The Pension Protection Fund (“PPF”) was established in April 2005 to compensate members of defined benefit (“DB”) pension schemes whose sponsoring employers are insolvent and that have insufficient assets to pay the benefits due. It is not taxpayer funded. Its funding comes from the assets of schemes it takes on, money recovered from those failed sponsors, investment returns, and levies on schemes eligible for the PPF.

The PPF levy was the first risk-based pension protection levy, so it has proved to be a process of invention. The levy needed to be high enough so the lifeboat didn’t sink, but not so high that it bankrupted otherwise viable schemes and became self-defeating.

One might argue that the current health of the PPF and the DB landscape point to its success in delivering this. One might also argue that this demonstrates overcharging that has added to the burden on DB sponsors. This is not a polemic either way. Here we simply present the story of how we got to this point.

Initial Levy

Before the PPF levy though there was the initial levy, covering the just-shy-of-a-year between 6 April 2005 and 31 March 2006. Like the PPF levy, it was due from all eligible schemes.

The initial levy had no risk-based element. It was £15 per active or pensioner member, including dependant’s and pension credit members but excluding actives accruing only death benefits. For deferred members it was £5. Members in two camps were charged twice.

The Pension Protection Levy

This is payable by eligible schemes each ‘financial year’ (1 April to 31 March) since 1 April 2006 (i.e. following the period of the initial levy). The pension protection levy is actually two levies:

Risk-based Pension Protection Levy (“RBL”)

Unique at the time of its birth, this levy is based on analysis of:

- the difference between the value of the scheme's assets (excluding those representing money purchase benefits) and the amount of its ‘protected liabilities’;
- the likelihood of an insolvency event in relation to the sponsoring employer;
- the PPF’s judgment of the risks associated with the nature of the scheme's investments; and
- any financial arrangements that the PPF considers may reduce the risk that it has to pay compensation.

The PPF obtains most of this information from the scheme’s ‘section 179 valuation’, which broadly represents the premium an insurance company might charge to pay all its members benefits at PPF compensation levels, and from the annual scheme return held on the Pension Regulator’s Exchange system.

Schemes with assets (after any adjustments) matching or exceeding their protected liabilities do not have to pay the RBL but still must pay the scheme-based levy. This is also the case with ‘closed schemes’.

Scheme-based Pension Protection Levy (“SBL”)

This levy is based on analysis of:

- the amount of the scheme's (non-money purchase) liabilities, and
- (if the PPF considers it appropriate) the number of members and/or the total annual pensionable earnings of its active members.

Other Levies

The Administration Levy is also payable by all eligible schemes to pay for the PPF's setup costs and miscellaneous expenditure not covered by other levies. The rate is based on the number of members.

The PPF may also impose a Fraud Compensation Levy on all occupational pension schemes (both DB and defined contribution) eligible for the separate (PPF managed) Fraud Compensation Fund. This is again based on membership numbers.

The PPF may also raise a levy to meet the operating costs of the PPF Ombudsman, but has thus far not chosen to do so.

PPF Levy Determinations

Before each financial year (1 April to 31 March), the PPF must determine:

- the factors it will use in the levy assessments;
- the time(s) by reference to which those factors are to be assessed;
- the rate of the levies; and
- the time(s) during the year when the levies, or any instalment of levy, become payable.

First, it must consult with appropriate parties if:

- it is the first financial year imposing those levies (i.e. it had to consult before the 2006/07 financial year);
- if any of the proposed factors or rates is different, or applies to a different description of scheme, from the previous financial year; or
- if there has been no consultation in the previous two financial years.

It must set out in a consultation document the methods it proposes to use to make the determination and publish this on its website.

After any consultation, the PPF must also publish on its website a summary of any non-confidential responses received and its response to those responses.

On request, the PPF must provide any of these documents in paper form.

The Levy Estimate

Also before determining the two levies (and in practice before the consultation), the PPF must estimate the amount they will raise.

The estimate must not exceed the 'levy ceiling' and (crucially, as it would turn out) must not exceed the previous year's estimate by more than 25%. The PPF should plan for at least 80% of the amount raised to come from the RBL (i.e. no more than 20% from the SBL).

1 April 2006 to 31 March 2007 (the 'transitional period')

The PPF's first levy consultation process took the form of:

1. an initial consultation commencing July 2005;
2. an update to the initial consultation in October 2005;
3. a second consultation in December 2005;
4. publication of final proposals and a determination in February 2006.

The SBL calculation was the scheme's estimated protected liabilities multiplied by the 'scheme-based levy multiplier' of 0.00014.

The RBL calculation was an underfunding risk factor x insolvency risk factor x percentage risk based x levy scaling factor

The underfunding risk factor is a multiple of the scheme's protected liabilities, with the multiple defined by the relative position of a scheme's assets compared to its liabilities.

The insolvency risk factor is the PPF's assumed probability of insolvency based on the sponsoring employer(s)'s 'failure score' assigned by Dun & Bradstreet UK Ltd.

The percentage risk based was 80% across the PPF, and the scaling factor was set at 0.53.

A ‘risk-based levy cap’ was also introduced. This limited any scheme’s RBL to 0.5% of its protected liabilities.

A ‘contingent asset’ produces cash for a scheme should an event (i.e. insolvency) occur to the sponsoring employer. Examples include letters of credit with a bank, rights to an asset (e.g. property), and guarantees that another company in a group (typically the parent) will step in. An employer might provide a contingent asset as security in lieu of immediate funding. They reduce a scheme’s risk, so the PPF developed an approach to factoring them into RBL calculations.

Exceptionally for this year, schemes could submit section 179 valuation certificates more than one year after the valuation effective date (but no later than 31 March 2006) for use in the RBL calculation. The PPF hoped this would encourage more submissions.

Levy ceiling: £775m
Levy estimate: £575m
RBL scaling factor: 0.53
SBL multiplier: 0.00014
RBL cap: 0.5%

1 April 2007 to 31 March 2008

First consultation link
Second consultation link
Policy Statement link
Determination link
Levy scaling factors link

The PPF had to sharply increase the levy due to a £60m under-collection during 2006/07. The Administration Levy also increased by nearly half.

Notwithstanding the sharp increase in levies, the PPF recognised a desire for a stable regime and made only minor changes to the way the levy is distributed between schemes.

Dun & Bradstreet were asked to adjust their methodology to reduce the impact County Court judgments have on sponsoring employers’ failure scores. There had seemingly been some controversial scores.

Regulations made in October 2006 provide that, from 2008/09, the levy estimate must not exceed the previous year’s estimate by more than 25%. Exceptionally, a notional ceiling for 2007/2008 was set at £718,750,000 for this purpose (i.e. £575m x 125% = £718.75m). The £804.5m figure was still needed as the figure to be the base for the next year’s ceiling.

Levy ceiling: £804.5m/£718.75m
Levy estimate: £675m
RBL scaling factor: 2.47
SBL multiplier: 0.00016
RBL cap: 1.25%

1 April 2008 to 31 March 2009

Consultation link
Policy Statement link
Determination link
Levy scaling factors link

Continuing the theme, the PPF decided to set a stable, predictable levy estimate for the next three years (subject to significant changes in risk exposure). It would remain unchanged at £675m for 2008/2009, and then indexed in line with earnings for 2009/2010 and 2010/2011.

Thinking longer term, the PPF started to look at propose possible future changes with a view to increasing stability, improving the distribution between schemes, and moving to a longer-term measurement of risk.

Levy ceiling: £833.5m
Levy estimate: £675m
RBL scaling factor: 3.77
SBL multiplier: 0.000165
RBL cap: 1%

1 April 2009 to 31 March 2010

Consultation link
Policy Statement link
Determination link

The PPF kept its promise, setting a levy estimate at £700m (representing the 2008/09 levy indexed with national average earnings). This is despite the "deterioration in economic conditions since last year" (2008). The major development was perhaps the launch in November 2008 of the Pensions Regulator's Exchange service for certifying contingent assets, deficit reduction contributions, and relevant block transfers.

Levy ceiling: £863.5m
Levy estimate: £700m
RBL scaling factor: 2.22
SBL multiplier: 0.000162
RBL cap: 1%

The PPF though, appropriately for a pensions organisation, was planning for the future. In November 2008 it published *Consultation on the Future Development of the Pension Protection Levy* proposing changes to the levy from 2011/12 onwards. The broad aim was to allow for long-term risk in the division of the levy between its payers. Those with lower short-term risks, but higher long-term risks, were underpaying.

1 April 2010 to 31 March 2011

Consultation link
Policy Statement link
Determination link

The levy estimate was set at £720m; the previous levy increased with earnings. The affordability of the levy and cashflow issues were the biggest concern in responses to the consultation.

The reduction in the levy cap was a particular concern for uncapped schemes (whose share of levy increased as a result). The PPF called it "a short-term measure" but "with the long-term in mind". The hope was to ease pressure on hard pressed schemes during the recession so there would be more survivors to pay the levy in future years.

The PPF this year revised its guidance (first published in September 2006) on its approach to contingent asset arrangements.

Levy ceiling: £871m
Levy estimate: £720m
RBL scaling factor: 1.64
SBL multiplier: 0.000145
RBL cap: 0.5%

1 April 2011 to 31 March 2012

Consultation link
Policy Statement link
Determination link

And then some good news. A significant reduction in the levy, at least partly due to the shift in indexation from the Retail to the Consumer Prices Index. An improvement in the PPF's balance sheet made the decision easier.

Levy ceiling: £892m
Levy estimate: £600m
RBL scaling factor: 2.07
SBL multiplier: 0.000135
RBL cap: 0.75%

This year the PPF also published *The Pension Protection Levy – A New Framework*:

The levy parameters (RBL scaling factor, SBL multiplier, and RBL cap) would (barring extreme circumstances) be constant from 2012/13 until 2014/15 so changes in a scheme's levy should relate solely to changes in their risk characteristics.

The PPF would smooth funding levels so that sharp movements in financial markets have less effect on the measures of liabilities and underfunding risk used to calculate the levies.

The investment risk of a scheme's portfolio would be incorporated into the RBL for the first time. There were also some changes to the measures of insolvency risk.

1 April 2012 to 31 March 2013

Consultation link
Policy Statement link
Determination link

This was the first year of the new framework and the lowest levy estimate to date. The RBL cap changed to a 'smoothed' percentage of liabilities.

The main controversy was around proposals to do with the certification of contingent assets. The PPF ultimately watered down its proposals. Rather than carrying a burden of proof, trustees would just have to certify that they "have no reason to believe that each certified guarantor, as at the date of the certificate, could not meet its full commitment under the contingent asset as certified."

Levy ceiling: £919m
Levy estimate: £550m
RBL scaling factor: 0.89
SBL multiplier: 0.000085
RBL cap: 0.75%

1 April 2013 to 31 March 2014

Consultation link
Policy Statement link
Determination link

Despite the best laid plans, due to a "substantial rise in risk" the existing levy parameters would result in a levy estimate exceeding the previous year's by more than 25% (one of the criteria that could result in a shift from the framework). The PPF predicted significant levy increases in the future if the state of the economy did not improve.

Levy ceiling: £933.5m
Levy estimate: £630m
RBL scaling factor: 0.73
SBL multiplier: 0.00056
RBL cap: 0.75%

1 April 2014 to 31 March 2015

Consultation link
Policy Statement link
Determination link

There were no further changes to the levy parameters but, as expected, this resulted in an increase of approx. 10% on the previous year, giving a levy estimate of £695m.

Levy ceiling: £942m
Levy estimate: £695m
RBL scaling factor: 0.73
SBL multiplier: 0.00056
RBL cap: 0.75%

In October 2014, following a consultation, the PPF published its next Triennium Policy Statement, (which also contained the consultation for 2015/16). It broadly maintained the previous triennium's approach to assessing funding and investment risks but adopted a new PPF-specific insolvency risk model (the "pension protection score"), focused upon factors such as audited accounts and group strength.

1 April 2015 to 31 March 2016

Consultation link
Policy Statement link
Determination link

There were only minor changes to the proposals for this first year in the new triennium. The levy estimate then dropped by 10%, though the PPF noted that the actual amount to be collected for 2015/2016 is significantly more uncertain than in a "normal" year because of the change to the insolvency risk model.

Levy ceiling: £947.5m
Levy estimate: £635m
RBL scaling factor: 0.65
SBL multiplier: 0.000021
RBL cap: 0.75%

1 April 2016 to 31 March 2017

Consultation link
Policy Statement link
Determination link

Despite no changes to the levy parameters, and only minor changes to other elements, the PPF were able to announce a lower estimate thanks largely to improvements in insolvency risk scores (despite a deterioration in scheme funding).

Levy ceiling: £981.5m
Levy estimate: £615m
RBL scaling factor: 0.65
SBL multiplier: 0.000021
RBL cap: 0.75%

1 April 2017 to 31 March 2018

Consultation link
Policy Statement link
Determination link

On the face of it, it was steady as she goes with no change to the levy parameters or levy estimate. This was the third year of the second triennium. But, responding to the challenges of the British Steel Pension Scheme, the PPF needed to develop an approach to schemes 'without a substantive sponsoring employer ("SWOSS") that are nonetheless eligible for the lifeboat. The determination link from December 2016 above was only provisional, and an emergency consultation was run on special levy rules for these SWOSS. Only in March 2017 did we get the final policy statement.

Levy ceiling: £1,007m
Levy estimate: £615m
RBL scaling factor: 0.65
SBL multiplier: 0.000021
RBL cap: 0.75%

In March 2017, the PPF published its "Consultation on the third PPF Levy Triennium - 2018/19 to 2020/21". One goal was to develop, not reinvent, the PPF-specific insolvency risk model. Reflecting some "high profile insolvencies", the new model would shift the levy burden from schemes with smaller sponsors to those with larger ones.

1 April 2018 to 31 March 2019

Consultation link
Policy Statement link
Determination link

The PPF implemented its triennium proposals with only limited changes and considered some additional proposals alongside the draft rules. Despite "uncertain times", its sound financial position meant the PPF was able to reduce the levy estimate by over 10%.

Levy ceiling: £1,024.5m
Levy estimate: £550m
RBL scaling factor: 0.48
SBL multiplier: 0.000021
RBL cap: 0.5%

1 April 2019 to 31 March 2020

Consultation link
Policy Statement link
Determination link

Despite the highest level of claims in their history, the PPF was able to cut its estimate further. There were only minor adjustments required to other elements of the levy. After updating its forms in January 2018, schemes with certain types of contingent asset needed to re-execute and certify their agreements or forego any levy credit.

The PPF also had to set out an (interim) approach for levying the new "commercial consolidators" arriving on the scene.

Levy ceiling: £1,058m
Levy estimate: £500m
RBL scaling factor: 0.48
SBL multiplier: 0.00021
RBL cap: 0.5%

1 April 2020 to 31 March 2021

Consultation link
Policy Statement link
Determination link

For this levy year, the PPF expected to collect £620m, an increase of 8% on the previous year. The rise largely reflects a reduction in gilt yields in the preceding months rather than any levy rule changes. The outlook seemed poor for future years, as this included no allowance for the additional benefits the PPF would have to pay after losing the *Hampshire* and *Bauer* cases.

The PPF did make some minor changes to the levy rules, including allowing employers to request adjustments to their monthly pension protection score in specific circumstances to take account of GMP Equalisation costs.

Levy ceiling: £1,099.5m
Levy estimate: £620m
RBL scaling factor: 0.48
SBL multiplier: 0.00021
RBL cap: 0.5%

1 April 2021 to 31 March 2022

Consultation link
Policy Statement link
Determination link

This was due to be the first year of the fourth triennium. However, the implications of the COVID-19 pandemic remained uncertain, so the PPF retained the flexibility to make further substantial changes for the next two years at least.

Despite this, the PPF was secure enough to lower the levy estimate by 16%. The RBL cap was halved. In a boost to small schemes (those with smoothed liabilities of less than £20m), they benefitted from a 50% reduction to their (uncapped) levy calculation. Lesser, tapered reductions would apply to schemes with smoothed liabilities between £20m-£50m.

The break with Experian (replaced by Dun & Bradstreet) meant changes to the insolvency risk methodology. Brexit necessitated amendments to the PPF's contingent asset standard forms (due to increased difficulty enforcing such assets in EU member states).

Levy ceiling: £1,099.5m
Levy estimate: £520m
RBL scaling factor: 0.48
SBL multiplier: 0.00021
RBL cap: 0.25%

1 April 2022 to 31 March 2023

Consultation link
Policy Statement link
Determination link

The PPF consulted on a levy estimate reduced to £415m, then delivered a determination with an estimate of £390m. Measures introduced the previous year to support schemes through the pandemic were retained: the small scheme adjustment, the RBL cap reduction, and a payment easement option.

80% of schemes were predicted to see a reduced RBL on the previous year. For the other 20%, there was the consolation of a (discretionary) *one-off* 25% limit on any increase.

Levy ceiling: £1,178.5m
Levy estimate: £390m
RBL scaling factor: 0.48
SBL multiplier: 0.00021
RBL cap: 0.25%

1 April 2023 to 31 March 2024

Consultation link
Policy Statement link
Determination link

The RBL scaling factor reduced for the first time since 2018/19. The SBL multiplier reduced for the first time since 2015/16. The levy estimate nearly halved. The PPF was confident it could charge a significantly lower levy without risking its ability to pay compensation to its members.

As the levy was lower and looking like staying that way, the PPF was no longer talking about triennial cycles. That might only serve to keep levies higher than they needed to be. That didn't mean the PPF did not have a long-term vision, and the PPF consulted on four design principles:

1. Increasing flexibility on the amount of levy

it aims to collect;
2. Increasing flexibility to charge based on scheme size (e.g. more through the SBL);
3. Reducing levy sensitivity to changes in insolvency risk, thus reducing volatility and rebalancing the emphasis from employer insolvency to underfunding;

* *To this end, the PPF halved the increments between levy bands to "reduce the cliff-edges". It decided against increasing the number of bands.*

4. Applying different approaches to levy calculation, depending on scheme size.

Levy ceiling: £1,247m
Levy estimate: £200m
RBL scaling factor: 0.37
SBL multiplier: 0.000019
RBL cap: 0.25%

1 April 2024 to 31 March 2025

Consultation link
Policy Statement link
Determination link

And for this year, the lowest ever levy estimate. The PPF might have reduced it even more but for the rule that the estimate cannot increase by more than 25% year on year. It dares not go too low yest it finds it needs a more significant levy and is constrained by this increment. The Government has agreed to revisit this rule when parliamentary time allows.

The PPF also sought feedback on ideas for the distribution of the levy (when there is one), and potential simplifications. We can expect more detail about this in the 2025/26 levy consultation.

Levy ceiling: £1,349m
Levy estimate: £100m
RBL scaling factor: 0.4
SBL multiplier: 0.000015
RBL cap: 0.25%

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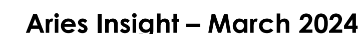
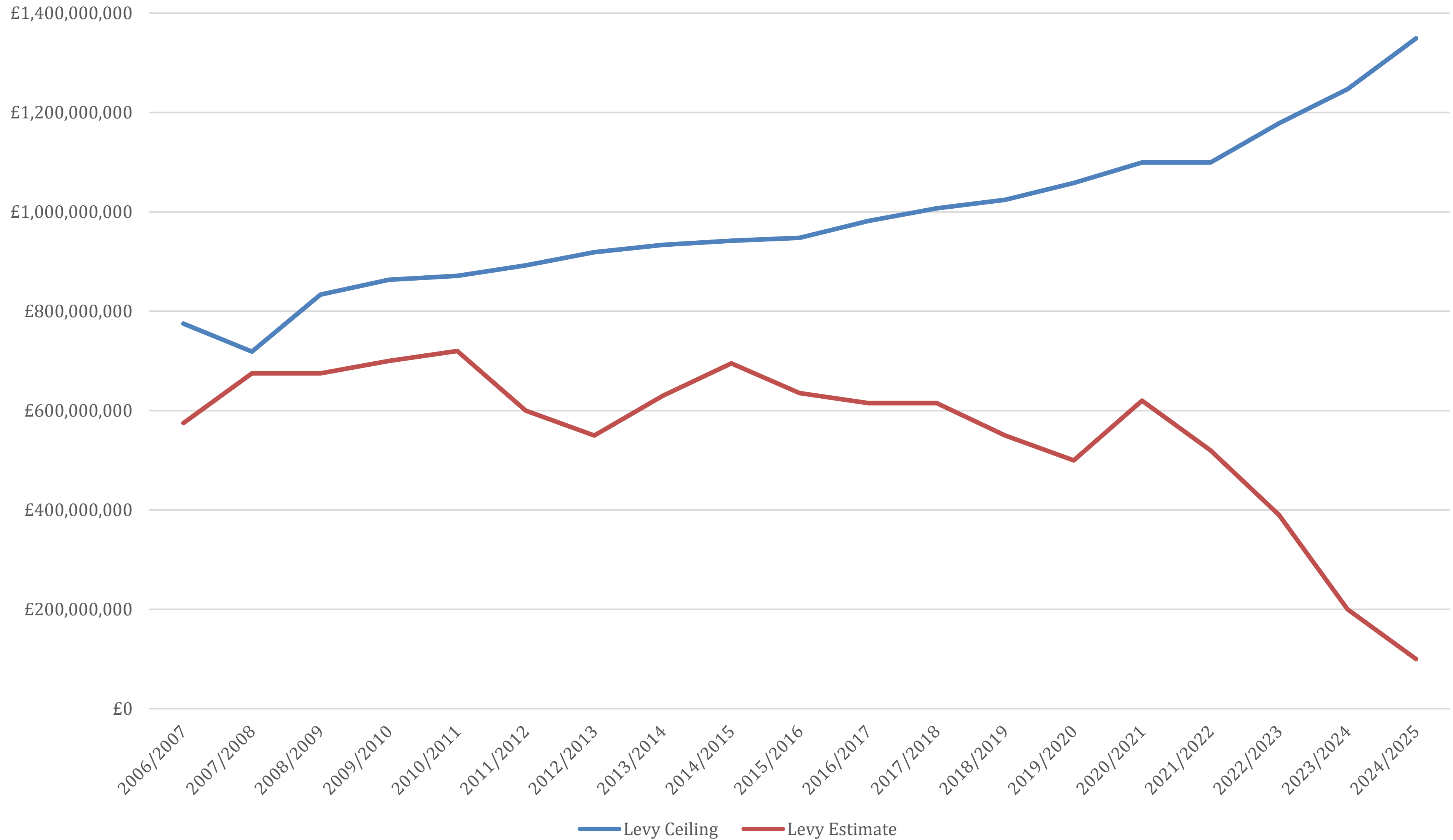
Aries Insight – March 2024





Levy Estimate History
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