

**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**



THE THIRD LEVY TRIENNIUM

Chris Collins
Chief Policy Adviser
Pension Protection Fund

Headline sponsor

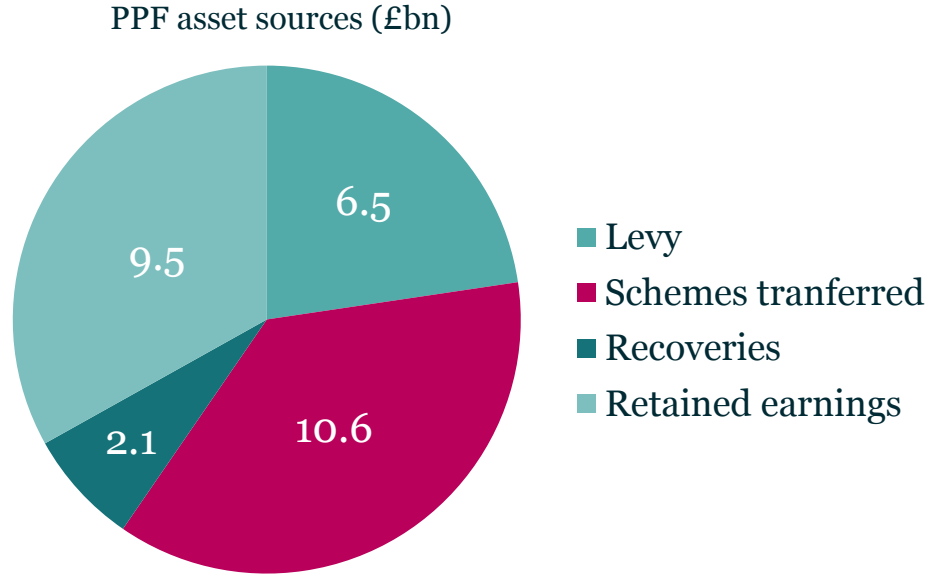
ALLEN & OVERY



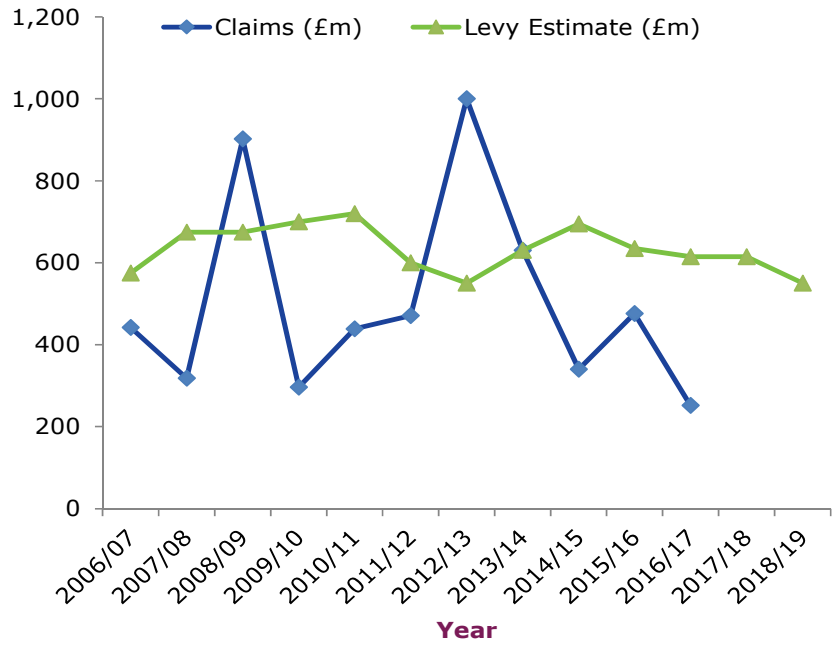
THE PENSION PROTECTION FUND

- ▶ 235k members (from c900 schemes)
- ▶ £28.7 billion assets
- ▶ £6.1 billion reserves
- ▶ Funding level – 121.6%
- ▶ Probability of success – 93%

Where the money comes from...



PPF LEVY VS. CLAIMS



- ▶ Levy Estimate of £550 million for 2018/19
- ▶ Lowest estimate we have set – 12/13 also £550m
- ▶ Reflects balance of strong funding and continuing risk

WHAT HAVE WE REVIEWED?

A reminder, the **risk-based levy** is:



...subject to Overall Cap (% of Liabilities) ▶ **Cap reduced**

Underfunding risk for a scheme is the deficit relative to buyout of scheme members PPF compensation, and reflects investment risk. **We have updated asset & liability stresses, simplified certification for DRCs**

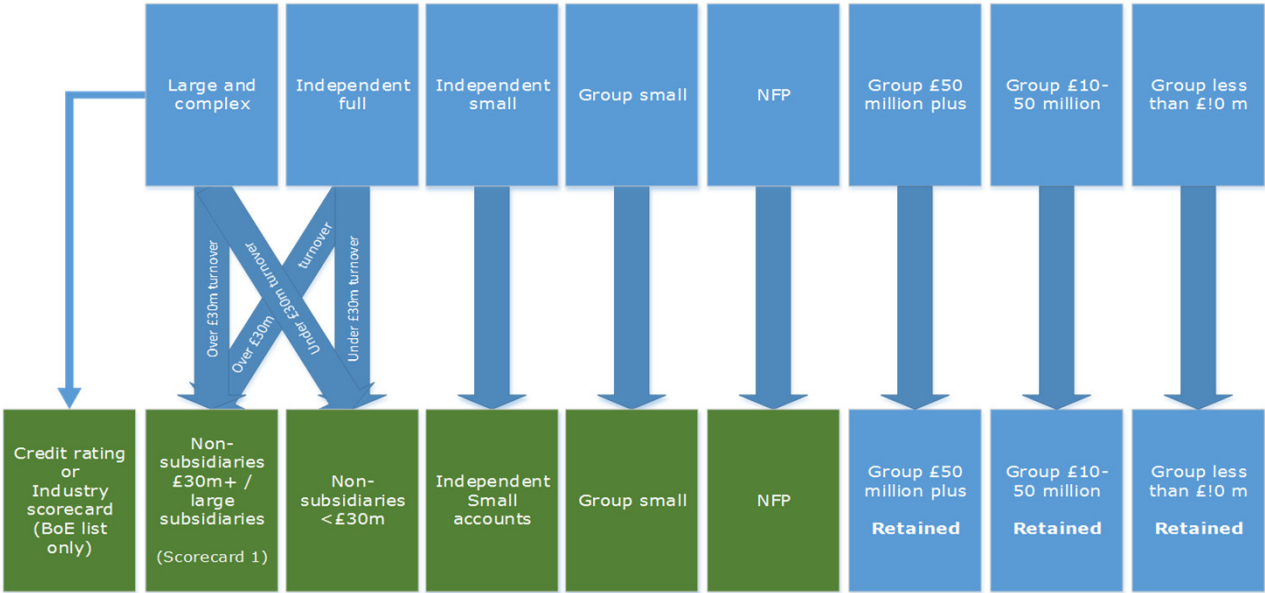
Insolvency Risk reflects the risk that the scheme will enter the PPF in the next year. **Updated PPF-Specific model, credit ratings...revised the levy rates used for each levy band. Changes on contingent assets**

Levy Scaling Factor - a constant used to scale the other two factors up to the £550 million we want to collect based on using the new rules. **Recalculated.**

REVIEW OF THE 8 SCORECARDS FOR THE MODEL

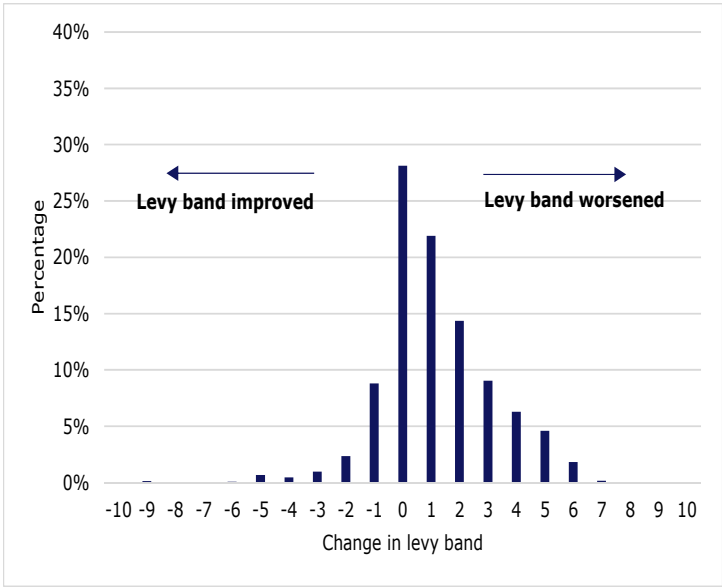
Issue	Scorecard							
	L&C	Ind Full	Ind small	Group <10m	Group 10-50m	Group >50m	Group small	NFP
Significant population movement	✓	✓	✗	✗	✗	✗	✗	✓ (+new data)
Homogeneous	✗	✗	✓	✓	✓	✓	✓	✗
Gini for 2007 - 2015	↓ 59%	↓ 54%	↓ 34%	↓ 60%	↑ 76%	↓ 66%	↓ 42%	↓ 47%
Stakeholder Feedback			~	~	~	~	~	

REVIEW OF EXPERIAN SCORECARDS: CREDIT RATINGS, SEGMENTATION CHANGES AND REBUILDING

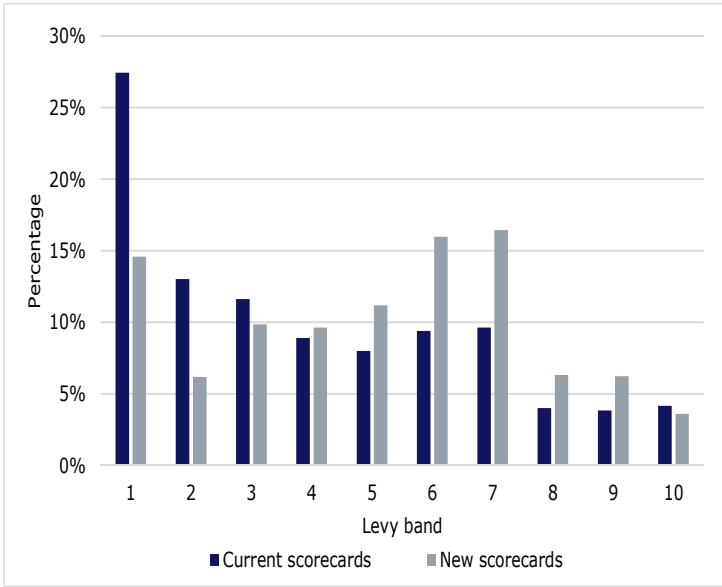


IMPACTS ON SCORES

Movements in employer levy band – all scorecards



Movement in distribution of bands



WHY ARE SCORES CHANGING?

1. New scorecards measure different variables

Large and complex	Scorecard 1	
Variables	Variables	Fill Rate
Capital Employed	Log Net Worth	100%
Turnover	Log Creditor Days	86%
Stock Turnover	Log Total Assets	99%
Return on Assets	Cash by Liabilities	99%
Sales per Employee	Log Pre-Tax Profit	100%

2. Scorecards recalibrated to “right” number of insolvencies

Target insolvencies	0.4%	Target insolvencies	0.25%
Actual predicted rate	0.1%		

CERTIFYING DEFICIT REDUCTIONS

- ▶ We have always recognised contributions that reduce deficits – without waiting for full new valuation – if certified to us. Wanted to simplify.
- ▶ Offered two options to simplify DRC regime in response to stakeholder feedback, either:
 - ▶ Exclude investment management expenses in calculating deficit reduction contributions
 - ▶ Allow schemes to use information directly from recovery plans
- ▶ Feedback positive – but mixed views on which was preferable
- ▶ Propose to implement both:
 - ▶ Simplified current approach available to all
 - ▶ Recovery plan basis for schemes under £10m liabilities*. No actuary needed if sum certified <£1m*

IMPACT ANALYSIS: WHAT WOULD HAVE HAPPENED TO 17/18 BILLS IF 18/19 POLICIES IN PLACE?

Headlines:

- ▶ 2/3rds of schemes see lower levy
- ▶ 1/5th see increase
- ▶ SMEs levy down 1/3

NB actual scaling factor for 18/19 ≠ scaling factor used here (0.37)

Change for 2018/19	Impact	Effect on collection	Effect on LSF
New Experian scorecards	Scores worsen esp on the non-subidiaries >£30m scorecard	↑↑↑	↓↓↓
Recalibration factors for the group scorecards that aren't changing	Small worsening in Experian scores	↑	↓
New levy rates	Those in levy bands 1 – 3 see smaller decreases in levy, with other schemes benefiting from a reduced LSF	↑↑	↓↓↓
Updated asset and liability stress factors	Most schemes see improved funding	↓↓↓	↑↑
Reduction in RBL cap	Schemes presenting the largest risks to the PPF pay less levy to keep the levy affordable	↓	↑

SO WHAT ELSE COULD CHANGE MY LEVY FOR 2018/19?

Many factors will affect bills that we cannot take account of in our impact assessment:

- ▶ 1/3 of schemes will file new S179s
- ▶ Schemes will be able to certify more as deficit reductions
- ▶ Asset allocations change with new scheme accounts each year
- ▶ Employer scores change
- ▶ New contingent assets may be put in place and existing ones be certified for higher values due to policy changes
- ▶ All these factors more likely to reduce levy collection than increase – so even to collect lower total we have scaling factor of 0.48
- ▶ Market conditions between now and 31 March 2018

CONTINGENT ASSETS

- ▶ Will require trustees to obtain a consultants report before certifying a contingent asset– as we already do with ABCs
 - ▶ Threshold will be £100k levy saving
 - ▶ If exceed threshold, without having report, then no levy credit
 - ▶ Report will need to owe duty of care to PPF as well as trustees
- ▶ More flexible approach to realisable recovery

CONTINGENT ASSETS STANDARD FORMS

- ▶ Contingent assets have been recognised in the levy from its inception
- ▶ The issue with the standard forms:
 - ▶ The narrow issue: in Type A and Type B agreements, the fixed cap could be interpreted as reducing when any payments outside the guarantee are made
 - ▶ The wider issue: whether the fixed cap is regarded as reducing when payments are made under the guarantee
- ▶ After consulting, and considering the difficulty for schemes in re-executing this year, what we are now seeking to do:
 - ▶ New standard forms for new contingent assets published January
 - ▶ Probably require re-execution, at least for those with liability subject fixed cap, but for 2019/20

HOW BEST TO PREPARE FOR 2018/2019

- ▶ Consider case for putting in place a new contingent asset. (Remember now no need to re-execute until 2019)
- ▶ Consider whether can certify deficit reductions – may be worthwhile even when no new payments in last year!
- ▶ New scores shown on PPF/Experian portal – encourage monitoring of scores - “What-if” tool
- ▶ When contingent asset final standard forms are published, prepare early for re-execution for 2019/20?

HOW TO CHECK YOUR SCORE ON THE PORTAL

- >> [Balance Sheet](#)
- >> [Fixed Assets](#)
- >> [Current Assets](#)
- >> [Current Liabilities](#)
- >> [Long Term Liabilities](#)
- >> [Capital and Reserves](#)
- >> [Profit and Loss Account](#)
- >> [Employment Costs](#)

We welcome your feedback.

Please [click here](#) to complete a short survey about the PPF score portal.

Pension Protection Score Report Hide scores for the proposed model (What's this?)

Employer Name: [REDACTED]

Unique Experian ID Number: [REDACTED]
Employer Members: [REDACTED]
Registered Address [IPR]: [REDACTED]

Registration Number: [REDACTED]
Charity Number: [REDACTED]
Industry Sector: [REDACTED]

Score Date: [REDACTED]

[Export 17/18 "What If?" Analysis](#)

[Export 18/19 "What If?" Analysis](#)

[Scorecard Examples](#)

17/18 Score Information (T2 Model) ⓘ

Scorecard / Method Used:	Independent Full Accounts
Pension Protection Score:	0.1503%
Current Levy Band:	5

18/19 Score Information (T3 Model) ⓘ

Scorecard / Method Used:	S&P Credit Model
Pension Protection Score:	0.0546%
Levy Band:	3

Levy Bands may be subject to change due to consultation.

Mean Score for 17/18 Invoice ⓘ

Mean Score:	0.1422%
Levy Band:	4
Levy Rate:	0.0040
Adjusted Levy Band:	-
Adjusted Levy Rate:	-
Appeal Adjusted:	No

[Export Alternative Experian 18/19 "What If?" Analysis](#)

Score Performance Summary:

Date	Current Model Score	Proposed Model Score (18/19)
31 Oct 2016	0.1452%	0.1452%
30 Nov 2016	0.1452%	0.1452%
31 Dec 2016	0.1452%	0.1452%
31 Jan 2017	0.1452%	0.1452%
28 Feb 2017	0.1452%	0.1452%
31 Mar 2017	0.1452%	0.1452%
30 Apr 2017	0.1452%	0.1452%
19 Sep 2017	0.1503%	0.0546%

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TRUSTEE CONFERENCE 2017

Clear decisions; transparent outcomes



Headline sponsor

ALLEN & OVERY

 **#PLSA**