First Briefing, January 2024
PPF 2024/25 levy halved to £100m

The Pension Protection Fund (PPF) has confirmed its final rules for the 2024/25 levy year.

In this briefing, we summarise key changes to the levy rules and discuss the future of the PPF levy.

2024/25 levy rules

Following consultation in autumn 2023, the PPF has published the final rules which will be used to calculate levies for the 2024/25 levy year. This will affect invoices issued in autumn 2024.

The headline changes to the 2024/25 levy collection are:

- The PPF expects to collect total levies of around £100m in 2024/25, **half the estimated levy** collected in 2023/24 (£200m)
- **99% of schemes** are expected to pay a lower total levy than the previous levy year
- This represents an **average reduction of over 40%** in schemes' risk-based levies.

The PPF describes its reduced target levy of £100m as:

"the lowest level at which we could safely set a levy"

While the PPF considers the future of the levy (more on this later), they've made minimal changes to the calculation of the levy for the 2024/25 levy year.

Recent increases in bond yields and improvements in general scheme funding have combined to reduce the levy estimate. Only the following small changes to the levy rules will be made to adjust the levy estimate to £100m and comply with legislation:

- Increase of the levy scaling factor from 0.37 to 0.40
- Reduction of the scheme-based levy multiplier from 0.000019 to 0.000015.

The risk-based levy cap remains at 0.25% of scheme liabilities, but the PPF does **not** expect this cap to apply to **any** scheme in 2024/25.

Due to improvements in scheme funding levels, over 60% of schemes are expected to pay a scheme-based levy for only 2024/25 (i.e. no risk based levy).

The change to the scheme-based levy multiplier ensures that the scheme-based levy makes up no more than 20% of the total levy (as required by legislation). As a result of the lower scheme-based levy multiplier, the average reduction in scheme-based levies is expected to be over 25%.

Future of the levy

The PPF consulted on the future direction of the levy alongside the levy calculation method for 2024/25.

The PPF has reduced the target levy over the past four levy years (from £620m in 2020/21 to £100m in 2024/25). Beyond 2024/25, the PPF expects to continue to collect a levy of £100m (i.e. there will be **no further reductions in levy**).

This is despite the PPF's belief that they don't need to collect any levy at all at present.

The PPF states that they cannot safely reduce the levy further (or stop collecting a levy) due to constraints in the current legislative framework. Specifically, there is a limit on the amount the PPF can increase the levy each year of 25%.

In our consultation response, First Actuarial urged the PPF to pursue legislative change that would allow a further reduction in the levy, putting financial resources to better use and improving outcomes for schemes, sponsors and members.

David Taylor, Executive Director at the PPF, said:

"The possibility of zero levy in future has come closer into sight. To further reduce the levy in future, we need legislative change; I'm grateful that DWP are considering this."

Primary legislation would be required to make the changes needed to give the PPF greater flexibility. It feels unlikely that parliamentary time will be found before the General Election.

Therefore, the PPF also sought views on how to distribute the £100m levy among levy payers until legislation is changed.

In particular, the PPF highlighted that improvements in scheme funding mean that fewer and fewer schemes are paying a risk-based levy. Without changes to the way the levy is currently calculated, the £100m levy will be shared among a declining pool of risk-based levy payers.

The PPF will continue discussions on future changes to the levy with stakeholders, but we are likely to see bigger changes in the levy calculation methodology next year.

Other news

Credit rating providers

The PPF has confirmed that following commercial negotiations, they have reduced the number of credit rating providers from three to two for the 2024/25 levy year. They are continuing to use S&P and Finch, but are no longer using Moody's.

The PPF claims that this change will reduce the cost of incorporating credit ratings into the levy by 50%, saying:

> *"While inevitably we have to make assumptions in order to assess the possible impact on schemes of ceasing to use Moody's scores, our analysis suggests that it is likely to be extremely limited."*

The greatest impact is likely to fall on those schemes with employers rated only by Moody's. The PPF has confirmed that they will contact those levy payers affected to make sure they're aware of this change.

What actions should I take?

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

Key dates for the 2024/25 levy year

Monthly, from April 2023 to March 2024	**Insolvency score measurement** Data must be submitted at least one calendar month before the measurement date to ensure it's taken into account when assessing the score.
By midnight, 31 March 2024	**Submit online via TPR Exchange** • Scheme return data • Electronic contingent asset certificates. **Submit to the PPF** • ABC certificates • Special category applications.
By 5pm, 2 April 2024	**Email to the PPF** Soft copy of contingent asset documents, including Guarantor Strength Reports.
By 5pm, 30 April 2024	**Submit online via TPR Exchange** • Deficit reduction contributions certificates. **Submit to the PPF** • Exempt transfer applications.
By 5pm, 30 June 2024	**Submit online via TPR Exchange** • Certify full block transfers.
July 2024	**D&B mean scores** D&B will publish the final mean score, which the PPF will use to calculate the 2024/25 levy.
Autumn 2024	Invoicing starts.

Further information

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