First Briefing, October 2022
PPF 2023/24 levy – 50% reduction expected

The Pension Protection Fund (PPF) has published its long-term funding strategy review, alongside draft levy rules for the 2023/24 levy year.

This briefing summarises the proposed changes to levy rules and the PPF's longer-term plans.

2023/24 levy rules

Alongside its long-term funding strategy review, the PPF has published draft rules which will be used to calculate levies for the 2023/24 levy year. This will affect invoices issued in autumn 2023.

The headline is that the PPF expects to collect total levies of around £200m in 2023/24, nearly half the estimated levy collected in 2022/23 (£390m). Over 96% of schemes paying a risk-based levy are expected to pay less, with an average **reduction of over 50%**, although this will vary from scheme to scheme.

Around £70m of the estimated fall in levy collection can be attributed to the general improvement in scheme funding. The rest is due to changes in the way the levy is calculated. The main proposed changes are:

- Reducing levy rates for levy bands 2 to 10, and halving the increase in levy rate between levy bands
- Reducing the levy scaling factor from 0.48 to 0.37
- Reducing the scheme-based levy multiplier by 10%, to 0.000019.

While sponsoring employers in the higher levy bands benefit the most from the reduction in levy rates from bands 2 to 10, the other changes mean that, on average, all bands will see a material reduction in risk-based levy.

For the 2022/23 levy year, the PPF introduced an adjustment to limit any increase in the risk-based levy (caused by worsening insolvency scores) to 25%. As anticipated, the proposals include removing this adjustment for 2023/24.

The risk-based levy cap remains at 0.25% of scheme liabilities.

Other proposed changes for 2023/2024 include:

- Introducing a three-tier asset categorisation in the scheme return, with schemes with liabilities greater than £30m (tiers 2 and 3) required to provide a more granular asset breakdown
- Updated asset and liability stress factors
- Adjustment to scorecard 6 (group small).

The consultation on the proposed changes closes on 10 November 2022, with the final rules confirmed by the end of the year.

Longer-term changes

Thanks to its strong financial position, the PPF says that it's now able to move to charging a significantly lower levy without putting its ability to pay member benefits at risk.

In future, the PPF will be targeting a simpler, lower levy. The proposed changes in 2023/24 are the first step towards this. They envisage a levy that is less focused on employer insolvency risk. And they want to rebalance the levy collection with more emphasis on the scheme-based levy, rather than placing an increasing burden on the shrinking pool of schemes paying a risk-based levy.

The PPF is working with the DWP to explore legislative change, so they can raise the levy more freely again *("in the unlikely event that it is needed")*. One issue highlighted is that current legislation would prevent the PPF charging a levy again if it ever reduced the levy estimate to zero.

The PPF states that current restrictions in legislation are *"a barrier to reducing levy by materially more at this stage".*

Further information

For further information, please contact your usual First Actuarial consultant.