PENSIONS AND LIFETIME SAVINGS ASSOCIATION

30 October 2023

Mr David Taylor
Executive Director and General Counsel
Pension Protection Fund
www.ppf.co.uk/levy-payers/help-shape-our-rules

Dear Mr Taylor

CONSULTATION RESPONSE: PPF LEVY RULES 2024/25

We welcome the opportunity to respond to the consultation document published by the Pension Protection Fund (PPF) in relation to the proposed levy rules for 2024/25.

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

Levy for 2024/25

We support PPF's approach to continue reducing the levy it charges in line with its funding strategy, such that the levy for 2024/25 will be halved to £100 million from the current year. With scheme funding continuing to improve over the past year,[1] we believe it is appropriate for the overall reduced risk to the PPF to be reflected in lower levies for DB schemes.

We also support the minor changes proposed to the levy calculation methodology for 2024/25 to achieve this £100 million levy, including:

- Setting the Levy Scaling Factor (LSF) at 0.40 (compared to 0.37 in 2023/24).
- Slightly amending the Scheme-based Levy Multiplier (SLM) to 0.000015 (from 0.000019 in 2023/24). We note that this minor adjustment is necessary in order to maintain the scheme-based levy at 20% of the total levy, as required by the legislation.
- Retaining the risk-based levy cap at 0.25% of scheme liabilities.

In supporting these amendments, the PLSA appreciates that almost all eligible DB schemes (with the exception of some idiosyncratic cases) will see a reduction in their total levy for 2024/25 under this proposal.

[1] The PPF 7800 index estimates that the number of schemes in surplus in the PPF universe increased to 4,652 at the end of June 2023 (91% of schemes), up from 3,814 schemes in surplus at the end of June 2022 (74% of schemes).

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Levy options for future years

We note that the PPF is proposing that the levy be maintained at £100 million in future years (i.e. 2025/26 onwards). However, we believe that the levy should be reduced further given the amount of surplus held by DB schemes and the strong funding position of the PPF, which has built up its reserves to over £12 billion.

We understand that the PPF considered reducing the total levy for 2024/25 to £50 million, however the PPF Board ultimately concluded that £100 million was a more appropriate/safe level, as this would allow the PPF to more quickly increase the total levy back up to the £400 million amount it charged in 2021/22 (i.e. prior to the current levy reduction trajectory) if needed.

Under the current legislative framework – which sees annual increases to the total levy capped at 25% – we agree that setting the levy at £100 million each year would seem an appropriate course of action. However, the PLSA is supportive of examining whether this year-on-year levy increase cap should be amended in the future, either by increasing it (to say 50%) or removing it altogether.[2]

We acknowledge that primary legislation would likely be required to implement such a change, for which Parliamentary opportunities could be limited in the coming months, and that any changes to legislation are a matter for Government.[3] However, we believe such an option is worth exploring, particularly given some of the artificial changes that would otherwise be required to be made to the calculation methodology to maintain a levy of £100 million from 2025/26 onwards – such as potentially having to introduce an additional factor (beyond the LSF and SLM) just to scale up schemes' liabilities.[4]

Also, changes to the legislative framework to amend/remove the 25% annual cap would allow the total levy to fall below £100 million in future years as the overall risk to the PPF reduces – eg. £90 million in 2025/26, then £80 million, £70 million and so on. The PPF's current reserves of over £12 billion could then potentially be used to smooth future increases to the levy, if needed.

In our view, it is entirely appropriate for the total levy to reduce below £100 million to reflect the reduced risk to the PPF in future years. This is particularly the case given the current level of PPF reserves (which, as noted previously, is significant) and the fact that scheme funding levels overall are high (and continue to improve with rising bond yields). Also, the level of PPF claims continued to be low in 2022/23 with 14 new claims totalling £13.5 million, which was similar to the previous year's claims of £12 million.

In fact, even if the PPF were to suddenly face an increased number of claims, equal to the total amount of PPF claims in the past 5 years (£2.2 billion[5]), thereby reducing the PPF's reserves to £10 billion, the PPF would easily be able to absorb these claims and still continue to be very well funded. We therefore believe it is not unreasonable to expect the total PPF levy to reduce significantly below £100 million each year.

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[2] We note that DWP's review of the PPF (Titcomb review) published on 21 December 2022 recommended reviewing the legislation around the levy, among a range of recommendations, including a review of the 25% year-on-year restriction.

[3] We note that the legislation allows for the Secretary of State to exercise their powers to increase the maximum percentage increase, but this would not be straightforward or certain, as it would require secondary legislation and a consultation process.

[4] We note that this augmentation to schemes' liabilities via the introduction of a new factor is one of the options being considered in order to maintain the total levy at £100 million – i.e. to counter the fact that the pool of schemes paying a risk-based levy is likely to shrink over time, based on the PPF's own analysis in its Consultation document: Levy rules 2024/25 (section 6.3).

[5] PPF Annual Report and Accounts 2022/23.

The PLSA looks forward to engaging further with the PPF on the levy calculation methodology for future years when it publishes its levy rules for 2025/26 next autumn. In the interim, as noted above, we will look to explore further (with our members and with DWP) the potential scope for legislative change to amend/remove the 25% annual cap on increases to the total levy.

Long-term consideration of PPF reserves

As a final comment, our members have raised with us again the desire for a discussion at some point in the future around the use of the PPF's reserves (which, as noted previously, has reached over £12 billion) once all compensation payments have ceased, or are close to ceasing.

While we appreciate that this is still some way off, there is a strong feeling by our members that a significant part of the PPF's funding has come from DB schemes and sponsoring employers (along with investment growth and recoveries). Therefore, while we recognise that there is a role for Government to play in agreeing the final approach, we believe there is a valid argument that levy payers should have a significant influence on how excess funds are treated at the appropriate time. We note that the PPF has previously recognised and acknowledged this issue, but we felt it appropriate to raise again our members' strongly held views in our response.

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We hope the information contained in this response is helpful to the PPF in finalising the levy rules for 2024/25. We would be happy to respond to any queries or provide further information.

Kind regards,

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