Sackers FIFTY YEARS OF PARTNERSHIP 50

PPF publishes consultation on levy changes for 2017/18

Alert | 27 September 2016

Introduction

On 23 September 2016, the PPF published its consultation on changes to the pension protection levy for 2017/18.

Key points

- The PPF's levy estimate for 2017/18 will be set at £615 million, the same as for 2016/17.
- The levy rules for 2017/18 will be substantially the same as for 2016/17 in line with the PPF's aim of keeping the levy calculation stable, so far as possible, during each three-year period (or triennium)
- The most significant change is a proposed mechanism for stakeholders to notify Experian (the PPF's insolvency risk services partner) where the move to new UK accounting standard FRS 102 (or FRS 101) would otherwise cause an artificial movement in their levy rating.
- Other changes include a change in how a small number of parent companies which file small companies' accounts are assessed for insolvency risk purposes, the date from which Experian use data to calculate scores when accounts are restated, and clarifications of the scope of areas such as mortgage exclusions and guidance.
- In the consultation document, the PPF reiterates its position on schemes that have no sponsoring employer and proposes an approach for calculating risk-based levies for such schemes.

Proposal to minimise impact of FRS 102

In broad terms, the move to FRS 102 (and FRS 101 for subsidiaries of listed companies) changes how entities value certain assets and liabilities in their accounts. As this change could weaken the relationship between the historic experience on which the PPF-specific model for assessing insolvency risk is built and current insolvency scores, it could affect employers' PPF risk scores. However, the PPF considers that this new accounting standard is an improvement on the one it replaces. As it does not undermine relationships between "the model variables" and the risks of insolvency, the PPF believes it would be inappropriate to make general changes to the PPF-specific model that would seek to reverse its effects.

Further, evidence collated by the PPF indicates that the impact of the new accounting standard will be

minimal. In particular, the analysis suggests that the vast majority of schemes will not see a change in levy band, with limited numbers seeing an improvement or worsening of score, typically by one band. In some cases there will be an improvement and in others a deterioration. The PPF notes that, in practice, impacts may be even less significant for 2017/18 than this analysis predicts as typically scores will only be affected for part of the levy year.

The PPF intends to allow employers on the large and complex and not for profit scorecards to certify an adjustment to the figures in their accounts which will then be applied by Experian in its calculation. These are the scorecards where the PPF has identified that there are “trend variables” affected by this issue. (Trend variables compare information from the latest accounts with that from an earlier year). To certify, schemes will need to provide Experian with information to indicate that they are affected and how. A draft certificate and a worked example are set out in Appendix B to the consultation.

If stakeholders on other scorecards expect an employer to move bands purely as a result of the change in the accounting standard, the PPF asks them to flag this in a response to the consultation. The PPF will then assess the case for extending the certification regime.

Schemes with no “genuine” sponsor

In its response to the Government’s consultation on the British Steel Pension Scheme, the PPF highlighted that the standard methodology for calculating the levy would not be appropriate where a scheme’s sponsoring employer is a shell or special purpose vehicle (“SPV”), rather than a genuine business.

In such circumstances, the risk of a claim being made on the PPF cannot be measured by considering the financial position of the shell or SPV, because a claim would only be likely to be triggered when the funding position of the scheme deteriorated to the extent that it could no longer continue to run on. At that point, “employer” insolvency would be triggered causing a PPF assessment to begin. As a result, in calculating a risk-based levy, the PPF would need to focus on:

- the level of scheme underfunding at which PPF entry would subsequently be triggered
- a measurement of the likelihood of that trigger level of underfunding being reached. (This would be related to the scheme’s investment strategy and could be an estimate of the probability of the scheme funding level falling below the trigger level.)

The PPF states that it is “not yet clear” whether there is an immediate need for detailed rules to give effect to this approach. In raising the issue, it is “simply reiterating [its] commitment to ensuring the levy is calculated appropriately for schemes in such a position, (not least so that [it] can ensure there is no cross-subsidy from other levy payers)”. If, in the PPF’s opinion, it becomes necessary to do so, it will publish specific proposals separately to this consultation.

The next triennium (levy years 2018/19 – 2020/21)

The PPF intends to fully review the performance of the PPF-specific model and consider whether any changes are needed to the way in which scores are calculated.

Detailed proposals for the next triennium will be published for consultation around the end of 2016, with a further consultation on the detailed levy rules in autumn 2017.

Next steps

The levy consultation closes on 31 October 2016. As usual, the PPF intends to finalise the rules and publish the final levy determination in December.

Action points

As noted above, to remove the impact of the change to accounting standard FRS 102, employers on the large and complex and not for profit scorecards will be able to certify an adjustment to the figures in their accounts for application by Experian in its calculation for the levy year 2017/18. We suggest such employers ask their accountants whether they should consider certifying an adjustment to their financial figures and, if so, start to collate the necessary information.

Finally, employers should check that the data on the PPF's portal and TPR's Exchange is complete, accurate and up to date to ensure their levy is calculated correctly. There is very limited scope for appeal once invoices are issued.

If you have any queries or wish to discuss any of these issues with us, please speak to your usual Sackers' contact.