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Sixty second summary

Pension Protection Fund ('PPF') announces levy estimate for 2019/20 and publishes levy consultation

The PPF have published their consultation on the 2019/20 levy setting out details on their proposed approach to calculating the 2019/20 levy along with their expected levy revenue for the same year. They also provide indications for the fourth levy triennium which begins in levy year 2021/22.

Levy estimate and parameters

The levy estimate for 2019/20 is £500m which is lower than last year's figure of £550m. Despite recent number of claims on the PPF being at a record high and some £1.4bn contingent liabilities in respect of expected insolvencies, the PPF's funding position remains strong with a high probability of meeting the long-term 'self-sufficient' target which lessens the requirement for funding from levies. As such, none of the fixed levy parameters are proposed to change. Whilst the PPF are not increasing the levy estimate in 2019/20, they note that they may need to do so in future years if experience proves to be worse than anticipated.

Being the mid-year of the third triennium, the changes that are proposed for 2019/20 tend to be relatively minor; of most interest to companies are likely to be the clarifications around contingent asset (re-) certifications as well as DRC's and block transfers. Significant technical attention is devoted to the levy framework for Schemes Without Substantive Sponsors ('SWOSSs') and Commercial Consolidation vehicles, although these are likely to be of interest to relevant entities only.

Contingent Asset Recertification

This is a reiteration of the approach set out in the PPF's Policy Statement of December 2017 which introduced new standard form legal documentation for contingent asset. Schemes with Type A or B contingent assets containing a fixed cap will need to be re-execute those agreements on the new standards forms which were issued in January 2018 if they are to be recognised for 2019/20. This can either be as a new or recertified contingent asset. Schemes that do not do this will not get credit for these arrangements in their levy. The deadline for re-execution is 5pm on 29 March 2019. Other types of agreement (e.g. Type A or B with a fluctuating cap or Type C) can remain on the old documentation however these will require re-execution in the next levy year (and, of course, schemes can choose to re-execute this year).

Arrangements will be made on Exchange to allow those agreements being submitted to satisfy the re-execution requirements to flag themselves as such and the documentation requirements will generally be the same as for a new contingent asset.

We strongly encourage schemes to review their agreements to check whether re-execution is required and the consequent documentation requirements. This should be done comfortably in advance of the 29 March deadline.

The Measurement of Insolvency Risk

The PPF note that their current insolvency framework is performing well and so no changes are proposed. They also note that the current model is robust in light of forthcoming changes to IAS19 regarding services costs and so no mitigations are proposed. The forthcoming change to IFRIC14 concerning availability of refunds from a pension scheme may have a more significant impact and the PPF will monitor developments on this.

One aspect that had been considered was whether the S&P credit model for regulated financial services providers could be extended to score other regulated entities: Gas & Electricity, Water and Telecommunications companies. A study of the gas & electricity sector was undertaken however given that such entities can undertake a range of activities, it is difficult to objectively assess industry classification. As such the PPF do not propose to pursue this matter further.

The PPF's contract with Experian expires in levy year 2021/2022 (coinciding with the new triennium); the PPF have begun the compulsory retendering process for the appointment.

Commercial Consolidators

The PPF have now set out their proposed approach on how they will calculate levies for commercial consolidators which will largely follow the existing SWOSS regime with some adjustments. It is expected that the methodology will evolve as the regulatory framework for consolidators is defined.

Other policy issues

The PPF have provided some clarification on DRC certification. In particular, schemes opting for Option Beta should be closed to accrual in its entirety and must not retain any salary linkage

The PPF are looking into ways to improve the Block Transfer certification process, potentially by changing the way they receive information from the receiving scheme. It is not expected any changes will be in place for the 2019/20 levy year.

The PPF are also looking to improve their customer services, including potential improvements to helping levy payers plan and pay for the levy.

Following the Court of Justice of the European Union's recent ruling that PPF members should receive at least 50% of the value of their accrued old age pension in the event of employer insolvency, the PPF are considering the rule carefully. They expect the number of members to be affected small but are considering what action they can take prior to legislative changes.

As expected, the PPF have kept their levy framework largely unchanged Further reminders and clarifications around e.g. contingent asset re-executions will be welcome- schemes should ensure they are familiar with the requirements. The approach to commercial consolidators will be of niche interest to some and will likely develop over time as this industry matures.

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