

# Pensions Bulletin

## Fact Sheet 2

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### Pension Protection Fund (PPF)

#### I The PPF levy

- I.1 The PPF was set up in 2005 to provide compensation to members of defined benefit pension schemes whose employer becomes insolvent, leaving behind an under funded pension scheme. It is funded by levies from schemes eligible to benefit from it.
- I.2 The PPF aims to collect £720 million in levies in the 2010-11 levy year. This estimate aims to cover expected claims and help reduce the PPF's own deficit. This is an increase from £700 million in 2009-10 and £675 million in 2008-09.
- I.3 A summary of the factors used to calculate levies is shown below.

Factor	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Scheme based levy multiplier	0.014%	0.016%	0.0165%	0.0162%	0.0145%
Risk based levy scaling factor	0.53	2.47	3.77	2.22	1.64
Risk based levy cap (as % of liabilities)	0.5%	1.25%	1.0%	1.0%	0.5%

- I.4 The PPF levy is split into a scheme based levy and risk based levy. In general, better funded schemes will pay lower risk based levies.
- I.5 The scheme based levy multiplier is used in the calculation of the scheme based levy. The calculation of the scheme based levy is simply a scheme's PPF liabilities multiplied by the scheme based levy multiplier.
- I.6 The risk based levy scaling factor is used in the calculation of the risk based levy. The calculation of the risk based levy is as follows:  
  
'Underfunding risk' x 'Probability of insolvency' x Risk based levy scaling factor x 0.8
- I.7 The underfunding risk is essentially the shortfall of the scheme's assets when measured against its liabilities. The probability of insolvency is dependent on the 'failure score' attributed to participating employers in the scheme (as determined by Dun & Bradstreet (D&B), the credit rating agency used by the PPF). The factor of 0.8 is used to reflect the fact that 80% of the total levy is risk based.
- I.8 The risk based levy cannot be more than a scheme's PPF liabilities multiplied by the risk based levy cap.

## 2 Invoices received

2.1 The Pensions Trust's experience of the first year of risk based levies was not encouraging. Some invoices for larger schemes were not received until June 2007 (i.e. after the end of the year to which the invoices related to). However, invoices for 2007-08 did arrive earlier and we received the majority of the invoices for 2008-09 and 2009-10 well before the end of the relevant year. Invoices for 2010-11 have started to appear recently and it is expected that all will have been received by 31 December 2010.

## 3 Failure scores

3.1 For the 2006-07 levy calculations we found that many of our employers were allocated low failure scores, or industry average scores, mainly because D&B accessed only those accounts filed with Companies House.

3.2 The Trust wrote to the PPF and to D&B pointing out that the Charity Commission and housing regulators, for example, can provide free public access to accounts (one of D&B's criteria is they will make use of publicly available information). Indeed, for the 2011-12 levy, D&B aims to obtain accounts from the Charity Commission, although we still asked our employers to submit accounts directly to D&B before 30 March 2010.

## 4 New levy calculation proposals for 2012-13 levy

4.1 The PPF has issued a consultation document that proposes a new calculation for its annual levy. Under the proposals, the PPF plans to:

- fix the levy rules for three years at a time;
- use average measures for both underfunding and insolvency risk; and
- focus more on factors that are in levy payers' control.

4.2 The aims of the new levy calculation are to provide greater predictability of each scheme's levy and increase stability, allowing sponsoring employers to plan more confidently into the future. The PPF also believes that the proposals will ensure that the lifeboat fund will stay on track to achieve full funding by 2030.

4.3 The proposals were developed in conjunction with a steering group from the pensions industry and, if implemented, will apply for the 2012-13 levy onwards. The Pensions Trust will be responding to the consultation, which runs until 20 December 2010.

## 5 PPF compensation update

5.1 As at August 2010:

- 177 schemes had been accepted by the PPF for compensation;
- 49,078 people are receiving or will receive compensation in the future;
- total compensation payments made so far amount to over £188 million; and
- the average yearly payments per person is around £3,800.

**Further updates regarding the PPF will be included in future issues of the Pensions Bulletin and also via supplementary, more detailed, Fact Sheets.**

*While every effort has been made to ensure the accuracy of the information contained in this Fact Sheet, it should not be treated or relied upon as a statement of law. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances and/or refer to the original source material as appropriate.*