



corporate | Pension Protection Fund levy

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The Pension Protection Fund ("PPF") has published a consultation document on the future development of the Pension Protection Levy, "The Pension Protection Levy: A New Framework".

The purpose of this is to obtain comments on its proposals. These include enhancing the concept of fairness and to address a mis-match between the risk that pension schemes pose to the PPF and the share of the levy that they are charged. This perceived mis-match has arisen because of the long-term assessment of the risk to the PPF, and the allocation of this risk to pension schemes being based on short-term expectations.

The new proposals for changing the formula used in calculating the risk based element of the levy introduces two new variables:

- Assessing the sponsor's risk over a five year time span
- The risk posed by the scheme's investment strategy

The PPF acknowledges that by introducing investment risk, this may incentivise schemes to reduce the level of risk in their portfolios to lower their levy. However, they note that any impact on the overall levy is likely to be small. A key component of the formula used will continue to be the Dun & Bradstreet failure score. Charities and sponsors who do not routinely file accounts should check, and ensure as far as they are able, that the credit reference agency has relevant and up to date information upon which to base their assessment.

One of the aims of the proposed changes would be to help even out the balance between the risks taken on by the pension scheme, and those that continue to be faced by the sponsors. This, in conjunction with the lengthening of the risk profile, should give more predictability to the actual annual payment in respect of the levy. Current proposals are that the levy will be set for a three year period. This will only be revised if the scheme's risk profile changes.

Changes are likely to come into effect in the calculation of the 2012/2013 levy.

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