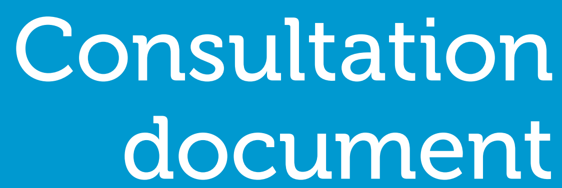


Levy rules 2025/26

Foreword

Welcome to the levy consultation for 2025/26.

Our proposals for 2025/26 reflect the plans we consulted on last year, and the responses we received then. In line with that, we are proposing to charge a levy of £100 million, as we did last year – this is our lowest ever levy and is equivalent to less than 0.007 per cent of (PPF 7800) scheme assets as at 30 June 2024. Meanwhile, we will continue to engage with the Government on legislative changes to enable us to reduce the levy further and even to zero. We will keep progress on this under review and not charge for longer than we need.

The consultation document sets out, and seeks views on, how we propose to maintain the levy at £100 million for this year. Respondents to last year's consultation highlighted the importance of two key principles: ensuring the risk-based levy continues to be paid by a broad range of levy payers – rather than allowing the levy to become concentrated on a smaller group; and secondly, ensuring that the levy continues to be distributed in the most risk-reflective way possible. In line with this, we are proposing to increase the asset and liability stresses used in our calculation – to two standard deviations. This was the approach favoured by consultation respondents last year. We also propose reducing the levy scaling factor so that we don't collect more than the £100 million planned, and increasing the scheme-based levy multiplier, to ensure maximum utilisation of the scheme-based levy.

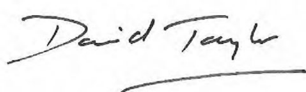
Although the estimate will remain the same as in 2024/25, these changes – as with any changes to the levy methodology – will alter the distribution of the levy. However, impacts are limited. Of the 37 per cent of schemes that pay the risk-based levy, most (63 per cent) are expected to see a decrease in the risk-based levy, and only five per cent are expected to see an increase of more than 0.01 per cent of liabilities.

The change in the scheme-based levy multiplier offsets the continued reduction in liabilities, so we expect schemes will generally end up paying broadly the same scheme-based levy as in 2024/25.

Over 95 per cent of all schemes are expected to pay a lower total levy in 2025/26 than in 2023/24.

Reflecting suggestions made for areas of possible simplification, we are proposing to make available to all schemes the simplest approach to certifying deficit reduction payments and widening our definition of contributions that can be certified. We have also considered how we can support schemes to take account of full insurance buy-ins in the levy.

I am looking forward to hearing stakeholders' views on our proposals. We will publish our conclusions in due course.



David Taylor
Executive Director and General Counsel

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1. Key proposals

This document sets out our proposals and the underlying analysis for the 2025/26 levy. These rules will determine how levy bills to be issued in autumn 2025 will be calculated. The headline proposals are:

The Board's levy estimate, policy and levy parameters
• We intend to maintain the levy estimate for 2025/26 at £100 million. • The levy scaling factor (LSF) will be set at 0.35 (2024/25 comparator 0.40). • The scheme-based levy multiplier (SLM) will be set at 0.000018 (2024/25 comparator 0.000015). • The risk-based levy cap is to remain at 0.25 per cent of liabilities. • Update the asset and liability stress factors to be calibrated to two standard deviations. • The asset and liability stress factors are updated to reflect extended historical volatility data to December 2023. • We propose amending our approach to deficit reduction certificates (DRCs), including extending Option Beta to all schemes and widening our definition of contributions that can be certified. • Update the mapping of credit ratings to levy bands/rates to reflect the move from three to two credit providers from 2024/25.
Section 179 valuation basis
• Following the updated s179 assumptions guidance which came into force in May 2023, we're changing the output basis used for levy calculations from A10 to A11.

More about our analysis and rationale for decisions, along with information about other subjects under consultation, can be found in the following sections of this consultation document.

2. Levy proposals for 2025/26

2.1 Summary

2.1.1 Last year we reduced the levy to £100 million – the lowest level we have ever set. This reflected the continued improvement in our funding position and that of the schemes we protect, but also the need – within the context of our current legislative framework – to retain the ability to raise a material levy in future in the event of a funding shock. As we look ahead into 2025/26 the position is essentially unchanged, and – as we said we would in last year's consultation – we are again proposing to set the levy estimate at £100 million.

2.1.2 We will continue to work with Government to seek the changes that would allow us to safely reduce the levy further. In the meantime, due to improvements in scheme funding, active changes are required to maintain a levy of £100 million and prevent a decline in the pool of risk-based levy (RBL) payers – which would otherwise result in the levy being concentrated on a smaller number of schemes. To do so, we are proposing to increase the asset and liability stresses to two standard deviations, reduce the levy scaling factor (LSF) to 0.35 and to increase the scheme-based levy multiplier (SLM) to 0.000018.

2.1.3 Alongside these key policy proposals, we are also proposing to move to the latest valuation basis (A11) and, following review, to update our asset and liability stress factors using market data to 31 December 2023.

2.1.4 Additionally, we are responding to requests for simplification in two areas of our methodology (made as part of last year's levy consultation). We are proposing significant change in our rules for incorporating deficit reduction contributions (DRCs) in levy calculations (making a simplified approach available to all schemes); and to make it easier for schemes to more accurately take account of full insurance buy-ins.

2.2 Charging a levy of £100 million

2.2.1 Over the last few years, the levy estimate has fallen significantly, reducing in 2024/25 to £100 million. This marked the lowest ever set, both in absolute terms and as a proportion of the universe's assets – now representing less than 0.01 per cent of assets.

Figure 1: PPF levy estimate history as a proportion of universe assets

2.2.2 Our ability to allow the levy to fall in this way reflects the reduction in the level of risk in the DB universe and the strong financial position of the PPF.

2.2.3 Our funding remains strong, and we are at a point of financial resilience whereby – in the absence of legislative constraints – the Board would expect[1] to be able to move to charging a zero levy, only re-introducing the levy in the event of a significant challenge to its funding position.

2.2.4 Last year, the Board decided that £100 million was the lowest we could set the levy in the absence of legislative change, to ensure we retain our capability to move to charging a material levy over a reasonable period in case of a funding shock.

2.2.5 We consulted on this approach and responses overall were understanding of our position – while also calling on us to actively seek legislative change. We also recognise that some stakeholders felt we should set the levy to zero now and rely upon Government being prepared to act to allow us to reintroduce a levy.

2.2.6 Having carefully considered the points raised we concluded that, given the importance of retaining our operational independence and the ability to respond to a future change in funding, we should maintain a minimum levy of £100 million while working with Government to secure the legislative change required to allow us to safely reduce the levy further.

2.2.7 In light of the recent election, the new government is, understandably, developing its strategy in relation to pensions more widely and therefore the extent and timing of any changes to our founding legislation remain to be seen. We continue to work with the Department of Work and Pensions (DWP) to understand the potential for, and possible timetable of, the legislative

[1] Any decision to move to zero would be a future decision for the Board. However, the Board considers that, absent the legislative constraints, the existing level of funding and current level of future claims risk would make a case for a zero levy.

changes required. Our aim will be not to charge a levy longer than is necessary. We will remain flexible as Government priorities emerge.

2.2.8 We consider the likelihood of needing to return to a significant levy to be remote. However, it cannot be ruled out. There are a range of significant global and domestic risks that are widely noted[2] and could make a material impact on our financial position and the risks we face.

2.2.9 Therefore, having reviewed our position, and in the absence of legislative change, we are proposing to maintain a levy estimate of £100 million for 2025/26.

2.2.10 Due to Parliamentary timetabling, we expect to publish our Annual Report and Accounts in October. However, the Board does not expect these to lead to fundamentally different conclusions on the levy estimate.

2.3 Levy estimate before policy changes

2.3.1 The levy estimate for 2024/25 was £100 million. Over the past 12 months, the number of schemes in the DB universe has continued to decline and scheme funding has continued to improve, as the improvement in bond yields continues to flow through to levy calculations. In 2023 there were 5,131 schemes, and in 2024 there were 5,050.

2.3.2 The PPF 7800 Index estimates that the proportion of schemes in surplus in our universe has remained broadly the same as last year, with 91 per cent (4,599) of schemes in surplus at the end of June 2024. The funding ratio of the universe has improved – increasing from 145.8 per cent at the end of June 2023 to 149.4 per cent at the end of June 2024. As a result, we expect that – without any methodology changes – the number of RBL payers will decline by 40 per cent.

2.3.3 Our PPF insolvency risk model continues to perform well (see Appendix 1). We have some early indications that the number of insolvencies might be near its peak. For 2025/26, we have assumed there will be limited changes to insolvency risk in our DB universe. More information about our assumptions can be found in Appendix 4.

2.3.4 Based on these assumptions, we would expect to collect a levy of around £60 million if we made no policy changes. However, as noted last year, we need to make some business-as-usual changes to our levy methodology – updating to the latest valuation basis (A11) and updating our asset and liability stress factors to ensure they reflect recent market conditions.

Move to A11 valuation basis

2.3.5 The PPF regularly reviews s179 valuation assumptions against insurance pricing. As a result of a review, the PPF s179 assumptions were updated from A10 to A11 in May 2023 to take account of changes in buy-out pricing.

2.3.6 The valuation information provided is transformed as part of our levy calculation onto a consistent basis. Exceptionally, as part of a range of measures to limit change, we chose – following consultation – not to update the output basis for 2024/25. This year we are proposing to use A11 as the output basis for the levy methodology for the 2025/26 levy.

[2] For example, a "Geo-economic Fragmentation" scenario, one of a handful of downside scenarios described in both the International Monetary Fund's (IMF) latest World Economic Outlook (April 2024) and S&P's most recent global economic outlook (March 2024). In this scenario (investor) expectations for economic growth and profitability are adjusted as a result of protectionism.

Update to the asset and liability stress factors

2.3.7 We also regularly review the liability and stress factors methodology and recent market data to ensure that the stress factors remain sufficiently aligned with actual volatilities.

2.3.8 For the 2024/25 levy, we considered updating our asset and liability stresses in light of the volatility seen in interest rates over 2022. We consulted on delaying any update by limiting change for 2024/25 to allow us to review stakeholder feedback to our long-term approach. This approach was supported by a majority of respondents, and we decided not to update the individual factors in our asset and liability stresses for 2024/25.

2.3.9 Given that we are now proposing our long-term approach from 2025/26 onwards (including the key policy proposals related to the strength of stresses in the section below) it is appropriate to make the update. For 2025/26, we are proposing to update the asset and liability stress factors extending the market data used in the calculation of volatilities to 31 December 2023. As expected, given the extended dataset now covers the 2022 period of increased interest rate volatility, our proposals will lead to increased interest rate stress factors and other changes, before taking account of the key policy proposals related to the stress set out in the section below. For ease of reference, Appendix 2 details changes to the factors both on the current level of stress – i.e. calibrated to one standard deviation – and then under the key policy proposal to increase the stress scenario to be calibrated to two standard deviations.

2.3.10 Taking into account both the update to the stress factors to reflect more recent market data and the move to the A11 valuation basis, we forecast a 2025/26 levy collection of £55 million. Policy changes are therefore needed to meet the £100 million required. As such, we have set out the key policy changes we are proposing below.

Consultation question

Question 1: Do you agree with our proposal to update the levy factors (A11 and asset & liability factors)?

2.4 Key policy proposals

2.4.1 Due to increases in bond yields over the last five years, the number of schemes being assessed to be underfunded is in decline. This means that, without intervention, the pool of RBL payers is shrinking over time. Therefore, were we to use the LSF to increase the amount of levy we collect – as has been the case in previous years – the levy would become concentrated on a smaller number of RBL payers.

2.4.2 We set out this challenge last year in our 2024/25 consultation and proposed two alternative approaches to distributing the levy rather than increasing the LSF for 2025/26: adding an additional liability factor to the liabilities, and/or increasing the asset and liability stresses.

2.4.3 In response, the majority of stakeholders agreed that concentrating the levy on a diminishing pool of schemes is undesirable and that changing the levy methodology to widen the pool of RBL payers is therefore the appropriate course. The majority of respondents preferred amending the stresses rather than introducing a liability factor, largely on the basis of it being considered the most risk reflective approach, and to be consistent with the purpose of a continued levy as protection against severe downside scenarios.

2.4.4 A few stakeholders did question whether our proposal to move to a two standard deviation stress would align with government objectives – in particular the productive finance agenda – and the impact on open schemes.

2.4.5 As we set out last year, the levy charged under this measure would be small compared to the expected return from growth-seeking assets and so we do not expect this policy to affect investment decisions[3].

2.4.6 Throughout our policy development we have considered scheme impacts, and our analysis indicates that by moving to a two standard deviation stress, there is less of an impact on those with the largest levies – which include large open schemes – compared to our more typical approach of increasing the LSF (more detail on the impact on open schemes can be found in Appendix 3).

Increasing the asset and liability stresses

2.4.7 Our current levy methodology largely relies on an assessment of current underfunding and investment risk, with limited stressing. Those schemes that are in surplus under this assessment do not pay an RBL. As a result, the RBL is currently only charged to schemes that pose a funding risk now or under relatively limited downside scenarios. Given the decline in the number of schemes in this situation, and the PPF's current funding level, the levy we are now collecting would provide resources to deal with the possibility of very high claims, or other large funding shocks that may arise at some point in the future.

2.4.8 In these low-likelihood, high-impact future scenarios, schemes that are not currently underfunded may still lead to material claims on the PPF. We therefore believe there is merit in adapting our methodology to reflect the changing role of the levy in guarding against this risk.

2.4.9 We therefore propose to amend the asset and liability stress factors to calibrate them based on two standard deviation stresses (see Appendix 2 for proposed 2025/26 factors).

2.4.10 Doing so brings more schemes into the pool of RBL payers and directs the levy to those who would be likely to be underfunded in the circumstances of an extreme adverse scenario, against which we are aiming to protect with future levy collection.

2.4.11 It also reflects the different risks posed by different schemes – well-hedged schemes would see a limited change in their levy, while those with growth-seeking portfolios would see levies increase more, better reflecting the risk they might pose in a more severe adverse scenario.

Levy scaling factor (LSF)

2.4.12 As shown in Figure 2 below, we expect this change to the stress factors would collect more than £100 million.

2.4.13 We have ruled out making year-on-year adjustments to the strength of the stresses, as we believe that a one-off change to the stresses' methodology is more appropriate (rather than continuously making smaller adjustments). Therefore, to limit the levy to £100 million, we are proposing to use the LSF to reduce the levy, through a reduction in the LSF from 0.40 to 0.35.

Scheme-based levy multiplier (SLM)

2.4.14 We believe that the scheme-based levy (SBL) has a role in helping spread the levy as widely as possible.

[3] The current one standard deviation stress means that a scheme that invests in equities may pay a higher levy than if invested in bonds. For an underfunded scheme with a measure of insolvency risk of 0.34 per cent (levy band 4), the change to a two standard deviation stress would mean that this extra levy (from investing in equities versus bonds) may increase by around 0.04 per cent of assets. By contrast, the expected return to equities above gilts is orders of magnitude more.

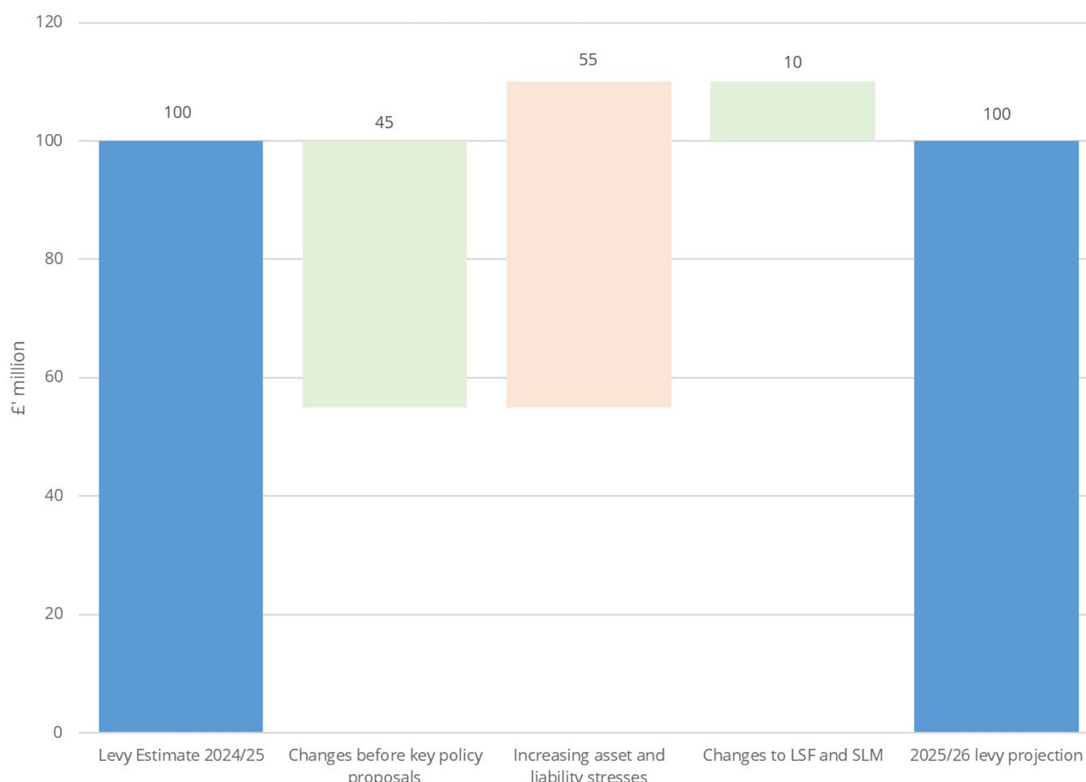
2.4.15 Therefore, we are proposing to increase the scheme-based levy multiplier (SLM) from 0.000015 to 0.000018, so that the proportion of the levy that is scheme-based is set to the legislative maximum of 20 per cent (as was the case in 2024/25).

Consultation question

Question 2: Do you agree with our proposal on how to maintain the levy at £100 million? (Moving to a two standard deviation asset and liability stress, reducing the levy scaling factor and increasing the scheme-based levy multiplier to ensure that the scheme-based levy reflects 20 per cent of the total levy).

2.5 Summary of the impact

Figure 2: Movement from 2024/25 levy estimate to 2025/26 levy estimate



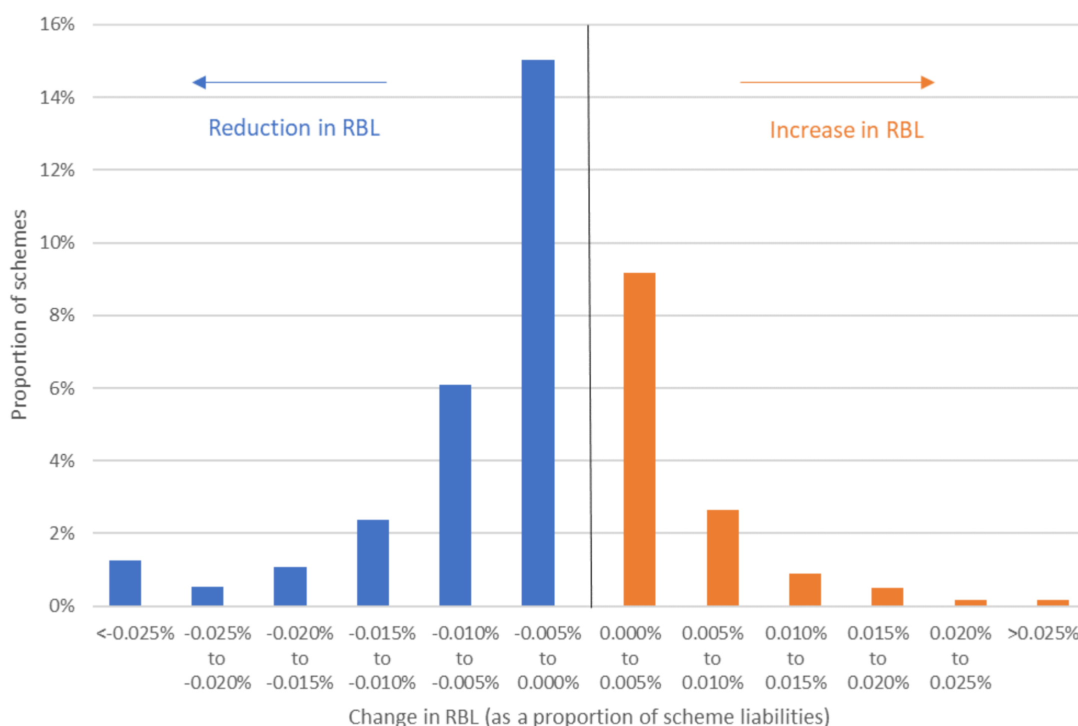
2.5.1 As we propose to change the formula by increasing the stresses, this will alter the distribution of the risk-based levy.

2.5.2 We expect 63 per cent of the schemes who pay an RBL in 2025/26 to see a reduction compared to 2024/25, and 37 per cent to see an increase (the characteristics of those seeing an increase include the very underfunded and/or those that pose significant investment or insolvency risk). However, for the overwhelming majority of schemes seeing an increase in 2025/26, their RBL is expected to be no higher than that charged in 2023/24 – with 87 per cent of RBL-payers expected to see a lower (or equal) RBL than they did in 2023/24 – and considerably lower than in the preceding years.

2.5.3 Compared to 2024/25 we expect no scheme will see an increase in their RBL greater than 0.07 per cent of liabilities (assuming no changes in scheme data or employer insolvency risk), and 95 per cent of those still paying an RBL should see an increase of less than 0.01 per cent of liabilities. Almost all schemes (95 per cent, including those who will not pay the RBL in 2025/26) are expected to see a lower (or equal) RBL than they did in 2023/24.

2.5.4 The increase in the SLM means that the majority of schemes (72 per cent, including the 63 per cent of schemes whom we expect to pay no RBL in 2025/26), may see a slight increase in total levy from 2024/25 to 2025/26. However, the increase in SBL as a result of this change is expected to be very small – schemes' SBL bills are expected to increase by around 0.0008 per cent of liabilities on average (i.e. £8 for each £1 million in liabilities). Further analysis of impacts can be found in Appendix 3.

Figure 3: Distribution of changes in RBL from 2024/25 (not displaying schemes whose RBL doesn't change)



2.6 Simplification

2.6.1 Last year we had a range of suggestions for areas of possible simplification and so, as part of the development of this year's proposals, we considered the case for change.

2.6.2 We have focused on those changes that:

- are proportionate for schemes and for the Board (for example, we've reflected on administrative requirements and system/process change) in the context of a £100 million levy;
- can be made within the current legislative framework; and
- provide benefit to schemes.

2.6.3 We are therefore proposing changes to our approach on deficit reduction contributions (DRCs) and buy-ins.

Deficit reduction contributions (DRCs)

2.6.4 We introduced the Option Alpha and Beta methodologies for the 2018/19 levy year. Due to improved scheme funding we expect fewer schemes will require recovery plans (thereby putting the schemes out of scope of Option Beta). In addition, more schemes could be receiving ad hoc payments from their sponsors to improve their funding positions to support end-game planning. We want to make it easier and cheaper for schemes to have these contributions

recognised. We are therefore proposing to increase the optionality available for schemes wishing to certify DRCs, taking account of the changing external context.

2.6.5 We're proposing to retain Option Alpha for all schemes – this essentially calculates the DRCs by reference to the extent to which they have improved the scheme's s179 funding since the position at the last s179 valuation. Option Alpha therefore draws on the same principles and assumptions used by actuaries to carry out s179 valuations, and consequently requires actuarial certification.

2.6.6 Option Beta is based on a straightforward summation of contributions from the recovery plan, plus any special contributions which have served to amend or remove the recovery plan. At present we limit Option Beta to closed schemes with a recovery plan and s179 liabilities lower than £10 million. We also require actuarial certification (by the scheme actuary) if the amount to be certified is over £1 million, and/or the amount includes any ad hoc "special contributions" outside of the recovery plan. Under Option Beta, special contributions can only be counted if there was a recovery plan in place at some point during the certification period.

2.6.7 Under our proposals for 2025/26, Option Beta would be extended to all schemes (including open schemes and of any size), in conjunction with a revised approach that permits the recognition of ad hoc special contributions even where there is no recovery plan.

2.6.8 The revised approach which we propose under Option Beta is still based on a summation (and deduction) of elements of scheme income and outgoings which should be readily available from information produced for accounting and scheme-specific funding purposes. The DRCs can be calculated through a straightforward summation, by reference to cashflow amounts.

2.6.9 We also examined the merits of increasing the threshold of £1 million, above which actuarial certification is required under Option Beta. Our analysis indicates that the current threshold is still sufficient to result in a net benefit for the majority of schemes (i.e. with the levy reduction from the DRCs outweighing the cost of obtaining actuarial certification). We have also retained the current provision that actuarial certification is not required where the total amount certified is less than the sum of the recovery plan contributions (provided this is itself less than £1 million).

2.6.10 To make it easier for schemes to certify ad hoc payments, we are widening our definition of contributions that can be certified under Option Beta to include special contributions received by schemes without a recovery plan. We still require actuarial certification where the DRC amount includes ad hoc payments outside the recovery plan under Option Beta.

2.6.11 A summary of our proposals is set out in Figure 4. We have published, alongside this consultation, the draft proposed changes to the DRC Appendix and Guidance.

Figure 4: Summary of our simplification proposals for DRCs

	Option Beta – current	Option Beta – with proposed changes	Option Alpha
Which schemes can access the option?	Closed schemes with s179 liabilities of less than £10m and a recovery plan in place.	Available to all schemes.	No change – still available to all schemes.
Can a non-actuary certify?	Yes, if: - there is a recovery plan in place,	No change.	No change – actuarial certification always required.

	- amount certified is less than £1m, and maximum amount certified is the sum of the recovery plan contributions over the certification period. (The person certifying can be a scheme trustee or an officer of any of the sponsoring employer(s).)		
When is actuarial certification required?	Actuarial certification required if amount above £1m and/or exceeds the sum of the recovery plan contributions.	No change.	No change – actuarial certification always required.
Who can carry out an actuarial certification?	The scheme actuary.	No change.	No change – actuarial certification can be carried out by any actuary.
What are the requirements for special contributions?	Can only be certified (with actuarial certification) if there is a recovery plan.	Can be certified without recovery plan (subject to actuarial certification).	No change – can always be certified to the extent they are deficit-reducing under the methodology.

Consultation questions

Question 3: Do you agree with our proposal on deficit reduction contributions to expand Option Beta to all schemes?

Question 4: Do you agree with our proposal on deficit reduction contributions to widen the definition of contributions that can be certified to include special contributions without a recovery plan (but with actuarial certification) for Option Beta?

Buy-ins

2.6.12 Last year, we received stakeholder requests to consider our treatment of buy-ins. These came against a backdrop of an increase in the number of buy-ins, which is expected to rise further in the coming years. The requests were primarily focused on the way in which our current approach can result in the RBL being payable in respect of bought-in liabilities, despite the matching properties of buy-in contracts.

2.6.13 We have therefore considered how to make it easier for schemes to more accurately take account of full insurance buy-ins in the levy, and identified that the best way forward is to support schemes that have a full buy-in insurance contract to make levy waiver applications.

2.6.14 In reaching this conclusion, we explored a range of possible changes, including amendments to the rollforward methodology. However, we assessed these to be unsuitable for a range of reasons, including complexity – particularly against our aim of simplifying the levy – and the risk of introducing inconsistencies against other asset classes.

2.6.15 We have updated our webpage and application form[4] making it clearer that schemes do not need to have a buy-out insurance contract (or be in wind-up) – and to clarify that we are open to considering waiver applications in relation to buy-ins.

2.6.16 In the context of a buy-in, the two key requirements in legislation[5] for a waiver of the RBL are that all DB liabilities must be covered, and there must be no further contributions to the scheme in respect of DB liabilities. This means we are unable to recognise a partial buy-in.

2.6.17 We are making it clearer that we are open to schemes explaining/evidencing that employer made contributions to cover winding-up or other expenses is not a further contribution in respect of DB liabilities. We recognise that there could be one-off payments from the employer to the insurer.

2.6.18 In addition, in order to waive the SBL, a third requirement needs to be met – which is that there are insufficient "unallocated assets" available to pay the SBL in full[6]. We are open to schemes explaining that assets are allocated to wind-up expenses.

2.6.19 We encourage schemes with full buy-ins to consider applying for waivers. Please note that if a scheme wishes to apply it needs to do so within 30 days of the levy invoice being issued (we do not have discretion to extend this deadline).

2.7 Levy rollforward

2.7.1 We continue to look at the recommendations from The Work and Pensions Select Committee to review our rollforward methodologies for our 7800 index. However, we do not propose changing the levy rollforward as it serves a different purpose and it is unlikely that changes would have a material impact on the levy.

2.8 Mapping public credit ratings to levy bands

2.8.1 Last year, we decided to move from three credit rating providers to two.

2.8.2 As part of this move, we considered there was a need to review our mapping of public credit ratings to insolvency probabilities. This was necessary to remove data from Moody's ratings no longer used in the levy from the analysis, and then update our mapping of public credit ratings to levy bands. Mapping is achieved by translating default rates observed for public credit ratings eligible for levy invoicing into insolvency probabilities indicative of a qualifying insolvency event.[7]

2.8.3 In practice this will mean relatively little change – however firms with a public credit rating of 'B' will now be mapped to levy band 9 rather than 8 previously. There are also minor changes to the parental score. For more details, please see Figure 5.

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[4] ppf.co.uk/levy-payers/pay-your-levy/who-can-apply-levy-waiver/waiver-application-form

[5] Regulation 4(3) of the PPF (Waiver of Pension Protection Levy and Consequential Amendments) Regulations 2007.

[6] Regulation 6(3) of the 2007 Regulations referred to above.

[7] Rating agency default rates need to be reduced to estimate insolvency risk. This is because the assignment of default designations by the rating agencies is broader in scope than insolvencies and so many entities that would not be classed as "insolvent" (according to the legislative definition) are classified as "having defaulted". PPF uses the share of UK companies which have entered into insolvency within 12 months of having been classified as having defaulted by the rating agencies to do this.

Figure 5: Mapping Public Credit Ratings to Levy Bands

	Levy Band		Annual Insolvency Probability		Parental Score	
Public Credit Ratings	CURRENT	NEW	CURRENT	NEW	CURRENT	NEW
AAA / Aaa	1	1	0.0007%	0.0026%	100	100
AA+ / Aa1	1	1	0.0009%	0.0027%	100	100
AA / Aa2	1	1	0.0011%	0.0027%	100	100
AA- / Aa3	1	1	0.0071%	0.0075%	97	97
A+ / A1	1	1	0.0134%	0.0112%	94	96
A / A2	1	1	0.0143%	0.0120%	93	95
A- / A3	1	1	0.0153%	0.0129%	91	95
BBB+ / Baa1	2	2	0.0344%	0.0311%	78	80
BBB / Baa2	2	2	0.0386%	0.0345%	76	78
BBB- / Baa3	3	3	0.0773%	0.0750%	62	62
BB+ / Ba1	4	4	0.1187%	0.1230%	52	51
BB / Ba2	5	5	0.1941%	0.1874%	40	41
BB- / Ba3	6	6	0.3393%	0.3117%	28	30
B+ / B1	7	7	0.5920%	0.6478%	18	17
B / B2	8	9	1.3882%	1.6084%	8	6
B- / B3	9	9	2.4828%	2.8715%	3	3
CCC+ / Caa1	10	10	3.3220%	10.3125%	2	1
CCC / Caa2	10	10	4.3623%	11.5646%	1	1
CCC- / Caa3	10	10	9.5968%	12.8666%	1	1
CC / Ca	10	10	24.4175%	22.7088%	1	1
C / C	10	10	31.9216%	29.5671%	1	1
Ca-C / D / SD	10	10	39.7201%	37.8130%	1	1

Consultation question

Question 5: Do you agree with our proposal to update the credit rating mapping to take account of two credit rating providers rather than three?

2.9 Special Category Employers

2.9.1 In 2018/19 we introduced 'special category employer' status into our levy rules in recognition that our insolvency risk model may not appropriately assess the risk of a small number of sponsoring employers close to government becoming insolvent. This is as a result of the unique characteristics of such employers, for example, where the employer can only be wound up by an Act of Parliament. When we consulted on the rule in March 2017, we highlighted two example employers, the Financial Conduct Authority, and the Pension Scheme for Nursing and Midwifery Council and Associated Employers.[8]

2.9.2 As expected, since the rule was introduced, very few employers have met the special category employer criteria. Under the rules (set out in E3.1(11) of the Determination) schemes with employers that are: classified by the ONS as part of 'central Government' (or foreign equivalent); the Crown; or are established by legislation/treaty, can apply to the PPF for 'special category employer' status if the nature of the employer's constitution, governance, function or sources of income are such that our insolvency risk model does not fundamentally capture the risk of the

[8] Pension Protection Fund, Third Triennium Consultation, (2018/19 to 2020/21), March 2017

scheme making a claim on the PPF. The scheme must also be very unlikely to enter the PPF in the foreseeable future.

2.9.3 We review the evidence provided to support the application and consider whether the above requirements are met. If they are met, the employer will be placed in levy band 1 for the purpose of calculating the schemes' levy.

We have received representations from stakeholders on how the criteria operate for the special category employer rules. This particularly relates to the criteria that the employer must be central Government (or foreign equivalent), the Crown or established under legislation/treaty (see Rule E3.1(11)(a)(i) and (ii) of the Determination). The concern raised is that these criteria risk excluding some employers that are under Government control and that would otherwise meet the special category employer requirements. We would welcome stakeholder views on this aspect of the special category employer rules.

Consultation questions

Question 6: What are your views in relation to how the existing criteria (Rule E3.1(11)(a)(i) and (ii)) on the special category employer rules operate in practice? What, if any, aspects of the criteria in E3.1(11)(a)(i) and (ii) do you consider should be amended or updated?

Question 7: Do you have any further comments on our proposed levy rules for 2025/26?

3. Alternative covenant schemes

3.1 Summary

3.1.1 We are proposing some minor updates to the alternative covenant scheme (ACS) guidance and stress and liability factors.

3.2 Update on alternative covenant schemes

3.2.1 The ACS methodology essentially applies to schemes that do not benefit from the covenant of a trading employer. It was introduced in its earliest form for schemes without a substantive sponsor (SWoSSs) for levy year 2017/18 and was later developed with the introduction of the commercial consolidators' methodology for levy year 2019/20. We brought these rules together under the banner of ACS from levy year 2022/23. We are expecting to issue our first ACS levy invoices for 2024/25 over the coming months.

3.2.2 The ACS levy methodology is based on option pricing formulae, reflecting the volatility of the underlying investment strategy relative to the liabilities, and the size of any capital buffer fund. Where parameters are common to both the ACS and our conventional levy methodologies, some divergences in approach may therefore be appropriate.

3.2.3 We are aware that some of the factors in our ACS levy methodology have remained unchanged since the introduction of the approach for SWoSSs for levy year 2017/18. However, the broader market picture is a fast-evolving area, with plans for superfund legislation announced in the recent King's Speech. Set against this backdrop, we consider that the introduction of legislation is likely to mark a sensible point to carry out a fuller review of our ACS methodology and rules. In advance of that, we would welcome any comments to inform our thinking for future years and we are proposing some minor updates for 2025/26 as set out below.

3.3 Proposed changes to ACS factors, rules and guidance

3.3.1 In common with our general approach as detailed earlier, we are proposing to update the asset and liability stress factors and risk factor stresses for ACSs, based on more recent experience using market data up to 31 December 2023. This would change the interest rate and inflation risk factor stresses in particular (Appendix 2 provides more information). However, in contrast to the conventional levy, we do not propose to adjust the stresses from one to two standard deviations. This is because the stresses inputted to the ACS levy methodology serve a different purpose – the option pricing formula already takes account of the full range of potential investment outcomes for the scheme and the stresses are simply a way to benchmark the calculation to appropriate asset and liability volatilities.

3.3.2 Following our experience of applying the ACS levy rules in practice, we are proposing some clarificatory and minor changes to the ACS Guidance, to support stakeholder understanding of what we expect (for example, a consolidated list of what we require in the combined legal opinion, so schemes can easily check that they've covered off all the requirements). We also believe it's worth emphasising again that we'd expect the ACS methodology to apply to a scheme which doesn't have the benefit of support from a trading business – for example, if a scheme replaces a trading employer with a shell employer company. We have published, alongside this consultation, the draft proposed changes to the ACS guidance.

Consultation questions

Question 8: What are your views on the ACS methodology? What aspects of our approach, if any, do you consider should be changed/updated for future levy years?

Question 9: Do you agree with our proposed approach to maintain the asset and liability stresses and the risk factor stresses at a calibration of one standard deviation for ACSs?

Question 10: Do you agree with our proposal to update the asset and liability factors to take account of market data up to 31 December 2023 for ACSs?

4. Customer service

4.1 Introduction

4.1.1 This section summarises the steps we have been taking to improve customer service.

4.2 Electronic invoicing

4.2.1 Electronic PDF invoices are sent to scheme contacts listed on the Pensions Regulator's Exchange database, as well as paper and electronic versions to scheme trustees. From 2023/24 levy year if you opted to only receive the levy invoice by email, the levy invoice will be sent by email to the scheme trustee(s) and to the PPF Levy Contact.

4.2.2 Our electronic invoices are issued using a system provided by Mimecast to ensure that they remain secure. Our invoices will originate from the address 'noreply@mail.ppf.co.uk'. However, if you are in any doubt about the legitimacy of an invoicing email, please do contact us at information@ppf.co.uk to confirm.

4.2.3 From September 2024 you will also be able to download your levy invoice from the PPF Score portal at https://www.ppf.co.uk/levy-payers/what-levy-and-who-has-pay-it/insolvency-risk-scores once it has been issued. You can view and download invoices only for those schemes that you have authorised access to on the portal.

4.2.4 Only the levy invoices for the levy years 2024/25 onwards will be visible on the portal. If you need historical invoices, please contact the Levy Customer Support Team on 0345 600 2541 (option 3) or by email levyinvoice@ppf.co.uk.

4.2.5 There is a video guide that will show you how to access the levy invoice on the portal.

4.3 Other improvements

4.3.1 We've also introduced the following new functionality to the portal responding to customer feedback.

4.3.2 If a user is no longer associated with a scheme, they can now remove the scheme from the list of schemes in their portfolio themselves.

4.3.3 Where there are no trustees associated to a scheme on the portal, a delegate request will be pending until a trustee is added. With the new enhancement, in this scenario an email is sent to the Levy Customer Support Team who will proactively contact the trustee and let them know that there is a request pending.

4.3.4 A portal user who hasn't had their delegate access authorised can now re-request access after seven days.

4.3.5 Finally, we have added two new how-to guide videos – How to manage access requests on the PPF scores portal and How to view your levy invoice, both of which can be also found at https://www.ppf.co.uk/levy-payers/what-levy-and-who-has-pay-it/insolvency-risk-scores along with other videos.

5. Draft levy rules for 2025/26

5.1 Proposed main changes to levy rules

5.1.1 The proposed main changes (as explained already), would be reflected in the levy rules as follows:

- Rule C1.2 of the Determination will include the updated scheme-based levy multiplier of 0.000018.
- Rule C2.2 of the Determination will include the updated levy scaling factor of 0.35.
- Table 4 of the Insolvency Risk Appendix will be updated to reflect the new mapping of public credit rated agencies.
- The Deficit Reduction Contributions Appendix and Guidance (both published in draft form alongside this consultation) will be updated to reflect the extension of Option Beta to all schemes and the new approach to determining the contributions to be certified under this methodology. As well as a consequential update to Rule G1.1(c) of the Determination.
- The Transformation Appendix will be updated to reflect the increased stress factors and the move to the output basis of version A11 of the s179 valuation assumptions guidance.
- The Alternative Covenant Scheme Appendix will be updated to reflect the stress factors on the extended market data.
- The Alternative Covenant Scheme Guidance (published alongside this consultation) will be updated to clarify what's required for the combined legal opinion, and to update examples of what is/is not an ACS.

5.2 Other minor changes

5.2.1 Update (d) of the definition of "Officer's Certificate" in the Determination, so as to recognise that the certificate could also be sent to the Board (so the end of the sentence reads "the Board or D&B").

6. Next steps and key dates

6.1 Next steps

6.1.1 We expect to publish our final rules for the 2025/26 levy in December 2024. Alongside this we plan to publish our policy statement which finalises our proposals for change following feedback to this consultation.

6.2 Key dates

6.2.1 The table below sets the proposed key dates in the coming year, as reflected in this consultation.

Item	Key dates and times
• Closing date for the 2025/26 consultation	• Wednesday 23 October 2024 – 5.00pm
• Publication of the final rules and policy statement	• End of December 2024
• Scheme returns and electronic contingent asset certificates to TPR	• 31 March 2025 – Midnight
• Asset-backed contribution certificates and special category employer applications to us	• 31 March 2025 – Midnight
• Send contingent asset documents to us	• 01 April 2025 – 5.00pm
• Start of 2025/26 levy year	• 01 April 2025
• Deficit reduction contributions certificates to TPR	• 30 April 2025 – 5.00pm
• Submit exempt transfer applications to us	• 30 April 2025 – 5.00pm
• Certify full block transfers with TPR	• 30 June 2025 – 5.00pm
• Publication of mean scores	• July 2025
• Invoicing starts	• Autumn 2025

7. Consultation arrangements

7.1 Timing and responding

7.1.1 The consultation runs from Thursday 12 September 2024 to 5pm on Wednesday 23 October 2024. Please ensure your response reaches us by the deadline. Submissions can be made online at: www.ppf.co.uk/levy-payers/help-shape-our-rules

7.1.2 There are two versions of online submission available to you, quick and full:

- The 'quick' submission allows respondents to review a summary of key proposals set out in our consultation, and the opportunity to give their views. It is designed to take only 10 to 15 minutes to complete. This version is designed for those who may not have time to respond to our consultations in full.
- The 'full' version sets out all the questions we are asking in this consultation, allowing complete responses, along with free format text fields for additional views to be submitted. This version of submission can either be completed online, or via an offline template which can be downloaded and once complete, uploaded via our website.

7.1.3 Please ensure you state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear whom the organisation represents and, where applicable, how the views of members were assembled.

7.1.4 Under the Freedom of Information Act 2000 (FoIA), all information contained in the response, including personal information, may be subject to publication or disclosure.

7.1.5 The respondent should limit any personal information which is provided or remove it completely. If a respondent requests that the information given in response to the consultation be kept confidential, this will only be possible if it is consistent with FoIA obligations and general law on this issue. Further information can be found on the gov.uk website:

https://www.gov.uk/make-a-freedom-of-information-request

7.1.6 A summary of responses and the Board's final confirmed policy will be published on the PPF website at:

https://www.ppf.co.uk/

8. Comments on the consultation process

8.1.1 The consultation is being conducted in line with the Cabinet Office’s Consultation Principles:

https://www.gov.uk/government/publications/consultation-principles-guidance

8.1.2 The Board would welcome feedback on the consultation process. If you have any comments, please contact:

External Affairs
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon, Surrey
CR0 2NA

Email: externalaffairs@ppf.co.uk

Appendix 1 Insolvency risk

A1.1 The PPF specific insolvency risk model

A1.1.1 Our insolvency risk model, which was originally developed in collaboration with Experian, continues to be operated by our insolvency risk partner, D&B. At the end of each month the likelihood of a scheme's sponsoring employer becoming insolvent over the next 12 months is assessed. An average monthly score is calculated for levy invoicing purposes and the scheme is placed in one of 10 levy bands (levy band 1 being the lowest risk).

A1.1.2 The model is used to apportion levy and it is important that the model correctly attributes sponsors across the full levy band spectrum and does not drastically deviate without reason.

A1.1.3 We recognise that every business is different and that no model can capture every sponsoring employer's unique characteristics. However, at a portfolio level the PPF model has performed very strongly in challenging and different circumstances.

A1.2 Model performance review

A1.2.1 We assessed the performance of the PPF scorecards between April 2023 and March 2024 in terms of their ability to discriminate between solvent and insolvent employers, ability to predict the insolvency count and rating volatility.

A1.2.2 The PPF model's ability to discriminate between solvent and insolvent employers has worked over different economic conditions: during the pandemic, rising interest rates and a technical recession.

A1.2.3 We use the Gini coefficient to understand how well PPF scorecards discriminate between solvent and insolvent employers. The Gini coefficient was 82.3 per cent during this review period. This is considered to be strong[9].

A1.2.4 We also assess the scorecards' ability to predict the insolvency count correctly by comparing the predicted insolvency rate with the actual insolvency rate. The expected insolvency experience is between 0.37 - 0.67 per cent. The observed insolvency count was 0.41 per cent which is within the expected range. We note that this rate is low compared to the average insolvency rate observed over the life of the PPF (0.72 per cent) or when compared against the insolvency rate observed for all firms in England and Wales over the same period (0.82 per cent).

A1.2.5 We also consider rating volatility. 57.4 per cent of the population stayed in the same levy band under the period in review, which is higher than the long-term average of 47.6 per cent.

[9] D&B considers scores Strong > 60 per cent, Good > 50-60 per cent, Satisfactory > 40-50 per cent, and Unsatisfactory < 40 per cent.

Appendix 2 Asset and liability factor changes

A2.1 Introduction

A2.1.1 We regularly review the liability and stress factors methodology and recent market data to determine if the stress factors remain appropriate. Most recently, Barnett Waddingham carried out a review for us into our methodology, and derived stress factors using market data up to 31 December 2021, which were implemented from the 2023/24 levy year. We continue to monitor market data to ensure that the stress factors remain aligned with actual volatilities, subject to internal tolerances.

A2.1.2 For the 2024/25 levy we decided not to update the individual factors in our asset and liability stresses to take account of significant volatility in interest rates seen over 2022 – to allow us to review stakeholder feedback to our long-term approach. An update would have resulted in the interest rate stresses increasing.

A2.1.3 For the 2025/26 levy we are proposing to make this change, updating the investment risk factors using historical market data up to 31 December 2023, where the extended data set means that the stress factors fall outside our tolerance. In particular, our review has pointed to increased volatilities in the nominal and real interest rate stresses.

A2.1.4 Correspondingly, the stress factors have changed for some bond asset classes to reflect the increased interest rate stresses and the reduced duration of some bond indices. For schemes who submit data under Tier 3, either voluntarily or because their liabilities are greater than £1.5 billion, this also leads to changed interest rate, inflation and credit risk factor impact stresses.

A2.1.5 It is proposed that these factors are used in the calculation of the stresses in the case of Alternative Covenant Schemes (ACS).

A2.1.6 In the tables below we detail the 2024/25 factors in use since the 2023/24 levy year, the impact of extending the historical market data set, and then the proposed 2025/26 factors for the general levy calibrated to two standard deviations. The stress factors on the extended market data are proposed to be used for ACS for 2025/26.

Liability stress factors	2023/24 & 2024/25 factors (1s.d.)	Proposed 2025/26 factors for ACS (1s.d.)	Proposed 2025/26 factors for non-ACS schemes (2s.d.)
Interest rate stress factor	-0.74%	-0.87%	-1.74%
Inflation stress factor	-0.11%	-0.05%	-0.10%

Asset stress factors – Tier 1	2023/24 & 2024/25 factors (1s.d.)	Proposed 2025/26 factors for ACS (1s.d.)	Proposed 2025/26 factors for non-ACS schemes (2s.d.)
Fixed interest UK government bonds	+17%	+16%	+32%
Fixed interest investment grade bonds other than UK government bonds	+3%	+4%	+8%
Fixed interest sub-investment grade bonds	-6%	-6%	-12%

Inflation-linked UK government bonds	+16%	+17%	+34%
UK quoted equities	-16%	-16%	-32%
Overseas quoted equities	-16%	-16%	-32%
Unquoted equities / private equity	-19%	-19%	-38%
Property	-4%	-4%	-8%
Diversified Growth Funds	-10%	-10%	-20%
Annuities	+16%	+16%	+32%
Cash	0%	0%	0%
Other	-19%	-19%	-38%

Asset stress factors – Tiers 2 and 3	2023/24 & 2024/25 factors (1s.d.)	Proposed 2025/26 factors for ACS (1s.d.)	Proposed 2025/26 factors for non-ACS schemes (2s.d.)
Fixed interest UK government bonds of short maturity (less than 5 years)	+2%	+2%	+4%
Fixed interest UK government bonds of medium maturity (5 to 15 years)	+6%	+7%	+14%
Fixed interest UK government bonds of long maturity (over 15 years)	+17%	+16%	+32%
Fixed interest UK investment grade quoted bonds (other than UK government bonds) of short or medium maturity (less than 10 years)	+2%	+3%	+6%
Fixed interest UK investment grade quoted bonds (other than UK government bonds) of long maturity (over 10 years)	+5%	+7%	+14%
Fixed interest overseas investment grade quoted bonds of short or medium maturity (less than 10 years)	+1%	+1%	+2%
Fixed interest overseas investment grade quoted bonds of long maturity (over 10 years)	+4%	+4%	+8%
Fixed interest quoted sub-investment grade bonds	-6%	-6%	-12%
Fixed interest private debt	-9%	-9%	-18%
Inflation-linked UK government bonds of short maturity (less than 5 years)	+1%	+2%	+4%
Inflation-linked UK government bonds of medium maturity (5 to 15 years)	+6%	+8%	+16%
Inflation-linked UK government bonds of long maturity (over 15 years)	+20%	+23%	+46%
UK quoted equities	-16%	-16%	-32%

Overseas developed market quoted equities	-16%	-16%	-32%
Overseas emerging market quoted equities	-16%	-16%	-32%
Unquoted equities/private equity	-19%	-19%	-38%
Property	-4%	-4%	-8%
Diversified Growth Funds	-10%	-10%	-20%
Absolute Return Funds	-5%	-5%	-10%
Deferred or immediate fully insured annuities	+16%	+16%	+32%
Cash and net current assets	0%	0%	0%
Other	-19%	-19%	-38%

Risk Factor Stress	**2023/24 & 2024/25 factors (1s.d.)**	**Proposed 2025/26 factors for ACS (1s.d.)**	**Proposed 2025/26 factors for non-ACS schemes (2s.d.)**
• UK equities	-16%	-16%	-32%
• Overseas developed market equities	-16%	-16%	-32%
• Overseas emerging market equities	-16%	-16%	-32%
• Interest rate	-74bps	-87bps	-174bps
• Inflation	-11bps	-5bps	-10bps
• Credit	+37bps	+22bps	+44bps

Appendix 3 Impact analysis

A3.1 Summary

A3.1.1 This section covers the impact of the policy changes described in Section 2.

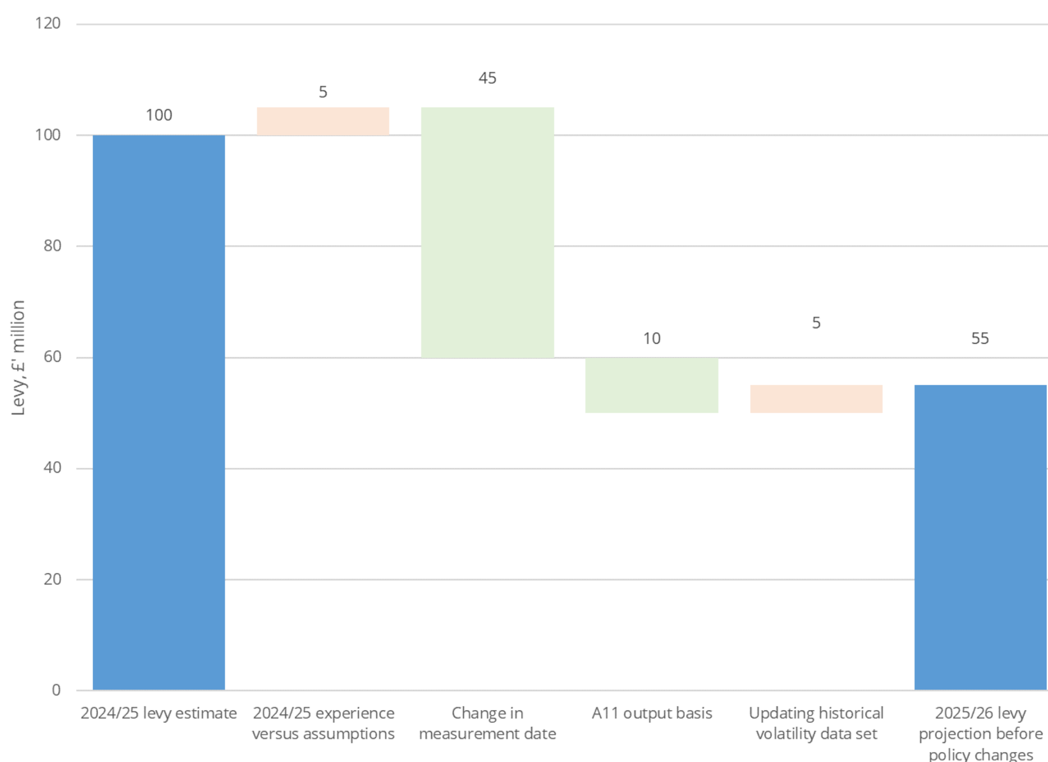
A3.2 Change in expected levy collection - before and after policy changes for 2025/26 levy

A3.2.1 We have analysed the change from the 2024/25 levy estimate to the expected 2025/26 levy collection, based on the policy changes set out in Section 2 to maintain the levy at £100 million.

A3.2.2 Before allowing for the proposed key policy changes, the projected 2025/26 levy is £55 million. Below is a breakdown of the change from the 2024/25 levy estimate of £100 million to this figure, which is also shown in Figure 6:

- Incorporation of 2024/25 invoicing data and actual market data up to 31 March 2024, to replace the assumptions made in the 2024/25 levy estimate. This leads to an increase in levy of £5 million. Most of this impact is due to new s179 submissions leading to higher underfunding than that assumed, partly offset by changes to asset allocation reported by schemes.
- The change in the measurement date from 31 March 2024 to 31 March 2025, moving the five-year smoothing period for the rollforward output forward a year; and to a far lesser degree, incorporation of insolvency score movement between April and June 2024. This reduces expected levy collection by £45 million.
- Change in the output basis from A10 to A11, reflecting more up to date measurement of buy-out pricing that reduces liabilities. This reduces expected levy collection by £10 million.
- Updating the historical data set used in the calculation of the stress factors up to 31 December 2023, incorporating higher volatility in interest rates and increasing the impact of the stress scenario. This increases expected levy collection by £5 million.

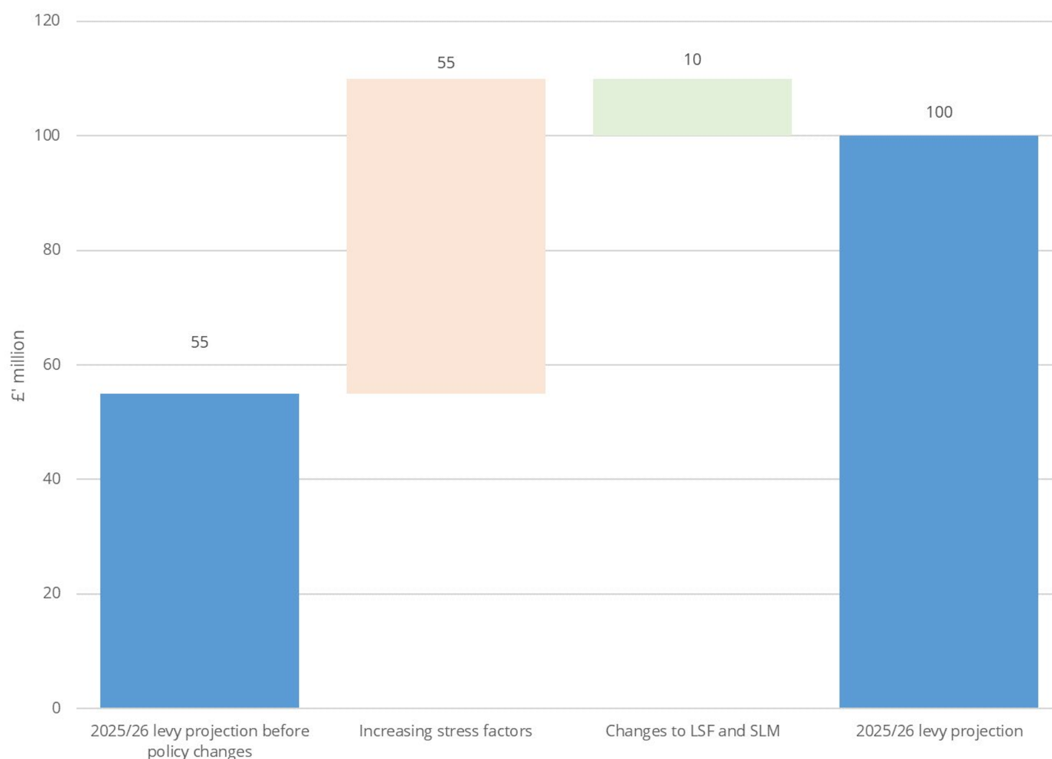
Figure 6: Change from 2024/25 levy estimate to 2025/26 levy projection



A3.2.3 The proposed policy changes in aggregate increase the expected 2025/26 levy collection by £45 million. This is reached by:

- increasing the stress factors, increasing the expected levy collection by £55 million;
- then decreasing the LSF from 0.40 to 0.35, and increasing the SLM from 0.000015 to 0.000018, thereby decreasing the expected levy by £10 million;
- while maintaining the total SBL at £20 million.

Figure 7: Change to 2025/26 levy projection from proposed policy changes



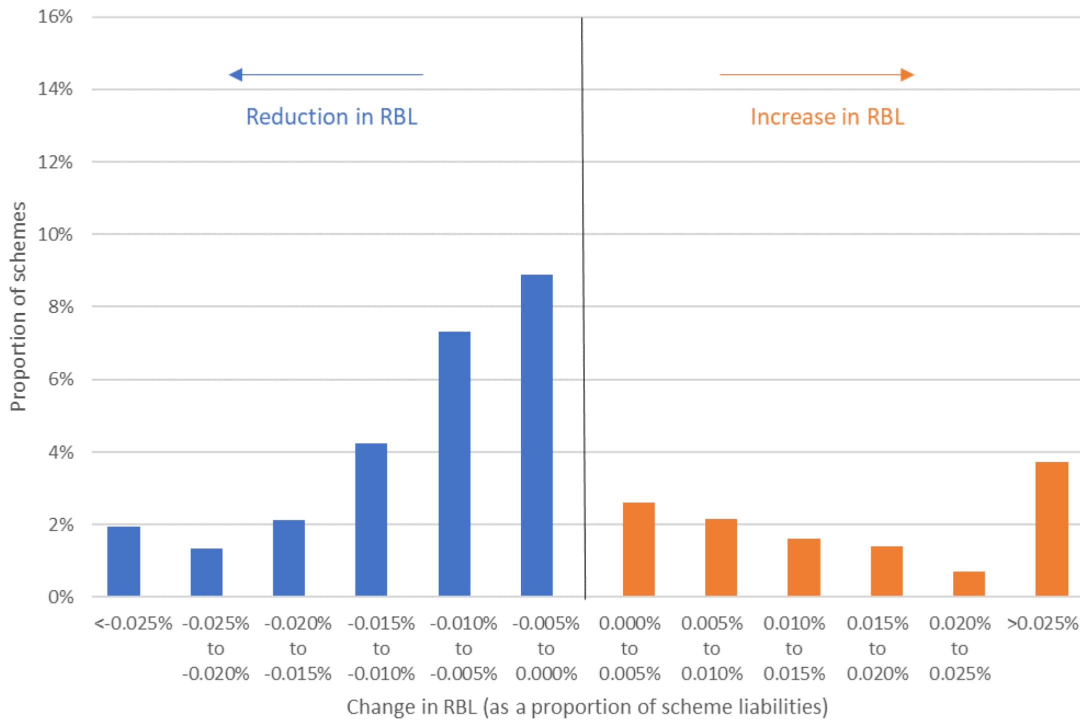
A3.3 Changes in levy before the key policy proposals

A3.3.1 Before the key policy changes, increased yields feed through into increased discount rates in the smoothed output basis, decreasing underfunding as measured in the levy. The implementation of A11 as the output basis further decreases liabilities used in the levy calculation and the underfunding. Updating the stress factors to reflect the extended data set leads to a smaller increase in underfunding. In combination, these effects, before the key policy changes, would lead to a reduction in the pool of levy payers paying a non-zero RBL from c. 38 per cent in 2024/25 to c. 23 per cent.

A3.3.2 On the 2024/25 LSF and SLM, the expected 2025/26 levy collection would total around £55 million, with the SBL expected to be in the region of 30 per cent of the total levy. Without the key policy proposals that increase the pool of RBL payers and the amount of RBL paid, we would instead need to increase the LSF to 0.88 and the SLM to 0.000018 to reach a 2025/26 levy collection of £100 million, with 20 per cent SBL.

A3.3.3 With an increase in the LSF to 0.88, the RBL would be concentrated on c. 23 per cent of schemes, with around 60 per cent of those schemes seeing an increase in RBL versus 2024/25, and nearly four per cent of schemes would see an increase in RBL as a proportion of liabilities versus 2024/25 of 0.025 per cent or higher.

Figure 8: Distribution of changes in RBL between 2024/25 and 2025/26 if LSF increased to 0.88 (not displaying schemes whose RBL doesn't change)



A3.4 Impact of key policy changes

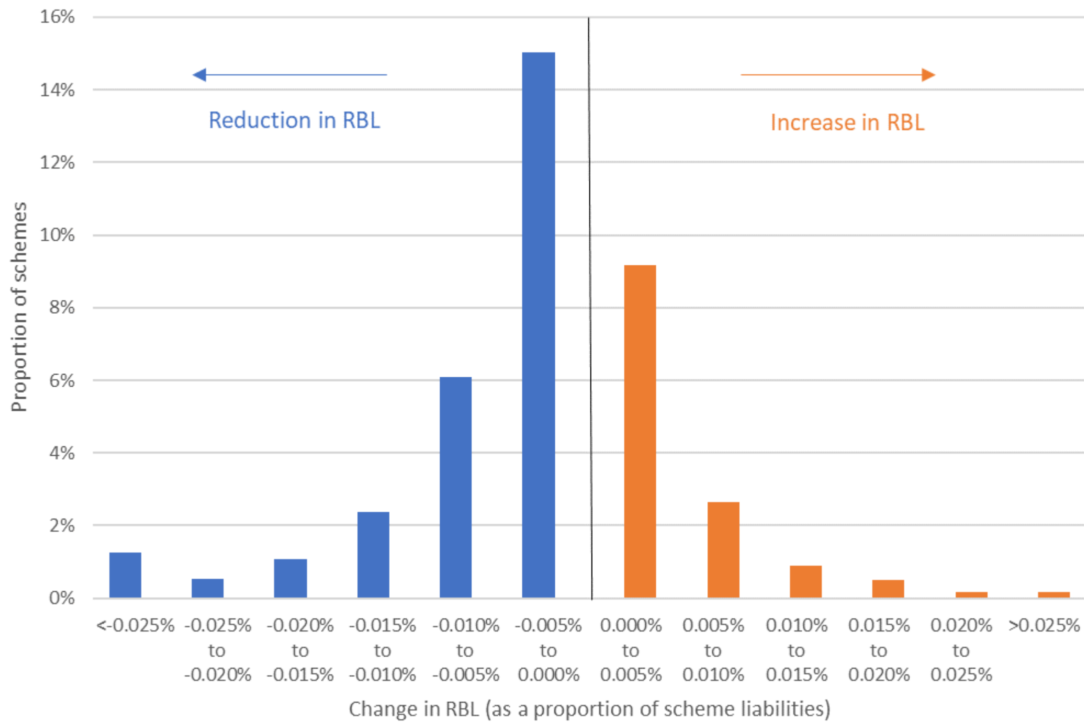
A3.4.1 In 2024/25, 38 per cent of schemes are expected to pay a non-zero RBL. This would be expected to reduce to 23 per cent if we were to make no policy changes (or increase the LSF to collect £100 million) in 2025/26. The key policy proposal of increasing stresses to two standard deviations is expected to increase the proportion of schemes paying a non-zero RBL in 2025/26 to 37 per cent.

A3.4.2 Decreasing the LSF to 0.35 and increasing the SLM 0.000018 leads to a total £100 million levy with 80 per cent RBL. The impact of the change to the LSF dampens some of the increases in RBL where the increased stress increases schemes' RBL.

A3.4.3 The change in SLM offsets the expected continued reduction in liabilities, so schemes will generally end up paying broadly the same SBL as in 2024/25.

A3.4.4 The combined impact of the policy changes means that over 85 per cent of schemes will see an RBL that is lower than or equal to their 2024/25 RBL, and a further nine per cent of schemes are expected to see their RBL increase by less than 0.005 per cent of their liabilities.

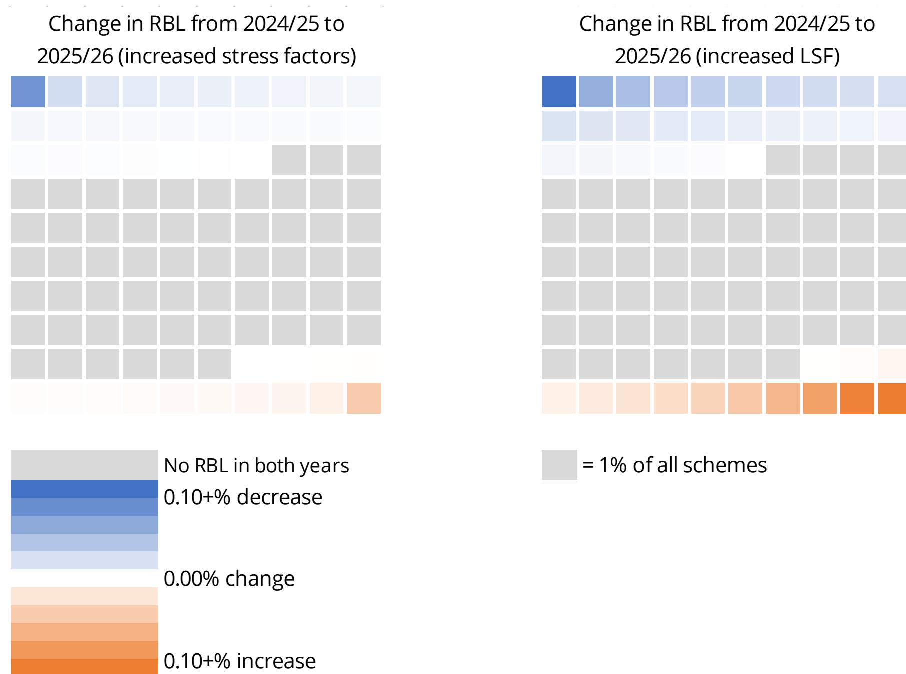
Figure 9: Distribution of changes in RBL between 2024/25 and 2025/26 if asset and liability stress factors increased to two standard deviations (not displaying schemes whose RBL doesn't change)



A3.4.5 Of the less than five per cent of schemes that are expected to see increases in RBL as a proportion of liabilities of over 0.005 per cent, reasons for the increase in RBL will vary according to their characteristics, such as increases in insolvency risk, block transfers, and the extent to which the increased stress increases their underfunding.

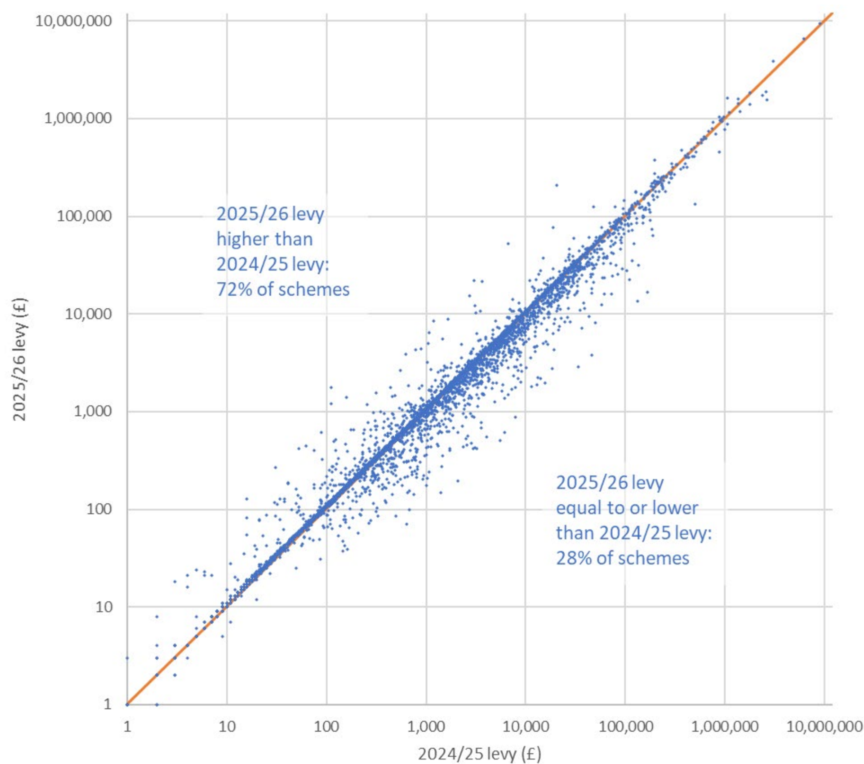
A3.4.6 As shown by Figure 8 and Figure 9, we expect that increasing the stress factors to two standard deviations and reducing the LSF to 0.35 will result in a levy distribution much closer to that in 2024/25 than if we increased the LSF in 2025/26 to 0.88. For those schemes that see an increase in RBL, the increases are much milder and more broadly spread out under the increased stress policy, compared to maintaining the stresses and increasing the LSF. The comparison can be seen more directly in Figure 10.

Figure 10: Comparison of distribution of changes in RBL as a proportion of liabilities between 2024/25 and 2025/26 under the different policy options



A3.4.7 The following chart shows a point-by-point comparison of 2024/25 and 2025/26 **total** levies. The orange diagonal line represents equal levies in both years. Points above the line represent schemes whose levy is higher in 2025/26 than in 2024/25, and vice versa. Please note that this is a logarithmic graph rather than a linear one, so each increment in scale represents 10x the previous value.

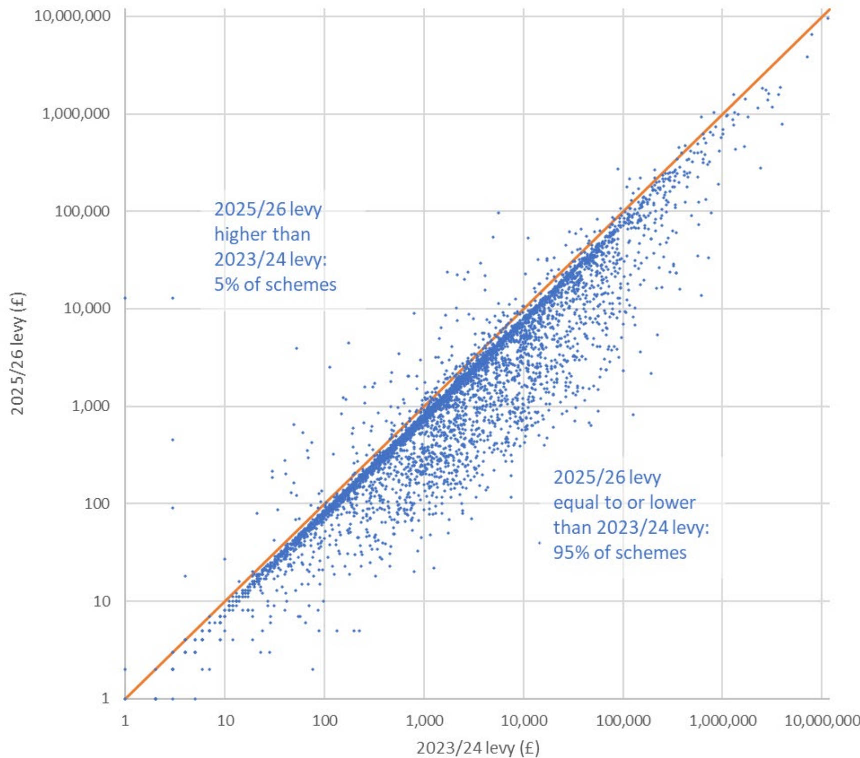
Figure 11: Total levies that we expect schemes to pay in 2025/26 compared to their expected levies in 2024/25



A3.4.8 This shows that, although a high proportion of schemes' levies are expected to increase between 2024/25 and 2025/26, the increases for the vast majority of schemes are very small – as shown by the clustering of points around the centre line.

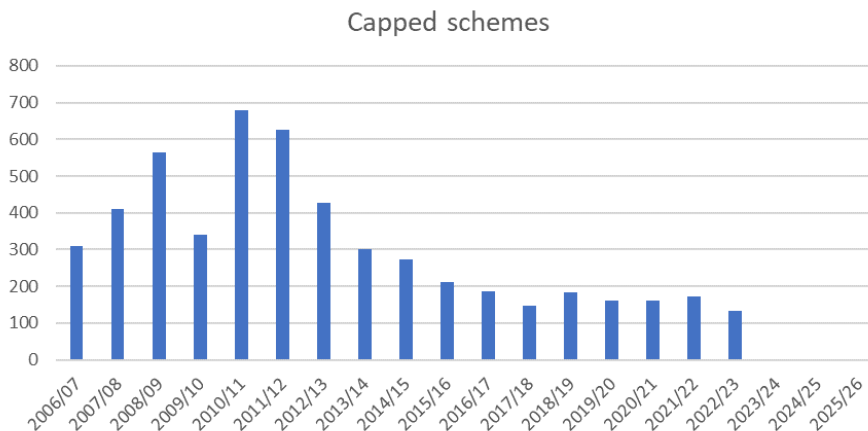
A3.4.9 In a similar way, we can see that almost all schemes' 2025/26 levies are lower than they were in 2023/24:

Figure 12: Total levies that we expect schemes to pay in 2025/26 compared to their levies in 2023/24



A3.4.10 The levy has fallen steeply in recent years to record lows, both in absolute terms and as a proportion of the size of schemes. In both 2024/25 and 2025/26, individual levies remain low as a proportion of scheme liabilities. This is highlighted by the fact that no scheme reached the 0.25 per cent cap on RBL in 2023/24 or (projected) 2024/25. We expect that only a single scheme will be capped in 2025/26 under the proposed policy changes.

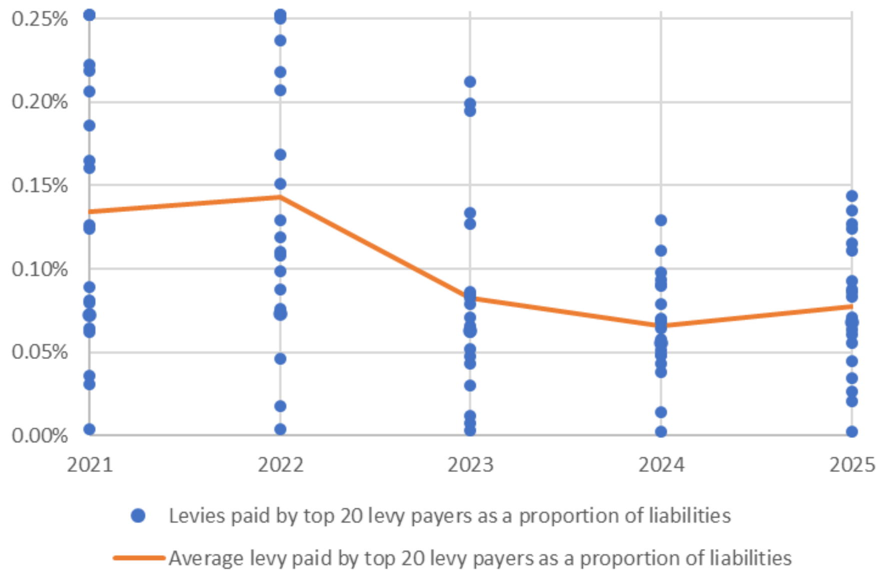
Figure 13: Schemes with capped RBLs, per year



A3.4.11 By contrast, we expect that 13 schemes would reach the RBL cap in 2025/26 if we were to retain the current stress factors and instead increase the LSF to 0.88.

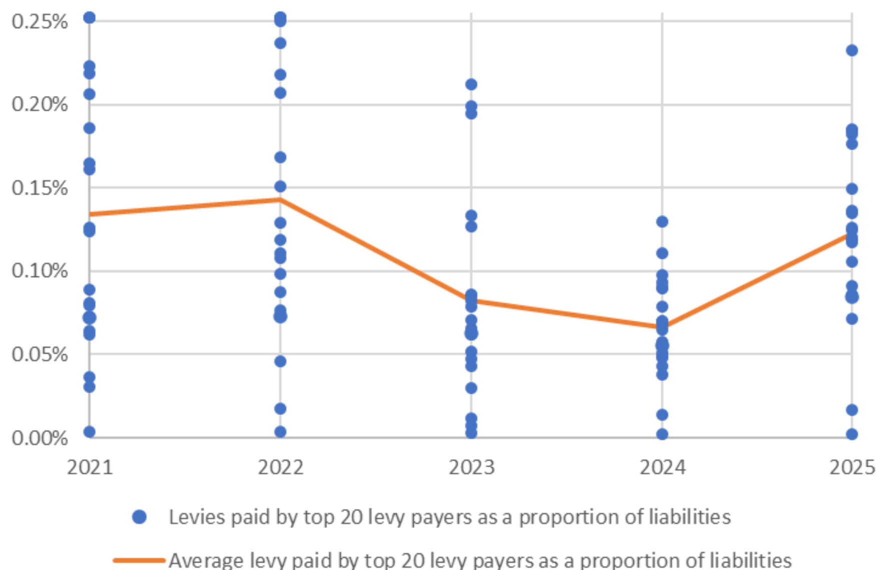
A3.4.12 We have also investigated the impact of the policy changes on those schemes who contribute the most towards our levy. Amongst these is a number of large open schemes. Figure 14 below shows how the levies paid by the top 20 levy payers in each year have generally been reducing as a proportion of their liabilities. This remains low in 2025/26 under the proposed policy changes.

Figure 14: Top 20 levy payers (by £ amounts) from 2021/22 to 2025/26: levies as a proportion of liabilities (assuming stress factors increased to two standard deviations in 2025/26)



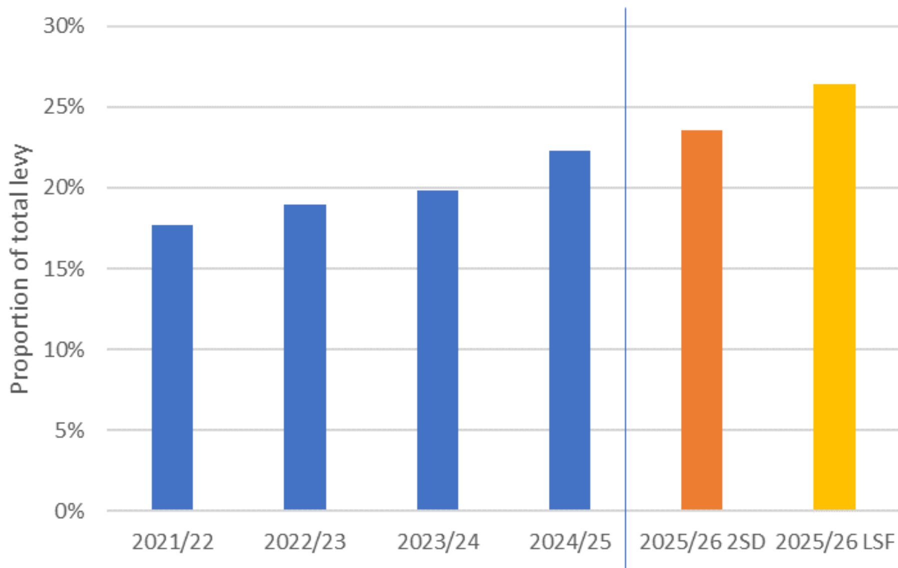
A3.4.13 If we retained the stress factors and increased the LSF in 2025/26, the top 20 levy payers would pay significantly more levy, as seen in Figure 15:

Figure 15: Top 20 levy payers (by £ amounts) from 2021/22 to 2025/26: levies as a proportion of liabilities (assuming LSF increased to 0.88 in 2025/26)



A3.4.14 As the pool of levy payers has shrunk in recent years, the levy burden has fallen increasingly on these large schemes. In particular, the top five levy payers in each year have paid an increasing proportion of the total levy over the last few years. This is expected to continue to some extent in 2025/26, but the proposed policy of increasing the stress factors should spread the levy more evenly and limit the burden on the top five schemes compared to increasing the LSF.

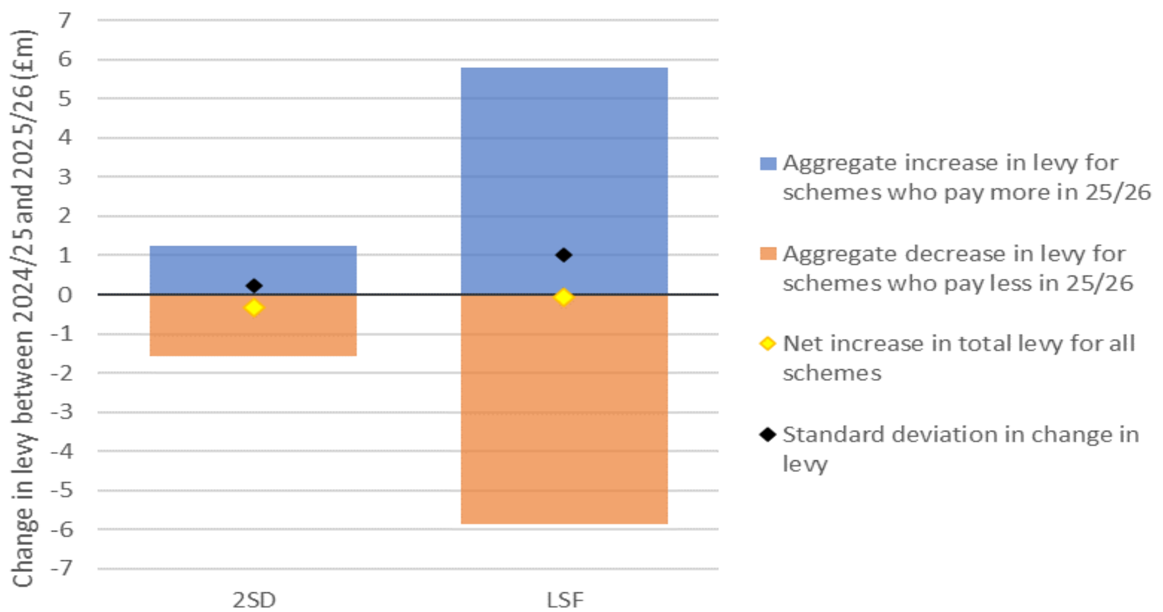
Figure 16: Share of total levy paid by top five levy payers based on (a) the proposed policy of increasing the stress factors to two standard deviations and (b) the conventional policy of increasing the LSF



A3.4.15 We have also looked specifically at the impact of the different policy options on schemes that are open to accrual – particularly the larger schemes. Our latest data contains around 20 of these schemes who are expected to pay an RBL in 2024/25 and/or in 2025/26, and have liabilities over £1.5 billion. Our analysis suggests that our proposed policy of increasing the stresses is likely to be more favourable for these schemes than the alternative:

- The scale and variance in levy increases/decreases since 2024/25 are much lower under the stress option than the LSF option, and
- These schemes see a greater aggregate net decrease in levy under the stress option than under the LSF option.

Figure 17: Impact on levy changes between 2024/25 and 2025/26 under each policy option for the c. 20 largest open schemes expected to pay an RBL in either year



Appendix 4 Assumptions used to forecast levy collection

A4.1 Introduction

A4.1.1 Each year, we are required to set an estimate of overall levy collection. We do this by modelling each scheme's expected underfunding and sponsor insolvency scores to arrive at a scheme-level estimate, and combine that with the more general trends and impacts we anticipate.

A4.1.2 As set out in Section 2, we have proposed changes to the levy rules, in particular a decrease in the LSF from 0.40 to 0.35, and an increase in the SLM from 0.000015 to 0.000018. The following subheadings set out our methodology and analysis on these movements that have led to our forecast for levy collection of £100 million for 2025/26.

A4.1.3 We have arrived at the 2025/26 collection forecast after making assumptions about data that will not be known until April 2025 or later.

A4.2 Scheme funding

A4.2.1 We have assumed that new s179 valuation filings will have broadly the same relative impact as that observed in 2024/25, where the new s179 submissions led to less positive funding levels than implied by the levy rollforward methodology, and hence will act to increase levy. We have also assumed that there will be some continuation of the observed reductions in levy from changes in asset allocations seen in 2024/25.

A4.3 Insolvency risk

A4.3.1 The estimate of levy collection assumes that, in aggregate, insolvency risk for the remainder of 2025/26 remains stable from June 2024.

A4.4 Risk reduction

A4.4.1 Given that scheme funding levels remain at historically high levels and that the proposed total levy collection remains historically low, we have assumed that use of risk reduction measures, such as contingent assets and ABCs, remains in line with 2024/25. So we have assumed no change to the impact on levy.

Pension
Protection
Fund