Pension Protection Fund

Levy policy statement

Levy rules 2024/25

Foreword

I am pleased to introduce this policy statement which marks the conclusion of our consultation on the rules for the levy in 2024/25. The consultation covered our thinking on the levy in an environment that has changed significantly in recent years – with improved scheme funding and our growing reserves – but with the levy legislative framework unchanged from 2004. Setting the right path in this context is not straightforward and I am grateful for the thoughtful contributions provided.

Our proposals for 2024/25 were met with support from respondents. I can confirm that we are proceeding with our approach of minimum change for this year and that we will be proceeding with the proposals as consulted on, including the £100 million levy estimate. This represents a 50 per cent reduction in the levy estimate compared to last year and will be the lowest levy we have ever charged. As a result, almost all schemes will see a fall in their levy.

Looking beyond 2024/25, our Board expects to continue to charge a levy at that level in future years. This reflects the constraints of our governing legislation. While the majority of respondents understood and supported our approach, almost all felt strongly that legislation should be changed as soon as possible to allow us to move to a much lower or even a zero levy. I can reassure levy payers that we are working with the Department of Work and Pensions on this, and they have agreed to revisit the legislation as soon as parliamentary time allows. In the interim, we will keep the amount we charge under review, in case of material changes in the risk we face and will continue to consult on our approach each year.

Respondents also provided us with feedback and suggestions on how the PPF can distribute a levy of £100 million most appropriately until legislation is changed. In particular, respondents were keen to ensure that any approach remained risk-reflective and took account of the risk of different types of schemes. As part of our ongoing development, we will take account of the feedback and additional analysis we have undertaken, to help us balance the interests of a wide range of levy payers, including open schemes.

We also explored the potential for simplifying the levy, where some responses expressed caution about major change and noted the potential for transitional costs. I can assure stakeholders that, particularly with the prospect that the levy might only need to be charged for a limited time, we will aim to avoid changes that cause significant upheaval. Rather, our focus will be on measures that could reduce burdens on schemes. Respondents also provided suggestions on possible areas of simplification for the levy, particularly around some rules and processes. The feedback will inform our proposals for the future – which we will return to in the 2025/26 levy consultation.

We are grateful to all who have engaged with us – those who responded to our consultation, the SME Forum, and all others who have helped inform our approach.

David Taylor

David Taylor
Executive Director and General Counsel

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1. Key conclusions

On 11 September 2023, we launched the consultation on the Levy Rules for 2024/25. It closed on 30 October 2023, and we received a total of 22 responses. These were considered in determining the final Levy Rules.

We have now completed our consultation and are publishing our conclusions together with the Levy Rules for 2024/25. The headlines are:

Levy estimate
• We confirm the levy estimate is £100 million.
Levy parameters
• The Levy Scaling Factor (LSF) and Scheme-based Levy Multiplier (SLM) are confirmed as 0.40 and 0.000015 respectively, and the risk-based levy cap at 0.25 per cent of scheme liabilities. • We will continue to use A10 as the output basis and will not be making changes to the asset and liability stresses.
Other
• We will be moving to use two credit rating agencies' ratings in the levy – S&P and Fitch. As set out in section 3, this is expected to have limited impact on schemes.

We have also received helpful feedback about our approach to the levy from 2025/26 onwards, including options for simplification. This is summarised in section 4 and will inform our consultation on the 2025/26 rules next year.

The Levy Rules that will govern the calculation of the levies for 2024/25, as specified in the Board's Determination under section 175(5) of the Pensions Act 2004, are published alongside this policy statement. Together with the Levy Rules, we have published guidance for schemes on how to meet the requirements of the Levy Rules, and to explain how we expect to act in the areas where the Levy Rules provide us with flexibility.

The next section highlights the main themes arising from the consultation responses, our analysis, and next steps.

2. Charging a levy of £100 million

2.1 Introduction

2.1.1 The consultation set out why, given the current legislation, we will need to aim for a levy of £100 million each year. This would retain the Board's ability to return to a material levy within a reasonable period, should that be required if PPF funding or risk in the DB universe significantly worsen.

2.2 Summary of responses

Table 1: Responses to consultation on charging a minimum levy

Question	Agree	Disagree	No opinion
Do you agree that our approach to charging a minimum levy is appropriate given our legislative framework?	68%	27%	5%

2.2.1 We had 22 consultation responses on whether our approach to setting a levy is appropriate given our legislative framework. Of these, 15 agreed with the proposal and six disagreed (Table 1).

2.2.2 Key reasons respondents provided for agreeing with the proposal included accepting the need for the Board to preserve flexibility to respond to extreme events given the legislative constraints. However, those supportive of the Board's approach were clear it would be desirable for legislation to be changed. Respondents urged the Board to work with government to secure the legislative change needed.

2.2.3 Six respondents disagreed with the proposal and questioned the £100 million minimum levy, but for different reasons. Four argued we should be prepared to allow the levy to fall lower regardless of the legal constraints. In contrast, two respondents argued we should prioritise member compensation over levy reductions.

2.2.4 One other respondent also made a wider point in their response, highlighting that the PPF already had a process in place for dealing with adverse claims scenarios, such as reducing member benefits; therefore, we did not need to set a floor and could let the levy fall.

2.2.5 As part of the theme, respondents were also interested in understanding more about what risks the PPF faces that might necessitate a return to charging a material levy in future.

2.2.6 We had three responses that made points about the lack of clarity about what happens to PPF excess reserves and noted that there is no agreed use of these reserves. One respondent made the point that, as significant contribution has come from schemes/sponsors, excess reserves ought to return to them. For example:

"Our members have raised with us again the desire for a discussion at some point in the future around the use of the PPF's reserves (which, as noted previously, has reached over £12 billion) once all compensation payments have ceased, or are close to ceasing. While we appreciate that this is still some way off, there is a strong feeling by our members that a significant part of the PPF's funding has come from DB schemes and sponsoring employers (along with investment growth and recoveries). Therefore, while we recognise that there is a role for Government to play in agreeing the final approach, we believe there is a valid argument that levy payers should have a significant influence on how excess funds are treated at the appropriate time." (PLSA)

2.3 PPF response

2.3.1 We are pleased that the great majority of respondents understood our position and our legislative constraints and are supportive of us setting a minimum levy. We also recognise the very clear message we have received from respondents that progressing the case for legislative change with the Department of Work and Pensions (DWP) should be a key priority. More detail about our response to the main issues raised is set out below.

2.4 Updating the Pensions Act 2004

2.4.1 We have been working with DWP on our thinking regarding the development of the levy and have also now shared the feedback we received as part of the consultation. DWP are considering the points raised and expect to legislate as soon as Parliamentary time allows. We will continue to work with them on this.

2.4.2 We hope this reassures stakeholders that any action needed to maintain a minimum levy is likely only to be for the short term. In the meantime, we need to continue setting our levy rules as we consider appropriate within our current legislative framework.

2.5 Minimum levy

2.5.1 While most respondents accepted the rationale for maintaining a minimum level for the levy given the current legislative limits on charging, a few did challenge the need for a minimum level, pointing to our strong funding position and recent improvements in funding across the DB universe. By contrast, a couple of responses argued that rather than allowing the levy to fall, the levy should be used to augment PPF compensation.

2.5.2 We recognise that currently the PPF is in a strong financial position. However, our long-term risk model (LTRM) suggests that, even with the improvements in our own funding position and the DB universe funding, there is still a risk that our reserves fall below the level required by our funding strategy. This alone obliges us to prepare for how we might respond to such a scenario in future. Moreover, our decision to set a minimum levy is not solely based on the results of this modelling.

2.5.3 As with all models, there are limits to the predictive capabilities of the LTRM, and unlikely events outside its range can and do occur. In March 2021, none of the thousands of economic scenarios independently generated and used in the LTRM allowed for annual inflation to rise to over 10 per cent within the following two years, nor for gilt yields to rise to the levels seen in September 2022. We are acutely conscious of how quickly the state of funding in the PPF universe has changed in recent months, and how it might change in future.

2.5.4 Another limitation of our modelling is the detail and frequency of the data that we receive. Most schemes only submit a section 179 valuation once every three years. The information we collect via the s179 valuation is limited by design, in order to reduce the administrative burden on schemes, but this also means it may not capture all of the information we would need to model more complex events. We do not hold sufficient data about schemes to allow us to reflect the impacts of the LDI market disruption in 2022. Some schemes are likely to have been forced to sell assets at a loss to meet collateral calls; some may have even experienced an unwinding of their LDI arrangements. We cannot know the full extent of events like these until the affected schemes submit their next s179 valuation, so there is a risk that our current data suggests an optimistic view of scheme funding[1].

2.5.5 Furthermore, not all of the risks we face can be captured by modelling. One of the risks that we, and all of the PPF universe, are subject to is legal risk. This can arise not only from new legislation, but also from new case law about existing legislation. Recent examples of matters we have had to consider in respect of legal risk include the Hampshire judgment, the Hughes judgment, the Bauer judgment, the Lloyds judgments (regarding GMP equalisation), and – very recently – the Virgin Media judgment. The impact of legal risks on the PPF's funding and claims has the potential to be significant and – although we don't hold reserves to cover these risks – we must retain the ability to respond to them if needed.

2.5.6 For all these reasons, although our modelling suggests that the PPF currently has enough funding to cover its liabilities in the majority of modelled scenarios, we are not prepared to take a potentially irreversible decision now that severely inhibits or entirely removes our ability to respond to risks that may develop in future. To do so would mark a substantial move away from the operational independence created through the legislation[2]. We highlighted the Secretary of State's power to increase the 25 per cent restriction on the levy estimate increase year-on-year (subject to a commencement order, consultation, and parliamentary process) in the consultation, and respondents commented on this too. We believe that this power does not offer us the flexibility we need if a funding issue develops in future – and we need to ensure we have the ability to operate independently and to respond promptly to any such funding risks.

2.5.7 Nor do we consider that it would be appropriate to rely upon the power to reduce member compensation to deal with scenarios that could be covered by an affordable levy.

2.5.8 Our only option to ensure that we will be able to charge a material levy in future, without relying on possible legislative change, is to set a minimum levy now. We think £100 million strikes the right balance between this need and our recognition of the improved funding levels and lowered risk in the PPF universe. While it allows us to raise a material amount of levy within an appropriate timescale in future, this levy estimate is a historic low – half of the lowest levy estimate we have ever previously set. Our figures suggest that almost all schemes will see significant reductions in their levy, compared to previous years, as a result.

2.5.9 We appreciate and fully agree with many respondents' comments that this is a less than ideal situation. We are actively engaging with the DWP on the legislative changes that would allow us to reduce or remove the levy without jeopardising our ability to raise funds in future. However, our proposed policy changes are based on the legislation as it currently stands.

2.5.10 As respondents requested in their consultation responses, we will keep our approach under review each year. This includes considering whether there are significant changes in our funding position or risk and taking account of any other relevant factors. This consideration will also continue to form part of our annual consultation on the levy.

[1] PwC's October 2023 report "Long-term funding targets: 2023 survey results" estimated that around 10 per cent of schemes will have seen their funding position worsen following the events of 2022. It is likely that our model will be assessing many of these schemes as better funded, rather than worse funded. How material this is will depend upon the schemes involved.

[2] When government was exploring setting up the PPF, one of the key lessons from looking at the US experience of the Pension Benefit Guaranty Corporation was the need to ensure that a UK DB pension lifeboat had independence in the ability to raise and vary the levy.

2.6 Other uses of PPF reserves

2.6.1 Some respondents argued that the PPF should be prioritising increases in compensation for members over reductions in the levy. We recognise the difficult situation for members due to increases in the cost of living. Changes to PPF compensation levels are a matter for government and we have shared these responses with DWP. For now, our responsibility is to set the levy reflecting the legislation as it stands. We are, however, providing input and analysis to help government make informed decisions on these matters. For instance, to help inform the Work and Pensions Select Committee inquiry on defined benefit pension schemes, we set out our analysis of the cost and other impacts of changing indexation levels[3]. This includes the point that any changes in PPF compensation could influence our thinking on the levy.

2.6.2 We also had four respondents suggesting that there should be greater clarity on the ownership of reserves and how these could ultimately be used. As respondents noted the point at which we can be certain that any reserves are not required remains many years into the future. The use of PPF reserves is limited by the Pensions Act 2004, and setting out additional uses for PPF reserves would require fresh legislation. Recognising that this is a matter of interest to stakeholders we are sharing different stakeholder views and perspectives with DWP.

[3] PPF, Response to the Chair of Work and Pensions Select Committee, Pension Protection Fund compensation levels, 8 November 2023

3. Proposals for the 2024/25 levy

3.1 Introduction

3.1.1 Our consultation laid out our plans for the Levy Rules for 2024/25, including setting the levy at £100 million (half of the 2023/24 estimate). We proposed making no changes to our methodology other than those needed to achieve the £100 million estimate, namely a small adjustment of the Levy Scaling Factor (LSF), and a corresponding adjustment to the Scheme-based Levy Multiplier (SLM) to ensure, in line with legislation, that the proportion of the levy that is scheme-based (SBL) does not exceed 20 per cent.

3.1.2 As a result of the desire to make limited changes, we also proposed to delay a review of the asset and liability stress factors in the levy and the introduction of the A11 assumptions in our output basis (i.e. to continue using A10 assumptions in our levy calculations).

Table 2: Responses to consultation on proposed minimal change for 2024/25

Question	Agree	Disagree	No opinion
Do you agree with our proposals for 2024/25? / Do you agree with our proposal to minimise changes (delaying the introduction of A11, and the updating of asset and liability stress factors) to limit adjustments to the levy scaling factor (LSF) for 2024/25?	59%	32%	9%

3.2 Comments on our overall approach of minimal change

3.2.1 We received overall support for our proposals to limit policy change in 2024/25 (Table 2). The majority of respondents agreed that it was reasonable to do so while we engage with respondents on the distributional changes that may be necessary in future years in the context of a levy of £100 million. For example:

"We agree with the proposal to limit change whilst considering ways of simplification in the future (alongside the possibility of legislative changes to potentially minimise the levy required) ... We welcome the potential result that 99% of schemes will see a reduction in the levy this year." (Representative body)

"We are supportive of this change on the basis that it gives the PPF more time to fully reflect on the future of the levy." (Advisor)

3.2.2 On the whole, a larger adjustment to the LSF (as would otherwise be required were we to implement A11 assumptions) was seen as undesirable.

"We are supportive of the PPF's proposal to delay the introduction of A11 to avoid the need to increase the LSF further." (Advisor)

"Retaining A10 will increase the pool of risk-based levy payers, which allows you to keep the LSF at a lower rate for 2024/25. We believe that charging a marginally higher rate to a greater number of schemes is a more desirable result than charging a much higher rate to a fewer number of schemes." (Advisor)

3.2.3 Those in disagreement with our approach of minimal change tended to be those who objected to the intention to set a minimum levy of £100 million. These respondents suggested that the levy should be allowed to fall further and therefore felt that the proposals intended to minimise the adjustment to the LSF were not necessary.

3.3 Comments on individual components of the 2024/25 proposals

3.3.1 The majority of responses did not offer comments on individual aspects of the proposed 2024/25 package.

3.3.2 Of those that did, nine offered opinions on our proposal to retain A10 as our output basis for 2024/25. Most were in favour of this approach – with six favouring the measure and three arguing against. Those arguing against (generally those in opposition to our overall approach of maintaining a levy of £100 million) highlighted that A11 reflects up-to-date buy-out pricing and is therefore a better reflection of risk, and that moving to A11 would be more consistent with the levy setting process in previous years. It was also suggested that the increase to the LSF need not be limited, and a larger adjustment should be considered as a way to maintain a levy of £100 million while moving to A11.

3.3.3 Those specifically commenting on our proposals not to make a change to the asset and liability stresses this year agreed with our approach. Responses pointed to the benefit of minimising volatility in levies, minimising change this year given the broader thinking on the levy methodology in 2025/26, and agreement that updating the stress factors prior to a wider review of our approach is not appropriate.

3.3.4 As noted in the consultation document, we recognise that A11 reflects the latest changes in buy-out pricing and did consider applying a larger adjustment to the LSF. We remain of the view that minimising change, maintaining the pool of risk-based levy (RBL) payers, and limiting the increase to the LSF is the better approach.

3.4 Data for credit ratings

3.4.1 In the consultation we explained that we were in commercial negotiations with the three credit rating providers and, depending on the outcome, we may reduce the number of providers we use to two for the 2024/25 levy year. Due to the ongoing nature of the commercial negotiations we were not, at that time, able to indicate which rating agencies we would be continuing to use. We stated that we would provide an update as part of the policy statement and contact the schemes affected by the change.

3.4.2 While we received no comments specifically opposing this proposal, a small number of responses indicated a preference that we delay any change until 2025/26. These respondents noted that without an indication of which credit score providers would be retained, establishing the impact to specific schemes was not possible, and that implementing the change in 2024/25 would involve overriding scores that have been published since March 2023.

3.4.3 We have since concluded the commercial negotiations with our credit rating providers. The position reached means that by continuing to use S&P and Fitch, but ceasing to use Moody's, we will be able to reduce the cost of incorporating credit ratings into the levy by almost 50 per cent. At the same time, we will still be able to access credit ratings for around 90 per cent of entities with a public credit rating. We note that the performance of the PPF-specific model, which entities no longer credit rated will transfer to, continues to be excellent this year[4], so we can be confident scores will be appropriate.

3.4.4 We have also considered the impact on individual levy payers. While inevitably we have to make assumptions in order to assess the possible impact on schemes of ceasing to use Moody's scores, our analysis suggests that it is likely to be extremely limited. There are three ways in

[4] Year to date Gini 79 per cent

which levy scores could be affected by ceasing to use Moody's. Firstly, some schemes have employers rated only by Moody's. However, there are very few schemes in this position and fewer still (below 20) that we expect to pay a risk-based levy. The PPF-specific model would place almost all these employers in the same levy band as the one they would have been in if using the Moody's rating.

3.4.5 Secondly, some schemes may have an employer with an ultimate parent rated only by Moody's. The impact for these schemes is proportionally smaller, as the parental score is just one component of the employer score. Again, we expect that the impact of the change is likely to be limited.

3.4.6 Thirdly, for employers or guarantors rated by more than one credit rating agency, we currently take the 'second best' score. For those rated by Moody's and one other, scores would either remain the same or improve as a result of the change. For those rated by all three agencies, there is the *potential* for deterioration in score but again, only a limited number of schemes have employers or guarantors in this position, all of whom will continue to be scored on a credit rating basis.

3.4.7 Overall, our modelling suggests that all schemes affected by the change would still see a reduction in overall levy compared to 2023/24.

3.4.8 Given this very limited impact on levy payers and the opportunity to significantly reduce cost (while retaining access to credit ratings for the vast majority of entities), we have concluded it is reasonable and appropriate to cease using Moody's ratings in the levy. We will, therefore, only use S&P and Fitch ratings in the 2024/25 levy (i.e. scores from April 2023). We will ensure levy payers that have a Moody's rated entity assessed are aware of this change and supported in resolving any queries they may have (we say more on this in section 5).

3.5 Asset class implementation

3.5.1 In the consultation we offered advance notice of possible changes to The Pensions Regulator's (TPR's) asset class guidance for next year, following review of the implementation of the asset class changes in 2023. The proposed changes would clarify the preference for schemes to report their exposure primarily via the asset mix, only using the more detailed risk factor stress impact methodology for particularly complex arrangements that cannot be adequately described in the asset mix.

3.5.2 In response, a number of respondents asked that any changes in the guidance be released as soon as possible. We also received suggestions of how the guidance might be clarified, and that it would benefit from industry review before publication.

3.5.3 Since publishing the consultation, TPR and PPF have shared changes to the guidance with a range of respondents who expressed an interest in commenting. TPR expect to publish the revised guidance, which will reflect the information TPR require, and which we will also be using for levy purposes, in January 2024. Once available, we would encourage stakeholders to review the updated guidance at their earliest opportunity in preparation for the 2024/25 scheme return.

3.6 Levy estimate

3.6.1 In the consultation document we proposed a small adjustment of the LSF to 0.40 (2023/24 comparator 0.37) and the SLM to 0.000015 (2023/24 comparator 0.000019), resulting in a levy estimate of £100 million. We can confirm that we have no need to adjust our proposals, so we will implement the levy parameters on which we consulted.

3.7 Next steps

3.7.1 Based on the support for our 2024/25 levy proposals, we will proceed as planned. This includes the proposed adjustments to the LSF and SLM, delaying the review of the asset stresses, maintaining A10 assumptions as our output basis, and a reduction in the number of credit rating providers from three to two from 2024/25.

4. Future direction of the levy

4.1 Introduction

4.1.1 In the consultation, we set out our initial thoughts on how we might appropriately distribute a levy of £100 million in future years. We explained a key challenge was the expected decline in the proportion of schemes paying a risk-based levy. We asked whether this was undesirable and explored three different options – changing the levy scaling factor, increasing investment stresses, and introducing an additional factor on scheme liabilities.

4.1.2 Broadly there was agreement that it was undesirable to focus the risk-based levy on a diminishing pool of levy payers, and a range of views on the options to address this.

4.1.3 We also asked in our consultation whether there was an urgent need for simplification, and what areas respondents would consider as priorities for simplification.

4.2 Diminishing pool of risk-based levy payers

Table 3: Responses to consultation on diminishing pool of risk-based levy payers

Question	Agree	Disagree	No opinion
Do you agree that focusing the risk-based levy on a diminishing pool of risk-based levy payers is undesirable?	91%	0%	9%

4.2.1 Of the 22 respondents, 20 agreed that focusing the risk-based levy on a diminishing pool of risk-based levy payers is undesirable, with two respondents offering no opinion (Table 3). Reasons included that it would protect poorly funded schemes and those with weak sponsors. One respondent suggested that the whole PPF universe should contribute towards funding for extreme downside scenarios.

4.3 Proposed criteria to assess the different options

4.3.1 We proposed three criteria to assess the different options:

1) Reflection of risk: How well would the levies reflect the remaining risk that schemes pose to the PPF in the new environment?

2) Flexibility: Is it a one-off adjustment to the methodology, or can it be scaled to requirements – for example, is it a factor that can be increased or decreased as needed in future years?

3) Alignment with long term principles for the levy: Does the option align with our future levy objectives, including simplification and increased focus on scheme funding?

Table 4: Responses to consultation on criteria

Question	Agree	Disagree	No opinion
Do you agree with our proposed criteria to assess the different options?	71%	18%	12%

4.3.2 Of the 17 respondents, 12 agreed with our proposed criteria for the different options, while three respondents disagreed (Table 4). One respondent had concerns about the third criterion, and highlighted two issues – firstly, that simplification should not work against wider government objectives, in particular the productive finance agenda; and secondly, that any future levy should strike a fair balance between underfunding and insolvency risk. Another respondent said that simplicity should not be a key driver. Some respondents suggested additional criteria, including fairness, consistency, and an overriding priority of ensuring that the levy reflects the risk posed to the PPF.

4.3.3 We are pleased the majority of respondents supported the criteria. We will reflect on the points that were raised as we review and refine the options for 2025/26. In particular, we agree with the need to ensure the levy remains reflective of the risk that schemes pose to the PPF, and as part of this, that the balance is right between underfunding and insolvency risk. This was intended to be covered by our first criterion, but we will consider whether this can be made clearer or whether the criteria need to be amended.

4.4 Liability factor

Table 5: Responses to question on liability factor

Question	Agree	Disagree	No opinion
Should we add an additional factor to the liabilities to limit the scale of increases in the levy scaling factor (LSF)? If so, do you have comments on how we should balance using the levy scaling factor and an adjustment factor for liabilities?	47%	41%	12%

4.4.1 The responses to this question were more finely balanced. Eight respondents agreed and seven respondents disagreed with the proposal, out of 17 respondents (Table 5). Those that agreed with the proposal suggested that the liability factor would be the better approach compared to solely using the LSF. One respondent suggested that the LSF is a relatively blunt tool, and the addition of a liability factor would enable more fine-tuning as it works with the LSF. Another respondent said it would offer more flexibility and prevent the levy from being shared among a diminishing pool of risk-based levy payers, and was therefore fairer.

4.4.2 Out of those that disagreed, some disagreed with the principle of changing the methodology, and others felt increasing the stress factors offered a better approach – particularly in reflecting the way hedging reduces risk to the PPF.

4.4.3 In addition, three respondents questioned whether the addition of a liability factor would make the levy less stable as the factor could vary every year. One respondent suggested that the parameter could be fixed for a period of time. While we do appreciate that an annual adjustment to a liability factor would mean a degree of change each year, the reason for identifying it as an option is that the alternative of adjusting the scaling factor also implies annual change and may have a more uneven impact distributionally.

4.4.4 While some also raised concerns that introducing a liability factor adds complexity and could be difficult to explain to levy payers, one respondent raised a question on whether the liability factor approach adequately reflects the risk that schemes pose. This links to some of the wider feedback we have received on the consultation this year.

4.4.5 We agree that these are issues that we need to carefully consider as we develop our thinking around a liability factor. We have received some constructive suggestions about how the liability factor could be presented to make it easier to understand. We also received responses on how to make it more explicitly linked to risk: for instance, linking it to funding levels or scheme maturity. Adding additional elements to the liability factor runs the risk of adding greater complexity for a similar outcome, so we will need to consider these ideas carefully. We will be considering this along with other feedback we have received as we develop our policy for next year.

4.5 Increasing the asset and liability stresses

4.5.1 We asked two questions on our proposal on amending the stressing methodology which are outlined in Table 6.

Table 6: Responses to questions on increasing the asset and liability stresses

Question	Agree	Disagree	No opinion
Do you agree that it would be appropriate to align the levy methodology to the reason for charging the levy – to provide against highly adverse claims – by altering the asset and liability stresses?	59%	29%	12%
Do you agree that altering asset and liability stresses are more suited to a one-off adjustment rather than being adjusted every year to scale the overall levy up or down?	76%	12%	12%

4.5.2 Ten out of 17 respondents agreed that it would be appropriate to amend the stressing methodology to align with the levy's role in protecting against highly adverse situations, while five disagreed. In addition, 13 respondents agreed that amending the stresses would be better suited to a one-off, rather than yearly, adjustment.

4.5.3 Overall, the majority of respondents preferred amending the stresses rather than introducing a liability factor. Respondents thought it was the best fit with the reason for continuing to charge a levy – needing to be ready for very significant downside scenarios. Other respondents suggested it was a fairer approach than liability factors, in that it was more risk-related.

4.5.4 Reasons for not supporting amending the stressing methodology included concerns that it would not take account of wider impacts of a possible downside scenario, e.g. changes in employer covenant, and could penalise schemes taking more investment risk due to the nature of their scheme. On a related point, they questioned whether the proposals were aligned with the wider government policy on encouraging schemes to invest in productive assets. One respondent suggested it could influence a scheme's investment decisions.

4.5.5 The potential for this policy to discourage schemes from investing in the most appropriate way for their scheme, including in productive finance, is an issue we considered in developing the consultation document, and we provided analysis suggesting that it was unlikely to be the case. We considered specifically whether the levy had an incentive effect as part of our future of levy considerations and concluded that the impact of the levy would be far too small to be likely to provide an incentive effect to schemes. Echoing this view in relation to investment strategies, one respondent stated:

"...it is our overwhelming experience that schemes do not consider PPF levies as a factor when setting investment strategy. Most schemes are on a path of reducing investment risk over time and many of those who had historically resisted significant levels of de-risking have more recently experienced funding improvements – and a new-found desire to de-risk and lock in the gains." (Advisor)

4.6 Impact on open schemes

4.6.1 Some respondents also raised questions as to whether the proposals outlined in the consultation would result in appropriate outcomes for open schemes. Three respondents suggested that worsening the asset and liability stresses may disproportionately increase the levy for open schemes, even where there is a very strong sponsor.

4.6.2 One respondent raised concerns that if the asset and liability stress factors were worsened, it could penalise open schemes more over the long term, as more closed schemes leave the universe and or mature.

4.6.3 One of the reasons for us looking into widening the pool of risk-based levy payers is recognition that a diminishing pool would mean that those schemes that continued to pay a risk-based levy (which would include open schemes) would bear more of the levy burden. Based on this and on the consultation feedback, we have undertaken additional analysis to understand more about how the different options could affect open schemes.

4.6.4 Our projections show that, as the pool of risk-based levy payers reduces over time, open schemes are likely to make up an increasing proportion of the remaining level of underfunding. Therefore, the proportion of the risk-based levy payable by open schemes is likely to increase over time compared to closed schemes, even without any policy changes.

4.6.5 Part of the policy intention of the proposals is to share the levy burden more evenly across schemes. How the levy is split between open and closed schemes depends on the policy option used to maintain the minimum levy:

- Increasing the levy scaling factor does not widen the pool of risk-based levy payers, and would therefore be projected to result in the highest proportion of risk-based levy payable by open schemes.
- Compared to this, increasing the asset and liability stresses would share the additional levy more evenly between open and closed schemes.
- The liability factor does not take any account of the level of hedging in investment strategies, and therefore results in the highest proportion of the risk-levy being paid by closed schemes (and conversely, the lowest levy burden on open schemes) out of all of the three options.

4.6.6 However, as many respondents pointed out, the nature of the liability factor means that it may not fairly reflect reduced underfunding risk from sufficiently funded, well-hedged schemes. This point must be balanced against the distributional impacts on open and closed schemes.

4.6.7 We will take the responses into consideration and further reflect on the impact of the proposals, particularly with a focus on our first criterion: how well the levies would reflect the risk posed by schemes.

4.7 Simplification

4.7.1 We asked two questions on simplification in the long form which are set out in Table 7.

Table 7: Responses to question on simplification

Question	Agree	Disagree	No opinion
Do you agree with our approach to introducing simplifications to the levy over time?	76%	18%	6%
Do you consider there are any areas where simplification should be considered more urgently?	53%	35%	12%

4.7.2 Of the 17 responses received to both questions, 13 respondents agreed with our approach to introducing simplification to the levy over time, while nine respondents agreed there are areas where simplification should be considered more urgently. Respondents highlighted the need to carefully consider the merits of simplification and consider the tangible benefits for schemes (in terms of reductions in cost etc) – noting that simplification should not be an end in itself. Some respondents said they would prefer changes to be made all together, rather than incrementally.

4.7.3 There was a difference in opinion in the merits of removing/reducing emphasis on insolvency risk further. Some respondents suggested that focusing more on funding would be simpler, while others raised concerns that it might not be fair to reduce emphasis on insolvency risk. One suggestion was that insolvency data should only be collected if a scheme was underfunded on a s179 basis.

4.7.4 Some other common themes included reducing the amount of data that is collected via the scheme return, and concerns about the cost of carrying out a s179 valuation for small schemes relative to the levy amount charged. There was also some concern raised about the PPF using covenant grades, as they have more of a funding focus, and are not necessarily undertaken by independent consultants.

4.7.5 Respondents also provided some specific areas for possible simplification. These tended to focus on what can be thought of as add-ons to the core methodology – rather than suggested changes to the main calculation. Examples included more explicitly recognising buy-ins in the levy calculation, excluding expenses from deficit reduction contribution (DRC) calculations, making the exempt transfer approach more flexible, reducing requirements for an annual legal opinion for asset-backed contributions (ABCs), and whether it would be possible to simplify the Special Category Employers approach further. Several respondents also suggested there should be simplifications for small schemes.

4.7.6 In light of the prospect for legislative changes – we see merit in stakeholders' views on change to the core methodology. It could be a challenge to ensure benefits to schemes outweigh the costs over a few years. This need not preclude a package of simplifications focused on the areas that matter to our stakeholders. We will consider this alongside the changes needed to maintain the minimum levy.

4.8 Next steps

4.8.1 We will take the feedback received into account as we further develop the proposals for next year.

5. Customer service

5.1 Invoicing

5.1.1 The majority of schemes received their 2023/24 levy invoice by end of October 2023. The remaining schemes' invoices were issued by mid-November 2023.

5.1.2 In total, we invoiced 5,063 schemes and 4,278 of these elected to opt out of paper invoices this year.

5.1.3 We are delighted that so many schemes have taken up the option to only receive their invoice electronically (up from 482 in 2022/23). We believe an electronic invoice should be easier for schemes to manage whilst helping reduce the environmental impact of the levy by reducing the volume of invoices we are printing and posting.

5.1.4 Given this is the first year such a significant majority of schemes opted out of paper invoices, we are reviewing our e-invoicing process to see if there are any improvements that can be made. We are aware that a very small number of scheme contacts were unable to access their electronic invoice (via the Mimecast portal we use for sending invoices securely) and had to contact us for a copy.

5.1.5 We are happy to provide a copy invoice on request, and this can be done quickly and easily. We recognise that Mimecast e-mails can sometimes be blocked by organisation firewalls or be moved into junk folders, and other individual issues may occasionally arise. We are exploring whether there are any changes we can make to help minimise these issues as far as possible.

5.2 Credit rating on the Portal

5.2.1 Our scoring partner, Dun & Bradstreet (D&B), assesses employers' likelihood of insolvency using data received from three credit rating agencies (CRAs).

5.2.2 As explained in section 3, we are transitioning to the use of two credit rating agencies from 2024/25. We expect the impact of this to be very limited and will be writing to all schemes that have had a Moody's rating as part of the assessment of their insolvency risk to alert them to the change. Scores from January 2024 (available on the portal in early February 2024) should be reflective of the change, while April 2023 to December 2023 scores will be updated shortly thereafter.

5.2.3 We have also strengthened our process to improve the speed with which we resolve queries about credit rating scores as displayed on the D&B portal. A small number of scores were inaccurately displayed and took longer than necessary to investigate and resolve. The amended scores will be rectified on the portal by the end of December. D&B do not have access to the data PPF receives from credit rating agencies, so the Levy Customer Support Team should be contacted in the first instance for these credit rating queries at information@ppf.co.uk

6. Levy Rules

6.1 Introduction

6.1.1 The main changes to the Levy Rules are to reflect:

- The limited policy changes confirmed in this statement.
- Minor clarifications and changes to the Levy Rules to take account of stakeholder feedback and wider legal changes (see 6.2 below).

6.1.2 The Determination, Appendices and Guidance have been published alongside this policy statement.

6.2 Other changes

Special Category Employers

6.2.1 Special Category Employers (SCEs, see Rule E3.1(11) of the Determination) are employers who are either part of the government, the Crown or established by legislation, and present a low risk to the PPF (and are therefore allocated to Band 1). This is relevant for a very small number of employers in our universe (in 2023/24, 32 employers met the Special Category Employer status).

6.2.2 In our consultation, we shared that we have considered SCE status in light of the Subsidy Control Act 2022 and are satisfied that the SCE regime is not a 'subsidy scheme' under the Act, and that the levy advantage derived from granting employers SCE status is not a 'subsidy' for the purposes of the Act because it is not specific. This is because SCE status does not involve more favourable treatment than of enterprises in a comparable situation (for example, other employers in Band 1), with reference to the risk of making a claim on the Board. We also take a similar view in respect of the Northern Ireland Protocol. We proposed that we would therefore update our SCE processes as follows:

- No requirement for employers to confirm whether their SCE status constitutes a subsidy (or state aid, in respect of the Northern Ireland Protocol).
- Removal of the de minimis (or minimal financial assistance) approach. This is because our approach has shifted to the advantage derived from the levy being non-specific. Therefore, we no longer need to check amounts of subsidies received by SCEs.

6.2.3 In our consultation we asked whether respondents agree with our approach to simplify the process for SCEs. We received strong support for our approach. Of the 17 responses received, 15 respondents agreed with our proposals and three offered no opinion (Table 8).

Table 8: Responses to question on our approach to simplifying the process for SCEs

Question	Agree	Disagree	No opinion
Do you agree with our approach to simplify the process for special category employers?	88%	0%	12%

6.2.4 Therefore, we can confirm we have simplified our SCE processes in line with our proposals. To effect this policy update, we have amended Rule E3.1(11) of the Determination. We have also updated paragraph 4.2 of our Insolvency Risk Guidance. We will also be updating our SCE processes accordingly.

Treatment of ABCs on termination/surrender

6.2.5 In line with our proposal set out in our consultation, we can confirm we have clarified in the ABC Guidance that no legal opinion is required for the ABC certificate if the ABC has been terminated and there are no future payments. We have also clarified, through the ABC Guidance, how we expect schemes to capture the strip out basis for U for the s179 ABC Value on termination of an ABC Arrangement – the value in the s179 Scheme Accounts (or if not available any other valued determined by the Board at that time).

6.3 Rule changes

6.3.1 We can also confirm the following changes:

Determination

(a) Amendment of definitions of Credit Rating Agency and Investment Grade to reflect operational decisions on providers (see 3.4 of this statement for further information).

(b) Amendment of Rule C1.2 of the Determination to reflect the change to the Scheme-Based Levy Multiplier (SLM) (refer to 3.6 of this statement for further information).

(c) Amendment to Rule C2.2 of the Determination to reflect the change to the Levy Scaling Factor (LSF) (refer to 3.6 of this statement for further information).

(d) Amendment to Rule E3.1(11) of the Determination – for example, the deletion of what was previously Rule E3.1(11)(a)(ii) and Rule E3.1(11)(b)(ii) – to reflect the proposed updated approach regarding Special Category Employers as outlined in 6.2 above.

(e) Rule C5 – minor changes to the Alternative Covenant Scheme Guidance to take account of changes in asset stress approach, reflect updates following The Pensions Regulator's August 2023 revised DB Superfunds Guidance, and improve the clarity of some paragraphs.

Transformation Appendix

(f) As noted in our consultation document, version A11 of the s179 valuation assumptions came into force for valuations with effective dates on or after 1 May 2023. We have therefore extended the Transformation Appendix to specify A11 as an additional potential input basis, so that any s179 valuations carried out on this basis can be transformed back to the output basis, A10.

(g) We have also updated the Transformation Appendix to incoporate the notional cash-based rollforward index for holdings in absolute return funds which was publicised on our website earlier this year and which was applied in the calculation of 2023/24 levy invoices.

Insolvency Risk Appendix

(h) We have also updated the Insolvency Risk Appendix (for example, Table 4 and Annex 1: Assignment of CRA Ratings) to take account of operational changes regarding credit rating providers, as outlined in 3.4.

Reference to s179 Guidance

(i) The Transformation Appendix and Deficit Reduction Contribution Appendix both define which version of the s179 guidance we use for the 2024/25 levy year. We have referenced forthcoming s179 Guidance in the Levy Rules (G10). We expect the publication of the updated guidance shortly.

7. Key dates

7.1.1 The following table sets out the key dates in the coming year:

Item	Key dates
Scheme returns and electronic contingent asset certificates to TPR	31 March 2024 – Midnight
ABC certificates and special category applications to PPF	31 March 2024 – Midnight
Start of 2024/25 levy year	01 April 2024
Send contingent asset documents to PPF	02 April 2024 – 5.00pm
Deficit reduction contributions certificates to TPR	30 April 2024 – 5.00pm
Send exempt transfer applications to PPF	30 April 2024 – 5.00pm
Certify full block transfers with TPR	30 June 2024 – 5.00pm
Publication of Mean Scores	July 2024
Invoicing starts	Autumn 2024

Pension
Protection
Fund