



# The new levy formula – what it means for you

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The context: our long-term funding strategy

A flight-path to self-sufficiency by 2030:



- Zero market risk
- Zero interest rate and inflation exposure
- Reserve (10% of liabilities) to hedge future claims and longevity risk

Measured as *probability of success* – 2014/15 target is 84%

## Introduction to the Pension Protection levy

- The levy consists of:
  - A risk-based levy - based on the likelihood of an eligible scheme entering the PPF and the scheme's funding position.
  - A scheme-based levy – currently around 10 per cent. Based on the size of an eligible scheme (measured by its liabilities).
- Before each levy year, we make a levy estimate and consult on our rules.
- New levy Framework: bottom-up approach
  - Fixed scaling factor for 3 years (2012/13 – 2014/15), adjusted in limited circumstances
  - Total levy is sum of individual levies
  - More predictable levy bills at scheme level

## Development of the risk-based levy

### Initial Risk-Based Levy

Underfunding &  
Insolvency Risks

2006/07 – 2011/12

Scaling factor set  
annually - ranged  
from 0.53 to 3.77

### New Levy Framework (First triennium)

Changes:  
Investment risk  
and smoothing

2012/13 – 2014/15

Fixed parameters  
including scaling  
factor

### New Levy Framework (Second triennium)

Changes: new  
Insolvency Risk  
Services provider  
(Experian)

2015/16 – 2017/18

Fixed parameters



## The move to Experian

- Following a competitive tender in Summer 2012, Experian were the successful bidder as announced in July 2013.
- The bid was evaluated on the basis of the 'Commercial Delphi' model, but Experian offered the option of developing a PPF-specific model.
- We have tested both models and intend on using the PPF-specific model, subject to consultation.
- We propose to only use data from the end of October 2014 for the 2015/16 levy (i.e. a 6 month average).

Success criteria agreed with the Industry Steering Group

The models were evaluated against nine success criteria:

- (1) Predictiveness – measured against the PPF's experience
- (2) Coverage – can they score the entire PPF universe?
- (3) Transparency – what can be made public?
- (4) Appropriate appeals / monitoring arrangements
- (5) Adherence to best practice – standard modelling techniques used
- (6) Transition from D&B scores
- (7) Resilience to manipulation
- (8) Stability over time
- (9) Cost of new system – transitional / on-going

The model has been verified by PwC as an assurance provider to the PPF.

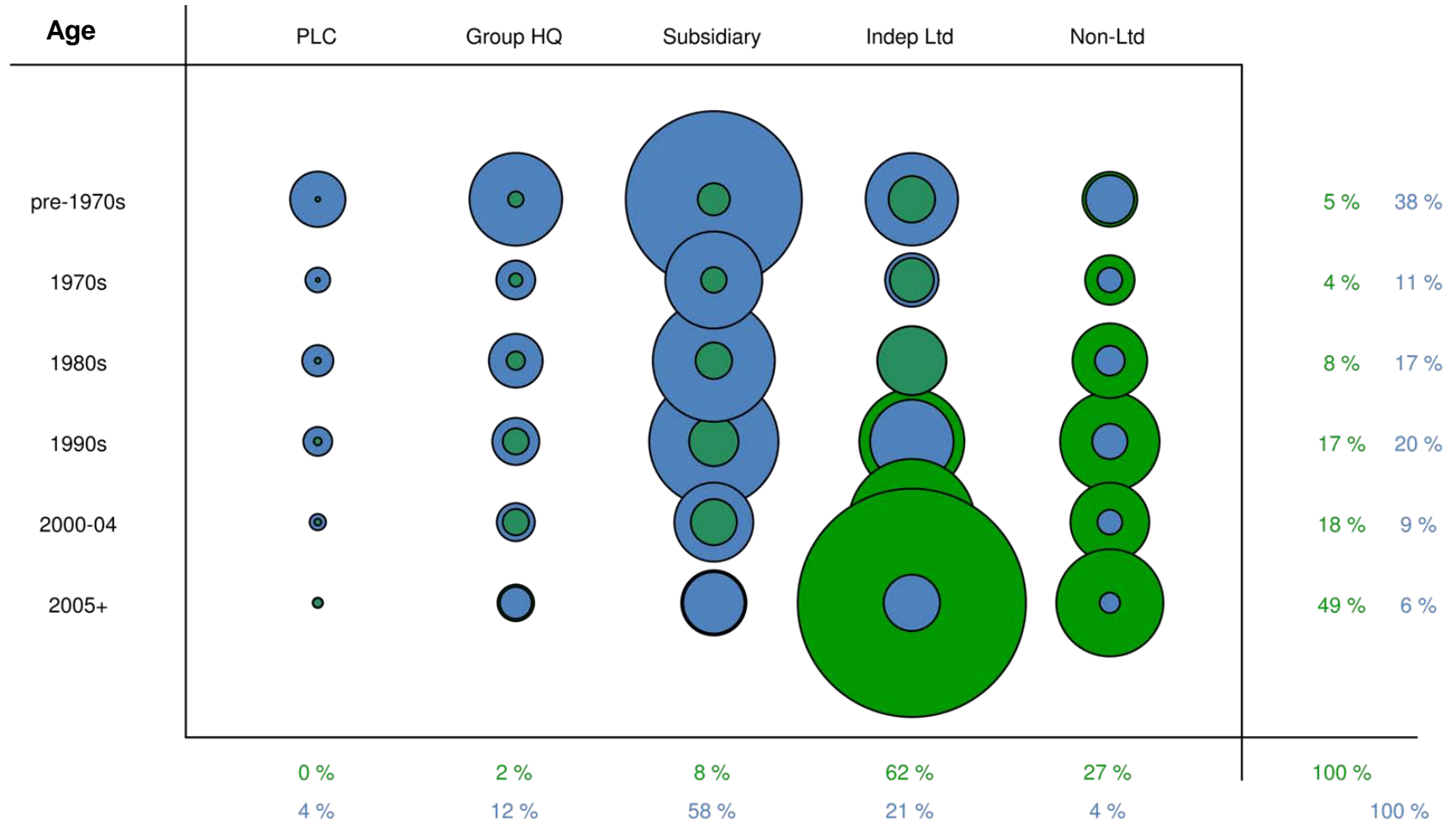
# Polar opposites - PPF Universe and general UK population

## Age vs. Legal Form

Business Universe (3m)

PPF Employers (17k)

Legal Form



# Polar opposites - PPF Universe and general UK population

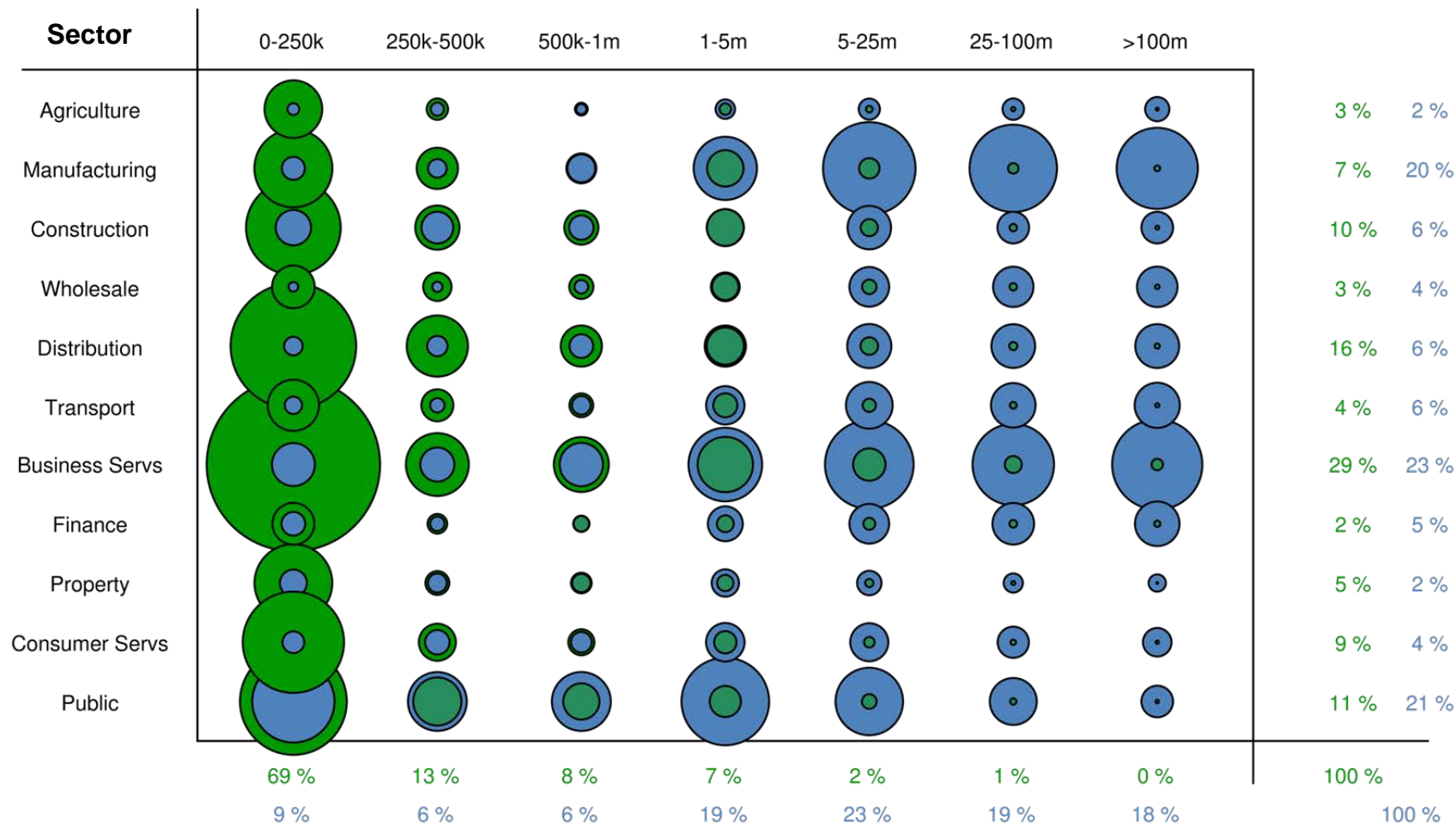
## Sector and Size

Pension  
Protection  
Fund

Business Universe (3m)

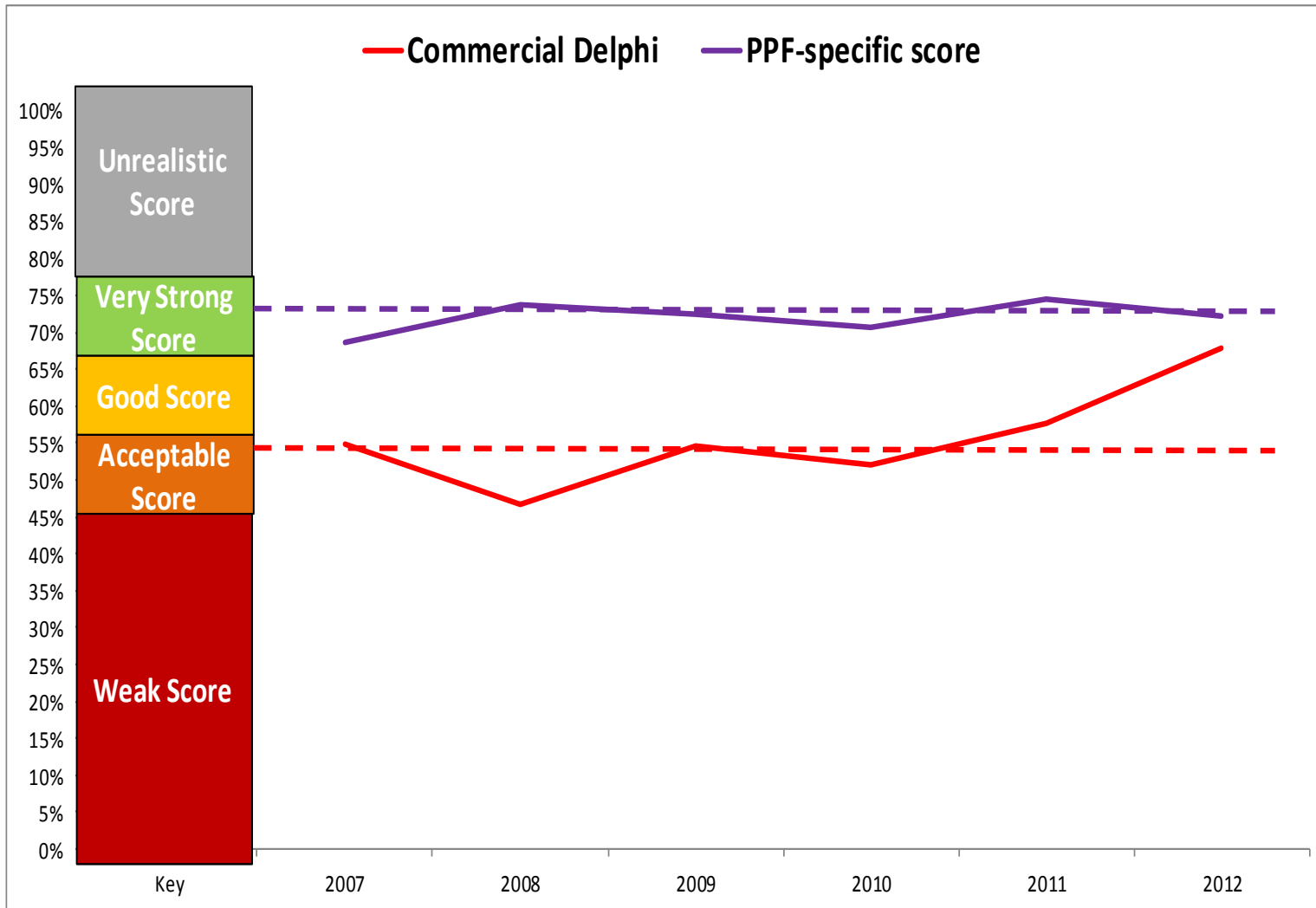
PPF Employers (17k)

Turnover Size





## PPF-specific: a more predictive outcome



## Scorecards

1. Group Members – Large / Foreign / HQ / Consolidated Accounts

2. Group Members – Full Accounts, >£50m turnover

3. Group Members – Full Accounts, £10m-£50m turnover

**4. Group Members – Full Accounts, <£10m turnover**

5. Group Members – Small Company Accounts

6. Independents – Full Accounts

7. Independents – Small Company Accounts

**8. Not-For-Profit organisations**

### **Group Members – Full Accounts, <£10m turnover**

Shareholders Funds

Return on Capital Employed

Creditor Days (Sales based)

4 year Change in Employee Remuneration

Age of most recent secured borrowing

Consolidated Group Strength

### **Not-For-Profit organisations**

Capital Employed

Current Ratio

Total Assets

Equity Gearing

Change in Shareholders Funds

Mortgage Age

## Customer services with the new model

### (1) Free PPF web portal

- Scheme level access
- View your PPF score
- Email alerts
- 'What if' analysis
- Consultancy and advice

### (2) Additional paid for service 'Experian Business IQ'


- Data configured to individual's portfolio
- Offers portfolio monitoring to both employer and scheme
- Trend and impact analysis
- Email alerts
- Consultancy and advice

# The PPF Web Portal

[Home](#) [About the Score](#) [Privacy Statement](#) [Terms and Conditions](#) [Enquiries and FAQs](#)

## THE PENSION PROTECTION SCORE

ESSENTIAL INSIGHT FOR UNDERSTANDING INSOLVENCY RISK



### Welcome to the Pension Protection Score Portal

The Pension Protection Score portal provides you with information on the Pension Protection Score (PPS).

The service is delivered by the Pension Protection Fund (PPF) in partnership with Experian – its provider of insolvency risk analysis.

The service gives scheme trustees access to the Pension Protection Score (PPS) and associated financial information. It is an invaluable tool for monitoring your score and helping you understand how the PPS impacts on your PPF levy.

#### Accessing your score

Scheme information is available to access by trustees and those delegated to access information by a trustee. This is defined by the Pensions Regulator and Pensions Act, 2004. The information includes Pension Protection Scores and financials for all employers contributing to a UK Defined Benefit pension scheme including Not-for-Profit and overseas organisations.

Data is available to view and download, including the provision of our What If analysis that enables you to identify the impact of changes to your score following changes to your organisation's financial performance.

#### Give us your feedback

The PPF is making scores available as part of its consultation with stakeholders on the new score solution. Your score will not be used to calculate the PPF levy until October 2014.

Until then you have the opportunity to check your data, evaluate your score and provide the PPF with your feedback on the score solution T: 0845 600 2541 E: [information@ppf.gsi.gov.uk](mailto:information@ppf.gsi.gov.uk)

#### Existing Users

Login into your PPF account and access your score.

Email Address:

Password:  [Forgotten your password?](#)

Login

#### Contact Us

Need help? Please call our dedicated help line for trustees and advisors:

**08444 810810**

Email us: [experianppf@mailgb.custhelp.com](mailto:experianppf@mailgb.custhelp.com)

#### News

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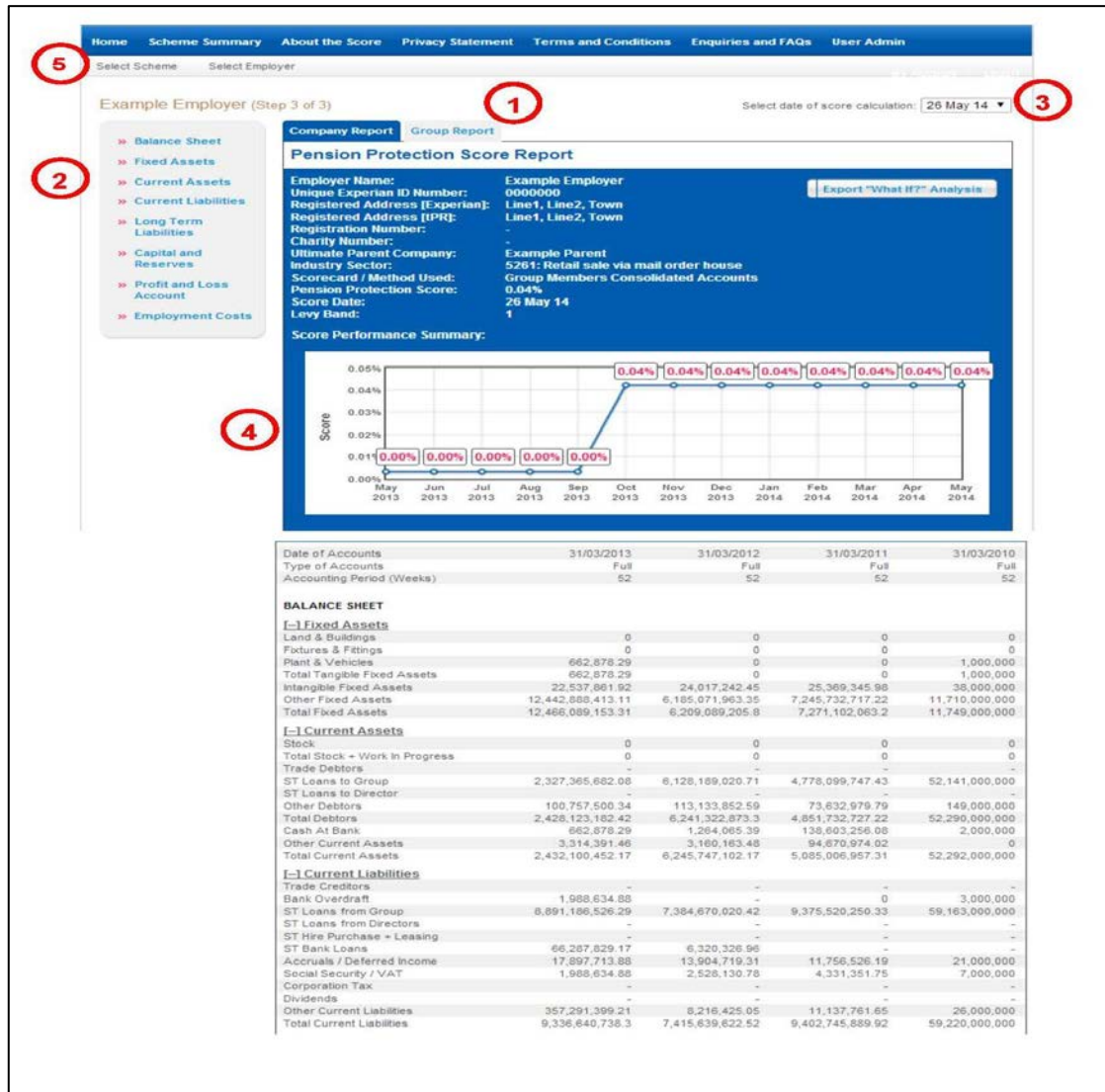
[» Send us your comments](#)

#### Top 10 FAQs

What data elements and factors are used in calculating a PPF specific score (e.g., date of the company accounts you have used)?

What can I do if I think our average score does not reflect the true position of our company?

## The PPF Web Portal



Success criteria agreed with the Industry Steering Group

Reminder: the nine success criteria:

Predictiveness

Transparency

Stability over time

Resilience to manipulation

Coverage

Adherence to best practice

Appropriate appeals / monitoring arrangements

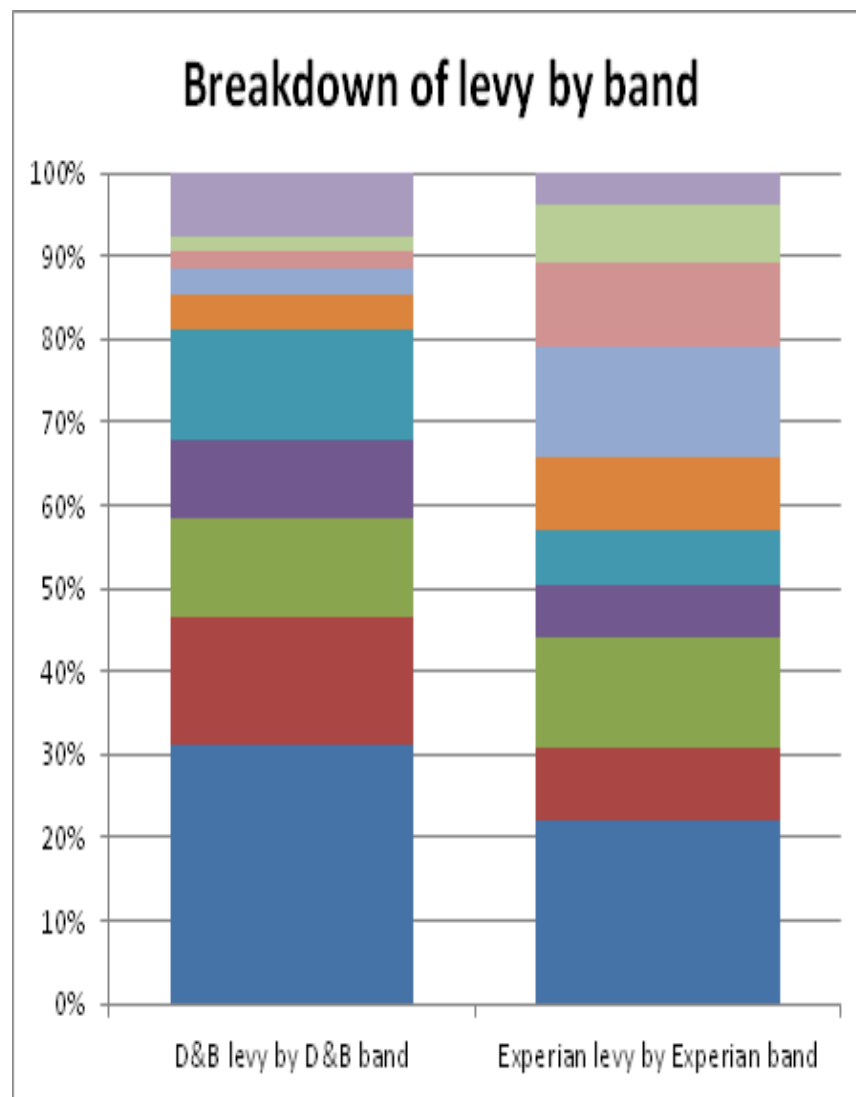
Cost of new system

Transition from D&B scores

## Proposed levy bands and rates

Band	Insolvency probabilities (%)	% of Employers	Actual insolvency rate	Levy rate
1	0-0.030	20%	0.03%	0.17%
2	0.030-0.049	10%	0.12%	0.23%
3	0.049-0.091	10%	0.12%	0.30%
4	0.091-0.150	10%	0.09%	0.40%
5	0.150-0.233	10%	0.13%	0.53%
6	0.233-0.406	10%	0.17%	0.75%
7	0.406-0.762	10%	0.64%	1.10%
8	0.762-1.595	10%	0.93%	1.61%
9	1.595-2.986	5%	2.50%	2.39%
10	2.986-100	5%	5.52%	3.83%

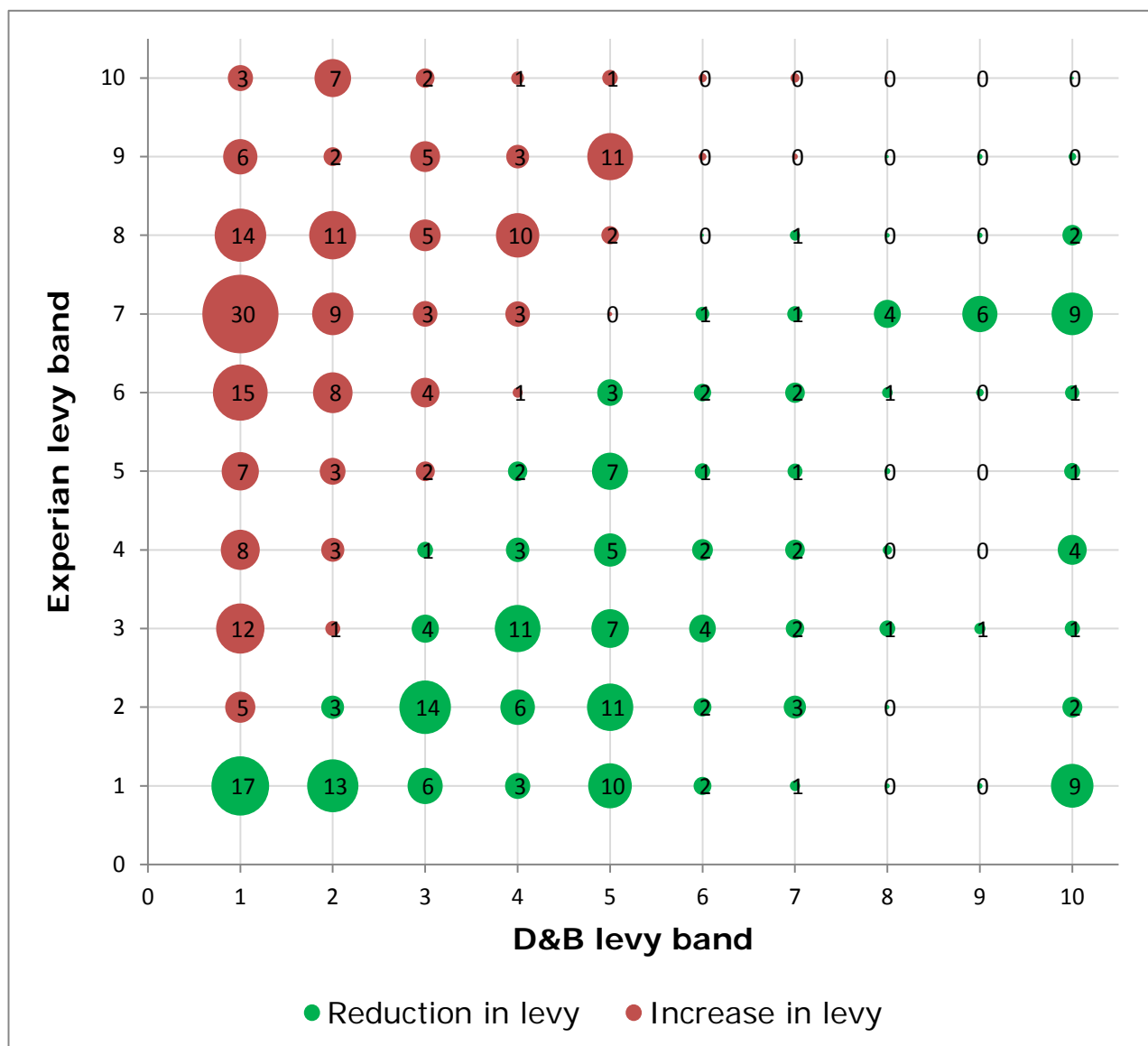
The new ranking by the PPF-specific model has enabled a re-calibration of levy bands



	D&B levy by D&B band	Experian levy by Experian band
10	8%	4%
9	2%	7%
8	2%	10%
7	3%	13%
6	4%	9%
5	14%	6%
4	9%	6%
3	12%	13%
2	15%	9%
1	31%	22%

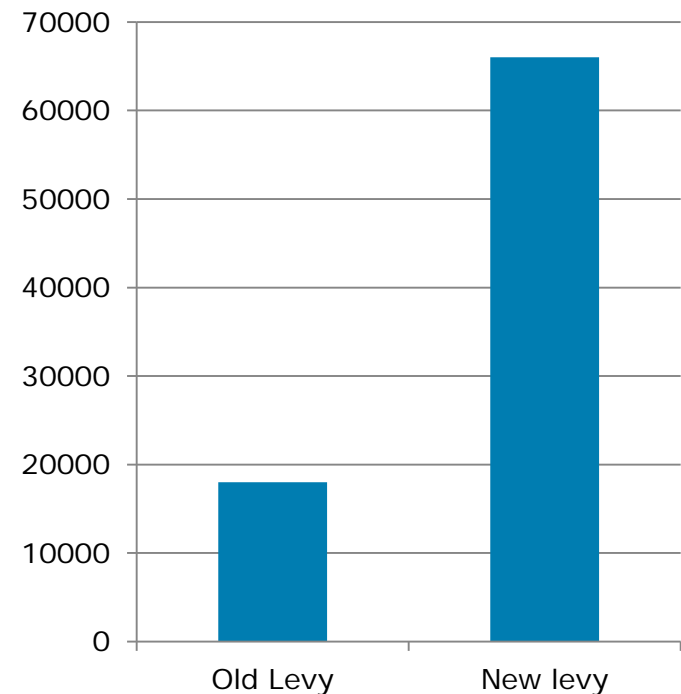


## Migration between levy bands – aggregate change (£m)

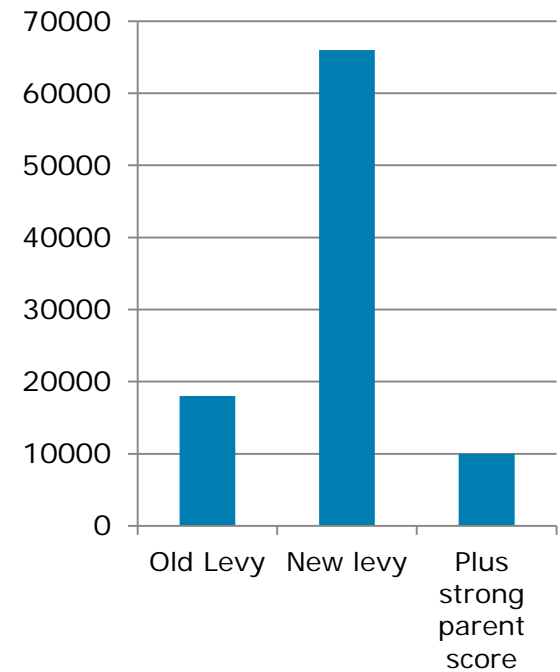
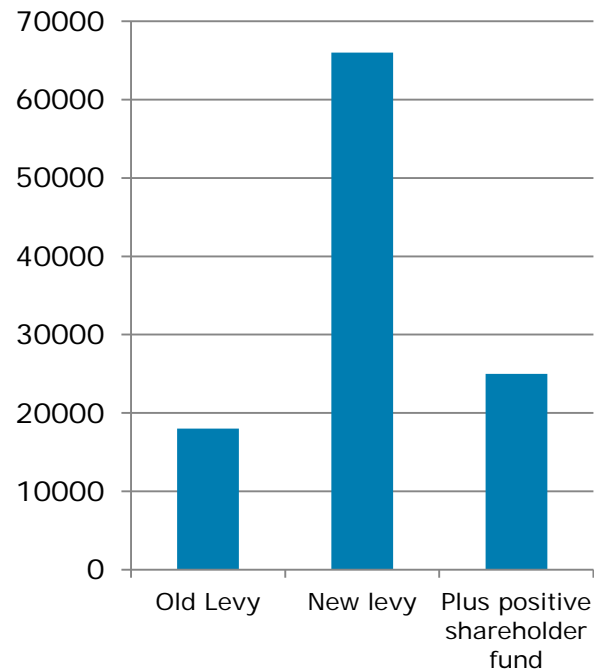
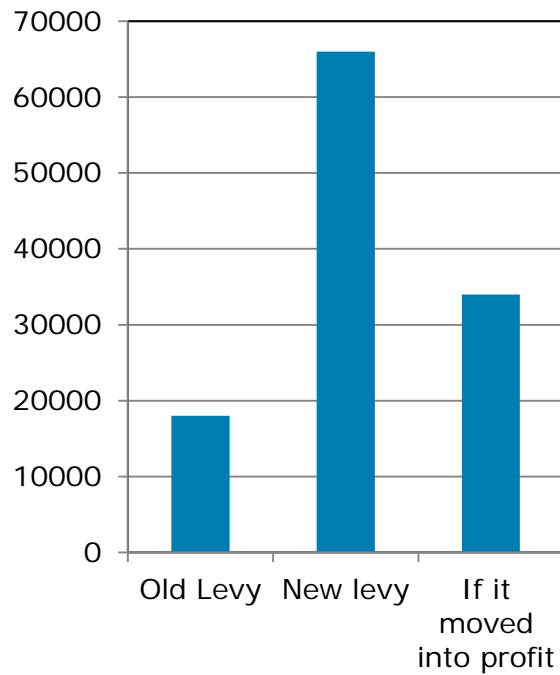


Case example: a scheme seeing a large levy increase (employer is scored on Group (full accounts) £10-50m turnover scorecard)

- Previously, employer, though loss-making, scored well on non-financial factors and was band 2
- Now, the employer is scored in band 7
- Levy increases by 356% (transitional protection would apply if implemented)
- The company:
  - is loss making – if it moved into profit then it would move to band 5;
  - Has negative shareholder funds – if they were positive it would move to band 4
  - Has a weak parent – if parent were average this would move it to band 1



## Case study: graphs



Other changes for the second triennium have been kept to a minimum

- New proposals for asset backed contributions (ABCs):
  - Separate identification in levy
  - Valuation based on insolvency return
  - Only UK property
- New proposal for group corporate guarantees
  - Realisable recovery – how much the guarantor is 'good for'
  - Adjusted insolvency rating of guarantor
- Associated last man standing schemes to have a new factor to reflect the distribution of sponsored employees

## Our Consultation and actions for scheme / advisors

We are particularly seeking views on:

- 1) Number of bands
- 2) Definition of 'not-for-profit'
- 3) Use of credit rating agencies
- 4) Transitional protection
- 5) Treatment of ABCs and contingent assets

In the meantime:

- Learn how to monitor your score
- Check the information that we hold on you (log in details have been sent out)

## Next steps

29 May	Consultation began: levy rules for scorecards available and scores available in web portal
9 July	Consultation ends
Early Autumn	Draft determination and proposed levy quantum published. Consultation response produced.
End of October	Monthly Experian scores begin
December	Final rules on 15/16 levy

Thank you for listening



# Any questions?

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