BROADSTONE
Briefing note

The 2022/23 Pension Protection Levy Consultation

The Board of the Pension Protection Fund (the "PPF") have released the draft determination for the PPF Levy for the 2022/23 levy year.

An associated Consultation Document sets out some proposals on a number of technical changes on which feedback is being sought. Overall, it is expected that these changes will result in a reduced PPF Levy for most schemes (although the actual impact will vary from scheme to scheme).

This briefing note provides a summary of the proposals for next year's levy.

Background

Each year, the PPF issues a determination that sets out the basis for the coming year's PPF Levy, including the levy estimate, the levy parameters, and the associated rules and guidance. Prior to issuing the Determination, a Consultation Document is issued setting out the PPF's proposals in relation to any changes, inviting feedback from stakeholders.

The PPF's stated aim is to maintain stability in the levy over each three year cycle as far as is possible. This has meant that changes were only typically made to the levy parameters and rules where necessary. However, as a result of the COVID-19 pandemic, the PPF confirmed last year that it was moving away from its previous approach and that it wanted a more flexible approach in setting its rules on a year by year basis.

Although the PPF is now reviewing its rules each year, the PPF is proposing that the levy calculation for 2022/23 will remain largely unchanged for this year.

The levy estimate and parameters for 2022/23

Each year, the PPF estimates the total risk faced for the forthcoming levy year based on various modelling assumptions and scenarios. Based on this modelling, the PPF then considers whether any changes are required to the underlying levy parameters.

The PPF maintains that it is in a robust financial position and has largely hedged its risks. In addition, it's analysis points to improvements in scheme funding and the resilience that sponsoring employers have demonstrated throughout the pandemic.

Accordingly, the PPF has determined that the levy estimate, i.e. the total amount it expects to collect, for 2022/23 will be £415m, which is £105m lower than the equivalent figure for 2021/22, and over £200m lower than the equivalent figure from the previous year.

To achieve this, The PPF is not proposing any changes to the levy scaling factor or scheme-based multiplier, which will remain at 0.48 and 0.0021% respectively.

The PPF is also retaining the Small Scheme Adjustment, which halves the PPF Levy for small schemes, and the Risk Based Levy cap of 0.25% of scheme liabilities.

Underfunding risk

A significant component of the PPF Levy calculation is underfunding risk (i.e. the difference between scheme assets and liabilities).

One of the primary reasons for the reduction in the levy Estimate for 2022/23 is that the PPF has updated the assumptions it uses to value the underfunding risk. In May 2021, the PPF made some significant changes to the assumptions it uses for S179 valuations, which is the valuation that the PPF requires schemes to undergo every three years. These changes reduced the value placed on schemes liabilities, and was intended to reflect the changes the PPF had seen in pricing, in the insurance market.

The PPF estimates that, in isolation, changing the valuation assumptions used will result in a reduction in PPF Levies for 99% of schemes.
In addition, market movements since last year, and positive investment returns in particular, are expected to have improved funding positions and reduce the overall levy that the PPF expects to collect.

Insolvency risk

The other significant component of the PPF Levy calculation is insolvency risk, i.e. the probability that an employer will become insolvent in the next 12 months.

The PPF's analysis is that insolvency rates remain low, due to the ability of business to adapt and also the government support that has been available. The financial statements produced by sponsoring employers has indicated that the level of changes in insolvency risk over the year has been consistent with those seen in previous years.

The PPF has therefore concluded that the COVID-19 pandemic will only have a limited impact on insolvency risk for the 2022/23 PPF Levy.

However, the PPF acknowledges that it's analysis is only a snapshot and over 85% of employers are yet to submit accounts for accounting periods on or after 1 Sept 2020. Therefore, its view may change as more data becomes available and can reflect this when it confirms its final PPF Levy rules for 2022/23 at the end of the year.

Other changes

The PPF is proposing a change to how it allows for restructuring plans in light of the Corporate Insolvency & Governance Act 2020. Previously, entering into a moratorium or restructuring plan would likely result in an employer moving straight into the worst insolvency band, band 10. Under the new proposal, the PPF will instead base their insolvency risk assessment on the post-restructing financial position of the employer.

The other changes being proposed by the PPF relate to how it uses credit ratings and the approach for schemes without a substantive sponsor.

Payment support

The PPF has received positive feedback on the support for Levy payers it introduced last year and is proposing retaining electronic invoicing and providing an option for those sponsors impacted by COVID-19 to apply for a 90 day payment extension.

Key dates

The key deadlines for submitting information for the purposes of the 2022/23 Levy are as follows:

- End of consultation – 5pm on 9 November 2021
- Outcome of consultation – end December 2021
- Scheme Returns – midnight on 31 March 2022
- Insolvency risk will be measured by the average of the employer's Insolvency Score over the month ends from April 2021 to March 2022
- Certification of Contingent Assets – midnight on 31 March 2022 for online submissions and 5pm on 1 April 2022 for hard copies
- Certification of Deficit Reduction Contributions – 5pm on 29 April 2022
- Certification of Block Transfers – 5pm on 30 June 2022

Broadstone view

The PPF's proposals are expected to result in 82% of schemes that pay a Risk-Based Levy seeing a reduction for 2022/23. In addition, nearly 300 schemes will now move to paying no risk-based levy.

Whilst initially being surprised by the size of the reduction to the overall levy being raised, the PPF's approach seems pragmatic and fair.

We see this as really positive news for Trustees and sponsors at this time.

In addition, despite saying that it will review the rules each year, we are given comfort that the PPF has not needed to make wholesale changes to the levy rules.

Whilst it is likely that most schemes will see a reduction it is still important that sponsors and Trustees review the position for their own scheme to ensure they are not one of the unlucky few.

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