Broadstone

# The Pension Protection Fund Levy - 2025/26 Consultation

**October 2024**

## Introduction

The Board of the Pension Protection Fund (the “PPF”) has released its consultation on changes to the PPF Levy for the 2025/26 levy year.

The consultation document sets out the changes the PPF is proposing and the rationale for change.

Overall, it is expected that schemes will see a broadly unchanged PPF levy next year. However, the PPF is having to make tweaks to its methodology to ensure it collects its target amount and that the Risk Based element of the levy is spread across a range of schemes. This does mean that some schemes will see an increase in levy and others will see a reduction.

This briefing note provides a summary of the PPF's proposals.

### Summary of proposals for 2025/26

- The total amount the PPF plans to collect next year remains unchanged at £100 million. This still represents a significant fall from the £200 million two years ago.
- The Levy Scaling Factor will be set at 0.35 (currently 0.40).
- The Scheme-based Levy Multiplier is to change to 0.0018% (currently 0.0015%).
- The Small Scheme Adjustment and risk-based levy cap both remain.
- The asset and liability stress factors are to be re calibrated to reflect market volatility data up to December 2023.
- Base levies on the latest "A11" version of the s179 valuation assumptions (currently "A10")
- Widen the definition of contributions that can be self-certified.
- Make it easier for schemes with buy-ins to access risk-based levy waivers.
- Update the mapping of credit ratings to levy bands

# Background

**Each year, the PPF issues a consultation prior to issuing their formal determination that sets out the basis for the coming year's PPF Levy. This covers the Levy Estimate, the levy parameters, and the associated rules and guidance.**

The PPF tries to maintain stability when calculating the levy from year to year and so significant changes to the methodology or calculation tend to be infrequent. This remains the case this year.

### The Levy Estimate and parameters for 2025/26

**The PPF has determined that the Levy Estimate, i.e. the total amount it expects to collect, for 2025/26 will be £100m. This is unchanged from 2024/25.**

Due to the strong funding position of the PPF and improvements seen in pension scheme funding, the PPF admits that it could be justified in reducing the amount it raises each year from the PPF levy, possibly reducing the sum to zero. However, as highlighted last year, the PPF is of the view that legislative constraints means that £100m is the minimum levy it can reasonably raise. A lower amount would limit the amount the PPF could raise quickly in the event of a sudden funding shock.

Without making any changes to the PPF estimates the total it would raise would be c£60m, due to changes in market conditions improving funding positions. The majority of schemes (63% this year) are already not expected to pay the Risk Based Levy element.

To ensure the £80m+ of Risk Based levy is not concentrated amongst a small (and shrinking) number of schemes, the PPF is therefore tweaking its calculations to widen the stress test (update the asset and liability stresses to two standard deviations). In conjunction with this the Levy Scaling Factor used to calculate the Risk Based Levy will be decreased from 0.40 to 0.35, and the scheme-based Levy Multiplier is to be increased from 0.0015% to 0.0018%.

In addition to the above, the PPF is proposing some technical changes to its methodology to reflect changes in its own valuation methodology and recent market volatility.

In particular, they propose:

- to move to the latest valuation basis (A11, which came into force in May 2023), which would reduce the Levy Estimate by around 10%.
- to include historical volatility data up to December 2023. This is the first time that the volatility from interest rate movements in 2022 has been incorporated into the stress factors.

All of these changes combined are expected to allow the PPF to reach its £100m target whilst ensuring the Scheme Based Levy remains below 20% of the total raised.

One consequence of this is to increase the number of schemes paying the Risk Based element of the PPF levy. Those with higher investment or insolvency risk who now once again have a 'stressed' shortfall will be most affected by the changes. Meanwhile, the increase in the scheme-based levy multiplier will mean that this element of the levy, whilst generally small, is expected to increase for the vast majority of schemes (72%).

## Other elements

Beyond this, the rules are to remain broadly unchanged, with the PPF not proposing any changes to the Small Scheme Adjustment or risk-based levy cap. The PPF proposes changes to the mapping of public credit ratings to levy bands, but this is not expected to be a significant change.

**Simplified deficit reduction certificates** - The PPF is proposing to widen the definition of contributions that can be certified as Deficit Reduction Contributions so that it is easier and cheaper for schemes to recognise ad-hoc or voluntary contributions paid by their employer (e.g. to help progress towards buy-out). They are allowing a non-actuary to certify contributions up to £1m (referred to as Option Beta) in more cases, including open schemes and larger schemes.

**PPF levy waivers** - The PPF has also made changes to make it easier for schemes to request a PPF levy waiver if they have entered into a buy-in with an insurance company and apply for a waiver within 28 days of receiving their levy invoice. The PPF will consider schemes where all benefits have been secured and outstanding contributions and/or remaining scheme assets are solely expected to be used for meeting scheme expenses.

**Special category employers** – Finally, the PPF included information and has asked for stakeholders' views about those employers that are close to government, where the insolvency risk may be lower than currently measured. Over the years, very few employers have met this criteria.

# Key dates

**The key deadlines for submitting information for the 2025/26 Levy are as follows:**

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| End of consultation | **23 October 2024** |
| Outcome of consultation and publication of Rules | **By end of December 2024** |
| Scheme Returns and electronic contingent asset certificates | **Midnight on 31 March 2025** |
| ABC certificates and special category employer applications | **Midnight on 31 March 2025** |
| Send contingent documents by post | **5 pm on 1 April 2025** |
| Start of 2025/26 levy year | **1 April 2025** |
| Certify Deficit Reduction Contributions | **5pm on 30 April 2025** |
| Exempt transfer applications | **5pm on 30 April 2025** |
| Certify full block transfers | **5pm on 30 June 2025** |
| Publication of mean scores | **July 2025** |
| Invoicing starts | **Autumn 2025** |

# Broadstone comment

On the positive side, the overall PPF levy is expected to be broadly unchanged and, for individual schemes, the proposed changes are generally expected to result in small movements. The PPF is encouraged to aim for stability when setting the PPF levy and this is in line with that.

However, it remains frustrating that the PPF has to raise any levy at all, given its funding position, or that it continues to be as large as £100m. We understand that this legislative restriction may be resolved in the planned 2025 Pensions Bill and we will continue to add our voice to those lobbying government for this to be included.

If your scheme is exposed to significant insolvency or investment risk then you are more likely to be adversely affected by the proposed changes for next year. You should speak to your actuary to understand the impact.

The proposed changes to the deficit contribution certification process and the PPF levy waiver process are relatively minor and unlikely to benefit many schemes. However, it is good that, within the regulatory constraints imposed upon them, the PPF is looking at ways to simplify its processes to reward schemes that are 'doing the right thing'.

# Find out more

**For more information on how Broadstone can help you, please contact your Broadstone consultant or use the details below:**

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