



Pension
Protection
Fund



Levy policy statement

Levy rules 2026/27



Contents

1.	Key conclusions.....	3
2.	Overall approach	4
3.	Alternative covenant scheme approach	7
	Appendix 1 - Summary of consultation question responses.....	11

1. Key conclusions

1.1 Background

1.1.1 We issued the consultation on the levy rules for 2026/27 on 17 November 2025. The consultation closed on 5 January 2026, and we received a total of 28 responses. These were considered in determining the final levy policy and rules.

1.2 Key conclusions

1.2.1 We are publishing our conclusions together with the levy rules for 2026/27. The headlines are:

Levy estimate for conventional schemes
<ul style="list-style-type: none">• We have set a zero levy estimate for conventional schemes.
ACS levy
<ul style="list-style-type: none">• We will continue to charge a risk-based levy for alternative covenant schemes (ACS).• We have largely retained the existing ACS rules but are committing to accelerate our review of the ACS levy methodology to ensure it remains proportionate from 2027/28 onwards. In the meantime, we have made a limited number of targeted adjustments as consulted on, alongside a small addition to the ACS Guidance made in response to consultation feedback.

1.2.2 The levy rules that will govern the calculation of the levies for 2026/27, as specified in the Board's Determination under section 175(5) of the Pensions Act 2004, are published alongside this policy statement. Together with the levy rules, we have published guidance for schemes on how to meet the requirements of the levy rules, and to explain how we expect to act in the areas where the levy rules provide us with flexibility.

1.2.3 The following sections highlight the main themes arising from the consultation responses, our analysis, and next steps.

2. Overall approach

2.1 Introduction

2.1.1 Our consultation laid out our intent to set a zero levy for conventional DB schemes. We also consulted on a fallback position to be used in the event there was insufficient certainty that legislation would be changed to allow us to set a levy again in the future.

2.2 Zero levy for conventional schemes

2.2.1 The Pension Schemes Bill contains provisions that would enable the Board to set a zero levy while retaining the ability to set a levy again in future¹.

2.2.2 Since we published the consultation, the provisions have been considered further, and the Board has confirmed it now has sufficient confidence to conclude its decision-making and confirm a zero levy for conventional schemes in 2026/27. This is consistent with the PPF's decision to recalculate the levy for those schemes to zero in 2025/26.

2.2.3 During the consultation exercise, Government announced its intention to introduce indexation in relation to pre-97 compensation (to eligible members of the PPF). We consider that our current funding position, when taken together with our current assessment of the outlook for the universe of schemes we protect, allows us to absorb the associated financial impacts of this change (both on PPF liabilities and future claims risk) without altering our levy plans – including moving to a zero conventional levy – or compromising the security of members' benefits.

2.2.4 The majority of respondents supported our proposal to set a zero conventional levy, agreeing that this was an appropriate approach.

[...] strongly supports the PPF's intention to maintain a zero levy for 2026/27. This decision reflects both the robust financial position of the PPF's reserves and the ongoing improvements in scheme funding across the DB sector. (Representative body)

2.2.5 Five respondents disagreed with our proposal. Most cited opposition to maintaining a levy on ACSs, which is discussed in more detail in Section 3, while others objected to PPF protection being provided without charge to conventional schemes.

2.2.6 As we set out in our 2024/25 levy consultation², improvements in scheme funding meant that – absent any changes to the levy framework – levy income could fall to as little as £10 million by 2027/28, reflecting the fact that most schemes would no longer pay a risk-based levy. Our modelling gives us confidence that we have sufficient funds and do not require further levy income at this time. As part of our funding strategy, we will continue to build security through investment returns. In light of this, we remain of the view that it is appropriate to cease charging a conventional levy for 2026/27.

2.2.7 Our consultation also set out a fallback approach to be applied if the required level of certainty over the changes needed had not been in place ahead of publication of the levy rules. Under this approach, we proposed to re-use the 2025/26 levy rules, including the relevant measurement time. In light of our decision not to charge a conventional levy for 2026/27, there is no need to use this fallback approach. We are nevertheless grateful for the thoughtful and constructive responses received.

¹ This is achieved through the removal of the existing requirement that any year-on-year increase in the levy estimate is restricted to 25 per cent of the previous year's levy. Instead, the provisions would allow annual increases in levy of up to 25 per cent of the previous year's levy ceiling.

² [Pension Protection Fund, Consultation on the Levy Rules for 2024/25](#)

2.3 Future of levy

- 2.3.1 Some respondents highlighted a range of issues that would need to be considered during a zero-levy environment. These included the importance of:
- Continuing to engage with the sector to maintain trust and transparency in levy policy;
 - Having clear and transparent triggers for identifying when a levy may need to be introduced;
 - Ensuring that any reintroduction of the levy is proportionate; and
 - Providing clear communication to levy payers, with as much notice as possible.
- 2.3.2 Respondents also identified a number of considerations relevant to the design of any future levy, should a levy be reintroduced. In particular, they highlighted the need to ensure that:
- Any future levy approach is proportionate for smaller schemes with limited administrative capacity; and
 - Contingent-asset frameworks remain accessible and proportionate for businesses with non-standard asset bases or sector-specific operating models.
- 2.3.3 We consider the scenarios in which we would need to reinstate the levy to be limited. However, claims and longevity risks remain, and one or both of these could potentially become significant again.
- 2.3.4 The levy provisions in the Pension Schemes Bill would give the PPF greater flexibility over when a levy could be reintroduced, meaning that should such a scenario arise, the Board would be able to take a measured and proportionate approach rather than responding immediately to short-term changes in circumstances.
- 2.3.5 In the first instance, this would allow, for example, the Board to consider the use of existing reserves and investment returns to address adverse conditions. If, following careful consideration, the Board were to conclude that reintroducing a levy was appropriate, it would be legally required to consult, providing levy payers with the opportunity to engage on both the rate of the levy and its design³.

2.4 Levy data requirements

- 2.4.1 As set out in our consultation, schemes currently provide the PPF with a wide range of data for levy purposes. Following the decision to set a zero levy for conventional schemes, we are reviewing our data needs.
- 2.4.2 While some levy-specific data will no longer be required, we will continue to need a core set of data and information to help us assess and monitor risk across the defined benefit universe, including to inform decisions on whether, and how, a levy should be charged in future. This includes s179 data to support our understanding of scheme funding, insight into how schemes invest their assets (which both the PPF and The Pensions Regulator (TPR) rely on), and information to help monitor claims risk. The data we collect also supports wider functions, including publications such as the Purple Book.

³ We note that the Government will be considering further changes to the legislation governing the levy, with a view to ensuring that we can set an appropriate levy in the event that a charge needs to be reintroduced, including consideration of the balance between the scheme-based levy and the risk-based levy.

- 2.4.3 We are committed to undertaking a full review of data requirements and will work with TPR, DWP, and schemes to consider potential changes to further reduce data requirements over the longer term, with a focus on ensuring requirements remain proportionate.
- 2.4.4 Further detail on our short-term data requirements, together with answers to common questions from schemes, is set out on our website (in the information for levy payers published alongside the zero levy announcement⁴).

⁴ [Pension Protection Fund, Information for levy payers](#)

3. Alternative covenant scheme approach

3.1 Introduction

3.1.1 Our consultation set out our proposal to keep the alternative covenant scheme (ACS) rules largely unchanged while making some small adjustments, including to reflect the move to a zero levy for conventional schemes. We invited views to help inform a wider review of the ACS methodology in the medium term.

3.2 Maintaining a charge for ACS

3.2.1 In the context of moving to a zero levy for conventional schemes, the consultation set out our intention to continue charging a levy to ACSs, alongside our rationale. While no specific question was asked on this issue, many respondents helpfully shared their views.

3.2.2 Those who supported the approach recognised the case for continuing to charge a levy considering the developing superfund market and the evolving regulatory framework. One respondent commented:

We agree with the proposed approach to set no levy for conventional DB schemes in 2026/27 while continuing to charge a risk-based levy for ACSs. The differentiation reflects materially different risk profiles; ACSs lack a substantive employer covenant and concentrate investment/funding risks, which can correlate across providers and amplify systemic exposure. Retaining a levy for ACSs therefore preserves an important prudential signal and mitigates moral hazard risks in a market that is still evolving. (Advisor)

3.2.3 Several respondents challenged our proposal to maintain a levy for ACSs. They argued that superfunds – which are one particular form of ACS arrangement – currently present a low risk to the PPF, potentially lower than that posed by many conventional schemes, and highlighted the stringent regulatory regime to which they are subject. Some respondents considered that our proposal did not sufficiently recognise the high funding threshold required to enter a superfund, the role of funding threshold triggers, or the associated governance arrangements, including monitoring and the buffer fund.

3.2.4 Some respondents acknowledged that the ability for superfunds to extract profit represents a new risk to the PPF. However, they considered that, given the stringent nature of the proposed regulatory framework, this would not endanger the PPF. Comparisons were also drawn with the Pension Schemes Bill, which would enable surplus extraction for conventional defined benefit schemes.

3.2.5 In addition, some respondents expressed concern that the continued application of a PPF levy to ACSs could negatively impact the development of the superfund market, and therefore the Government's objective of supporting consolidation and scale. This was seen as a particular risk because the introduction of pre-97 indexation could, in some cases, significantly affect the levy payable by ACSs. One respondent noted:

The greater risk at present is that given the total burden, superfunds do not achieve 'significant scale, ...'.

Our response

3.2.6 We acknowledge that ACSs currently present limited risk to the PPF, reflecting their small scale and current business model and scheme design principles. However, the ACS sector is developing rapidly and has the potential for a range of different scheme designs and business models to emerge. The sector could also grow quickly in scale, with risks becoming more

concentrated. This could give rise to new risks for the PPF, as ACSs lack the risk diversification provided by trading employers in conventional schemes and expose us more directly to scheme funding and investment risks. These are not risks that our existing reserves have been built to cover and we want to ensure that conventional levy payers are shielded from any levy impacts of this emerging market.

- 3.2.7 We recognise the points made about the interim regulatory regime for superfunds and that a permanent regime is being put in place through the Pension Schemes Bill and subsequent regulations. However, as this framework is still being established it will take time for the final shape to be known (including the extent to which the regime covers non-superfund ACSs). We are also mindful that ceasing to charge a levy and then reimposing one in the future could be problematic for this sector (e.g. given the finite capital available to these schemes).
- 3.2.8 We therefore consider it appropriate to continue charging a risk-based levy to ACSs in 2026/27. We expect the levy charged in 2026/27 to be low as a proportion of the liabilities within ACSs and proportionate to the risk posed (in line with the proposals set out in the consultation, we do not propose to charge a scheme-based levy to ACSs in 2026/27).
- 3.2.9 However, we will keep our approach under review for future years. We are committed to ensuring that any levy charge remains proportionate to the risk charged and recognise we need to reflect on the impact that the introduction of pre-97 indexation will have (this will not impact levy calculations until 2027/28). We are also committed to ensuring that we retain a strong risk-based justification for any charge and recognise the need to keep this under review as the regulatory regime takes effect, with important developments (for example consultation on regulations) expected over the course of 2026/27.
- 3.2.10 We are therefore committing to accelerating our review of the ACS levy methodology and will work closely with stakeholders to consider how our approach should be developed for 2027/28 and beyond. This reflects the approach requested by some respondents, for example:
- The levy must be proportionate to the risk that superfunds pose to the PPF and to members' benefits, or risk stifling market development. As such, [the respondent] asks the PPF to urgently review the ACS levy methodology, and to do it ahead of the 2027/2028 levy determination... This suggested timing is so that the unintended, but potentially detrimental effect – on superfunds and their wind-up triggers – from the pre-1997 indexation of PPF benefits payable, announced in the November 2025 Budget, can also be properly taken onboard for subsequent ACS levy calculations. (Representative body)*
- 3.2.11 The review will include consideration of the extent to which ACSs should be treated as a single category for levy purposes, reflecting respondents' views that different types of ACS may present different risk profiles.

3.3 Minor changes

- 3.3.1 Our consultation set out proposals for a small number of adjustments which, in part, reflect our proposal to set the levy to zero for conventional schemes. This included the removal of the levy band 10 underpin, the introduction of a discretion to recognise arrangements which reduce underfunding risk, and a minor amendment to the definition of an ACS. We posed two specific questions in respect of these changes, and consultation responses indicated strong agreement across the 24 responses received.

Band 10 underpin

- 3.3.2 We proposed removing the levy band 10 underpin from the 2026/27 levy rules. The underpin is a mechanism which ensures that an ACS levy is not lower than the amount the scheme would pay under the conventional levy methodology.
- 3.3.3 The comments we received on this proposal were universally supportive. Respondents agreed that, in light of the wider changes to the levy framework, the underpin was no longer necessary.
- 3.3.4 We are therefore removing the levy band 10 underpin from the 2026/27 levy rules.

Underfunding discretion

- 3.3.5 Our consultation proposed introducing a new discretion to enable us to take account of arrangements which improve the security of an ACS scheme. This followed our proposal to remove our existing rules and guidance on contingent assets and asset backed contributions (ABCs), while retaining the ability to recognise similar risk-mitigating arrangements within the ACS levy.
- 3.3.6 Most respondents supported the introduction of a discretion. However, some respondents raised concerns about the lack of clarity on how the discretion would operate in practice, including how such arrangements would be reflected in the levy calculation. The two respondents who did not support the proposal either objected to charging a levy to ACSs or considered that insufficient detail had been provided.
- 3.3.7 We have carefully considered the concerns raised about the information provided in the consultation on how the proposed underfunding discretion would operate. We recognise that while our draft ACS Guidance set out the information and documentation required for us to assess relevant arrangements, it did not specify how such arrangements would be taken into account in the levy calculation.
- 3.3.8 At this stage, we do not consider it appropriate to set out detailed or prescriptive rules, as doing so could unduly constrain our ability to respond to market developments. Our preference is to develop more formal rules once we have had the opportunity to consult with the industry and to observe the structures, volumes, and purposes for which the market is using these arrangements.
- 3.3.9 We will therefore proceed with the introduction of the underfunding discretion as consulted on. To address the concerns raised, we will additionally set out high-level principles in the ACS Guidance to provide additional clarity for schemes and advisers. As the discretion will be exercised on a case-by-case basis, schemes may wish to engage with us to discuss how it may apply in their particular circumstances.

ACS definition

- 3.3.10 In our consultation we proposed a minor amendment to our definition of alternative covenant schemes, intended to clarify the circumstances in which a scheme will be treated as an alternative covenant scheme where it operates without a materially resourced sponsoring employer⁵. Ten respondents agreed with the proposal and one disagreed. The respondent who disagreed requested a small wording change but was content with the inclusion of the new

⁵ Achieved by including new criteria (f) in Rule C2.1(2) stating "It is otherwise a Scheme where on or after 1 January 2017 the outcome of any arrangements, reorganisation or insolvency is that the Scheme is left with an Employer that has no material resource of its own to meet the Scheme's liabilities".

definition. Suggestions from respondents included clarifying what is meant by “no material resources” and adding the word “sole” before “employer”.

- 3.3.11 In relation to the reference to material resources, we considered whether additional clarification was required. On balance, we do not consider that further explanation is necessary. The concept of material resources is already used in criterion (d)(ii) within our alternative covenant scheme criteria, and the revised definition is intended to expand on that existing criterion rather than introduce a new one.
- 3.3.12 We also considered the suggestion to add the word “sole” before “employer”. While this could be incorporated into the rule and would be consistent with criterion (d)(ii), we concluded that greater specificity could create additional scope for unintended application, for example where two small shell employers are involved. In any event, the second part of the alternative covenant scheme rule would continue to apply, as we would still be required to assess whether the alternative covenant scheme methodology is the most appropriate approach for the scheme⁶.
- 3.3.13 We are therefore proceeding with the updated definition of an alternative covenant scheme as consulted on. We will also review the definition of an alternative covenant scheme as part of the forthcoming methodology review.

3.4 Approach to the levy estimate

- 3.4.1 The Pensions Act 2004 requires us to estimate the levy each year, which in turn constrains how the levy can change from one year to the next under the legislative framework set by Parliament. Though we are expecting changes to that framework, the requirement to estimate the levy annually remains.
- 3.4.2 Our previous approach has been to publish an initial levy estimate as part of the consultation and then confirm that estimate in the policy statement. While we will continue to calculate a levy estimate each year, the precise figure will not be published in order to maintain confidentiality for the small number of ACS schemes currently subject to a levy.

⁶ For example, if there was a scheme with one shell employer and one trading employer, it may be determined under the second part of the ACS rule that the ACS methodology is not the most appropriate methodology for that scheme.

Appendix 1- Summary of consultation question responses

A1.1.1 This section summarises the results we received in relation to the consultation questions. Overall, we received 28 responses to the consultation.

Table 1: Responses to consultation on our overall approach

Question	Yes	No	No opinion
Q1: Do you agree with our proposed approach for 2026/27 (to charge an ACS only levy)?	50%	18%	32%
Q2: Do you have any comments about the fallback option of re-using 2025/26 rules (including re-use of data) for conventional schemes if it is required?	50%	7%	43%

Table 2: Responses to consultation on our alternative covenant scheme (ACS) approach

Question	Yes	No	No opinion
Q3: Do you agree with our proposed updates to the levy rules to reflect charging an ACS levy (including removal of the band 10 underpin and the introduction of a new discretion to recognise arrangements which reduce underfunding risk)?	39%	7%	54%
Q4: Do you agree with the updated definition of an alternative covenant scheme?	36%	3%	61%
Q5: Do you have any wider views or suggestions on areas we should explore as part of our review of the ACS methodology?	11%	18%	71%

Table 3: Responses to consultation on information that schemes provide

Question	Yes	No	No opinion
Q6: Do schemes and/or sponsoring employers use PPF insolvency risk scores for non-levy purposes, i.e. to inform risk monitoring and/or wider decision-making in relation to the scheme?	11%	36%	53%
Q7: Is having access to standard contingent asset forms useful beyond just for PPF levy purposes? (If yes, please do provide any examples you are able to share)	43%	14%	43%



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