ASSOCIATION OF CONSULTING ACTUARIES

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27 October 2016

Chris Collins
Chief Policy Officer
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon, Surrey
CR0 2NA

Dear Mr Collins

The 2017/18 Pension Protection Levy Consultation Document

I am writing on behalf of the Association of Consulting Actuaries in response to the above consultation document dated September 2016.

In general, we were pleased to see that the PPF has largely maintained its methodology and levy parameters for the 2017/18 levy. This provides stability in the levy for schemes as a whole, although individual levies will depend very much on changes to section 179 positions and Experian scores.

Our comments on the consultation are set out in the Appendix.

We hope that you find these of assistance and would be happy to discuss them further if that is helpful. Please contact either me on 020 7432 6635 (david.everett@lcp.uk.com) or my colleague Jan Claisse who prepared this response on 020 7985 7886 (jan_claisse@jltgroup.com).

Yours sincerely

David Everett
Chairman, Pension Schemes Committee
On behalf of the Association of Consulting Actuaries Limited

Sent by e-mail to: consultation@ppf.gsi.gov.uk

APPENDIX

The 2017/18 Pension Protection Levy Consultation Document

3. The measurement of insolvency risk

Comment on 3.2 PPF specific model – summary assessment

We are pleased that the model is performing well and agree that no substantial changes should be made this year.

Comment on 3.3 Changes in accounting standard

We are pleased that the PPF has reviewed the impact of FRS102 on the measurement of insolvency risk and overall welcome the view taken. However, those whose score has changed materially may feel that they have been unfairly disadvantaged through no fault of their own.

We welcome the fact that employers on the scorecards with the most significant impacts can certify an adjustment to be made, although we assume that they will have to undertake the analysis themselves to determine the impact rather than being informed that they have been identified as being affected. This increases the reporting burden and hence cost on employers. We question whether the PPF has considered the practical aspects, including how many certificates it may receive.

For schemes on the large and complex scorecard this may not introduce too many additional requirements as they are more likely to have the resources to carry out management of the PPF levy. However, the changes affect a significant number of entities in the not-for-profit sector who participate in non-associated multi-employer schemes and who are now having to recognise their pension obligations for the first time. These employers are not likely to have been early adopters of FRS102, nor would have filed their accounts early and therefore the impact on this group of entities may not yet be fully understood. In addition these entities are less likely to have the resources or expertise to follow the certification process. Given that the multi-employer schemes affected are often industry wide it is likely that the PPF will receive a very large number of certifications from a group of very similar employers (e.g. universities / Housing Associations) and so it might be possible to do something centrally rather than placing the burden of certification on these employers.

We would ask that the PPF looks into the impact for the not-for-profit sector participating in multi-employer schemes in more detail before finalising its approach.

Large and complex and not-for-profit are not the only scorecards to be impacted by the move to FRS 102. Other employers will see an increase in their levy as a result of the accounting change without an overall increase in insolvency risk for the PPF universe as a whole. Will these additional levies be taken as profit by the PPF or given back to levy payers (for example, by a reduction in the risk-based levy scaling factor)?

In passing, it seems that the proposed calculation method for the impact of FRS101/102 is not correct (the denominator should be an absolute value).

Comment on 3.5 Restated Accounts

This seems like a sensible change. We would like to understand the practicalities of accounts filed in, for example, February 2017 then being restated in November 2017 (after the levy for the

year has been paid). Will the levy be recalculated and a refund given/extra levy invoiced, or will that restatement be too late to count for the 2017/18 levy season?

Comment on 3.6 Mortgage exclusions

We welcome the decision to continue to not require recertification of the various mortgage certificates and the improvements made to the certification process.

Mortgage Charge Data Source

We appreciate the PPF's view on why it does not want to use the FCA Mutuals Register as a data source. However, using a scheme average neutral score for mutual societies does not generally reflect their actual financial position and results in extra annual levy costs solely because of the method of data collation rather than any increase in risk from these employers.

We therefore welcome the PPF's intention to include this in its review for the third triennium and would encourage the PPF to change its views on this.

Comment on 3.7 Foreign Exchange Rates

In our response last year we noted the material impact that this change would have on some scores and our preference that this would not be introduced until the next triennium. We are therefore disappointed that it has been introduced now.

Comment on 3.8 Customer Service

We are pleased that the PPF is seeking to improve the login process for the Experian portal. The need to accept the terms and conditions every six months is a welcome improvement although perhaps the period could be extended to a year.

4. Other policy issues

Comment on 4.3 Asset Backed Contributions

We again welcome the proposed approach as it should reduce the burden on trustees and employers on ABC certifications.

Comment on 4.4 Actuarial Assumptions

This is covered under a separate consultation response.

4. Draft levy rules

Comment on 5.1 Overview of Determination, Appendices and Guidance

We would appreciate if the PPF could review the approach taken to rolling forward LDI assets in the draft transformation appendix as there is no explicit category for these types of investments and they tend to get entered into the scheme return as "cash" as there is no better alternative. This then gets rolled forward using cash returns rather than reflecting what the underlying asset has actually done and may explain why new valuations received by the PPF often show better asset returns than expected. Whilst we acknowledge that the option is available for schemes to submit bespoke stress tests, a number of smaller schemes are now investing in pooled LDI funds and such schemes do not necessarily have the resources to be able to submit a bespoke stress test, as compared with larger schemes who have bespoke liability hedging arrangements. We would therefore request that the PPF looks into this further.

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