PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PPF COMBINED THIRD TRIENNIUM POLICY STATEMENT AND 2018/19 CONSULTATION DOCUMENT: RESPONSE BY THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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INTRODUCTION

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

The Pensions and Lifetime Savings Association (the Association) welcomes the PPF's ongoing work to develop the assessment of insolvency risk for the PPF levy. The levy is a key consideration for pension schemes and it is important that the model used to measure insolvency risk is robust, predictive and simultaneously does not unduly burden schemes through its cost or complexity.

The latest consultation confirms the direction of travel set out earlier in the year and we believe the changes generally meet the stated intention. Although the overall impact of the proposals and the reduction in the quantum will reduce the levy for the majority of schemes we believe it is important that the potential impact on many schemes which will see significant changes, for example due to changes in levy band, is mitigated as far as possible in the final *determination*.

We support the proposed changes to the "large and complex" and "independent full" scorecards. We also note the intention to use of credit ratings based the improved predictiveness for relevant employers, and support the proposal to 'smooth' ratings during the year, rather than assess on a one-off basis – given the risk of a cliff-edge or gaming. More generally, we would encourage close observation of the impact of these new proposals once implemented, to ensure that they do not drive unexpected behaviours or costs for schemes and sponsors.

This should also be the case for the proposals for schemes with a 'quasi -Government' guarantee, which may prove difficult in practice to define, and may result in lengthy reviews, given the range of potential variations amongst such organisations.

We agree with the consultations conclusion that that there is not currently a clear and implementable basis to recognize good governance in the levy. Although we continue to consider the proposal worthy of consideration we believe that this goal can be achieved more effectively through, for instance, the work of The Pensions Regulator (TPR) on 21st century trusteeship. This is particularly relevant to the current levy model which is based on quantitative factors (e.g. financial data) and not qualitative criteria – and it is the latter which drive many aspects of good governance[1].

The Association supports the PPF's work to reduce the complexity of engaging with the levy for smaller schemes, especially given the small total amount of levy collected from these entities. We welcome the news that the aggregate bill for the SME sector will be reduced by around a third after the implementation of the PPF's proposed changes to the measurement of insolvency risk. We also support the steps taken to make it easier for smaller schemes to certify any deficit-reducing payments.

We note that the PPF has now released its separate consultation on contingent assets. Although we welcome the intention to tidy up the current ambiguity in the rules so that there are no unintended consequences, we hope that sufficient time will be given to those firms who are affected by the change to adjust their approach to contingent assets in response.

[1] For further details and analysis on this issue, please see our discussion paper *Good Governance – How to get there* (August 2017).