

Buck Consultants Limited

PPF levy consultation response

We are pleased to respond to the above consultation.

In general we are supportive of the approach that the PPF are proposing in relation to the development of the levy. Our client base comprises mainly small to medium sized schemes amongst whom, simplicity and hence economy of operation is of significant importance. Our responses below to the specific consultation questions reflect this concern.

Section 4

Q1: Do you agree that the PPF should keep the two caps on the risk-based levy under review to seek to maintain the affordability of the levy?

We fully support the principal that the levy should be affordable to all and the current cap basis seems a reasonable way to achieve that aim.

Q2: Do you consider that the scheme-based levy should be reduced when the PPF is no longer in deficit, or alternatively at some other point?

We have no firm view on this but it is not obvious to us why it is thought that funding the deficit and the recouping of capped levies should be done on a scheme-based levy basis.

Q3: Should the PPF now move to include unexpected risk in the risk-based levy on the basis proposed?

The proposals appear to be a reasonable method of fairly distributing the levy to take account of schemes' longer term risk and we therefore support such a move.

Q4: If so, on what timescale should it be introduced – in 2011/12 as suggested, or in an alternative levy year?

We support 2011/12.

Section 5

Q5: Do you agree that taking account of investment risk in the levy is unlikely in itself to alter the behaviour of schemes or impact markets?

We would hope so, although there is an element of uncertainty about your analysis arising from your assumption that that all trustees will behave rationally and will be faced with a simple trade-off between the volatility of their scheme's funding level and the potential out-performance of their assets over their liabilities. There are already influences at work, stemming from regulatory and cautious consultancy advice, that can tend to push trustees to an over-cautious approach to investment strategy. Our fear is that the revised structure of the PPF levy could be yet another factor to persuade trustees towards over caution.

Q6: Do you agree with Option 3, the proposal to use asset and liability information currently obtained through the Exchange scheme return to calculate a scheme- specific volatility measure that would be incorporated in the new risk-based levy formula?

We are in favour of maintaining a basis that is simple to comply with and avoids attempting to achieve what may be spurious levels of accuracy. We therefore agree with the proposal.

Q7: Do you think that, if Option 3 is implemented, behaviour that seeks to reduce the levy charged, rather than genuinely reducing risk, would have a material impact on levy collections? (For example by altering investment strategy immediately after a reporting date or using derivatives to increase risk)

We think it unlikely that the impact of such behaviour would be material.

Q8: Do you agree that, in the longer term, Option 5, the approach which is based on schemes modelling their own investment risk, should be introduced, at least for larger schemes?

We have no definitive view on this but in line with our answer to Q6, we are not convinced of the necessity or desirability for such a move. Indeed, we do see a potential danger that if it were introduced for larger schemes on either a voluntary or compulsory basis, the net effect could be to shift the levy burden on to the medium and smaller scheme population. We would be opposed to the change if that were to be the result.

Q9: If so, should this be compulsory for the largest schemes?

N/A

Q10: If so, what threshold should apply?

N/A

Q11: Should an internal models approach be offered to smaller schemes if they wish to use it?

We would again be wary of anything that put such schemes under pressure to incur additional cost.

Q12: What questions about the approach do you consider would need to be resolved before Option 5 could be introduced?

All stakeholders would need to be convinced of the validity of the underlying stress models. Events of the last few months make the achievement of such an objective difficult. We would also expect reassurance that there would be no drift in levy burden towards medium to small schemes.

Section 6

Q13: Do you agree with the PPF's preferred approach to measuring the fairness of the levy?

Again, we are happy to accept that a relatively simplistic approach is acceptable.

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