

Pension Protection Fund – Changes to Levies

A quick refresh - what is the Pension Protection Fund?

The Pension Protection Fund (PPF) is a statutory corporation and was founded with effect from 6 April 2005 under the Pensions Act 2004. Its purpose is to protect members of eligible defined benefit pension schemes in the UK if the scheme's sponsoring employer becomes insolvent and its pension scheme cannot pay members the benefits that were promised. The PPF will pay compensation to those members in respect of their lost pensions.

The PPF is not funded by the government or tax payers, it is funded from four main sources:

- The assets of schemes that transfer to the PPF.
- Any monies that can be recovered by the PPF from insolvent employers.
- Income from PPF investments.
- The collection of levies from pension schemes that are eligible for PPF protection.

What are the PPF levies?

Schemes pay two levies to the PPF:

- The Scheme Based Levy – based on how large the scheme is and payable by all schemes.
- The Risk-Based Levy – to take account of a scheme's sponsoring employer's insolvency risk, a scheme's underfunding risk and its investment risk.

What are the other levies?

In addition to the above there are separate levies collected by TPR and then passed to the DWP, which in turn makes a grant to the PPF to cover a proportion of its administrative expenditure:

- The PPF Administration Levy (PPFAL) – This covers the cost of running the PPF and the Fraud Compensation Fund (FCF) and is based on scheme membership numbers.
- General Levy – This covers the cost of running TPR, the Pensions Ombudsman Service and the Money and Pensions Service.



Funding position of the PPF

The funding position of the PPF has improved over the years and it is currently in a strong financial position. Therefore, it is less reliant on collecting levies than it used to be. It's in a position to be able to reduce the amount it collects and still be able to protect members' benefits should a scheme get into financial difficulties.

As a consequence of this the following has occurred:

Removal of levy cap restrictions

Under legislation, limits were put in place on how much the PPF could charge, "the levy increase cap", and also how much they could alter the total levy from year to year, (i.e. "the maximum increase"). The amount it could **increase** the total levy from year to year was limited to 25%. Therefore, if the PPF ever set a levy one year at zero this would prevent it from ever charging a levy again, because it could not increase nil by 25%.

The Pensions Schemes Bill removes the restrictions that prevent the PPF from reducing the annual PPF levy it collects, when a levy is not required. This means that the restriction on increasing the levy by no more than 25% in any one year will be removed. The PPF will now be able to reduce a levy to nil one year, but then collect a levy the following year.

PPF Administration Levy (PPFAL)

As a surplus also built-up in the PPF Administration Levy, TPR suspended its collection for two years from 1 April 2023 (i.e. the financial years 2023/24 and 2024/25). This action was influenced by a 2022 independent review that found the levy an "unnecessary complication" and recommended its abolition once the surplus was spent.

However, the surplus has now reduced and after a two-year break, collection of the PPFAL was restarted from 1 April 2025, to ensure sufficient funds are available to meet PPF's administration costs.

PPF Levy invoicing on hold

In January 2025, the PPF published their PPF Levy rules for 2025/26, in which it was estimated that a levy of £45m would be collected (a 50% reduction on the levy in 2024/25).

It also signalled moving to charge no conventional levy if appropriate legislative changes were brought forward, and sufficiently progressed, in the course of 2025/26. In anticipation of this, the levy rules include a provision for the PPF Board to calculate a zero conventional levy if this happened.

With the introduction of the Pension Schemes Bill and its provisions on the PPF Levy, the PPF has announced it will monitor the progress of the Bill before making a final decision on the 2025/26 levy.



To enable this, the PPF has advised that mean scores will be published as normal in due course, but that it is putting invoicing on hold until it has concluded its decision making. Doing this maintains the possibility of the PPF moving to a zero levy for conventional schemes for 2025/26.

Parliament are due to debate the Bill over the autumn and we will keep you updated on the outcome.

If you would like to discuss this matter further, please get in touch with your usual contact at Cartwright.

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