PENSIONS AND LIFETIME SAVINGS ASSOCIATION

06 March 2017

Chris Collins

Chief Policy Adviser

Pension Protection Fund

Renaissance

12 Dingwall Road

Croydon, Surrey

CR0 2NA

Sarah Woodfield,

Sarah.Woodfield@plsa.co.uk

020 7601 1722

Dear Chris,

PLSA RESPONSE: 2017/18 LEVY CONSULTATION ON A LEVY RULE FOR SCHEMES WITHOUT A SUBSTANTIVE SPONSOR

The PLSA welcomes the opportunity to respond to this consultation.

The Pensions and Lifetime Savings Association is 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 with over 20 million members and £1tn in assets, and over 400 supporting businesses. They make us the leading voice for pensions and lifetime savings in Westminster, Whitehall and Brussels. Our purpose is simple: to help everyone achieve a better income in retirement.

INTRODUCTION

It is important that the Levy rules can be applied to all eligible schemes, including the potential for some schemes to operate as standalone entities without a sponsor, and that the levy fairly reflects the risk of a claim on the PPF.

Whilst we recognise the challenges involved in devising new rules for novel structures, and that the consultation paper aims to provide a transparent description of the approach that has been developed, we are concerned that the unusually short response time has not

provided the industry with a meaningful opportunity to consider or comment on the proposals.

We would therefore expect the PPF to consult more widely on the options for levying schemes without a substantive sponsor in its forthcoming consultation on the PPF's third triennium; this should also include a comparative analysis of the different options considered. Furthermore, sufficient time should be allowed for consultees to give appropriate consideration to the many technical aspects proposed.

The PLSA is sympathetic to the fact that the PPF needs to take into account the additional risks posed by schemes that do not have recourse to an underlying employer for additional funding. However, there is insufficient evidence in the consultation to demonstrate that a well-funded and well governed scheme without a sponsor is necessarily of greater risk than a scheme of any level attached to a weak sponsor. Therefore, we don't think the case has been made that they should always pay a higher levy. Where the scheme is separating from a very weak sponsor, and is well funded on separation, it can target its investment strategy to maximise its likelihood of securing member benefits without reliance on the covenant of the sponsor; in some circumstances, this may reduce the overall risk to the PPF and its other levy payers than would have otherwise been the case.

We have several specific comments on the proposals, set out below.

1. **The method proposed varies considerably from standard levy rules.**

   It is unclear from the consultation how alternative options could have been applied to the schemes without a substantive employer. It is not clear, for instance, why it is necessary to make adjustments for interest rate inflation risk and longevity risk, or to use a valuation methodology that differs from the S179, when these are not applied more generally in levy rules for schemes with an employer.

   It is not clear the extent to which the relative maturity and cash flow requirements of the scheme are taken into consideration in the proposed methodology; a relatively immature scheme may for example have more flexibility around asset volatility within a period before the PPF would demand wind-up in order to protect a minimum asset level.

2. **It is unclear what method the PPF would use to wind-up the scheme when it's funding level falls below the designated threshold**.

   It is not clear how the wind-up threshold relates to the strike price and whether there would be any flexibility or right to review in its application given the potential variation in valuation results often based on temporary market conditions.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

06 March 2017

3. **'Put options' are typically used to hedge exposures and are usually optional for the counterparty; they are also not, strictly speaking, insurance.**

   We would welcome greater clarity on the appropriateness of the methodology.

Further consultation on this method ought to assess the calibration of risks between the 'types' of schemes the PPF is levying (those with and without a sponsoring employer). If a significant proportion of the liabilities of all PPF eligible schemes were to sit in the schemes without a substantive sponsor, it would be helpful to understand the impact this has on the overall quantum of levy collected.

It is important that the Levy charged to such schemes does not by itself become the determinant of the scheme's ability to maintain an ongoing funding level above PPF levels of compensation. That would only be to the detriment of scheme members.

Yours Sincerely,

Sarah Woodfield

Senior Policy Adviser

Pensions and Lifetime Savings Association

Sarah.Woodfield@plsa.co.uk

020 7601 1722