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Protection
Fund

Charting a Course for the Future: the Pension Protection Levy

Why change?

Worked with Steering Group of industry experts

- Feedback from Steering Group published March 2010

Messages from the Steering Group

- Wanted more predictability in individual bills - bills should respond to changes in the scheme's risk, not others' risk
- Stability of levy bills also a priority – so schemes would be less likely to experience large changes between years.
- Levy should focus more on things schemes can actually control:
  - Funding position
  - Potentially investment strategy
- More transparency on cross-subsidy
- Stronger link to commercial charging – market consistency

Key Features of New Framework

Bottom-up approach

- Fixed scaling factor for three years, only adjusted in limited circumstances
- Total levy not set – will be sum of individual levies
- More predictable levy bills

Same basic formula, but new approach to how insolvency and underfunding risks measured

- Changes smoothed by using average values
- Market-consistent rates for insolvency

Smaller role for scheme-based levy

Analysis of Stability – Aggregate Levy

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- If the new framework had been in place for the three years from 2008/09, the total levy would have been relatively stable.
- There would not have been the need to adjust scaling factor.

Levy Year	Risk-based Levy (£M)	Total Levy (£M)	Change
2008/2009	639	675	
2009/2010	562	598	-11%
2010/2011	625	662	+11%

Analysis of Stability – Individual Levies

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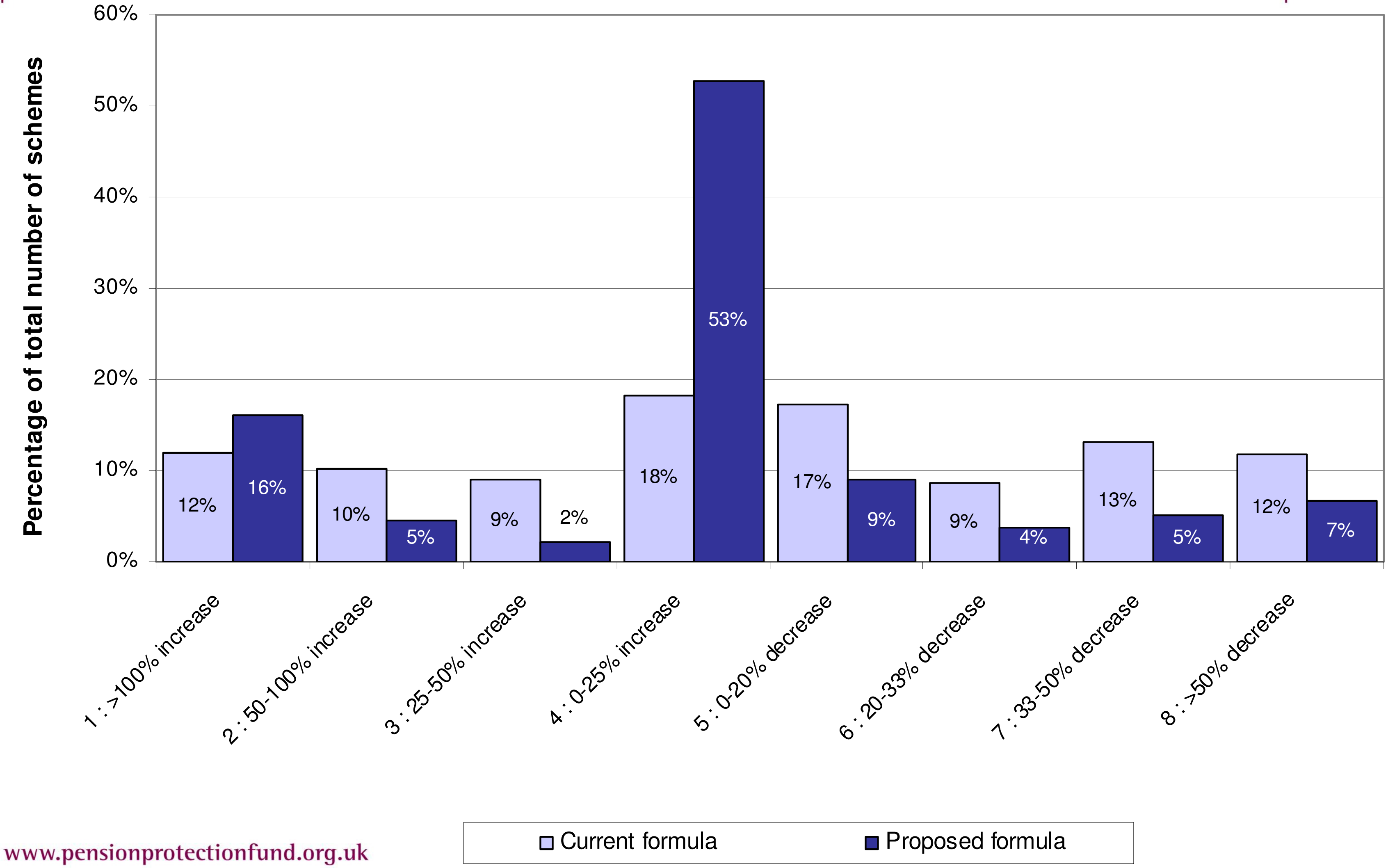

Key Features of New Framework: Funding

- Funding measurement smoothed over five years, by averaging market movements in the roll forward calculation

- Funding calculation would incorporate investment risk by applying stresses to assets and liabilities

- For great majority of schemes, this would be based on existing asset allocation data reported through Exchange

- Largest 100 schemes required to provide more detailed analysis; optional for others

Key Features of New Framework: Insolvency Risk

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- Failure Scores placed into six PPF levy bands – less granularity.

- Average levy band over past 12 months used so levies would be less affected by short-lived dips in employer(s) Failure Score.

- Insolvency probabilities in line with how financial markets would price PPF-equivalent risk.

Key Features of New Framework: Insolvency Risk

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PPF Levy Band	1	2	3	4	5	6
D&B Failure Score	100-97	96-90	89-69	68-42	41-6	5-1
Average D&B probabilities	0.04%	0.10%	0.30%	0.80%	2.80%	13.00%
Risk Margin	0.16%	0.40%	0.80%	0.80%	1.20%	1.20%
Indicative Levy Rate	**0.20%**	**0.50%**	**1.10%**	**1.60%**	**4.00%**	**14.20% (capped at 4%)**

Impact of Proposal - Funding Trumps Covenant

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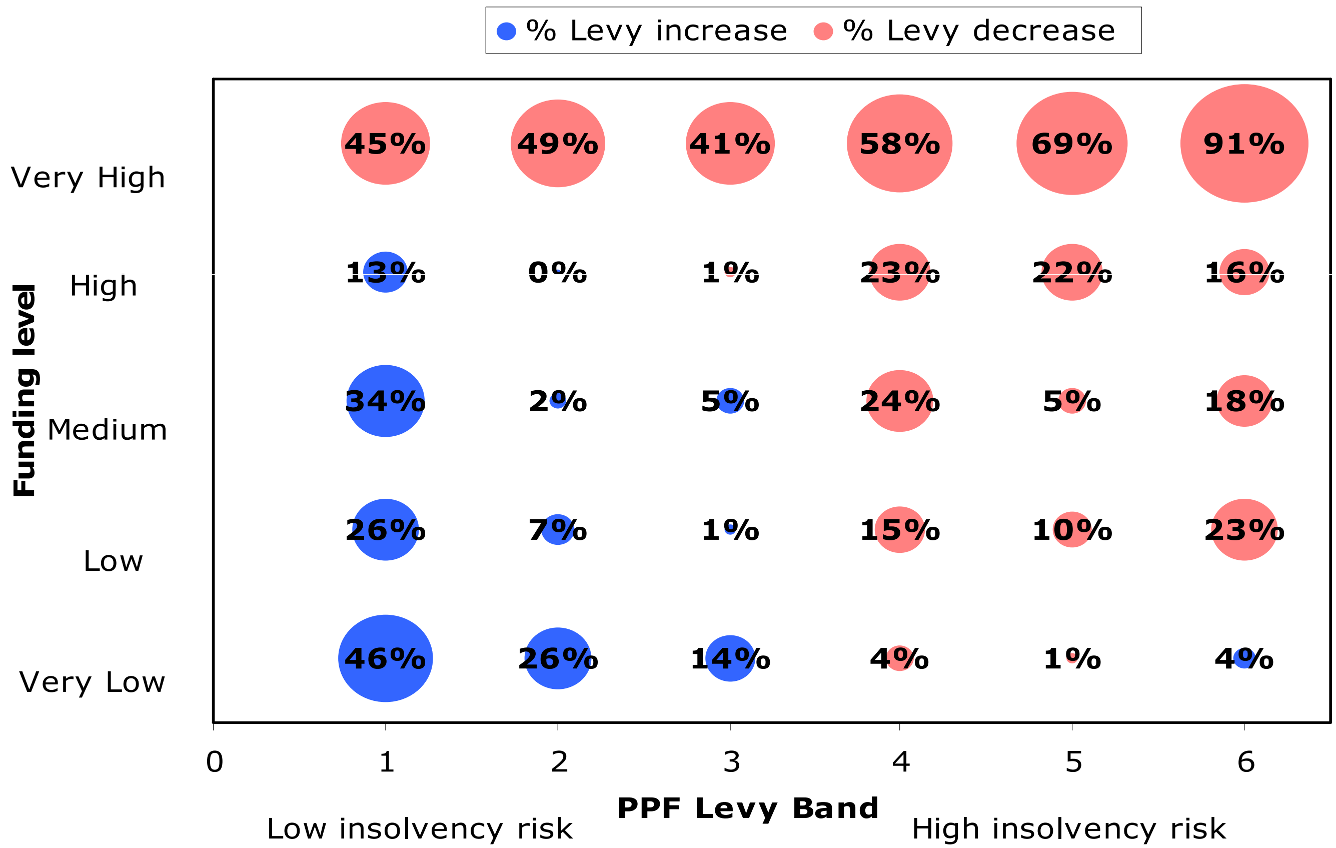
Change in levy for 2011/12: Current formula compared to new formula



Consultation on New Framework: Key Dates

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Consultation ends 20 December

Policy Statement in spring 2011

Final parameters published late 2011

Implementation for levy year 2012/13