Briefing

Pensions

October 2013

Importance ★★☆☆

PPF levy 2014/15: consultation

The PPF plans to leave the levy rules for 2014/15 largely unchanged but proposes two alterations in relation to contingent assets.

The consultation document puts forward:

- changes to the trustees' certificate of a contingent guarantor's financial strength and
- a relaxation of the requirement that a contingent asset can only be recertified if it was certified for the preceding year.

The consultation closes in late October. The PPF normally publishes the final rules in mid December.

Levy bills

The estimated total levy for 2014/15 is £695m, up from £630m in 2013/14. The impact on a scheme's bill will depend how its risk profile moves relative to those of other schemes. PPF modelling suggests:

- for half, a levy increase of up to 15%,
- for a fifth, an increase over 25% but many of these will be better funded schemes paying small absolute amounts, and
- a reduction for about 4% of schemes.

Increased underfunding risk is the main reason for the rise in the levy estimate. Overall, the PPF assesses the level of risk it faces from eligible schemes as high.

Levy parameters like the scaling factor and risk-based levy ceiling are unchanged.

The limited alterations reflect the framework introduced two years ago with the aim of making levy bills more stable. Levy year 2014/15 will be the third and last year before the framework is reviewed and reset for the next triennium.

Contingent assets – guarantees

The PPF proposes that the trustees' certificate of a contingent asset guarantor's strength should read:

"The trustees, having made reasonable enquiry into the financial position of each certified guarantor, are reasonably satisfied that each certified guarantor, as at the date of the certificate, could meet its full commitment under the contingent asset as certified, having taken account of the likely impact of the immediate insolvency of all of the relevant employers."

Last year the wording was:

"The trustees have no reason to believe that each certified guarantor, as at the date of the certificate, could not meet its full commitment under the contingent asset as certified."

The changes are:

- the certificate is positive rather than negative: trustees must be reasonably satisfied the guarantor *can* meet its obligations rather than having *no reason to think it cannot*,
- trustees must formally certify they have made reasonable enquiries into the guarantor's finances while last year it was left to the (important but informal) guidance to flag the need for due diligence and
- likewise in relation to considering the impact of immediate group insolvencies.

The differences are subtle but real. The PPF attributes the changes to a concern on the part of some trustees that "*no* reason to believe" set an absolute standard that would rule out a guarantor of manifest strength but with, for example, a minor weak point. Yet the guidance made clear the standard was only that it should be reasonable to believe a guarantor was good for its commitment.

The PPF says the changes do not mean it has altered its expectations of the due diligence trustees should do. But the bar has gone up.

From a broader perspective, this is not surprising. When it introduced the certificate, the PPF said it was likely to make it more demanding over time.

Contingent assets – all kinds

The rule that a contingent asset can only be recertified if it was certified for the immediately preceding levy year is being dropped. Instead it will be possible to recertify an asset certified within the previous five years, provided it has been in place throughout the period.

To date, reviving a lapsed asset has meant submitting it as a new one with the extra paperwork that entails. The new approach also discourages the recertification of assets with no value for the year ahead simply to keep them readily available for future years should conditions change.

Disregarded

The PPF's proposals for 2014/15 take no account of these expected future developments:

- the increase in the compensation cap for long-serving members,
- the introduction of the new definition of "money purchase benefits" which is likely to mean some schemes move into the levy-paying DB camp for the first time or
- the Regulator's new objective of limiting the impact of funding requirements on employers' growth.

Depending on how and when the DWP brings the change in the definition of DC benefits into effect, the PPF says it might take it into account in the final levy rules.

Insolvency risk

The PPF announced recently that it is changing its supplier of failure scores for 2015/16 onwards to Experian. Its first consultation next year will be about any resultant differences in the way it measures insolvency risk.

Key dates for 2014/15

Monthly D&B failure scores	Between 30 April 2013 - 31 March 2014
Submit scheme returns on Exchange	5pm 31 March 2014
Reference period over which funding is smoothed	5 years to 31 March 2014
Certification of contingent assets	5pm 31 March 2014
Certification of deficit-reduction contributions	5pm 30 April 2014
Certification of full block transfers	5pm 30 June 2014
Invoicing starts	Autumn 2014

Contacts

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