Quattro Pensions
CONSULTING ACTUARIES

news bulletin

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Small schemes benefit from PPF levy savings

Many pension schemes should see their Pension Protection Fund levy reduced under changes which will make it easier to certify deficit contributions being paid under a recovery plan.

Deficit contributions

Simple schemes with liabilities under £10 million will be able to certify contributions of up to £1 million paid under their recovery plan. This means that trustees or company representatives can now **certify contributions themselves, based on information readily available**, without needing an actuary to do so.

For larger schemes, or where a scheme is open to future accrual, an actuary must still make the certification. However, a key barrier to certification has been removed. Previously, the actuary was required to deduct scheme investment management costs from the certifiable amount. This reduced the scope for a saving on the levy. The PPF has now **removed the requirement to account for investment costs**.

These changes mean that many more schemes will be able to demonstrate to the PPF that they present a lower risk, and benefit from a corresponding saving on the PPF levy.

Insolvency risk

The PPF is making tweaks to the way it assesses a company's insolvency risk. Several of the scorecards it uses are being rebuilt. As a result, the PPF says that the proportion of the levy paid relating to SMEs could fall by around a third.

Also, companies with a credit rating will now have their insolvency risk based on that rating. The PPF says this will improve the predictiveness of its model.

Given the changes, for the 2018/19 levy year the PPF will use the **month-end scores from October 2017 to March 2018**. The full twelve months will be used for the following two levy years. Information must be submitted to Experian one calendar month before each month-end for it to impact on the score for that month.

The levy rates for employers in the three lowest risk bands are increasing. The PPF believes that these employers should still see a decrease in their levy, all else being equal, due to changes in the parameters used to set the levy.

Levy estimate

The PPF estimates it will collect **£550 million in levies in 2018/19, a reduction from £615 million in 2017/18**. Under its plans schemes' levy amounts should be relatively stable over the next three years, provided they do not present an increased risk to the PPF.

Smaller schemes in particular may welcome the changes. The PPF estimates that if the above changes had been in place for the 2017/18 levy, and deficit contributions had been certified under the new arrangements, SMEs would have seen a reduction of around a third in their total levies. However, if the new levy band is worse than last year, **individual schemes could still see a significant increase**.

Actions trustees and employers can take to check they are paying the correct levy include:

Review Experian data

Check that the information the PPF will use to calculate your scheme's levy is correct at www.ppfscore.co.uk. It's often not possible to backdate changes, so the earlier issues are spotted, the better.

Certify deficit contributions

Certificates should be submitted to the PPF by 30 April 2018. See left for further details.

Certify contingent assets

A revised form of agreement is required for contingent assets newly entered into for the 2018/19 levy year. This is expected to be available in January 2018. The PPF will require existing fixed cap agreements to be re-executed using these forms by March 2019.

Certify excluded mortgages

The age of a mortgage feeds in to the PPF levy calculation – newer mortgages are viewed less favourably. Certain mortgages can be disregarded for this purpose, e.g. "Refinancing mortgages" and "immaterial mortgages". Immaterial mortgages must be recertified each levy year.

Consider updated valuation

The PPF's method of projecting valuation results doesn't take into account the changes that a full actuarial valuation would consider. If your scheme's membership has changed significantly, it may be worth submitting an earlier valuation.

Please speak to your usual Quattro contact to find out more about the changes and how they may affect you.