THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

To be submitted via online form

9 November 2022

**SPP response to PPF consultation on Levy rules for 2023/24**

**Q 1 Do you have any views on what the priorities should be for simplification of the levy methodology?**
We have no strong views, but we agree that one key issue that should be looked at is the restrictive legislation that prevents the levy from being reduced to zero / a low level. At the same time, it would be helpful for an agreement to be reached on the use of any potential surplus in the fund in future, as this could shape future levy policy.

We would also support further simplification for small schemes, in particular, where this is possible without a significant shift in levy distribution.

**Q 2 Do you agree with our proposal to reduce the cliff-edges between levy bands so that a small movement in insolvency risk has a lower impact on bills?**

We recognise there is a balance to be struck between the need to take a risk focussed approach, and the fact that the insolvency risk model can never really give a true reflection of insolvency risk. Bearing this in mind, we are supportive of the proposals.

That said, the PPF might find some pushback from schemes with a low insolvency risk, as they will be paying a higher proportion of the total levy than was previously the case.

**Q 3 Do you agree with our proposal to reduce the Levy Scaling Factor?**
We have no concerns with the proposals.

**Q 4 Do you agree with our proposal to reduce the Scheme Based Levy Multiplier?**
Yes, we are supportive.

**Q 5 Asset stressing proposals**
**Do you agree with our proposals to change our approach to asset stresses for:**

- **UK equities?** Yes.

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- **Private Debt?** Yes.

- **Diversified Growth Funds?** Yes.

- **Absolute Return Funds**? Yes.

We believe that the individual stresses are reasonable. More broadly there are a few related issues that we would like to raise:

- As you know, market conditions were exceptionally volatile during September and October 2022. We are concerned that some schemes with 30 September year ends could find their asset allocation is some way out of line with the actual long-term investment strategy of the scheme – as their gilt holdings will have been significantly depressed in value and they will not have had time to rebalance. This could lead to these schemes appearing as though they run a riskier investment strategy than they actually do.

  Ideally, such schemes could be allowed to submit an alternative asset breakdown based on the strategy in their Statement of Investment Principles at that date. However, we acknowledge that there would be practical issues with introducing this. We suggest the PPF investigate how many schemes could be materially affected by this issue.

- We note the comment in 12.2.4 that "*Analysis shows that there continues to be an argument for adjusting certain individual stresses to allow for diversification relative to growth assets. As such, we believe the current diversification approach used to calculate the growth asset stress factors remains reasonable*." We agree that the impact of diversification should be allowed where it is practical to do so. However, we do not think it is clear how the PPF have done this from the consultation, and what the rationale is for allowing for diversification between some asset classes and not others. We would appreciate more detail on the PPF's thinking on this point.

**Additional comments**:

We note that the proposed dates are different between the consultation document and the draft levy determination as follows:

| Item | Consultation document<br><br>paragraph 9.2.1 | Draft determination<br><br>A2.3 |
|---|---|---|
| Send contingent asset documents to us | 03 April 2023 | 1 April 2023 |
| Deficit-reduction contributions certificates to TPR | 28 April 2023 | 29 April 2023 |
| Send exempt transfer applications to us | 28 April 2023 | 29 April 2023 |

We expect the dates on the consultation document are likely to be the intention as the draft determination dates are weekends; however when the rules are finalised the dates will be as stated in the determination. We would appreciate your confirmation on this point.