This article is reproduced by kind permission of Professional Pensions:

MOVE TO MAKE LEVIES LESS VOLATILE TO RESULT IN £130M SCHEME REDISTRIBUTION

PPF levy calculations to include longer-term risk

INVESTMENT

By Jonathan Stapleton

Pension Protection Fund proposals to include longer-term risk in its levy calculations will see £130m redistributed between schemes.

The lifeboat fund went out to consultation on Tuesday (November 18) on proposals to both take account of scheme investment strategies in its levy calculations and assess the probability of a sponsoring employer going bankrupt during a five-year period in addition to the one-year assessment it currently conducts.

It said the move would help make individual levies less volatile and more predictable – and would result in a £130m transfer of payments from lower-risk to higher-risk schemes.

PPF chief executive Partha Dasgupta told *PP*: "What we have seen over the last 18 months has just illustrated how much of an impact volatility has on funding deficits.

Dasgupta: pricing volatility into levy

"It is right that we price that into the levy and it is fairer, particularly for those schemes that have lower risk than the average.

"Indeed it ensures that those who have a greater risk than the average also pay a higher proportion to reflect that risk."

But First Actuarial director Alan Smith said there was a danger the schemes would look at the way their PPF levy will be calculated and then adjust their investment strategy to reduce their levy. He said: "This could be a case of the tail wagging the dog."

Hewitt Associates pension consultant Lynda Whitney said the PPF was taking its investment information from scheme returns – data that does not take into account more complex investments such as derivatives and buy-ins

She said: "They are taking a simplistic approach which will miss a large swathe of more complicated things that schemes are now doing."

NAPF chief executive Joanne Segars added: "The key test of the proposals will be whether the new levy encourages ongoing defined benefit pension provision."