

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE : 02/08

PENSION PROTECTION FUND (PPF) LEVY

The PPF levy for 2008/09 consultation paper was issued in August last year. The final proposals have now been issued:

- The PPF has set a stable levy estimate for the next 3 years subject to no significant change in long term risk.
- The total levy estimate for the year 2008/2009 is £675m, and is due to increase in line with UK earnings.
- The PPF believes that this will help reduce the volatility of bills from year to year.
- The date of calculation of the risk factors and the deadline for collecting data will be brought forward to 12 months before the start of the levy year effective from 2009/2010 levy – so 2009/10 is based on the position at 2008/09.
- However, the PPF will take account of risk reduction measures put in place by schemes up to the start of the levy year.
- If schemes do not submit a Section 179 Valuation by the statutory deadline of 31 March 2008, a 5% per annum reduction will be applied to the estimated MFR asset figures between the effective date of the MFR Valuation and the calculation date, so this could be 15% over 3 years. This is intended as an incentive to complete the Section 179 Valuation on time.
- The PPF will not allow any correction to scheme return data after midnight of 31 March 2008.
- Any contingent assets must be registered (and all existing contingent assets must be re-registered by 31st March 2008 to be taken into account for the 2008/09 Levy.) They must be registered correctly and PPF will not check the forms until after this date. The Sponsoring Company/Trustees therefore need to ensure that they are correct.
- PPF levies will be waived for schemes which are being assessed for PPF entry.
- Turning to the D&B ratings which are used in determining the risk-based element of the levy, there are a couple of important changes: -
 - The D&B failure scores, which are calculated from the D&B ratings, will be measured as at 31 March 2008 for both the 2008/2009 and 2009/2010 levy assessments.
 - D&B ratings have introduced new scores which are being used to assess risk in March 2008. For the same failure score, the probability of insolvency has been reduced at most levels; this means that levies would also be reduced. However, as the PPF still needs to collect £675m, the overall adjustment factor, set to 2.47 for 2007/08, may need to be changed.

However, there are some points to note with regard to the changes being made to the D&B ratings.

- Most businesses will see a reduction in the failure score as a result of the new scoring system but this will not necessarily result in an increase in the probability of insolvency which is the figure used to calculate the levy. D&B suggest that we

focus on the probability of insolvency rather than the failure score and this is probably good advice.

- All businesses should monitor the failure score of any Participating Employer in the weeks leading up to 31 March 2008, and consider ways to reduce their risk, particularly if there is a large difference in the failure score for different participants. Considerable savings can be made through just a small change in the rating.

We would recommend that companies review their D&B failure score now, to see if there are any ways in which this score could be reduced well before 31 March 2008.

January 2008

This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email: paul.couchman@premierpensions.co.uk, if you require definitive advice