ACA Response to PPF Full Levy Consultation 2023/24 Levy

1. Do you have views on what the priorities should be for the simplification of the levy methodology?

We consider that in a low levy environment, stability and simplicity should be the priorities for the Board to focus on when changing the levy charging methodology.

We agree with the four design principles that the Board have set out and appreciate that the Board will need flexibility to potentially increase levies in the future, in the event of unlikely tail risk events.

It is clear that the 'universe' of schemes that will be available to pay a material levy will reduce over time, as we see generally improving funding levels and schemes securing benefits with insurers. This may lead to some uncertainty as to whether there would be sufficient schemes to meet such levies in the event of such a tail risk event. We consider that having a greater focus on a scheme-based levy would give more flexibility to allow the required increase in levy to be achieved, if and when needed. That being said, we appreciate that this represents a departure from the principle of schemes paying a levy proportionate to the risk they pose to the PPF.

We understand the principle of having greater focus on underfunding risk than insolvency risk, although again this is moving away from the risk related principle. We consider that the balance between underfunding risk and insolvency risk could be set differently for different sizes of schemes, and schemes with certain features that reduces the risk to the PPF:

- For larger schemes, levy could be charged relevant to the full range of risks that they pose to the PPF; that is, relevant to the funding, insolvency and investment risks.

- Schemes with insured liabilities (liabilities where an insurance product has been purchased to cover these, even if the assets and liabilities still remain with the trustees); for these, we would suggest a nil risk-based levy is charged to any insured liabilities, as they pose no (or negligible) risk to the PPF.

- Realistically, smaller schemes have limited access to professional advice compared with bigger schemes. For these we would suggest charging a fixed levy, on a sliding scale, based on (for example) s179 liability size. For example, schemes with latest s179 liabilities under £1m, pay £x a year; between £1m-£5m pay £y a year etc. This would bring a level of stability and predictability for these schemes and their levy payments. Clearly, care should be taken to ensure consistency between the two approaches at the crossover points.

For smaller schemes we would suggest that, as well as simplifying the levy calculation, it would be appropriate to simplify the amount of data required, as part of the scheme return process, as this is a significant administration consideration.

2. Do you agree with our proposal to reduce the cliff-edges between levy bands so that a small movement in insolvency risk has a lower impact on bills?

No.

We agree with the intention to reduce the cliff-edges between bands. However, it appears that the range of levy rates should reflect the actual range of risk and claims experience. Cliff-edges could be reduced by there being a greater number of bands covering the same range of rates. The proposed approach of simply reducing the increases between levy bands will mean that stronger employers would now be paying a greater proportion of the total levy, which would be in contradiction to the fairness rule.

3. Do you agree with our proposal to reduce the Levy Scaling Factor?

Yes.

4. Do you agree with our proposal to reduce the Scheme Based Levy Multiplier?

Yes.

5. Do you agree with our proposal to change our approach to asset stresses for: UK Equities, Private Debt, Diversified Growth Funds and Absolute Return Funds?

Yes.

Other comments

When TPR and the PPF confirmed the changes to the asset class information in October 2021, TPR promised guidance to support schemes in providing the relevant information required. Additionally, you have now withdrawn the investment risk appendix and bespoke stress guidance from the determination.

It would be helpful if revised guidance is provided, covering both these elements, with this published promptly to ensure that advisors could prepare the relevant information in time for the scheme return deadlines.

Submitted: 10 November 2022