RESEARCH

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PPF Levy Survey

2015 research

The results of Barnett Waddingham's fifth PPF levy survey show that the industry broadly supports the PPF's decision to switch to using a bespoke model developed with Experian as the means for assessing insolvency risk.

However, comments made by respondents emphasise the importance of engaging with Experian to ensure that the data used in calculating company scores is accurate. Respondents also commented on the lack of flexibility in the treatment of mortgages for scoring purposes.

Despite these concerns, our survey once again showed that support for the PPF as a means of providing additional security for members of occupational pension schemes remains high at 91%.

The main focus of the 2015 PPF levy survey was the transition from Dun & Bradstreet to a bespoke insolvency risk model with Experian. The survey also considered areas such as the change to the contingent asset certification process, mortgage exclusions and the discount applied to Last Man Standing schemes. A breakdown of answers not depicted in the following pages is shown in the survey results at the end of this research document.

“”

The scorecards need to be revisited (now that they have been in use) to see if there is a case for revision or additional scorecards (as with charities)

Company representative

The move from D&B to Experian

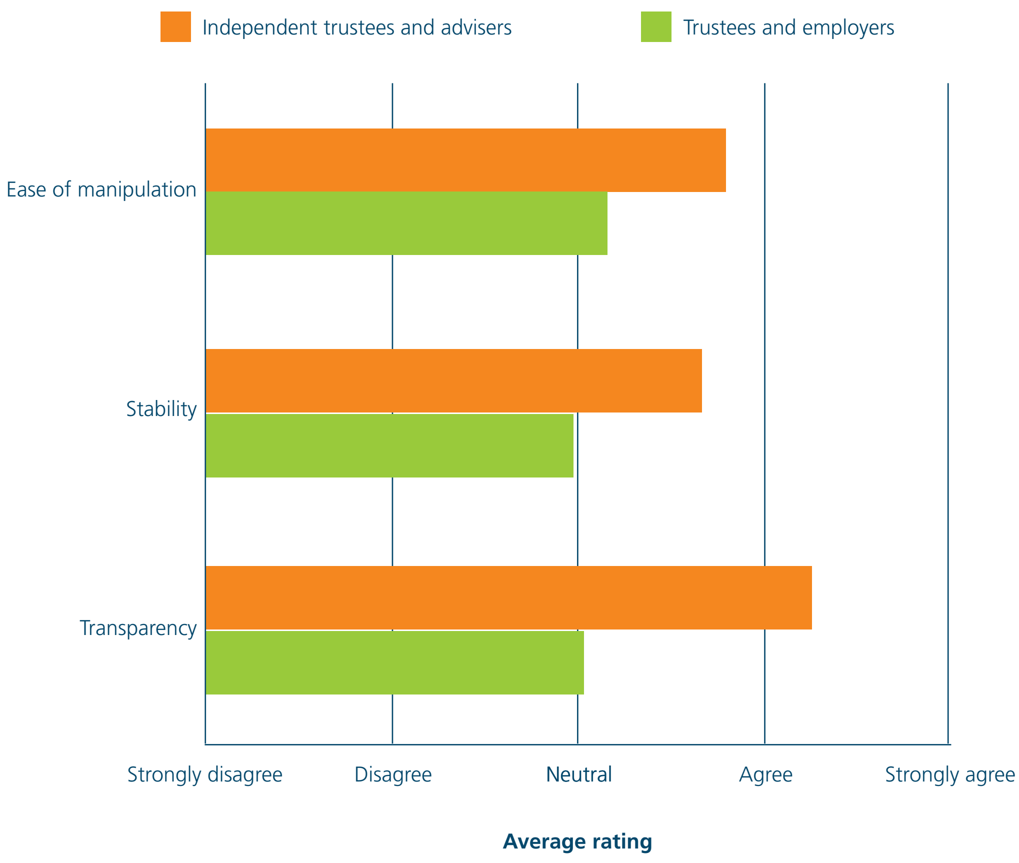
> ““ ””
>
> Experian/PPF should not expect people to file [mortgage exclusion] certificates in what is a narrow window of opportunity for people to get to grips with what is required and how the calculations are impacted by mortgage charges.
>
> **Company representative**

43% of respondents support the PPF's decision to move from the D&B model to the Experian model.

Only 24% do not support the move and 33% are neutral about the move. Support was higher among independent trustees and advisers, 63% of whom support the move, perhaps reflecting the increased transparency of the Experian model.

Despite this, only 26% of trustees and company representatives agreed that their company's Experian score accurately reflects the risk of it becoming insolvent in the next 12 months, while only 31% believe that the move to Experian has improved the PPF's assessment of their company's insolvency risk.

When compared with historic measures of insolvency risk adopted by the PPF, I believe that the Experian model better addresses the PPF's success criteria on:



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57%
have concerns relating to the data used by Experian

Respondents were positive about Experian's online web portal and the 'what-if analysis' spreadsheet, which allows accounts to be scenario tested prior to submission and provides clarity in what variables are used in producing Experian scores.

In terms of Experian's scoring methodology, the assessment of parent strength on a number of scorecards and the emphasis on financial information over non-financial information were viewed positively by the majority of respondents.

Despite the generally positive responses to the Experian system, 57% of respondents have concerns (or have had to address issues) relating to the data used by Experian, or the scorecard allocation used in assessing their employer's (or clients') insolvency risk.

Case study

We identified that the Experian model was using the wrong parent company for one sponsoring employer. Resolving this improved their Pension Protection Score from Levy Band 6 to Levy Band 3. This resulted in an overall reduction in their 2015/16 PPF levy of around 63%.

Nearly 49% of trustee and employer respondents felt that the variables used by Experian in assessing their employer's insolvency risk are not appropriate given the underlying business.

In relation to the mortgage exclusion criteria set by the PPF, the majority of respondents agreed that these were reasonable, or had no specific opinion. However, perhaps reflecting the experience of particular businesses, around 26% of trustees and employers disagreed with this comment.

Case study

We helped a UK sponsoring employer certify a mortgage exclusion certificate for its US parent company due to its 'investment grade' credit rating. This reduced their 2015/16 PPF levy by a third.

A selection of the suggestions for improvements to Experian's system made by respondents to the survey:

> *The net assets of a business in relation to its pension scheme surplus/deficit should be the main determinant of risk*
>
> **Company representative**

> *Scrap change in employee remuneration, turnover by stock, turnover and sales by employee as risk indicators … any correlation [with insolvency risk] is purely coincidental because every business model has different norms for these ratios … Stick to basic measures of credit risk.*
>
> **Company representative**

> *Remove anomaly around companies that have no employees and zero stock and appear to be penalised on some ratios (at least when compared to the same company having one employee and minimal stock)*
>
> **Professional adviser**

> *Allow self-certification of mortgages for foreign parents rather than applying the blanket assumption.*
>
> **Company representative**

> *Any amendment to scores, e.g. through the correction of data, should be backdated immediately, rather than waiting until the year-end.*
>
> **Professional adviser**

Discounts for Last Man Standing schemes

Last Man Standing schemes are multi-employer schemes where the sponsoring employers bear increased responsibility for the pension scheme liabilities if one or all of the other sponsoring employers become insolvent.

Only one respondent disagreed with the statement that it is appropriate for trustees to confirm they have taken legal advice on scheme structure before they should be eligible to receive a Last Man Standing discount, with 67% agreeing or strongly agreeing with the statement.

70% of trustee and company representatives agreed that the PPF should recoup historic levy discounts given to schemes that were incorrectly identified as Last Man Standing in the past. Interestingly, only 18% of professional advisers agreed with this statement, with 73% disagreeing or strongly disagreeing.

44% of respondents felt that the new method of applying discounts to the levies of Last Man Standing schemes (i.e. based on the spread of membership between employers) better reflects the risk reduction offered by these schemes' legal structures. Only 10% disagreed.

70% of trustee and company representatives agreed that the PPF should recoup historic levy discounts given to schemes that were incorrectly identified as Last Man Standing

Changes to Type A guarantees

31% of respondents believe that the move to a fixed cash sum basis for trustee certification and the revised certification requirements make the certification process easier for trustees to understand and complete, while 57% felt neutral about the change.

There was broad support for the PPF's decision to adjust the insolvency scores of certain Type A guarantors to reflect the increase in the balance sheet gearing, arising from the guarantee, with 43% supporting the change, and only 16% disagreeing.

58% of professional advisers believe the changes made by the PPF in relation to Type A guarantees will discourage employers from putting in place parental guarantees in the future.

Case study

Guarantees remain a very attractive way of mitigating the size of a scheme's PPF levy. We assisted a number of clients in certifying Type A guarantees last year, with one scheme seeing a reduction in their 2015/16 levy of around £380,000.

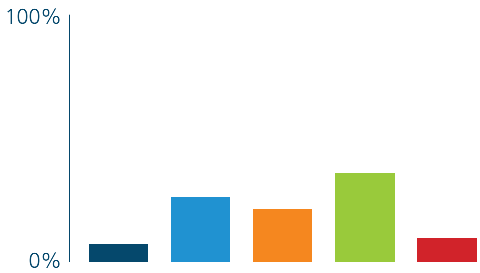
Survey results

The survey respondents are divided into two groups, ‘Trustees and Employers’ (32% trustee and 68% company representatives) and ‘Independent Trustees and Advisers’ (17% independent trustees, 8% lawyers and 75% other advisers).

Trustee and Employer representatives

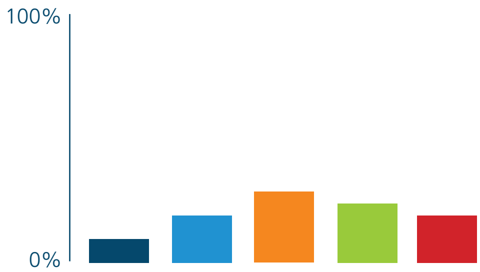
- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

1 The PPF levy should be funded solely by a levy on pension schemes without any additional government funding.



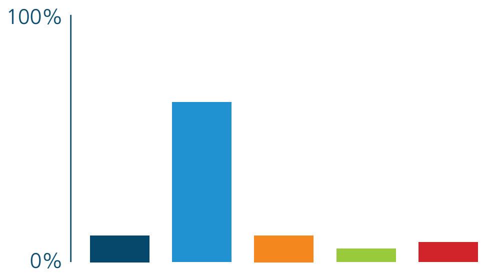
33% agree or strongly agree

2 The PPF levy could seriously jeopardise the future existence of my employer's business.



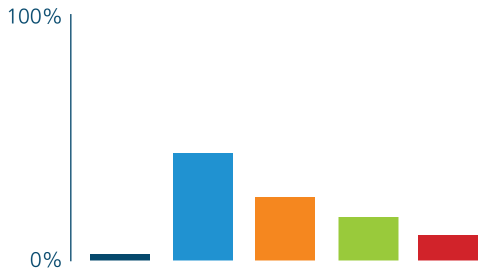
29% agree or strongly agree

3 I believe that it is reasonable to expect trustees' advisers to extend a Duty of Care to the PPF in their valuations.



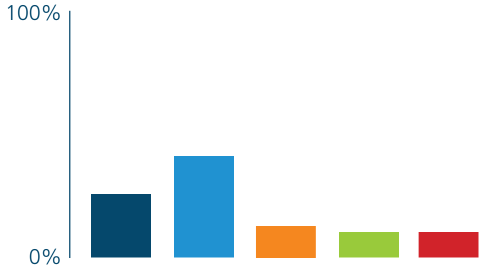
76% agree or strongly agree

4 I support the emphasis that the Experian model places on financial information over non-financial factors.



46% agree or strongly agree

5 I support the inclusion of a Parent Strength measure in the calculation of insolvency risk for the majority of companies and believe that it is appropriate to reflect the strength of the wider group in the calculation, even when there is no legal recourse to seek support from the wider group.

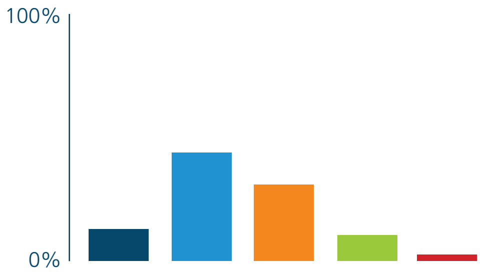


67% agree or strongly agree

6 I believe that the criteria set out by the PPF in relation to mortgage exclusion are reasonable.

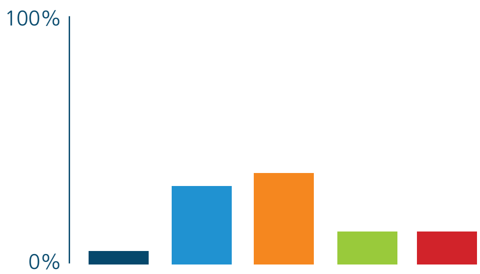
16% agree or strongly agree

7 I find the online web portal and 'what-if analysis' spreadsheet useful for analysing the Experian PPF insolvency score.



56% agree or strongly agree

8 I believe that the focus on Customer Service is much improved under the new system.



37% agree or strongly agree

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Independent Trustees and Advisers

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

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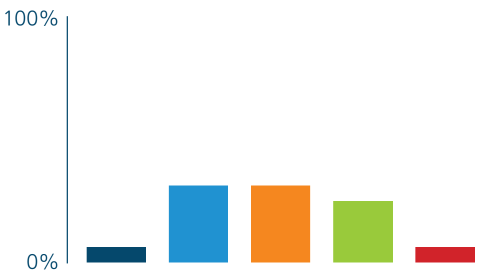
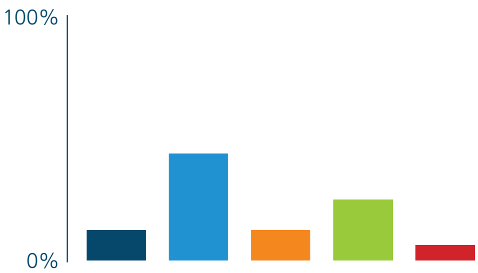


38% agree or strongly agree

2 For schemes where I am the independent Trustee or adviser, the PPF levy could seriously jeopardise the future existence of a participating employer.



56% agree or strongly agree

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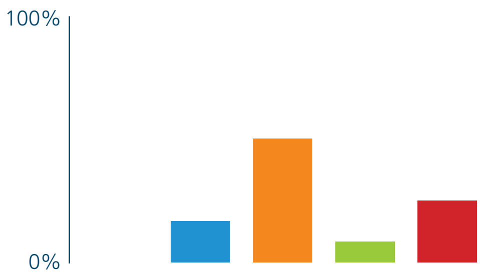
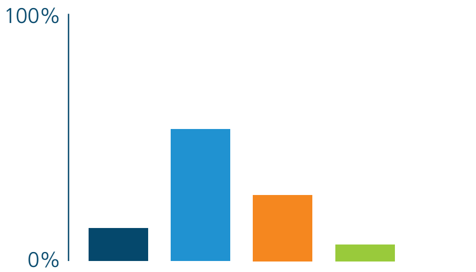


17% agree or strongly agree

4 I support the emphasis that the Experian model places on financial information over non-financial factors.



67% agree or strongly agree

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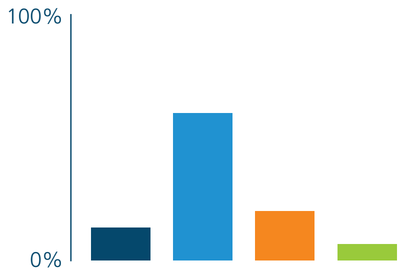

73% agree or strongly agree

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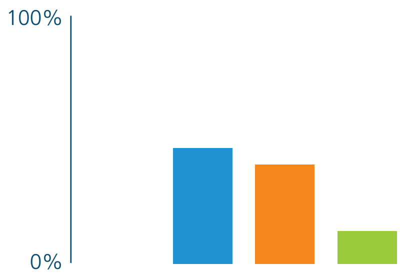
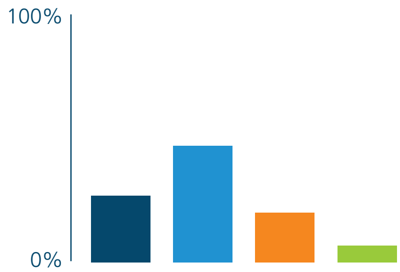


47% agree or strongly agree

7 I find the online web portal and 'what-if analysis' spreadsheet useful for analysing the Experian PPF insolvency score.



73% agree or strongly agree

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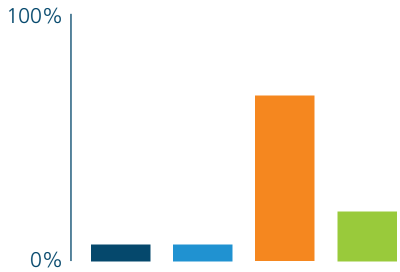
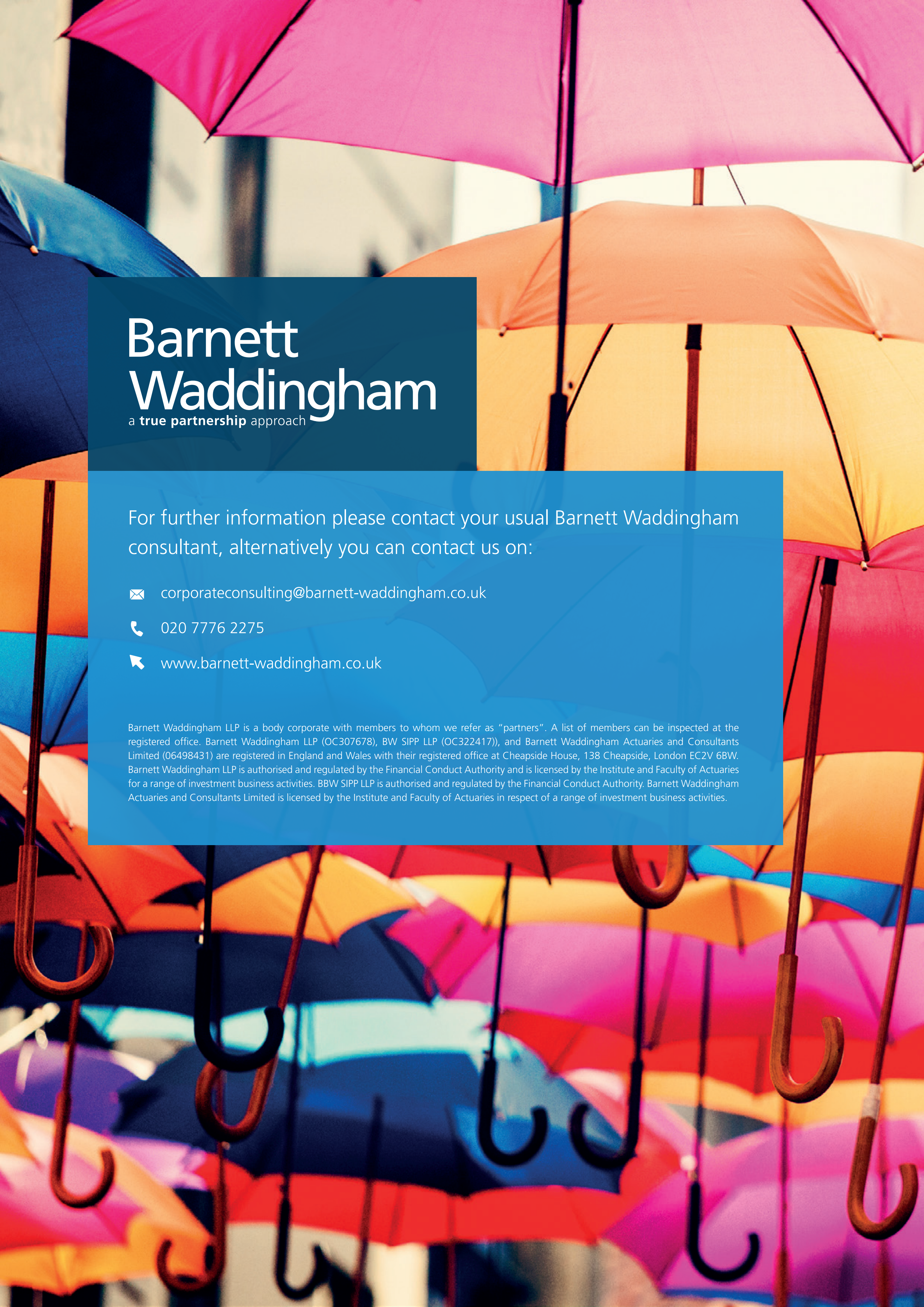


13% agree or strongly agree



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For further information please contact your usual Barnett Waddingham consultant, alternatively you can contact us on:

corporateconsulting@barnett-waddingham.co.uk

020 7776 2275

www.barnett-waddingham.co.uk