The Levy Triennium and the move to the new insolvency risk model

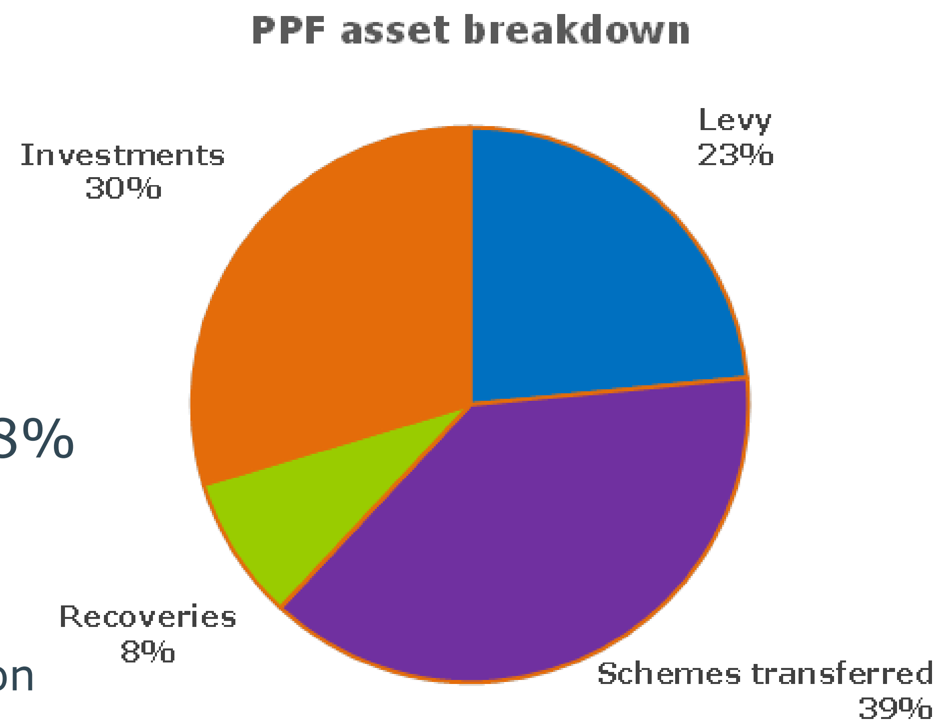
Chris Collins, PPF &
Richard Woolf, Experian
February 2016

The Pension Protection Fund (figures 31/3/15)

Pension Protection Fund

- c 250k members (from 800 schemes)
- 100k more in Assessment
- Assets c £23billion
- Funding level – 115%
- Probability of success – 88%
- Changing organisation:
  - FAS
  - Insourcing our administration
  - Insourcing investment

Where the money comes from...



A history of the PPF levy

Pension Protection Fund

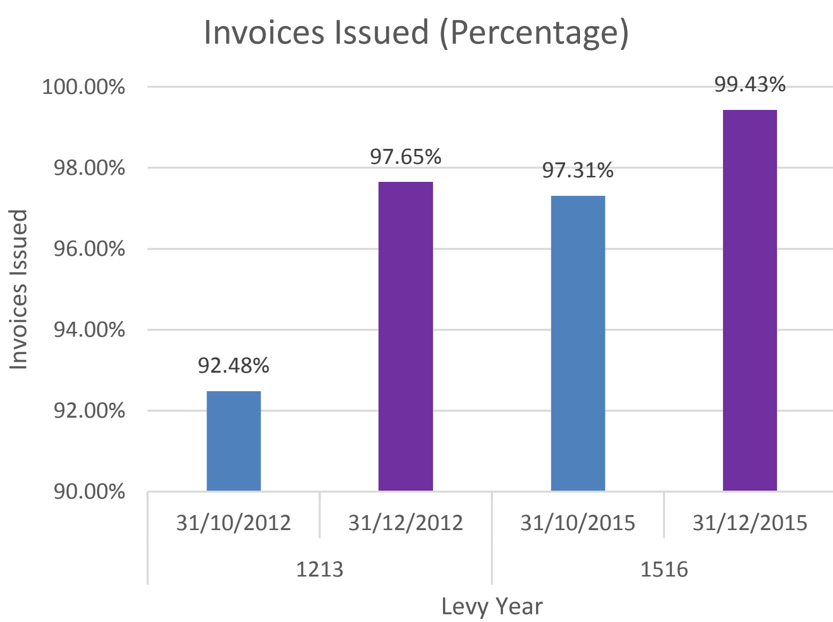
Early years:	Triennial Approach:	Now:
'Initial Risk-Based Levy'	**'New Levy Framework'**	**'New Levy Framework' (Second triennium)**
Based on: underfunding & insolvency risk	Main changes: investment risk and smoothing	Main changes: new partner (Experian)
2006/07 – 2011/12	2012/13 – 2014/15	2015/16 – 2017/18
Scaling factor set annually	Fixed parameters including scaling factor	Fixed parameters

Key dates for the next year

Pension Protection Fund

2016/17

- Main data deadline 31/3/16
- DRCs by 30/4/16
- Block Transfers by 29/06/16
- Invoicing to start 01/09/2016



2017/18

- Consultation in Autumn 2016
- Final Rules by December
- Likely to be limited change – as last year 2nd triennium
- But are considering impacts of FRS 102
- Aiming to capture early experience to inform analysis
- May not wait to 3rd triennium if strong case for changes to scoring for 17/18

How much we charge – the Levy Estimate

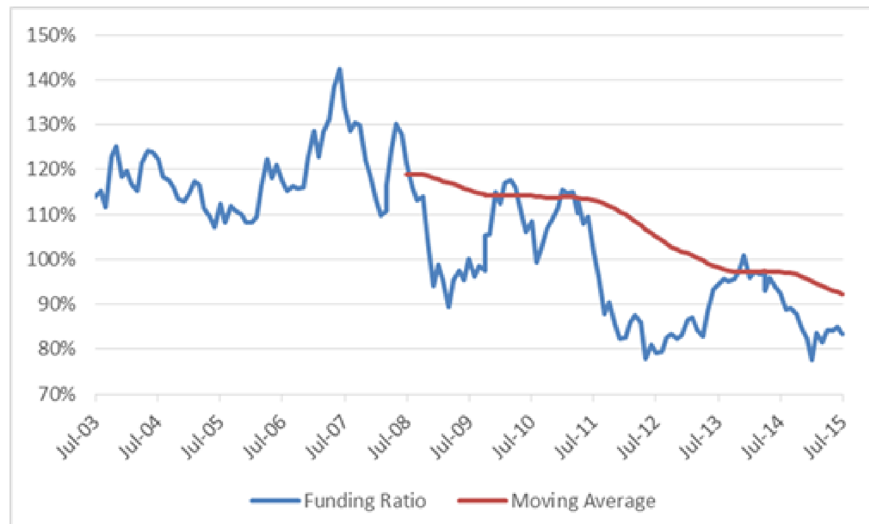
Pension
Protection
Fund

The 2016/17 Levy Estimate announced in Sept 15:

- £615 million
- Small reduction on the 15/16 Estimate
- Purely the result of movements in the risks we measure – no change in our rules
- 2017/18 Estimate will be published this September

So what has changed in last year?

- Underfunding worsened



- improvement in insolvency scores

The second Triennium and the move to Experian

Pension Protection Fund

- Second Triennium began 2015/16, planning years earlier…
- Experian appointment announced in July 2013 – offered to develop a PPF-specific model
- Compared using 'Success Criteria' agreed by our Industry Steering Group

Predictiveness

Transparency

Stability

Coverage

Best practice

Manipulation

Appeals

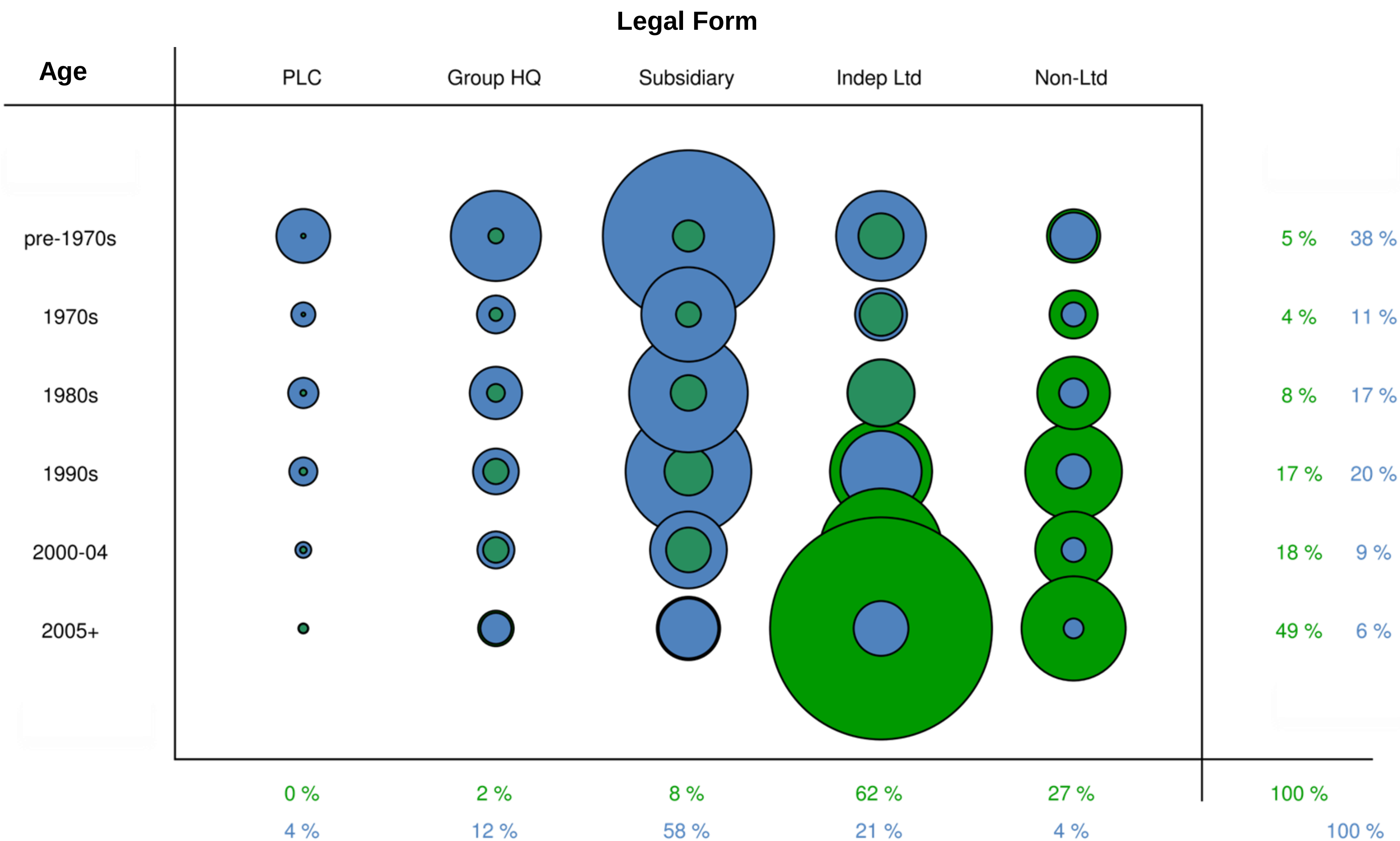
Costs

Transition

Polar opposites - PPF Universe and general UK population Age vs. Legal Form

Pension Protection Fund

Business Universe (3m)   **PPF Employers (17k)**



Transparency improved…

Pension Protection Fund

Pension Protection Fund

In association with Experian

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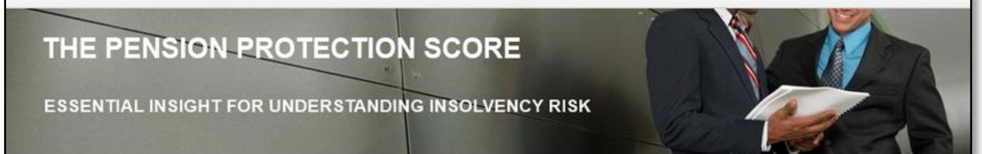

Welcome to the Pension Protection Score Portal

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.

Find out more about how to access your score by downloading one of our Quick Start Guides:

- » Quick Start Guide for Trustees and Administrators
- » Quick Start Guide for Employers

Accessing your Mean Score, Levy Band and Levy Rate for 15/16 levy invoicing

Following the final submission of data to Experian and tPR, Mean Scores, Levy Bands & Levy Rates for employers scored for the 2015/16 Levy have now been calculated and are available to view for each employer through the employer Pension Protection Fund Score Report. Unadjusted guarantor scores have also been calculated but are still subject to a guarantee review and further adjustment. Final details of guarantor scores will be available later in the summer.

Contact Us

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

08444 810810

Email us:
experianppf@mailgb.custhelp.com

News

- » PPF published 2015/16 Levy Determination
- » PPF launches levy consultation
- » PPF announces levy estimate

Top 5 FAQs

Why does my organisation not have a score on the PPF portal?

What data elements and factors are used in calculating a Pension

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Insolvency Risk Appendix

This is the Insolvency Risk Appendix to the Board's determination under Section 175(5) of the Act in respect of the 2015/16 Levy Year. Unless defined in this Appendix, expressions defined in the rules set out in the determination (the "**Rules**") shall have the same meanings as set out therein.

Part 1: Categorisation Principles

This Part sets out the categorisation principles referred to at Rule E3.2, which will be applied for the purposes of assigning Employers to categories pursuant to Rule E3.

1 Subject to paragraphs 6 and 7 of this Part 1 and Rule E7, all provisions of Rule E2 will apply in relation to data collection and use to determine which category an Employer is assigned to.

2 If an Employer is categorised as Not-For-Profit, Scorecard 8 (Not-For-Profit) will be used regardless of the type of accounts, if any, Filed by that Employer and regardless of any financial data contained in them.

3 To be assigned to a Group category pursuant to Rule E3.1(2), (3), (4) or (5), the following conditions must be satisfied:

3.1 the Employer must be or must have a Parent; and

3.2 either:

(a) Experian must have collected, or there must have been Filed, in accordance with Rule E2, Consolidated Accounts for the Employer's Ultimate Parent; or

(b) there must be at least one other member of the Group other than the Employer which has filed its Latest Accounts with Companies House in the UK.

Transparency through what-if calculator and scorecard analysis tool

Pension
Protection
Fund

Pension Protection Score - What If Analysis

Scheme Identifier	10091031
Scheme name	Experian Pension Scheme

Employer / guarantor ID	10091031239631414
Employer / guarantor name	Experian Limited
Registered Address (source: Experian)	EXPERIAN LIMITED, THE SIR JOHN PEACE BUILDING, EXPERIAN WAY, NOTTINGHAM, NG80 1ZZ
Registered Address (source: tPR)	Experian Limited, Experian Ltd, The Sir John Peace Building, Experian Way, NG2 Business Park, NG80 1ZZ
Registration Number	00653331
Charity Number	#N/A
Ultimate Parent Company	EXPERIAN PLC
Industry Sector	7210: Hardware consultancy
Scorecard / method used	Large and Complex — Original: Large and Complex
Pension Protection Score	0.0206% Current — 0.0206% Change — 0.0000%
Score date	14 Sep 15
Levy Band	1

Scorecard Figures and Ratios	Year N	Year N-1	Year N-2	Year N-3	Change
Consolidated Accounts	No	No	No	No	No
Accounting Period (Weeks)	52	52	52	52	
Turnover	536,200,000	452,200,000	399,200,000	375,800,000	42.68%
Total Assets	738,600,000	748,100,000	634,600,000	1,642,200,000	-55.02%
Shareholders Funds	67,700,000	163,700,000	184,900,000	166,300,000	-59.29%
Fixed Assets	496,100,000	493,200,000	396,300,000	352,400,000	40.78%
Employee Remuneration	220,700,000	192,700,000	183,000,000	164,800,000	33.92%
Net Worth	-126,200,000	-69,800,000	54,700,000	59,500,000	-312.10%
Stock + WIP	0	0	0	300,000	N/A
Total Net Assets	67,700,000	163,700,000	184,900,000	166,300,000	-59.29%
Capital Employed	83,800,000				
Current Assets	242,500,000				
Current Liabilities	654,800,000				
Retained Earnings	50,000,000				
Pre-tax Profit	66,500,000				
Trade Creditors	20,100,000				
Employment	3,340				
Cash	1,100,000				
Age of Most Recent Mortgage/Charge	0.00				

Current Lender (most recent mortgage or charge)
0

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Charity Number	#N/A
Ultimate Parent Company	EXPERIAN PLC
Industry Sector	7210: Hardware consultancy
Scorecard / method used	Large and Complex — Original: Large and Complex
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Score date	14 Sep 15
Levy Band	1

Variables Used	Weighting	Low Score / High Score
Capital Employed	33%	79.5%
Turnover	17%	98.7%
Turnover by Stock	17%	42.1%
Return on Assets	12%	100.0%
Sales by Employees	5%	32.4%
Change in Net Worth	3%	0.0%
Mortgage Age	13%	100.0%

Scorecards

Pension Protection Fund

1	Large and Complex
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**

Large & Complex

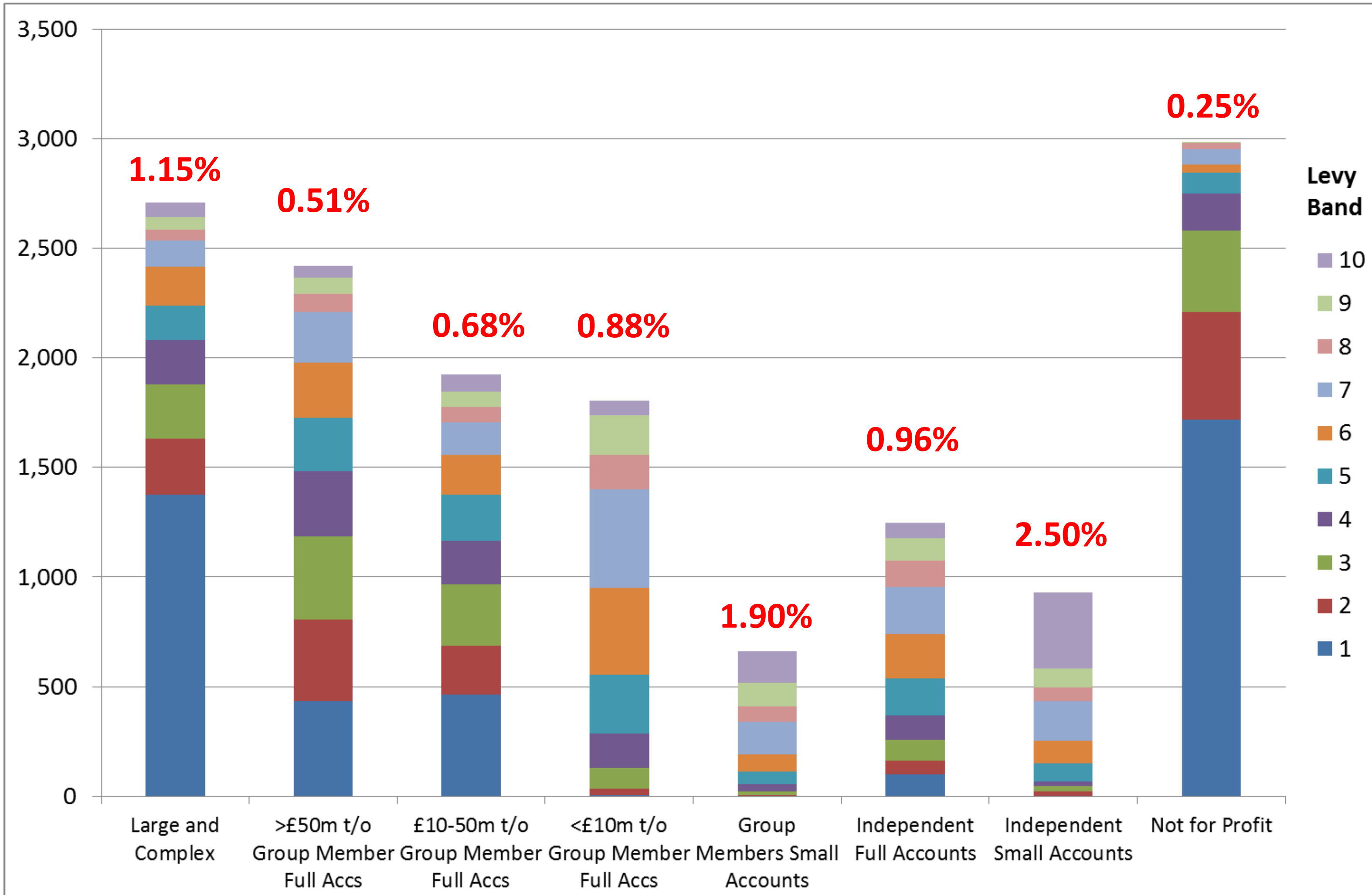
- Capital Employed
- Turnover
- Stock Turnover
- Return on Assets
- Sales per Employee
- Change in Net Worth
- Mortgage Age

Independent Full

- Capital Employed
- Return on Shareholders Funds
- Turnover
- Creditor Days
- Change in Total Assets
- Mortgage Age

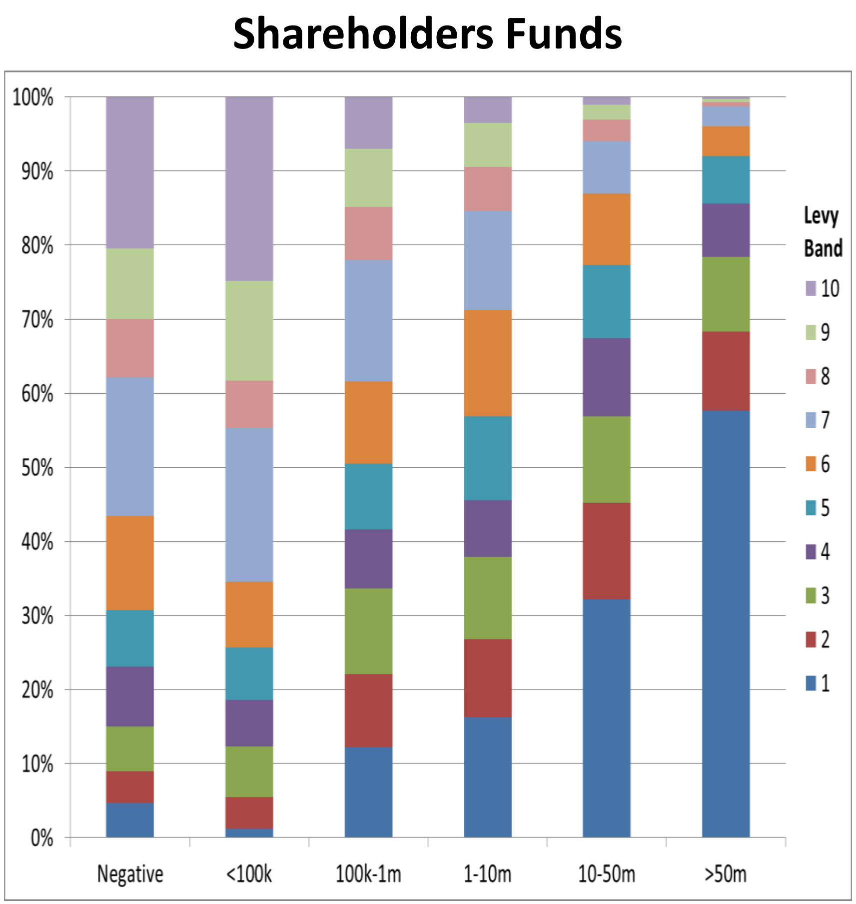
Levy Band distribution by scorecard

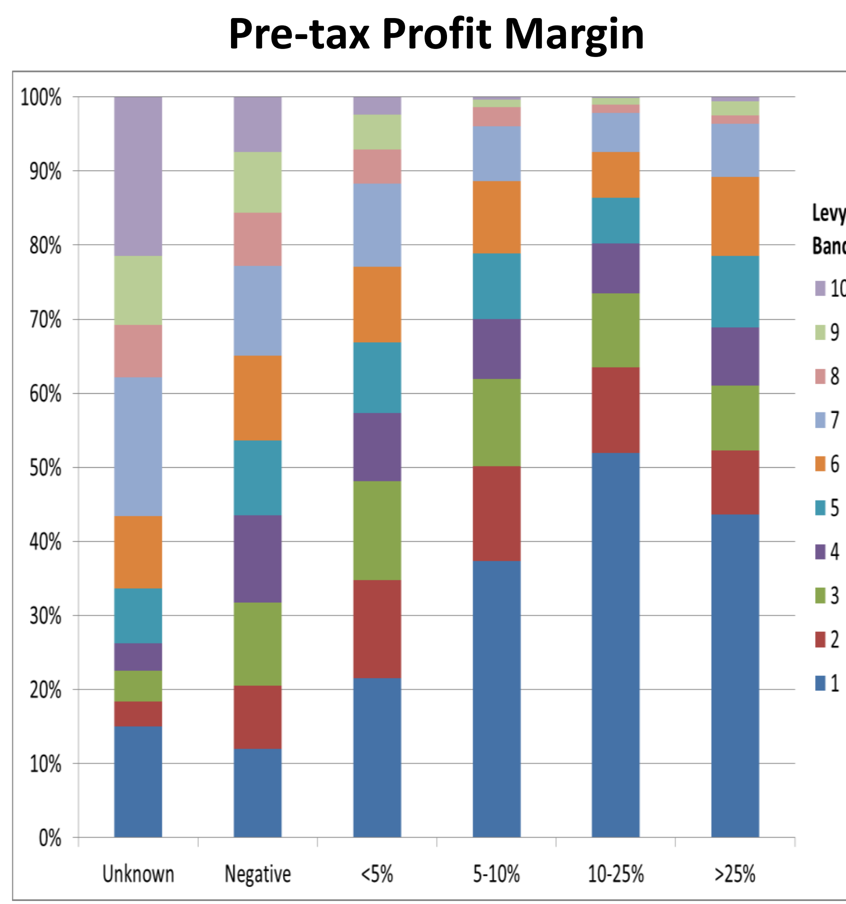
and associated annual insolvency rates



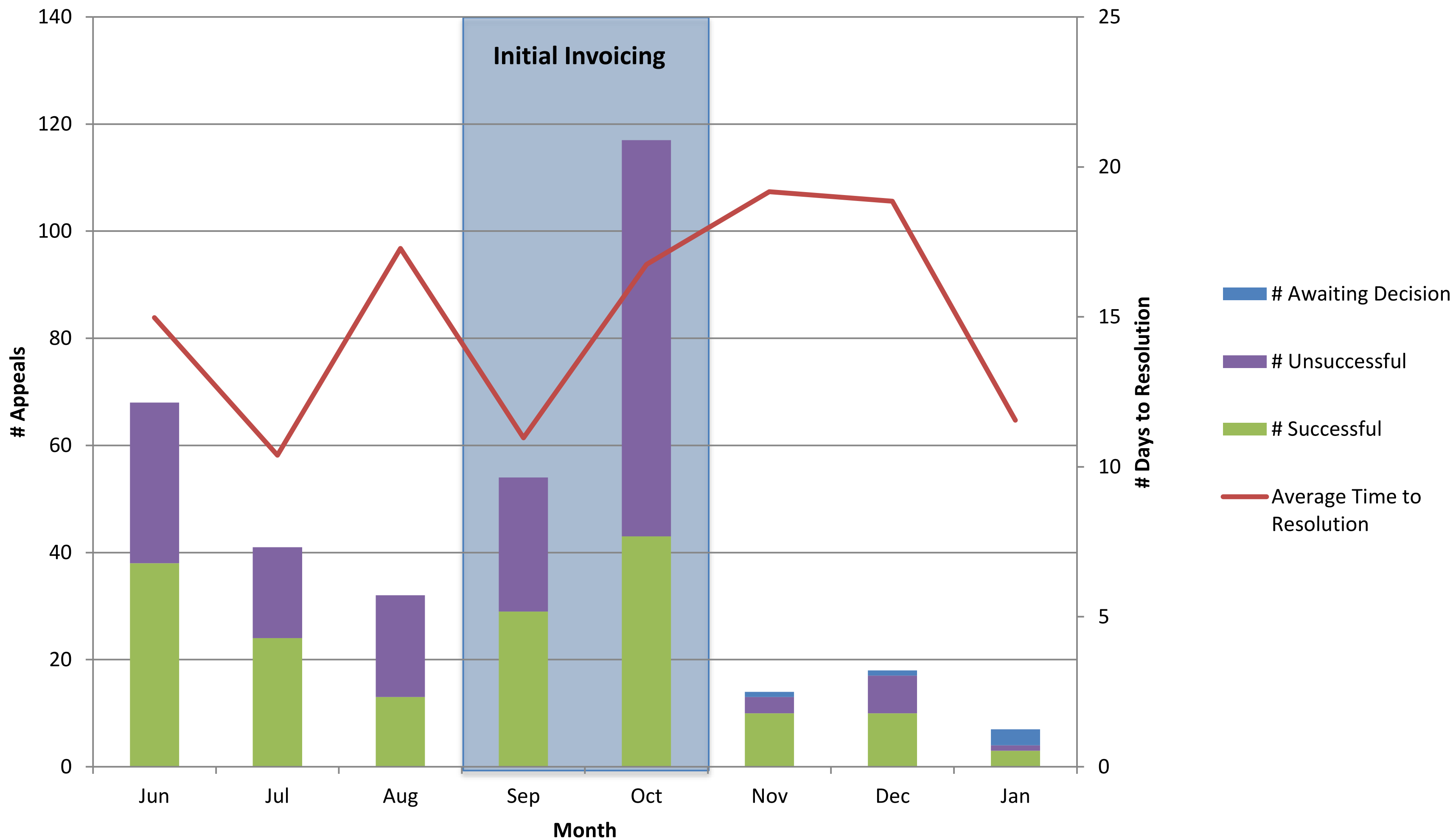
Levy Band distribution by Shareholders Funds and Profit Margin

Pension Protection Fund





Appeals Timeline



Common Appeals

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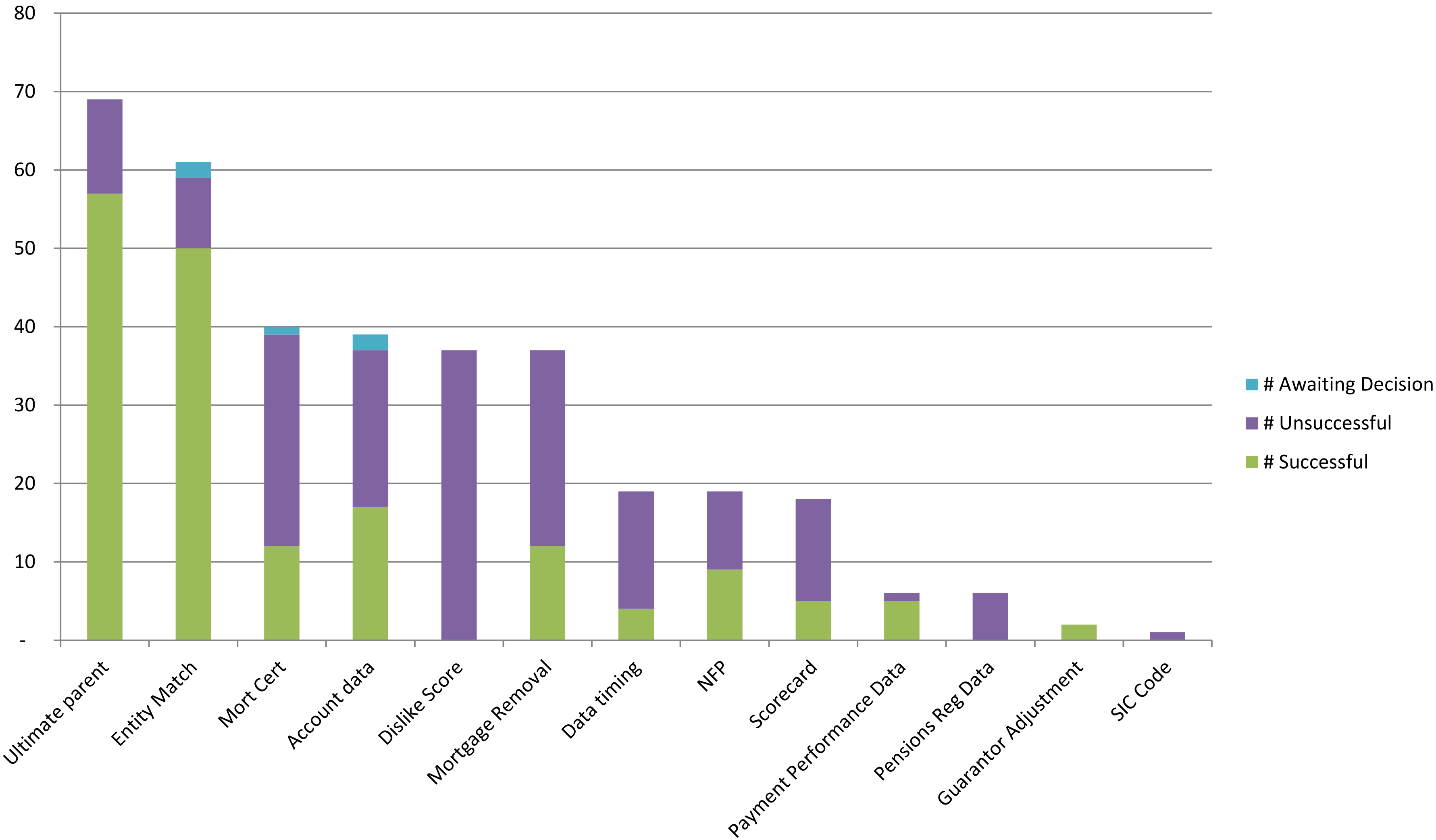
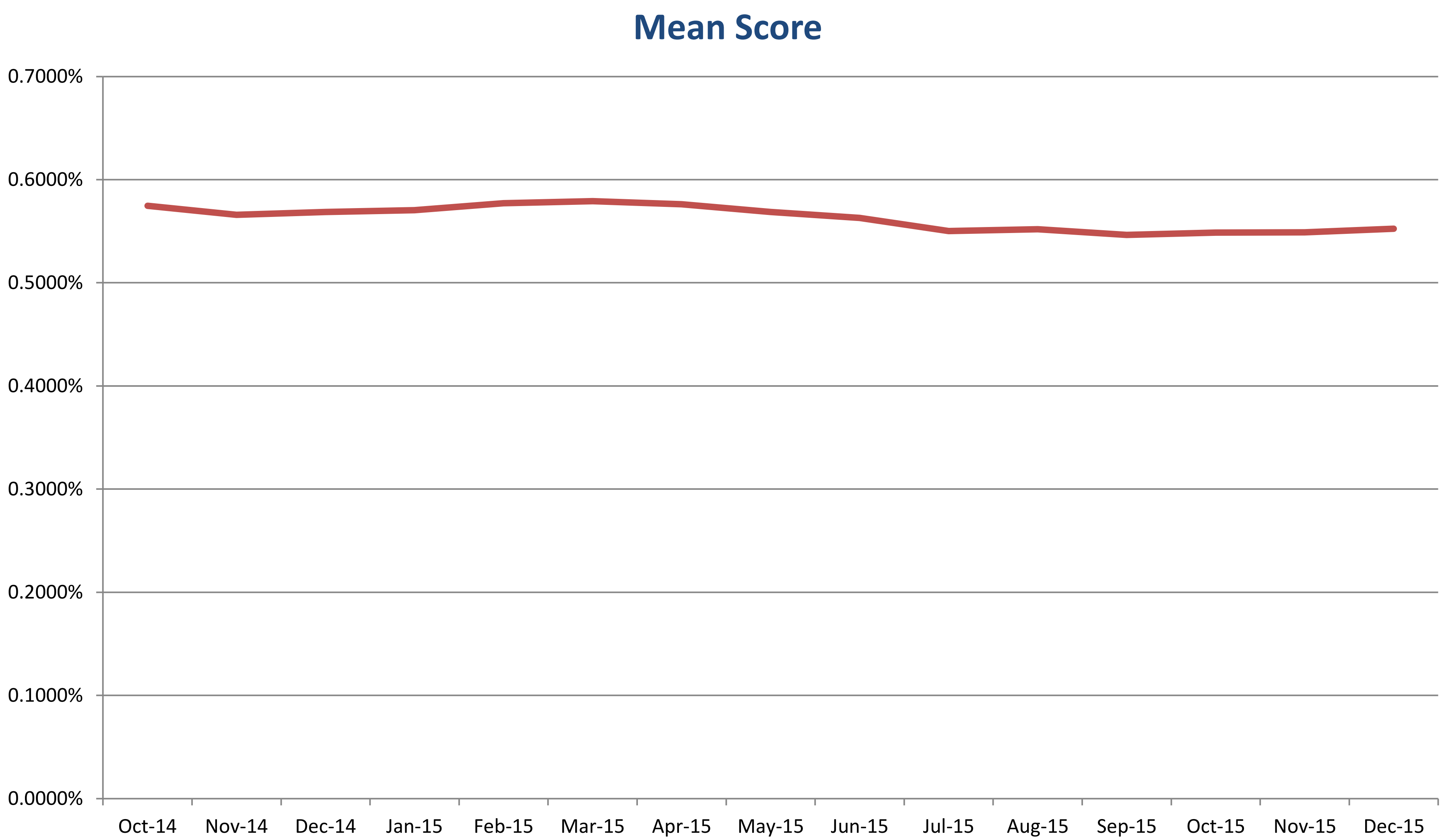
- Ultimate parent details
- Entity Identification
- Mortgages
- Data Quality
- Scorecard
- Methodology

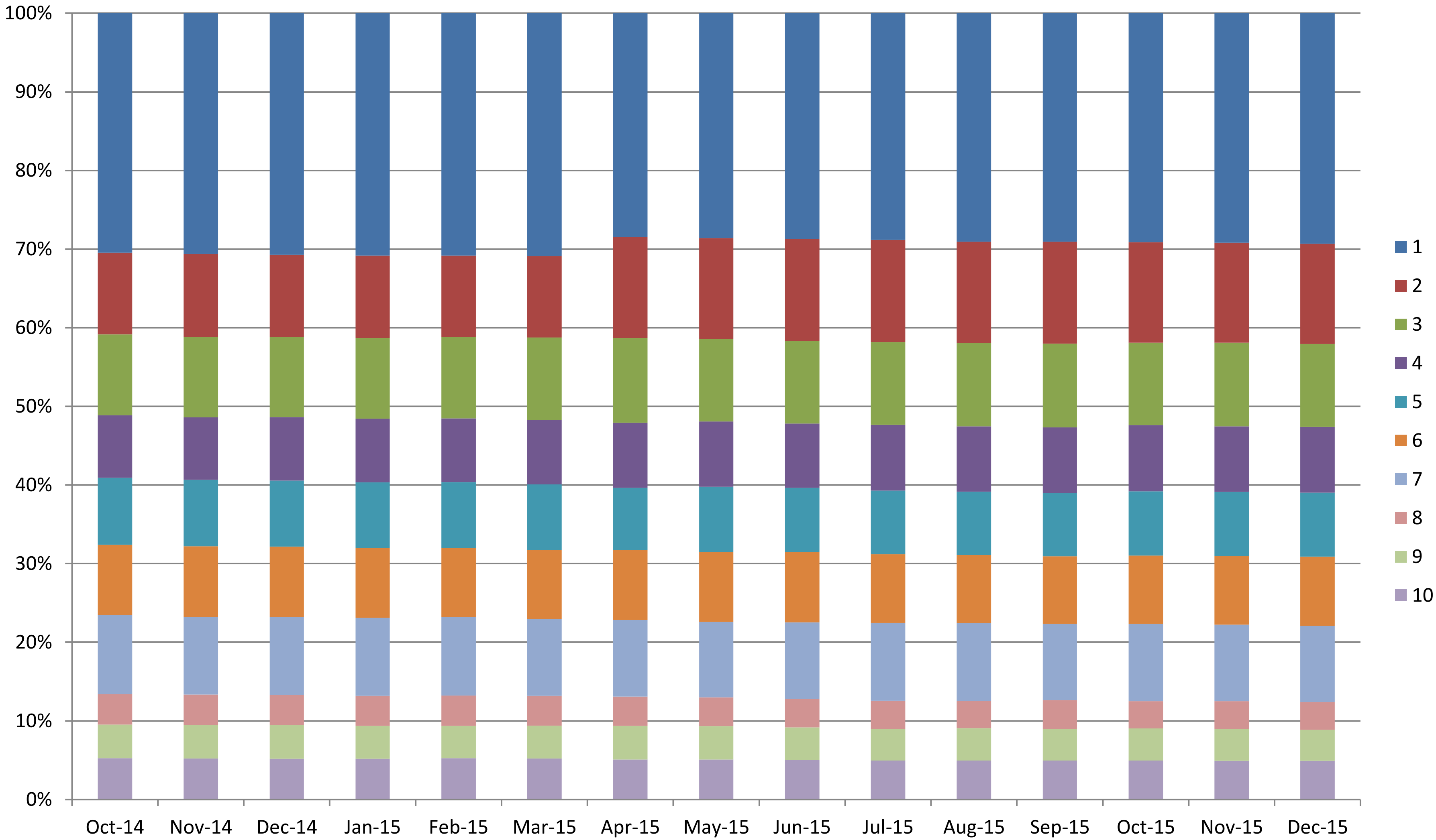
Appeal Types



Score Changes



Levy Band Mix



Age of most recent secured charge (mortgage age)

Pension Protection Fund

- Powerfully predictive variable, but:
  - Recognised case for excluding certain mortgages and charges
  - Exclusion certificates widely used in 2015/16:

Refinance	Pension scheme	Immaterial	Credit rating	Rent deposit
45	82	46	797	11

- Experian will carry forward all except immateriality certificates for 2016/17
- PPF to review and ensure credit rating certificates appropriate

Mortgage Certificates

Pension Protection Fund

- Guide to expected detail in boxes
- Inclusion of charge as registered at companies house (or charge number)
- Highlighted where required
- Submit early

Officer's Certificate under 2016/17 Levy Determination

Rent Deposit number Charge No **dated** Date **issued by** Name **in favour of** Name

(the "Rent Deposit")

I, Officer's Name hereby certify that I am duly authorised to give this Officer's Certificate on behalf of Name of Entity and hereby confirm that I am:

(a) a director or the company secretary, in the case of a company; or

(b) a member, in the case of a limited liability partnership; or

(c) the general partner, in the case of a limited partnership.

2. I hereby confirm that:

a) the copy of the Rent Deposit agreement attached to this Officer's Certificate is true, complete and up to date; and

b) the Rent Deposit agreement creates a security interest which falls within the description in section 859A(6)(a) of the Companies Act 2006.

Capitalised terms in this Certificate have the same meaning as those set out in the Board's Determination under s175(5) of the Pensions Act 2004.

The information contained within this certificate is complete and accurate. In confirming this, I am aware that it is a criminal offence under section 195 of the Pension Act 2004 for any person knowingly or recklessly to provide false or misleading information to the PPF Board in circumstances in which the person providing the information intends or could reasonably be expected to know, that it would be used by the Board for the purposes of exercising its functions and acknowledge that the information provided in this Officer's Certificate will be used by the Board for the purposes of exercising its functions.

....

Name and capacity in which signing

....

Date

Asset Backed Structures (ABCs)

Pension Protection Fund

- Certification possible for ABCs supported by any asset class
- Guidance flags key issues
- Insolvency valuation - on basis of report from adviser owing duty of care to PPF
- C70 ABCs certified, 36 with insolvency values
- PPF reviewed all. Generally good quality, points to note flagged in consultation document in September
- For 2016/17 - Light touch recertification

Contingent assets: context

Pension Protection Fund

- PPF values contingent assets where risk reduction is proportionate, but experience of limited value
- As result have revised levy requirements and put in place testing regime:
  - From 2015/16 certify "realisable recovery"
  - Trustees must make enquiries + start from assumption of employer insolvency
  - Testing regime involves challenging sample of CAs, reviewing with input from professionals

Certifying contingent assets

Pension Protection Fund

- Experience of testing for 2014/15: high failure rate
- Lessons learned published in January 15 (just republished)-
    - Summary - Trustees not thinking rigorously, at time of certification…
    - Too big to fail
    - Can the guarantor still trade?
    - Impacts of employer insolvency not sufficiently considered
    - Limited recognition in values of insolvency
    - Assertion rather than evidence – independent evidence required
    - Document at the time of assessment
- 15/16 review – some improvement but more needed.
- Ran interactive seminars specifically for trustees and advisers – 130 attendees

Forthcoming deadlines

31/12/ 15	Final Rules for 16/17 levy year published	Start point for 16/17 certification
31/03/16	Main data deadline	Ensure data Experian need has been supplied Ensure employers identified correctly etc Certify CAs
30/04/16	DRC deadline	Ensure not including ABC transactions in DRCs
29/06/16	Block transfer deadlines	Scores to be used by Experian
01/09/16	Invoicing commences	Timescales broadly as for 14/1, Guarantor testing earlier
September 2016	Consultation on draft levy rules 17/18	Includes Levy Estimate 17/18
Autumn 2016	Consultation on third triennium	

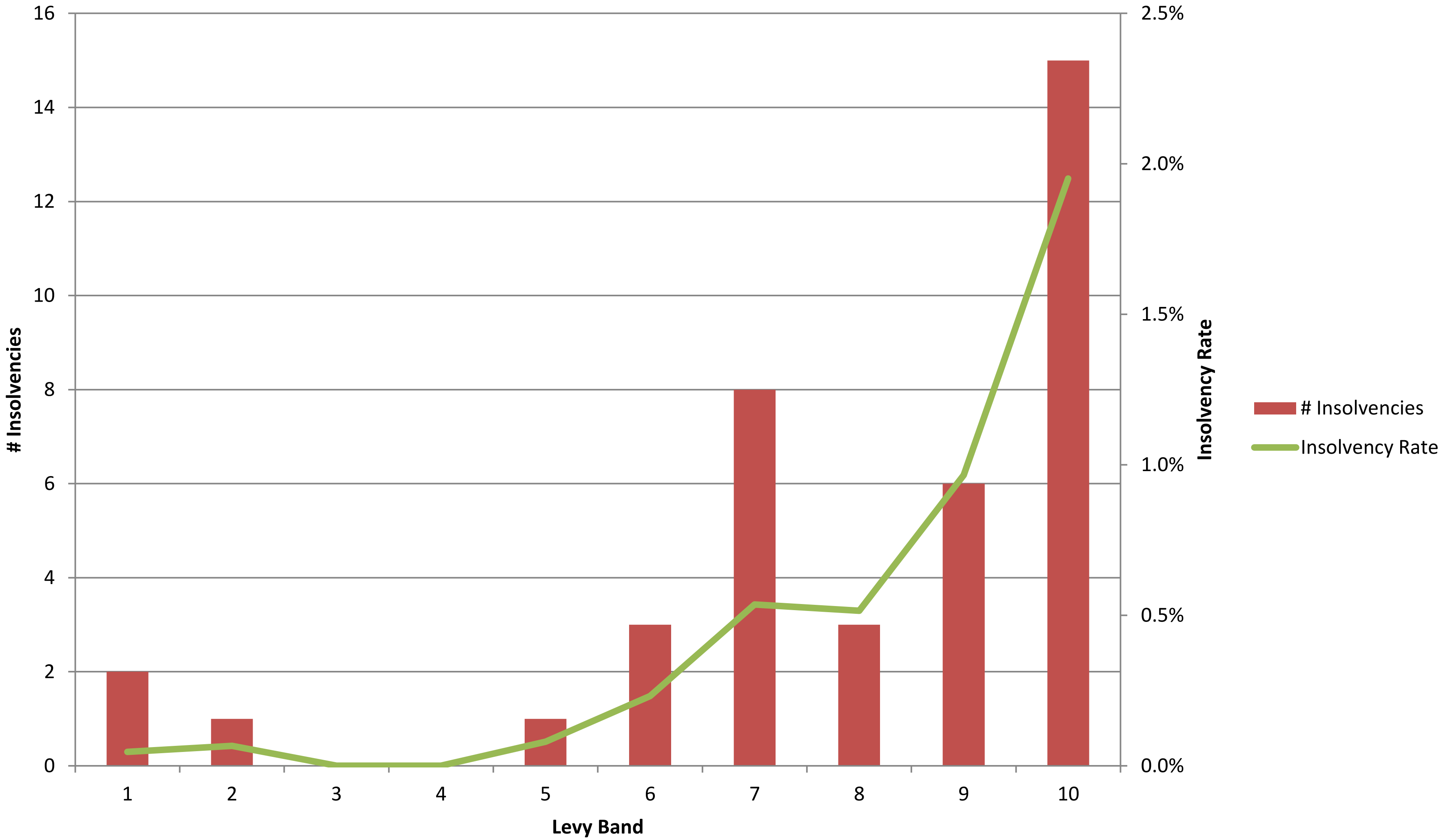
Third Triennium (2018/19-2020/21)

Pension Protection Fund

- Triennial Review - scope for change if evidence based
- Likely formal consultation late 2016
- Expect to review PPF-Specific Model:
    - Limited new data
    - Early results of performance modelling / stakeholder feedback positive
    - Change likely at level of individual scorecards – especially given need to reflect FRS 102 changes
- Other issues, less certain:
    - Investment Risk
    - Contingent assets
    - ABCs
    - Anything else?

Insolvencies Oct 2014- Oct 2015

Pension Protection Fund



Any questions?