionfund.org.uk/levy_determination_0809amm_-_feb_2008.pdf

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

alert

Continued
PPF RISK-BASED LEVY – 2008/09 DETERMINATION

3 THE RISK-BASED LEVY

The good news from the PPF is that the levy cap, which protects the weakest five per cent of schemes from disproportionately high levy bills, will be reduced from 1.25 per cent of liabilities to one per cent of liabilities for 2008/09.

In setting the risk-based levy[2], the factors which the PPF are required to take into account are the level of scheme underfunding and the risk of insolvency of the employer. The Determination gives additional detail on the assessment of these risks for the levy years 2008/09 and 2009/10.

Scheme Underfunding Risk

No risk-based levy will be payable by schemes where the PPF funding level is equal to or greater than 140% (up from 125% for the 2007/08 levy). (The scheme-based levy will still apply[3].) For schemes which are between 120% and 140% funded on the PPF basis, there will be a stepped approach using the following table[4]:

PPF funding level %	Assumed level of underfunding for levy formula %
≥ 120 < 125	1.00
≥ 125 < 130	0.75
≥ 130 < 135	0.50
≥ 135 < 140	0.25

[2] The Pensions Act 2004 (PA 2004) makes provision for at least 80% of the PPF levy to be risk-based

[3] And also the Administration levy, and possibly a PPF Ombudsman levy at some point

[4] These figures appear to have changed slightly (since the PPF's levy paper published on 29 November 2007) to include the percentage at the lower end of each range

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

sackers extra

alert

Continued
PPF RISK-BASED LEVY – 2008/09 DETERMINATION

Employer Insolvency Risk

Insolvency risk of sponsoring employers is measured by Dun and Bradstreet (D&B). A D&B Failure Score is assigned to each employer and the PPF uses this information to estimate the probability of the sponsoring employer's insolvency over a 12 month period via a banding approach. The 2008 insolvency risk measurement date is also 31 March. This means that all data should be submitted to D&B by this date in order for it to be taken into account. The D&B Failure Score may be appealed up to 28 days after receipt of the levy invoice.

4 DEADLINES

The latest Determination confirms that 31 March 2008 will be the measurement date for underfunding and insolvency for the 2008/09 Levy, as well as the 2009/10 Levy. This means that the deadlines are fast approaching for employers and trustees to ensure that their scheme pays the lowest risk-based levy possible for both levy years. But "after listening to industry views", the PPF have agreed that contingent assets will be taken into account for 2009/10 if certified by 31 March 2009, as will deficit reduction contributions if made by that date and certified by 7 April 2009.

Documents should be submitted by the following dates:

- The Pensions Regulator's annual scheme return (including for most schemes the section 179 PPF valuation) – **31 March 2008**.[5]

- Contingent assets certificates (or re-certifications) – midnight on **31 March 2008**.

[5] This must be submitted via the Pensions Regulator's new electronic system called "Exchange": https://exchange.thepensionsregulator.gov.uk/Login.aspx

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

sackers extra

alert

Continued
PPF RISK-BASED LEVY – 2008/09 DETERMINATION

- "Actuarial certificates of deficit-reduction contributions"[6] – midnight on **7 April 2008**.

- Block transfer certificates which confirm that liabilities have been transferred out of the scheme – midnight on **7 April 2008**.

Contingent assets which can be used to reduce the PPF levy include parent company guarantees, bank guarantees, letters of credit, and security over cash or property. Given the changes to the PPF levy assumptions set out in the Determination, employers may wish to discuss with their actuary how to optimise the use of such assets.

Once all the information has been received, the PPF will announce the final levy scaling factor (which is used to ensure that the risk-based levy actually payable closely matches the PPF's original levy estimate). The indicative scaling factor announced in September 2007 was 1.6, but the final factor will not be known until May 2008.

5 AND FINALLY …

The PPF have also announced a consultation on possible changes to valuation assumptions. The consultation period closes on 14 March 2008. The PPF plans to introduce the new assumptions from 31 March 2008.

The PPF is responsible for keeping the assumptions used for pension scheme valuations under section 179 of PA 2004 in line with pricing in the buy-out market. In the light of recent developments and the expansion of the buy-out market, the changes proposed aim to bring valuations into line with market prices. The PPF say that changes may result in fewer schemes entering the PPF, because valuations based on the proposed new assumptions may mean more schemes are able to pay benefits greater than PPF levels of compensation.

---

[6] Special contributions paid into a scheme between valuations to reduce a deficit

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