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

The Pension Protection Fund (PPF) has confirmed its final rules for the 2023/24 levy year.

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

2023/24 levy rules

Following consultation in late 2022, the PPF has published the final 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). **98% of schemes** are expected to pay a lower levy than the previous levy year, with a **reduction of over 50%** for most schemes paying a risk-based levy.

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 changes involve reducing:

- Levy rates for levy bands 2 to 10, and halving the increase in levy rate between levy bands
- The levy scaling factor from 0.48 to 0.37
- 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 in bands 2 to 10, the other changes mean that, on average, all bands will see a material reduction in risk-based levy.

These changes will also help to reduce the volatility in levies from year to year, and make levies less sensitive to changes in employer insolvency scores.

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

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

Other changes for 2023/2024 include:

- Introducing a three-tier asset categorisation in the scheme return. Schemes with liabilities greater than £30m (tiers 2 and 3) will be required to provide a more granular asset breakdown
- Updated asset and liability stress factors.

Longer-term changes

The PPF has also published its funding strategy review, confirming it is entering a new phase in its funding journey.

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

In future, the PPF will be targeting a simpler, lower levy. The 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 the levy by materially more at this stage".*

What actions should I take?

- Take note of the key dates below
- Check your information held on the [PPF portal]
- Ensure scheme return information submitted on Exchange is correct, including s179 valuation results
- Consider whether the usual levy reduction opportunities – such as deficit reduction contribution certificates and certifying new contingent assets or re-certifying existing ones – would be worthwhile.
- Contact your First Actuarial consultant if you need help with any of the above.

Key dates for the 2023/24 levy year

Ongoing	**PPF score measurement date** Monthly, between 30 April 2022 – 31 March 2023. Data must be submitted at least one calendar month before the measurement date to ensure it is taken into account when assessing the score.
By midnight, 31 March 2023	**Submit online via TPR Exchange** • Scheme return data • Electronic contingent asset certificates. **Submit to the PPF** • ABC certificates • Special category applications.
By 5pm, 3 April 2023	**Email to the PPF** Soft copy of contingent asset documents, including Guarantor Strength Reports.
By 5pm, 28 April 2023	**Submit online via TPR Exchange** • Deficit reduction contributions certificates. **Submit to the PPF** • Exempt transfer applications.
By 5pm, 30 June 2023	**Submit online via TPR Exchange** • Certify full block transfers.
July 2023	**D&B Mean Scores** D&B will publish the final mean score, which the PPF will use to calculate the 2023/24 levy.
Autumn 2023	Invoicing starts.

Other news

Market movements

Much was made of the market volatility in the final quarter of 2022. The PPF was at pains to remind individual pension savers of the safety net it provides, following a number of doomsday-style newspaper headlines.

The PPF has also confirmed that recent market movement has not taken it off course following publication of its new funding strategy, stating:

> *Recent market movements will not impact funding strategy or proposed asset stresses which take a long-term view of risk and are not guided by short term volatility*

PPF reserves – Can I have a refund?

The PPF noted that several responses to its recent consultation raised questions about what would happen to any PPF excess reserves. The PPF said:

> *Ultimately what happens is a matter for parliament as our governing legislation is silent on this issue. We will share the feedback from all our stakeholders with our sponsoring department – the Department for Work and Pensions.*

Departmental review of the PPF

The DWP has published a report setting out the findings from a departmental review of the PPF, which include:

- The PPF is a well-run public body offering high standards of service and value for money to those who use it and pay for it.
- Governance and risk management within the PPF are generally good.
- The PPF should consider commissioning an independent review of the fund's investment strategy, the statement of investment principles and strategic asset allocation.
- The PPF should consider whether it would be appropriate to seek FCA authorisation.
- The PPF is highly respected by its stakeholders.
- The DWP and the PPF should work together to explore whether it is feasible for the PPF's skills and capabilities to be used in other ways for public benefit, e.g. managing investments for government or acting as a consolidator or provider of aggregated services for schemes which would benefit from this, but which are not attractive to commercial consolidators.

Further information

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