



MANAGING YOUR PPF LEVY AND D&B FAILURE SCORE

Many companies feel that the Pension Protection Fund (PPF) levy is an additional tax on those who manage to run their business and their pension scheme, but few take active steps to reduce the levy despite the rising cost in recent years. Given the general consensus is that levies will continue to rise further, it is even more important that companies take action now to minimise the impact.

There are many factors that affect the amount of the overall PPF levy but increasingly we are finding that one of the most influential factors can be the D&B failure score of the corporate sponsor of the pension scheme. Failure scores are volatile and a small change in the failure score can have a significant impact on the levy, for example, a change from 100 to 99 can increase the risk based levy by over 250%.

Future changes to the PPF levy which would take effect at the earliest in the 2012/13 levy year are expected to be put forward by the PPF in a consultation document in autumn this year. Based on proposals made by the PPF Steering Group (an independent committee tasked with looking at the levy), insolvency risk, (which failure scores translate to) could be taken as an average over an economic cycle and the number of categories reduced to 7, from 100. If these proposals are adopted in their current form, then every failure score could count and not just the score at 31 March. Companies that do not use the opportunity to manage their failure score now could well find themselves in a sticky situation in the future.

What can be done?

- We encourage all companies to monitor their failure score throughout the year. This can help to avoid any surprises and gives companies the opportunity to take action to rectify any reductions in their score. The annual cost of our monitoring service for UK companies is £250 plus VAT which includes regular notifications of any D&B score changes and confirmation of the reason why.
- We can use our wealth of knowledge to help companies understand the specific factors which affect their score and provide advice on how to improve the failure score. For many cases, a few simple actions can be taken to improve the failure score which can reduce the levy by a significant amount. A report analysing a company's failure score and recommending possible actions to improve the score is available for £1,000 plus VAT. A shorter version of the report focussing primarily on the simple actions will cost £500 plus VAT. We have a proven track record and, so far, companies have saved a combined total of over £7 million on their levies.
- Companies should ensure that the information D&B holds is correct and up-to-date as our experience has shown that for many companies the information held by D&B is wrong. We can help companies to work with D&B to ensure their records are correct and to help identify what additional information, if any, could improve their score
- Finally, it is worth noting that we are also able to advise on the other aspects of the PPF levy including advice on PPF compliant contingent assets and other actions which can influence the levy. For example, we have helped companies analyse the financial impact and pros and cons of changing the pension scheme funding plan, in order to reduce the burden of the levy, and we have also worked with companies on alternatives to pension scheme funding, such as credit insurance and bank guarantees, which can also reduce levy costs.

So, what now...

From experience we have found that many companies do not consider their D&B failure score until the last few weeks or months before the 31 March deadline, but by then, it may be too late for companies to implement some of the changes that could improve their failure score and save them in their levy. This could prove to be particularly pertinent pending the outcome of the PPF's consultation on the future of the levy later this year. We encourage employers to start engaging with PCS as soon as possible.

Companies that are prepared can reduce their levy now and in future years. Companies that just accept any significant increase in levy and do nothing about it are simply throwing shareholders' money away. In fact, doing nothing can result in companies taking a step backwards in comparison to those companies that are actively engaging in this area.

For more information on how we might help please contact Rob Dales on 0113 203 5883 or Yvonne Wan on 0161 242 5355. Alternatively email us at solutions@pensionstrategies.co.uk or visit our website at www.pensionstrategies.co.uk to register your interest.

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