PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Chris Collins
Chief Policy Adviser
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon, Surrey
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Re: The PLSA's response to the 2020/21 Pension Protection Levy Consultation

Dear Mr Collins,

We welcome the opportunity to respond to the proposals set out in the PPF's Levy Consultation 2020/21.

We're the Pensions and Lifetime Savings Association (PLSA); we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

Overall, we are supportive of the PPF's decision to not make any substantive changes to the levy rules at this time. Below, we detail additional views on the key policy areas highlighted in the consultation document.

Contingent Assets Guidance

The PPF's intention to make the contingent asset guidance more high level, while keeping expectations the same, could increase the chance of user misinterpretation, therefore raising the possibility of firms inadvertently breaching the rules.

However, we do believe taking this approach to the guidance will have the benefit of making it less prescriptive, to better suit the existing range of industry needs and structures. The changes would also have the benefit of allowing advisors to use their expertise to decide what guidance is applicable for their client, so there is no unnecessary complexity to adhering to it.

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On balance, the PLSA supports the PPF's plan to make the contingent guidance more high level, as it will provide some much needed flexibility for schemes across the range of PLSA's membership.

Re-executing Certification with Contingent Asset Agreements

Some difficulties have been brought to the PLSA's attention when it comes to re-executing certification with contingent asset agreements that included a fixed cap element, in order to obtain levy recognition.

In particular, if the pre and post insolvency caps cannot be agreed, it can result in a scheme failing to re-certify the guarantee within the deadline. We believe PPF should consider extending the time period in which the re-certification can take place, or at a minimum, should consider deadline flexibility on a case by case basis.

We also believe it would be beneficial if the PPF would introduce a system where, rather than providing annual evidence that the guarantee is appropriate, schemes would instead be asked to do so once each triennium, with the provision that an annual certificate is produced by the Trustee, stating that circumstances have not materially changed from the previous year. This could significantly reduce the burden on schemes in terms of time and cost in the re-certification process.

Payment Flexibility

The PLSA has previously highlighted the need to implement more payment flexibility for levy payers.

With scheme funding projected to deteriorate for 2020/21 due to a decline in gilt yields, resulting in PPF potentially increasing its levy estimate to £620m, we feel it is important that the PPF consider again putting in place appropriate payment flexibility, which would most certainly help small to medium sized employers handle any increases in the levy.

Additionally, as PLSA highlighted in its response for the 2019/20 levy consultation, it can be difficult for schemes to accurately budget for the levy, given the complexities of the business and budget planning cycle, and due to the time lags between when official levy estimates are sought by advisers and when an invoice arrives for payment. These challenges have direct impact on cash flows for employers and trustees. Disinvestments may have to be made by trustees at sub-optimal times in order to meet payment deadlines. These challenges make the need for payment flexibility more pertinent.

Support for Small and Medium-sized Employers (SMEs) from the PPF could come in the following forms of payment flexibility:

- allowing for monthly instalments;[1]
- allowing for an extension in payment term where the levy has increased since the prior year;
- allowing for an automatic lengthening of the payment term where the levy has increased by a certain amount since the prior year (e.g. if the levy has increased by more than 50% year-on-year);
- allowing for flexibility in payment dates, such as allowing levy payers to choose whether the full invoice is paid at the start or end of a business year.

While allowing for a delay in payment may be the easiest option to execute, the additional administrative resource required to set-up more complex payment arrangements is unlikely to be burdensome, as the PPF could draw upon existing payment systems from other industries.

GMP Equalisation

We understand that the PPF has been asked to consider the potential impact of GMP Equalisation adjustments included in annual accounts on insolvency risk scores in certain very specific circumstances: where a profit variable is included in the scorecard; where the adjustment leads to a company moving from profit to a loss; and where the result was a change of more than one levy band.

It has also been concluded by the PPF that GMP Equalisation is unlikely to have a material effect on the calculation of total scheme liabilities, and therefore it is not appropriate to seek to include an adjustment for GMP Equalisation.

Although GMP Equalisation has not been fully quantified, we agree that there is no evidence for PPF to make any changes to the levy as this time.

Yours sincerely,

Jo Hall
Policy Advisor: DB and LGPS

[1] Allowing for monthly payments in instalments would also align with regular divestments of assets for pension payments.