

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

23 October 2024

Mr David Taylor
Executive Director and General Counsel
Pension Protection Fund
www.ppf.co.uk/levy-payers/help-shape-our-rules

Dear Mr Taylor

CONSULTATION RESPONSE: PPF LEVY RULES 2025/26

We welcome the opportunity to respond to the consultation document published by the Pension Protection Fund (PPF) in relation to the proposed levy rules for 2025/26.

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

Levy for 2025/26

We note that the PPF is proposing that the levy be maintained at £100 million for 2025/26, the same amount it collected in 2024/25. However, the strong view of PLSA members is that proposed levy for 2025/26 is too high and should be reduced significantly (even potentially down to zero), on the basis that:

- ▶ 80% of DB schemes are in surplus on a Technical Provisions (TP) basis,¹
- ▶ the amount of surplus held by DB schemes is significant,²
- ▶ the level of PPF claims in recent years remains low,³ and
- ▶ the very strong funding position of the PPF, which has built up its reserves to over £12 billion as at 31 March 2023.

We understand that the PPF had considered reducing the total levy last year to £50 million, however the PPF Board concluded at that time that £100 million was a more appropriate/safe level, as this would allow the PPF to more quickly increase the total levy back up to the £400 million amount it charged back in 2021/22 if needed.

¹ Work and Pension Committee's report, "[Defined benefit pension schemes](#)", 20 March 2024.

² The aggregate surplus (total assets less total s.179 liabilities) of the schemes is estimated to be £475.0 billion at the end of August 2024.

³ In 2022/23 there were 14 claims on the PPF totalling £13.5 million, which was similar to the previous year's claims of £12 million.

3rd Floor, Queen Elizabeth House
4 St Dunstan's Hill
London
EC3 8AD
Tel: +44 (0)20 7601 1700

www.plsa.co.uk

Pensions and Lifetime Savings Association a company limited by guarantee, registered in England and Wales with company number 1130269.
Registered office: 3rd Floor, Queen Elizabeth House, 4 St Dunstan's Hill, London, EC3 8AD

We acknowledge the PPF's reluctance to reduce the levy below £100 million under the current legislative framework, which sees annual increases to the total levy capped at 25%. However, as stated in our response to last year's consultation on the PPF Levy Rules for 2024/25, we strongly believe that:

- ▶ Section 177 of the Pensions Act 2004 requires urgent amendment, possibly as part of the Pension Schemes Bill, to either raise the year-on-year levy increase cap (to say 50%) or to remove it altogether.⁴
- ▶ The total PPF levy for 2025/26 should be significantly reduced below £100 million.

We note that primary legislation would be required to implement such a change and that any changes to legislation are a matter for Government.⁵ We also recognise that the PPF is aware of the industry's concern over this and sought to provide some reassurances in last year's levy response that DWP have "agreed to revisit the legislation as soon as parliamentary time allows".

However, even in the absence of (or perhaps as a precursor to) legislative change, we believe that it is entirely appropriate for the total levy for 2025/26 to reduce below £100 million to reflect the reduced risk to the PPF. This is particularly the case given the current level of PPF reserves (which, as noted previously, is significant)⁶ and the fact that scheme funding levels overall are high (and continue to improve with rising bond yields). Also, the level of PPF claims continue to be low, with 14 claims totalling £13.5 million in 2022/23, similar to the previous year's claims of £12 million.

In fact, even if the PPF were to suddenly face an increased number of claims, equal to the total amount of PPF claims in the past 5 years (£2.2 billion), thereby reducing the PPF's reserves to around £10 billion, the PPF would easily be able to absorb these claims and still continue to be very well funded. We therefore believe it is not unreasonable to expect the total PPF levy for 2025/26 to reduce significantly below £100 million (even potentially down to zero).

It would be helpful if the PPF could do what it can to impress upon DWP the industry's strong views with respect to the ongoing charging of the PPF levy and urgent need for legislative change to amend or remove the 25% annual cap. The PLSA will look to do likewise in our discussions with DWP.

Related comments on the ongoing charging of the levy

We believe it is unhelpful that thousands of pension schemes and/or their employers are directing millions of pounds towards unnecessary additional funding of the PPF at a time when the Government is looking to encourage productive investment in the UK. And for schemes with shared-cost arrangements, where members have to contribute towards the cost of the PPF levies, the charging of (unnecessary) levies also needs to be viewed in the context of the cost-of-living pressures facing millions of people across the UK.

⁴ We note that [DWP's review of the PPF](#) (Titcomb review) published on 21 December 2022 recommended reviewing the legislation around the levy, among a range of recommendations, including a review of the 25% year-on-year restriction.

⁵ The legislation allows for the Secretary of State to exercise their powers to increase the maximum percentage increase, but this would not be straightforward or certain, as it would require secondary legislation and a consultation process.

⁶ As noted in the [PPF Statement of Investment Principles \(February 2024\)](#), "with the specific aim of protecting reserves, the PPF's investment strategy is designed such that there is a very low risk of the PPF's reserves declining over a 5-year horizon".

There is a concern among our members that any decision on the PPF levy and the legislative amendments required could be wrapped up in the Government's wider considerations regarding the PPF's future role. In our view, the latter is a much longer term consideration compared to the very important and immediate problem, which would appear to have a relatively simple solution (as outlined above). We believe the two matters should be considered entirely separately.

One potential solution raised by our members could be that, pending legislative change, the PPF levy could be treated in some way as an escrow, i.e. collected but with the expectation of being refunded to schemes when the legislation is amended.

In any event, we believe it would not be unreasonable for the PPF to anticipate that the Pension Schemes Bill could include an amendment to the PPF Levy setting issue, and therefore the risk associated with reducing the levy for 2025/26 and being unable to increase it in future is low. And even if such a 'fix' were not included in the Pension Schemes Bill, the risk to the PPF of reducing the levy remains low in any case (for the reasons noted previously).

Comments on the proposed changes to the levy rules

We support the following proposed changes to the levy calculation methodology for 2025/26:

- ▶ Setting the Levy Scaling Factor (LSF) at 0.35 (compared to 0.40 in 2024/25);
- ▶ Slightly amending the Scheme-based Levy Multiplier (SLM) to 0.000018 (from 0.000015 in 2024/25);
- ▶ Retaining the risk-based levy cap at 0.25% of scheme liabilities;
- ▶ Making it simpler for schemes to get levy credit for deficit reduction contributions and widening the PPF's definition of contributions that can be certified; and
- ▶ Supporting schemes to take account of full insurance buy-ins in the levy.

In supporting these amendments, the PLSA appreciates that schemes will generally end up paying broadly the same scheme-based levy as in 2024/25 and that over 95% of all schemes are expected to pay a lower total levy in 2025/26 than in 2023/24.

However, we note that the PPF proposes to increase the asset and liability stresses used in the levy calculation to two standard deviations. As noted in paragraph 2.4.10 of the consultation document, this is being done purely to bring more schemes into the pool of risk-based levy (RBL) payers, since the growing number of schemes in surplus do not pay an RBL, and for PPF to still be in a position to collect the headline £100 million total levy. In other words, without this proposed change to the asset and liability stresses, the levy amount collected would be (significantly) less than £100 million.

Nevertheless, the outworking of this proposed change is that it will essentially increase the levy penalty for investment risk, which will fall mainly on open schemes (who are already paying a disproportionate amount of the levy based on the negligible risk they pose to the PPF in practice) as well as to those schemes investing in 'productive assets', which is not in line with wider Government policy.

Indeed, given the Government's recent statements (including at the Investment Summit they hosted on 14 October 2024) that regulations should not get in the way of growth, we believe consideration should be given to ensuring that the RBL is not having a negative impact on DB schemes' investment allocations.

By reducing the total levy for 2025/26 significantly below £100 million (which, as noted above, is the strong preference of the PLSA and its members), this would preclude the need to increase the asset and liability stresses used in the levy calculation to two standard deviations.

Long-term consideration of PPF reserves

As a final comment, our members have raised with us again the desire for a discussion at some point in the future around the use of the PPF's reserves (which, as noted previously, reached over £12 billion as at 31 March 2023) once all compensation payments have ceased, or are close to ceasing.

While we appreciate that this is still some way off, there is a strong feeling by our members that a significant part of the PPF's funding has come from DB schemes and sponsoring employers (along with investment growth and recoveries). Therefore, while we recognise that there is a role for Government to play in agreeing the final approach, we believe there is a valid argument that levy payers should have a significant influence on how excess funds are treated at the appropriate time. We note that the PPF has previously recognised and acknowledged this issue, but we felt it appropriate to raise again our members' strongly held views in our response.

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We hope the information contained in this response is helpful to the PPF in finalising the levy rules for 2025/26. We would be happy to respond to any queries or provide further information.

Kind regards,

Jon Echevarria
Policy Lead
Pensions & Lifetime Savings Association
jon.echevarria@plsa.co.uk