NAPF

Securing the future of pensions

The 2014-15 Pension Protection Levy consultation: a response by the National Association of Pension Funds

October 2013

About the NAPF

1. The National Association of Pension Funds is the UK's leading voice for workplace pensions. Our members operate almost 1,300 pension schemes. They provide retirement income for nearly 16 million people and have almost £000 billion of assets under management. Our membership also includes over 400 providers of essential advice and services to the pensions sector. This includes accounting firms, solicitors, fund managers, consultants and actuaries.

NAPF's approach to the 2014-15 Levy determination

2. The NAPF supports the PPF's proposal to leave the levy parameters unchanged in 2014-15.

3. The NAPF supported the broad principles of the new levy framework when it was introduced in 2012-13, largely because it would inject greater predictability into the levy system and would establish a more direct link between the risk a scheme poses to the PPF and the levy it pays. The proposals in the current consultation remain true to those principles.

4. There are, however, some aspects of the levy that the NAPF would flag as issues that merit more detailed attention – if necessary in separate discussions outside the present consultation. These include the following points:

- **Average levy per scheme.** For individual schemes it is their own levy bill that matters, rather than the overall quantum of levy raised. The consultation paper acknowledges (at paras 4.2.4 and 4.2.5) that average bills will rise in 2015-16 by significantly more than the proposed 10 per cent increase in levy quantum. In fact the paper states that, for the vast majority of schemes, the average increase will be 14 per cent.[1]

- **Impact of new TPR objective.** The consultation paper acknowledges (at para 1.1.13) that the introduction of a new objective for The Pension Regulator to minimise any adverse impact on the sustainable growth of an employer may have some impact on the PPF levy, although what this will be remains unclear.

  It seems reasonable to assume that the new objective will lead to The Regulator approving less demanding recovery plans than would otherwise have been the case. So schemes will be less well funded. But given that the scheme's underfunding risk (which could be increased) and the employer's insolvency risk (which could be reduced) are both part of the Levy equation, it is not clear what the overall impact of the new objective will be. It could even be that the one will cancel out the other.

[1] The remaining schemes, according to para. 4.2.5, are very well funded schemes that will see a slight reduction in funding levels. They will experience an average levy increase of 53 per cent.

The NAPF recognises that the PPF cannot conduct any analysis of the likely impact until the precise form of The Pensions Regulator's new objective has been decided, but we welcome the PPF's statement that it will do so 'as more evidence becomes available'.

- **Long service.** Similar considerations apply to the DWP's announcement that the PPF compensation cap will be raised for scheme members with long service.[2] Again, this could be expected to increase levy bills – all other things being equal, although the precise impact is yet to come clear.

  The PPF should consider how this change could be managed so as to minimise the impact on levy bills.

Responses to consultation questions

1. Do you agree with our proposal to allow re-certification where certification or re-certification has occurred not more than five levy years previously?

The NAPF supports this proposal. This is a welcome simplification.

2. Do you agree with the proposed re-wording of the trustees' certification? Would you favour implementation of a change in wording in 2014-15 or prefer a delay to 2015-16?

The new wording is an improvement. It more closely recognises the pressures on trustees and reflects the degree of certainty that they can reasonably be expected to have about the guarantor.

3. We would welcome suggestions or comments based upon this approach. We would also welcome comments on the impacts of such an approach.

The NAPF agrees that the PPF cannot take decisions on the consequences of the forthcoming regulations dealing with the changing definition of 'money purchase benefits' under Pensions Act 2011 until the precise shape of those regulations has been confirmed, including the identification of benefits falling under PPF protection and the extent of that protection.

[2] Written ministerial statement, Rt Hon Steve Webb MP, 25 June 2013

4. Please include any comments on the draft guidance with your response to the consultation, distinguishing clearly between comments on the consultation and those on the guidance.

No comments.

For further information, please contact:

James Walsh
Policy Lead: EU & international
National Association of Pension Funds
138 Cheapside
London
EC2V 6AE
Tel: 0207 601 1700