

It has probably not escaped your attention that the Pension Protection Fund levy estimate for 2014/15 is increasing by broadly 10% to £695 million. Most trustees should expect to see an increase in their next levy bill, which makes it increasingly important to consider whether full use is being made of the levy reduction methods that are available.

Many pension plans have introduced levy reduction methods – the most common of these being contingent assets. The deadlines associated with the 2014/15 levy year are set out below.

Deadline Dates

Issue	Date
Submission of scheme return via Exchange	5 p.m. on 31 March 2014
Submission of contingent assets documentation	5 p.m. on 31 March 2014
Recertification of existing contingent assets	5 p.m. on 31 March 2014
Certification of deficit reduction contributions made on or before 31 March 2014	5 p.m. on 30 April 2014
Certification of full block transfers completed on or before 31 March 2014	5 p.m. 30 June 2014

Contingent Assets

Certification of Guarantor Strength

Where a Type A contingent asset is in place (i.e. a parent or group company guarantee), trustees must certify that they “have no reason to believe that each certified guarantor, as at the date of the certificate, could not meet its full commitment under the contingent asset as certified”. The PPF consulted on a minor change to the wording of the certification, but this change will not be introduced until next year.

The PPF is concerned that last year there were a “significant proportion” of cases where trustees provided certification without properly considering the ability of the guarantor to meet its commitment where the employers whose liabilities it is covering have become insolvent. It has updated its guidance material to give increased emphasis to this issue.

The PPF has also confirmed that trustees should still feel able to give the certification where they are aware of an isolated negative factor regarding the guarantor’s financial position but this is outweighed by a number of positive factors. Trustees need to be comfortable (rather than certain) that the guarantor could meet its full commitment under the guarantee.

Recertification Following a “Gap”

For the levy year 2014/15, a contingent asset can be recertified following a gap in certification/recertification (rather than being certified as a new contingent asset), provided that:

- certification/recertification occurred not earlier than 2009/10; and
- the agreement remained in place during the years the asset was not certified for levy purposes.
- a new legal opinion is obtained if the trustees believe that the legal position has changed.

This represents a simplification that may be useful for some trustees.

Additional Points...

The PPF has clarified that:

- Deficit reduction contributions need to be in cash.
- The 2014/15 levy determination does not include a provision (as suggested in consultation) for levies to be recalculated to address liabilities arising as a result of the forthcoming change in the definition of money purchase benefits (due to come into force on 6 April 2014).
- Some of the non-UK failure scores in the Foreign Probability Comparison Table have been updated.

Risk Failure Scores

Dun & Bradstreet (D&B) introduced a new scoring methodology in the UK from the beginning of 2014. The PPF had understood that this would not affect scores used for the 2014/2015 levy but it now transpires that the new scores will be used by D&B for the last two or three months of 2013/2014 (and so will be included in the 12 months averaging process). The PPF says that at present it does not know how the scores generated by the new methodology will differ from those calculated under the old methodology.

Experian will replace D&B as the insolvency risk provider from 2015/16. The new risk scoring model is taking longer to develop than the PPF anticipated. The PPF seeks to ensure that the new model is "suitably predictive, transparent for levy payers and a better fit" than the one used by D&B.

Further Information

If you are considering putting in place a new contingent asset or re-certifying an existing contingent asset, please discuss this with your usual Squire Sanders pensions contact, or one of the partners listed below, to ensure that all necessary aspects are in hand well in advance of the 31 March 2014 deadline.

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