The 2010/11 Pension Protection Levy Consultation

A response by

The National Association of Pension Funds

11th November 2009

Introduction

1. The National Association of Pension Funds (NAPF) is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with around 15 million members and assets of £800 billion. The NAPF's membership also includes 400 businesses that provide essential services to the pensions sector.

2. The NAPF welcomes the opportunity to respond to this consultation exercise.

Executive summary

- Stability, certainty and consistency are vital to the pension schemes that pay the PPF levy.

- The NAPF supports the decision to hold the Levy stable in 2010-11, subject to indexation with earnings.

- We would welcome clarification of the implications of this decision for future years.

- We are very disappointed that the consultation paper fails to mention the impact on most schemes of the decision to extend the 'cap' to the hardest-pressed 10 per cent. 90 per cent of schemes will now pay more than they would have had the cap been maintained at the current level.

- We are concerned by the retrospective nature of the proposals on Block Transfers. This approach will undermine confidence in the PPF system.

The NAPF's approach

3. The NAPF supports the work of the Pension Protection Fund and welcomes any initiative intended to improve the way in which the Levy system operates.

4. Any reform of the PPF system should aim to work with the grain of the pensions system. In the experience of our members, this almost always means that they want to see stability, consistency and certainty:

- stability in the way in which the system operates, so that they can plan ahead with confidence;

- certainty about the likely costs that the PPF Levy will impose on their scheme; and

- consistency in the way the PPF treats different schemes. The PPF should seek to minimise any perception that some schemes are being asked to pay less or more than their 'fair share' of the overall cost of funding the PPF system

5. It is also important that the PPF system should be seen to be fair. This means it is essential that well-run schemes with a strong covenant feel their efforts are recognised in the amount of levy that they are required to pay – a point to which we return later in discussion of the proposals for reform of the levy 'cap'.

6. With these points in mind, we turn to the specific reforms discussed in the consultation document.

The Levy estimate

7. The NAPF welcomes the announcement that the PPF will abide by its decision, announced in June 2009, to maintain the Levy in 2010-11 at £700 million, indexed to earnings. We note the confirmation that this means an aggregate Levy of £720 million in 2010-11.

8. However, we would welcome further clarification on a number of important points.

9. It is clear (not least from para. 2.2.3), that the Levy estimate is deliberately being set below the level that it would reach if it were fully to reflect the true level of risk in today's difficult market conditions.

10. Welcome as this is in the short term, it would be useful to have an indication of the implications for the Levy in subsequent years. What is the likely impact on the PPF's deficit? And will the PPF need to 'claw back' some of this revenue with an over-indexed increase in 2011-12 or later?

11. Alternatively, should we interpret the encouraging funding scenarios set out in Chart 5 of the PPF's recent *Annual Report* as an indication that the amounts being raised at the moment are actually higher than is necessary to ensure sound funding levels in the future? If so, does this mean that we can expect the levy to fall in coming years?

The 'cap'

12. We note the PPF's decision to reduce the Levy cap from 1.0 per cent of liabilities to 0.5%, with the intention of extending the protection currently enjoyed by the hardest-pressed 5 per cent of schemes to 10%.

13. We are very disappointed, however, that the consultation paper fails to mention the impact this will have on the remaining 90 per cent of schemes, which will have to pay more as a result.

14. While the NAPF has hitherto accepted the redistributive nature of the cap, we cannot allow this reform to pass without comment.

15. The impact on the 90 per cent appears to be significant. Paragraph 2.4.5 describes the increase as a 'relatively limited cost to uncapped schemes', but the

NAPF has seen estimates that suggest the average increase for the majority of schemes will be of the order of 5.25 per cent.

16. Many NAPF members will feel that this extension of the cap represents a step-change in the PPF's policy - from reasonable assistance for the hardest-pressed schemes to unreasonable charge on the well run.

17. The proposal should at the very least be more fully explained and debated, and we regret that the PPF has chosen not to do so.

18. We would also welcome an assurance that the cap will revert to 1.0 per cent.

Block transfers

19. The NAPF is concerned by what appears to be the retrospective nature of the some of the changes relating to Block Transfers.

20. Paragraph 3.3.7 refers to 'some simplifications to the exact calculation method' that will be employed in the case of block transfers. In fact, these changes are significant and could increase payments substantially for some schemes.

21. This will have the effect of penalising schemes that decided – quite properly – not to make what at the time would have been <u>voluntary</u> submissions about Block Transfers

22. If they had known at the time that they would face higher costs, these schemes might well have decided to take a different course of action by notifying or certifying the transfer. The deadline for so doing has now passed, so there is no option other than to pay a penalty levy.

23. We raise this concern, not just because of the clear unfairness to a (relatively small) number of schemes, but because it sets a bad precedent for PPF policy-making. It is important that schemes can have the certainty about the PPF system that we highlighted at the start of this response. Retrospective changes to the rules undermine this confidence.

Conclusion

24. As this response should make clear, the NAPF remains supportive of the overall thrust of the PPF's proposals. The decision to hold the levy stable is a good one. But we do have some serious concerns about aspects of the proposals, particularly the cap and Block Transfers. We would also welcome more clarity about the likely future path of the levy.

25. For further information, please contact me on james.walsh@napf.co.uk.

Yours sincerely,

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