# The 2019/20 PPF levy consultation

**Alert** | 27 September 2018

## Introduction

The PPF has published a consultation and draft levy rules which set out the basis on which it intends to charge the pension protection levy for the 2019/20 levy year.

## Key points

- The levy estimate for 2019/20 will be £500 million, down from £550 million in 2018/19.
- The PPF considers that the changes introduced for the 2018/19 levy year (see our Alert) are working well and only proposes minor adjustments to the standard levy methodology.
- A key change is the proposal for existing levy rules for schemes without substantive sponsors ("SWOSSs") to be developed so that they can be used to calculate an appropriate levy for commercial consolidators.
- The PPF proposes introducing a discretion for it to adapt its interpretation of the levy rules, if necessary, as a result of changes arising from Brexit.
- Existing Type A (parental guarantee) and B (security over an asset) contingent assets that include a fixed cap must be re-executed on the PPF's January 2018 forms (if this has not been done already) and certified in accordance with PPF requirements to be recognised for the 2019/20 levy year.

## Levy estimate

The PPF's 2017/18 accounts disclosed a record level of claims and reported contingent liabilities in relation to expected insolvencies of around £1.4 billion.  This suggests that claims in 2018/19 are likely to remain at a high level.  However, as its funding position "remains robust" and the probability of its meeting its long-term funding objective "remains high", the PPF has concluded that it does not need to make any change for 2019/20.  However, it notes that, if the level of claims continues to be high, it "may need to give careful thought to the position for next year's rules".

# Consolidation vehicles – PPF levy proposals

In its White Paper on DB pensions (see our Alert), the Government explained that one of its priorities for DB schemes is supporting and encouraging consolidation. A consultation on its proposals is expected later this year.

Recognising that it will need to be able to charge commercial consolidators (or "superfunds") an appropriate levy, potentially as early as the levy year 2019/20, the PPF puts forward proposals for developing the rules currently used for SWOSSs.

Superfunds will be in a similar position to SWOSSs, in so far as they will not have a continuing substantive employer and they will be reliant (at least to an extent) upon investment returns to secure benefits. This means the nature of the risk they will pose to the PPF will be similar, ie the risk of investment failure. However, the PPF notes that there are also "some critical differences" between the two types of scheme. For example, with a superfund there is the potential for:

- the scheme to grow in size during the levy year
- profit withdrawal
- additional security to be available.

The PPF considers that these differences in risk will require changes to its SWOSS methodology, but is mindful that, until the final structure of any new regulatory regime is known, it will not be possible to finalise its approach. Its focus for 2019/20 therefore is to establish a workable rule, but also to flag areas it may look to incorporate in the future.

**Definition of commercial consolidator**

The PPF intends to define commercial consolidators broadly and to include a subjective component in the definition "so that it can avoid including schemes [it] wouldn't wish to, or excluding a scheme that it is in economic substance operating as a consolidator".

**Proposed developments from the SWOSS methodology**

To ensure that the levy charged to consolidators is in line with commercial pricing and that there is no cross subsidy from existing levy payers, the PPF proposes:

- increasing the levy for a consolidator in the (perhaps unlikely) event that there is no requirement for the arrangement to wind up if funding falls below a minimum threshold
- "implement[ing] asset stresses" and an end of year recalculation mechanism to reflect respectively the risks of profit extraction and new transfers in
- putting in place appropriately prudent assumptions for consolidators if they do not provide key information (particularly valuations) at the required frequency.

The PPF also intends to strengthen the SWOSS methodology to reduce the possibility that the levy charged might be too little for the risk. These changes will apply to both SWOSSs and commercial consolidators.

# Contingent assets

**Re-execution required for certain Type A and B assets**

The PPF published revised standard forms for contingent assets on 18 January 2018. For the levy year 2018/19, these new forms had to be used for any new arrangements executed on or after that date but previous arrangements could be certified or recertified without moving to the new versions.

Any schemes with Type A or B contingent assets with a fixed cap **must** re-execute their agreement (using the new forms) and certify it in order to receive credit for the asset in the 2019/20 levy ("the Re-execution Requirement").

The PPF has invited feedback on the certification process for schemes which are subject to the Re-execution Requirement. It currently envisages requiring "generally the same documents as for a new contingent asset submission".

**Guarantor strength report**

2018/19 was the first levy year that the PPF required a guarantor strength report for Type A assets which generate a levy reduction of £100,000 or more (see our Alert). The PPF is currently completing its checking of these reports and intends to set out any "lessons learnt" when it publishes its policy statement in December. It is also working with TPR to improve the certification process on the Exchange system.

# Levy payment

The PPF is considering whether it could take additional steps to help schemes (in particular, those with small or medium employers) plan for their levy payments and avoid having to find a significant sum over what could be a short time. It has therefore invited schemes to provide feedback on:

- what additional support it could provide to help with forward planning and paying levy invoices; and
- when the levy should be payable during the levy year (including whether there is a case for payment by instalments).

# Next steps

The consultation closes at 5pm on 25 October 2018. A summary of responses and the Board's final levy determination are planned to be published in December 2018.

If you have any questions on any of the above, please speak to your usual Sackers contact.

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