Oliver Morley

Growing from a lifeboat to a leader

Pension Protection Fund (PPF) CEO, Oliver Morley, chats with Sophie Smith about the lifeboat fund's recent funding improvements, and the future role that the PPF could play in efforts to reshape the pensions universe

The latest PPF *Annual Report and Accounts* revealed strong investment performance and improved reserves, despite recent market challenges. Given these recent improvements, has the PPF seen any increased interest in the use of potential excess reserves in the future, and is this an area that the PPF has had discussions with the government on?

The PPF has evolved from a small organisation that some doubted would succeed in standing up financially, to a robust fund that offers security and reassurance to around 10 million DB scheme members. However, like all financial organisations affected by the changing market, it must make considered and sensible decisions about its funding levels and appetite towards risk. As the backstop for all DB pensions schemes in the UK, we have a low appetite for risk and have worked hard to reach a certain level of confidence in our financial position.

As we reported in our latest *Annual Report and Accounts* for 2022-23, despite a challenging market backdrop we've made further progress on our funding journey. Our funding ratio increased significantly to 156 per cent, and our reserve grew by £0.4 billion to £12.1 billion.

In our *Funding Strategy* review published last autumn, we recognised that we're moving into a new 'maturing' phase. Scheme funding improvements, coupled with our own strong financial position, has meant our focus is increasingly turning towards maintaining our financial resilience, which is now our central funding objective. Our current level of reserves gives us good protection against the risk that we need to pay more in compensation than expected – for instance, from higher-than-expected future claims on the fund. This has allowed us to significantly reduce the levy we charge without risking our ability to pay members their compensation. This year's levy collection (in 2023-24) of £200 million is a near 50 per cent reduction on last year's levy (£395 million in 2022-23).

To protect against the most adverse tail scenarios we could face, our intention is to continue to grow our reserves above those needed to maintain our financial resilience. Importantly, we plan to do this predominately through our low-risk investment strategy. This approach will reduce the risk that our funding is eroded in future and the subsequent risk that we need to ask levy payers to pay more in the future. We recognise that our approach means there is a possibility that we may eventually end up with excess reserves.

While it is too soon to say what the eventual funding outcome for the PPF will be, we recognise the growing interest in this scenario among our stakeholders, particularly members and levy payers. We'll be working with DWP colleagues over the coming years to consider how we might utilise any excess reserves when the level of risks we are exposed to reduces significantly. The views of our stakeholders will be important in considering this scenario, and we expect there to be further engagement on this.

These funding improvements have enabled the PPF to cut its levy significantly, although concerns have been raised over the ability to further cut the levy given the limitations this could place on raising it again in the future. Are you able to share any insight around potential changes to the levy?

We were very grateful to receive the DWP's review of the PPF, which recommended reviewing the legislation around the levy, among a range of recommendations. We can see there is a case for that given how much the environment has changed since legislation was created. Such a review could explore not just the desirability of changes to support a move to a zero levy, covering the current obligation to charge and the 25 per cent year on year restriction; but also changes to support a better distribution of the levy charge in an environment of significantly improved scheme funding.

However, changes to legislation are clearly a matter for the government. It is also worth noting that primary legislation would be required, for which opportunities are extremely limited. The responsibility of the PPF Board is, therefore, to set an appropriate levy within the current legislative framework.

We understand this is an issue that will not fade away, and as the universe continues to change, we will share the impact and data with the government so they can make the best decision for the industry at that point in time.

The broader role of the PPF has recently been thrown into the spotlight, after the Chancellor launched a call for evidence on the possible role of the PPF as a consolidator and the role it could play in encouraging productive investment. What are the potential risks and/or benefits of these plans for the PPF (and wider industry)?

This is the topic on everyone's mind at the moment, and we're pleased to be considered as a potential key player in a discussion that will reshape the pension's universe. We can see the advantages of this proposal, as our current functions, skills and expertise mean we are well-placed to take on a role as a public consolidator without starting from scratch. This isn't just our view; Lesley Titcomb, who carried out the PPF's departmental review last year, included a recommendation that PPF explores with DWP how our skills could be used in other ways for public benefit.

Beyond our investment success, we have significant experience of preparing schemes for transfer to the PPF, and have successfully driven down the time it takes to do so. Having successfully insourced much of our investment work, and all of our now award-winning member services, taken on the scheme manager role for the Financial Assistance Scheme, and dealt with an entirely new class of claims on the Fraud Compensation Fund (FCF), we have shown that we are well able to respond to the challenge of major change.

There are of course risks for the PPF and our stakeholders if we were to act as a public consolidator, for example, in relation to any use of the PPF as an underwriter or source of funding; if the government were to choose to progress this option, the impact this would have on our existing function would need to be considered.

A number of recent cases, such as the Norton Motorcycles scheme, placed increased scrutiny on the FCF compensation process. What are the key issues, particularly in terms of speed, and what changes are needed?

As with all our FCF cases, we are looking at pragmatic ways in which we can progress to payment as quickly as possible. Although we know we have much more to do, we are making progress on the existing claims we've received – and have now begun paying compensation to schemes and reaching decisions in principle on acts of dishonesty, which is a key milestone towards reaching an outcome.

Once the FCF has received all the information from scheme trustees, the team is able to assess the claim. Processing a claim can take anywhere between six months and two years due to the highly complex nature of some cases and the difficulty in locating evidence from historic, and often incomplete, records. A ruling in November 2020 helped to clarify how the FCF could progress with investigating scam scheme and pension liberation cases, this has helped us to be able to make important decisions on each case.

Since then, the FCF has been working hard to pay compensation as quickly as possible. The FCF team support DWP in making legislative change to allow interim payments to be made where schemes have run out of assets and would otherwise not be able to progress a claim.

Written by Sophie Smith