PENSION CAPITAL STRATEGIES
Innovative Alternatives

MANAGING THE BURDEN OF YOUR PENSION PROTECTION FUND LEVY

It's that time of year when the corporate sponsors of pension schemes begin to ask themselves some searching questions.

1. Why do we have to pay so much and what can we do about it?
2. Why has our Dun & Bradstreet (D&B) rating fallen and what will this do to our next levy?
3. How do we know our levy is correct?

Many companies feel that the Pension Protection Fund (PPF) levy is an additional tax levied on those who manage to run their business and their pension scheme, but few take active steps to reduce the levy.

DEADLINE FOR ACTION

The next deadline for action which will impact the PPF levy is 31 March 2008. All actions made before this date will impact on the levy for the next two years. Companies wishing to reduce their burden need to take action now to avoid being locked in for the next two years.

This year there have been a number of changes to the process, in particular a new approach to calculating the D&B failure score and, more importantly, a revised table of factors which link the failure score to the levy. It is possible for a company's failure score to fall and lead to a reduction in the levy - in the past a fall always meant an increased levy.

The D&B failure score is dependent on many factors and our experience has shown that for many companies the information held by D&B is wrong. In fact we are aware of a case whereby D&B updated their records on the basis of press speculation.

PCS can help you to work with D&B to ensure their records are correct and to determine what additional information, if any, would improve your score. PCS can also estimate your levy based on your new failure score.

Not only do D&B have incorrect information on the Company, the PPF could have incorrect information on your scheme. With effect from 19 October 2007, the Pensions Regulator is collecting Section 179 valuation information on behalf of the PPF via the Scheme Return. The PPF records are based on an interpretation of the Scheme Return. This interpretation is on the basis of fitting all scheme designs in to a limited number of categories which are then used to adjust your assets and liabilities.

HELP FROM PCS

PCS have developed a methodology that looks at the key factors influencing the levy calculation and identifies potential savings that could be made.

PCS is currently working with a number of companies to help them reduce their levy payment next year and beyond. Time is short though and actions need to be taken over the next few weeks. The PPF showed last year that they will not accept any late filings.

The calculation of the liabilities on which the levy is based is not an accurate assessment. The PPF make many sweeping assumptions. PCS can analyse the specifics of a pension scheme and determine whether providing additional information to the PPF will help reduce the levy. For a financial services client we reduced the levy by over £100,000 by correcting the assumptions made by the PPF.

Failure scores are volatile, a change from 100 to 99 can increase the risk based levy by 200%. PCS is helping companies understand the factors which affect their score. In very many cases action is still possible to improve D&B failure scores in time for the next levy calculation. We recently assisted a retail client improve the D&B rating from 18 to 80, backdating the increase to the previous levy calculation date, saving them over £800,000.

PCS are also working with companies on alternatives to pension scheme funding, such as credit insurance and bank guarantees, which can also reduce levy costs. Companies that are prepared can reduce their levy now and in future years. Companies that just accept the significant increase in levy and do nothing about it are simply throwing shareholders' money away.

For more information on how we might help please contact Charles Cowling on 0161 242 5388 or Rob Dales on 0113 203 5883.

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