THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

The Society of Pension Professionals (SPP) response to the consultation on Pension Protection Fund Levy Rules 2025/26

1. Introduction

1.1. The SPP is pleased to be able to respond to this PPF Levy consultation as it has responded to previous such levy consultations and engaged with both the PPF and government on this subject.

1.2. We are responding on behalf of almost 90 corporate members - who collectively employ over 15,000 pension professionals including actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

1.3. We have only responded to those questions where members have expressed views and we feel we can usefully add value.

1.4. The PPF continues to levy £100m annually from the pensions industry which it readily admits it does not expect to ever need given it has a multi-billion pound surplus. This is £100m annually that could be more usefully employed elsewhere, i.e. schemes investing in productive assets or UK companies investing in their own business. There is also no clarity on what any potential PPF surplus might eventually be used for or when it may be used.

1.5. We recognise that the PPF does not want to remove or reduce the levy further because it contends that doing so would prevent an increase or reinstatement in the future - due to existing legislation preventing any increase beyond 25%[1].

1.6. As the SPP stated in its response to the PPF Levy consultation last year[2], even without legislative change, the PPF should reduce the levy to zero immediately. This is because the likelihood of a substantial reduction in the PPF's funding position or a dramatic increase in future claims is very low. Indeed, SPP notes that this consultation document states the PPF accept that the need for, "*a return to a significant levy to be remote.*"[3] If such an unlikely situation were to arise, there would be immediate and significant pressure on government to take action to resolve the matter, and legislation would undoubtedly prove forthcoming.

1.7. The PPF's current position is not sustainable in the medium or long term if the Government does not amend the legislative position. What level of surplus would be "good enough" for the PPF to start to charge a lower levy?

1.8. That said, the SPP agrees that it would be preferable for the Government to bring forward primary legislation to remove the legislative barrier to levy increases at the earliest opportunity. With a Pension Schemes Bill being promised in Spring 2025, such an opportunity already appears to have presented itself.

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[1] **Section 177 (5), The Pensions Act 2004:**
https://www.legislation.gov.uk/ukpga/2004/35/section/177
[2] **The Society of Pensions Professionals (SPP) response to the 2023/2024 PPF levy consultation, October 2023:**
https://the-spp.co.uk/wp-content/uploads/SPP-Response-PPF-Levy-fv.nosig_.pdf?v=6363
[3] **Pension Protection Fund Levy Consultation 12 September 2024:**
https://ppf.co.uk/-/media/PPF-Website/Files/Levy/ConDoc/PPF_Consultation_Levy_Rules_202526.pdf

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2. Executive Summary

2.1. **The SPP does not believe any PPF levy is required.**
As stated above, the PPF and SPP agree that they levy is not needed at this time. Where our approach differs is that the SPP would like to see its collection ended immediately rather than at some unspecified point in the future. Even if a levy does remain, we believe that the PPF should seriously consider reducing the levy to below £100m.

2.2. **Although we do not believe the levy needs to be maintained at £100m in 2025/2026, if it is to remain then we agree with the proposals outlined.**
However, it should be noted that this approach means that the levy no longer reasonably reflects the risks faced by the PPF. Despite improving funding and/or reducing investment risks, a number of pension schemes will now be told they must once again pay a 'risk based' levy, despite there being no new or increased risk to the PPF.

2.3. **The SPP believes there is a strong argument that the levy waiver should allow all schemes that have a full scheme buy-in to have a waiver from the scheme based levy.**
Please see our response to question 11 below for further information.

3. Consultation response

3.1. **Question 1 Do you agree with our proposal to update the levy factors (A11 and asset & liability factors)?**

3.2. Yes, the SPP agrees with these proposals and has no further comment to add.

3.3. **Question 2 Do you agree with our proposal on how to maintain the levy at £100 million?** *(Moving to a two standard deviation asset and liability stress, reducing the levy scaling factor and increasing the scheme based levy multiplier to ensure that the scheme-based levy reflects 20 per cent of the total levy).*

3.4. As we have repeatedly stated, SPP does not believe the levy should be maintained at £100m or indeed at all. However, if it must be maintained then we agree with the proposed approach to its maintenance.

3.5. In our view this is the least bad option within the existing legislative hurdles. In particular, we welcome the one off change to stress factors rather than the suggestion of more regular, smaller adjustments.

3.6. It would appear that the justification for maintaining the levy is that the PPF is unwilling to trust that the Government would change the law/bring forward the required order in future, even if faced with a need to take urgent action so that the PPF could strengthen its position in the event of an unforeseen market shock. This level of caution appears to be excessive.

3.7. That said, the workarounds, such as suddenly expanding the stress test to two standard deviations in order to artificially generate this £100m figure, undermines the historic rationale of the levy.

3.8. £100m does not reflect the risks being faced by the PPF. The PPF now appears to be finding ways to distribute this amount between (a suitable number of) schemes rather than making any genuine effort to reflect the risks they pose. Despite 'good' behaviour (improving funding and/or reducing investment risks) a number of schemes will now be told they must once again pay a 'risk-based' levy, not because they pose any new or increased risk to the PPF but because no one has addressed an unhelpful legislative hurdle and the PPF are unwilling to rely on statutory overrides that are already in place to protect them or future government intervention.

3.9. Given the inflated £100m levy from last year would, if measured on the same basis, have fallen to £60m this year due to improvements in funding, it would appear that 'risk' is being manufactured in order to generate the desired £100m total.

3.10. Even if the PPF does decide to maintain a levy, we would strongly suggest that it is reduced from the £100m proposed, assuming that the PPF's financial position has improved since last year.

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3.11. **Question 3 Do you agree with our proposal on deficit reduction contributions to expand Option Beta to all schemes?**

Yes, the SPP agrees.

3.12. **Question 4 Do you agree with our proposal on deficit reduction contributions to widen the definition of contributions that can be certified to include special contributions without a recovery plan (but with actuarial certification) for Option Beta?**

3.13. Yes. The widening of the scope to larger closed schemes and allowing recognition for special contributions made by an employer of a fully funded scheme appears reasonable.

3.14. However, it is worth noting that the inclusion of open schemes creates a potential disconnect. Option Alpha requires actuaries to consider the cost of accrual on a S179 valuation basis and only give credit for contributions over and above this level, whereas there would appear to be no such restriction under Option Beta. Instead, the cost of accrual would appear to be determined on the funding basis (logical, for a more simplistic certification) which could generate much higher certified contributions.

3.15. **Question 5 Do you agree with our proposal to update the credit rating mapping to take account of two credit rating providers rather than three?**

Yes, this appears to be a practical and welcome proposal.

3.16. **Question 7 Do you have any further comments on our proposed levy rules for 2025/26?**

3.17. As highlighted above, we believe policymakers and regulators should focus on the reduction, and ideally the removal, of the levy via legislative changes as part of the 2025 Pension Schemes Bill. This would render many of these amendments and work arounds irrelevant.

3.18. **Question 11 Do you have any other comments?**

3.19. In respect of the levy waiver the requirements for achieving a waiver for the scheme based levy (SBL) requires that the scheme has insufficient assets to meet the SBL. In effect, if a fully bought-in scheme has a large surplus in excess of wind-up expenses, it would be ineligible for the waiver.

3.20. The rationale for this criterion is unclear as these schemes are unlikely to pose a risk of a future claim on the PPF as they have already fully insured scheme liabilities.

3.21. Potentially this criterion is intended to capture schemes that have an unallocated surplus being held to cover contingent liabilities that have not yet been insured i.e. from outstanding data cleanse exercises or potential additional liabilities from GMP equalisation. However, we would still argue that the risk that these schemes pose to the PPF is small and the levy could still be waived in these cases. The guidance supporting the levy waiver form could be clearer to enable fully bought-in schemes, who are in their wind-up phase, to be eligible for the waiver.

3.22. We also encourage the PPF to make it clear whether schemes that are anticipating a balancing premium needing to be paid (for example to cover GMP Equalisation) are eligible for the waiver.

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About The Society of Pension Professionals

3.23. Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

3.24. Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.

3.25. The SPP seeks to harness the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

4. Further information

4.1. For more information about this consultation response please contact SPP Head of Public Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.

4.2. To find out more about the SPP please visit the SPP web site: https://the-spp.co.uk/

4.3. Connect with us on LinkedIn at: https://www.linkedin.com/company/the-society-of-pension-professionals/

4.4. Follow us on X (Twitter) at: https://twitter.com/thespp1

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