

Pension Protection Fund Consultation

Changes to Levy Methodology for the 2021/22 Levy Year

Institute for Family Business Response

About the Institute for Family Business

The Institute for Family Business (IFB) is the UK's family business organisation, supporting and promoting the UK family-owned business sector through representation, thought leadership, analysis, events and networking. We work closely with family firms to support them in growing enterprises for generations to come. A central part of our work is to provide educational resources and knowledge-sharing designed to support business owners and those who work in family business. We champion best practice within the family business community and help others to learn from these examples.

Family Business and Pensions

Family business is the backbone of our economy, and the bedrock of our communities. In the UK, family firms generate a quarter of GDP and employ over thirteen million people. By their very nature family businesses take a long-term view, building on long-term stewardship of people and resources. Their commitment to passing a healthy business on to the next generation is locked into their corporate DNA.

The family business sector is extremely diverse. Family businesses come in all sizes and are found in all industries and communities across the UK. Whilst the majority of family firms are small or micro businesses, there are around 18,000 medium and large firms. By their very nature, family businesses take a long-term view, built on long-term stewardship of people and resources.

Family businesses have a long history of acting as responsible employers, and this includes their provision of pensions to their employees. Many firms now have significant pension scheme obligations, and family business owners are committed to ensuring that their business is able to meet these sustainably whilst also investing in growth for the future.

Scope of the Review

Consultation Question: Do you have any views on our approach for the Levy Rules for 2021/22 and 2022/23 being set on an individual, year by year, basis?

Consultation question: Do you agree with our proposal to not make any changes to the PPF-Specific model in light of COVID-19 for 2021/22?

We believe the approach taken to COVID-19 by the PPF is sensible, given that the impact of COVID on schemes and sponsors is not yet clear. The PPF is already sufficiently funded, and it is therefore appropriate to reduce the overall amount being raised through the levy rather than attempting to second guess the impact of COVID and consequent impact on the PPF.

Levy Policy for 2021/22

Consultation question: Do you agree with our proposal to introduce a small scheme adjustment?

We do agree with the proposal to introduce a small scheme adjustment. We have, in the past highlighted many of the issues raised in the consultation document that can lead to difficulties in accurately reflecting the risk of small schemes. We have also highlighted that small schemes have paid a disproportionality higher levy than the risk they have posed. We therefore welcome this small scheme adjustment, and believe it will ultimately support the objectives of the PPF and the smaller schemes moving forward.

We also welcome the proposal to improve the information given to all scheme to help them manage their levy. Giving schemes and employers timely, clear and accurate information is essential in improving the process for all.

Consultation Question: Do you agree that we should reduce the risk-based levy cap from 0.5% to 0.25% of unstressed liabilities?

Yes, we support the reduction in the risk-based levy cap to 0.25% for unstressed liabilities. We understand the PPF's particular reasons for proposing this approach in light of COVID-19 and the challenges facing scheme sponsors. We welcome this pragmatic approach, which should support sponsor businesses in improving their resilience.

Consultation question: Do you think the easement measures for COVID-19 impact should be extended to the 2021/22 levy year?

Yes, easement measures for COVID-19 should be extended to the 2021/22 levy year. The impact of COVID-19 is still ongoing for businesses and it is not clear either when the trading restrictions will lift. There will also be longer term economic impacts. In addition to extending the easement measures to 2021/22 the PPF should also keep all options open for easement measures in future years.

Consultation question: We would be interested to receive comments on points that we should consider in time for the 2022/23 Levy Rules and are also seeking views on whether any changes should be made in light of the Corporate Insolvency and Governance Act?

The nature of family businesses makes them more likely to own 'unusual' assets which are used in the trading of the business e.g. distilleries or historic artefacts. It would be helpful to consider whether the relatively small number of contingent asset approaches could be widened or made more flexible to help these organisations to be able to provide additional support to their pension schemes and receive proportionate levy credit for doing so.

We recognise the need for the contingent asset rules to be robust, for example where wide-ranging guarantees are being provided by complex international groups. However, we would recommend the PPF considers whether a more proportionate approach could be considered for smaller schemes and lower value contingent assets. This would allow a greater number of employers to provide support without diluting the rules for large and complex entities.

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