Rt Hon Frank Field MP  
Chair of the Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA

20 September 2018

Dear Mr Field

**PPF Levy – 2019/20 Estimate and Consultation**

Further to my letter of 19 July, as promised I am writing to update the Committee that we have published our consultation on the proposed levy rules for 2019/20. In addition, we have also today announced our levy estimate for next year. The consultation document and supporting documents are available at [https://www.pensionprotectionfund.org.uk/levy/Pages/1920-Draft-Levy-Determination.aspx](https://www.pensionprotectionfund.org.uk/levy/Pages/1920-Draft-Levy-Determination.aspx)

**Levy estimate**

The levy estimate is the total amount we are seeking to collect from across the c. 5,600 schemes we protect. I can confirm that this will be £500 million in 2019/20, down from the levy estimate of £550 million for this current year.

We recognise that the risks we face remain significant, not least in light of experiencing our highest ever claims year (by value) last year. While we are not complacent, as we reported earlier this summer in our annual report and accounts, we are in sound financial health and have improved our own funding position and reserve. Our prudent approach to funding has allowed the Board to continue its policy of keeping the levy stable and predictable within each three-year cycle. We therefore plan to leave the key variables in the levy formula the same as last year, with the resulting effect that the amount we expect to collect in 2019/20 is reduced. Of course, as you would expect, we continue to monitor the situation closely and will adjust the levy in future years if necessary to respond to circumstances.

While individual levy bills are predominantly reflective of each scheme’s individual risk, this nonetheless should come as welcome news to our levy payers.

**Levy invoicing and payment**

We are grateful for the feedback from the Committee and stakeholders on our levy payment processes. We recognise both the important contribution made by our levy payers – which ultimately helps us provide our compensation to members – and that smaller schemes in particular can face unique challenges managing their levy. We welcome stakeholder views and, where we can, strive to take on board feedback and make evidence-based changes to improve processes.
We commonly look to keep levy rules stable on a three year basis – this is in response to past feedback from our levy payers who value stability in the rules so they can plan ahead. So while we don’t typically look to make major changes year on year, we have taken the opportunity in this consultation to gather evidence and views on how we can better support schemes to plan levy payments.

While the overwhelming majority of levy payers pay their invoices within 28 days, we recognise that some stakeholders, in particular schemes with small or medium employers, have expressed an interest in us exploring alternative payment options, namely enabling all levy payers to have the option to pay as standard in monthly instalments.

We are therefore exploring through the consultation whether we can do more to help schemes and their employers manage their cash flow, helping ensure that any disruption caused by levy bills is minimised as far as possible.

We currently support schemes and employers with their planning ahead by publishing our Levy Rules three months before the start of the levy year, and providing ‘real time’ access to insolvency risk scores through the PPF/Experian model. We also encourage schemes facing difficulties in payment to contact us to discuss the possibility of a payment plan.

Experience to date suggests only a small number of schemes encounter serious difficulties paying their levy invoice annually – we agreed 15 such repayment plans last year in a total population of 5,600 schemes. We do though want to make sure this flexibility is well understood in case other schemes might have need of it. We are mindful that, given the vast majority of bills are currently paid on terms, the introduction of payments by instalments would risk making levy collection slower, less certain and more costly – which would affect all levy payers and stakeholders. In view of this, we are keen to hear about what else we could usefully do to help schemes with forward planning, what additional support we can offer to help schemes with paying their invoice, and the appetite for alternative invoicing patterns. We are posing specific questions on the detail of these in the consultation so that we can understand if there might be broader appetite among our levy payers for exploring such options, and the evidence to support this.

In the meantime, if Committee members know of any schemes facing difficulty with their levy, please do encourage them to get in touch with us.

As part of our outreach, we are also working to establish a programme of engagement with a representative group of SME stakeholders to garner their views on the above as well as seek feedback on how changes aimed at helping SMEs are working in practice.

**Levy rule for consolidators**

The Committee may also be interested to know how we are responding to the emergence of commercial consolidation propositions.

We expect that government will shortly bring forward detailed proposals for commercial consolidators, including a regulatory approach. As you know, we think this is a critical development to ensure the risks posed by consolidators can be effectively managed. However, consolidation vehicles may emerge in the near term within the existing regulatory framework. In such circumstances, we want to ensure we are able to charge a risk reflective levy. As part of our consultation, we are therefore, setting out our proposed levy methodology for commercial consolidators.
We propose to base the way we calculate the levy on the methodology we use for schemes without a substantive sponsor (SWOSS), with adjustments to reflect the unique risks posed by consolidators. In particular, our proposed approach will reflect: that the level of risk posed could be increased by the extraction of profits; and that – in the absence of a new regulatory regime – consolidators could seek to operate without ‘wind up triggers’ in place (a critical safeguard, limiting the deficit that can arise in the event of investment failure). Our consultation document includes illustrative levy calculations but the overall effect is as you would expect. Levies paid by strongly funded, well run consolidators will be small. Less well funded schemes who aren’t taking action to protect PPF levy payers and members (by putting in place wind up triggers) will face a substantial levy charge.

We are clear that this is our first iteration of a levy rule for consolidators. In the years ahead, as the new regulatory regime takes shape and as the market develops we expect to adapt and change our approach, though our goal will remain the same: to set a robust, transparent methodology that delivers a risk reflective levy.

However, the critical long term goal is securing control over risks through effective regulation and we are committed to supporting DWP and the Pensions Regulator in their work on this.

I hope this information is helpful. I am of course happy to assist further if you or colleagues have any further questions.

Yours sincerely,

Oliver Morley CBE
Chief Executive