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22 October 2015

Chris Collins
Chief Policy Officer
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon, Surrey
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Dear Mr Collins

## Pension Protection Fund - consultation on the 2016/17 Levy Rules

I am writing on behalf of the Association of Consulting Actuaries in response to the above consultation document dated September 2015.

In general, we were pleased to see that the PPF has largely maintained its methodology and levy parameters for the 2016/17 levy. This provides stability in the levy for schemes.

We also very much welcome the decision not to require recertification of Refinance, Pension Scheme and Rent Deposit mortgage certificates, with CRA mortgages carried forward where relevant. This will reduce the administrative burden on employers.

While we see that a more detailed review of the methodology will be undertaken next year, we would expect to see any material changes coming through from this year's consultation to be implemented for the next triennium, ie for the 2018/19 levies and beyond. Again this would be consistent with predictability within the current triennium and planning for the next.

Our comments on the specific questions you raised are set out in the Appendix, along with some other comments in areas not formally covered by the consultation.

We hope that you find our comments of assistance and would be happy to discuss them further if that is helpful. Please contact either me on 020 7432 6635 (david.everett@lcp.uk.com) or my colleague, Spencer Bowman on 020 7170 2729 who prepared this response (spencer.bowman@towerswatson.com).

Yours sincerely

David Everett

**David Everett**
Chairman
ACA Pension Schemes Committee

Sent by e-mail to: consultation@ppf.gsi.gov.uk

## APPENDIX

## Pension Protection Fund - consultation on the 2016/17 Levy Rules

### 3. The measurement of insolvency risk

#### *Comment on 3.4 Voluntary submission of full accounts*

We support the PPF's proposal that when a company opts to voluntarily provide full accounts to Experian they can also provide accounts for earlier years to address the trend variable calculation issue.

#### *Comments on 3.5 Mortgage exclusions*

We very much welcome the decision not to require recertification of Refinance, Pension Scheme and Rent Deposit mortgage certificates, with CRA mortgages carried forward where relevant.

#### Credit rating exclusion – private credit ratings

We agree that to ensure fairness with other companies, the PPF could monitor the quality of private credit ratings that are provided and ensure they remain up to date. However, we have little experience of these being used in practice.

#### Refinance mortgage exclusion

We support the proposed amendments to the exclusion for refinance mortgages.

Given the detail of these arrangements that is likely to need to be disclosed, we would encourage the PPF to release template forms as soon as possible.

#### Charges over bank accounts

Our view is that where bank accounts are not material predictors of long-term insolvency, it should be made possible to exclude them.

#### *Comment on 3.5 Certify absence of Mortgage*

We note that there is no intention to allow Not for Profit bodies who do not file at Companies House to certify that they do not have a mortgage at all, thereby allowing a zero mortgage age to be used (c.f. the ability to certify immateriality of a mortgage for those who file at Companies House). This is particularly disappointing in light of the comments that "the existence of a recent mortgage was highly predictive of the risk of insolvency" and the absence of a mortgage will often be immediately identifiable from the body's accounts. Some such bodies are actually prohibited from taking out mortgages in the first place, and yet have an industry average age used.

#### *Comment on 3.6 Foreign Exchange Rates*

While this proposal may be appropriate going forward, we are not convinced of the argument made here for the 2016/17 levy. The change could have a material impact on some schemes' expected levies, particularly as Experian company scores for the 2016/17 levy are already determined for month-ends up to now but could now be changed retrospectively. We expected that any changes of this nature should be left for the next triennium.

### *Comment on 3.7 Scheme and Industry Averages*

We agree with the PPF's proposal to use a scheme average for unscored employers in the scenario where at least 50% of members are allocated to scored employers. However, we have reservations around the methodology proposed to be used to calculate the scheme average, and in particular that it is based on the average (ie mean) of the scored employers. In our view this potentially gives undue weight to scores for employers with few members attached. There are others ways of calculating the average which we believe would be more logical. For example, the average could be weighted by the number of scheme members allocated to each of the scored employers.

### *Some comments on 3.8 FRS 102*

We welcome the fact that the PPF is considering the impact of changing from FRS17 to FRS102 at this stage. Indeed, changes to the scoring methodology should be set out as soon as possible, so that the impact can be understood by levy payers.

In our experience, the use of accounting on a DC basis for multi-employer plans under FRS17 has been widespread.

Changes in balance sheet positions due to market values of pension assets and liabilities not previously recognised in multi-employer plans at the company level should not normally indicate any fundamental change in the business.

A key issue will be comparison with accounts three years ago on a consistent basis, until FRS102 is bedded in. Some companies will be able to provide comparative figures if given the option, but many will not have the resources to do so. The PPF might strip out the pension fund surplus or deficit until fully comparable figures on FRS102 are available.

### *Comment on 4.2 Levy Bands*

The proposal to monitor the movement of scores with a view that any change would be aligned with the date of the third triennium seems sensible.

### *Comments on 4.4 Asset Backed Contributions*

#### *4.4.8*

We agree this approach is welcome and should reduce the burden on trustees and employers on ABC certifications, without increasing the risk to the PPF.

An area of flexibility is for the valuer to be able to certify a 'no less than' amount, allowing the valuer to take a prudent view.

#### *4.4.11 – ABC guidance*

We have no comments.

### *Comment on 4.5 Contingent Assets*

We note the PPF is providing a series of interactive seminars during September and October on certifying Type A contingent assess, which have so far been helpful. It would be constructive if the PPF were to share its concerns from experience more widely and at an earlier stage.

### *Comment 4.6 Associated Last Man Standing Scheme Structure Factor*

We trust that the PPF will employ a reasonable approach in relation to those schemes that have previously indicated they are Last Man Standing (and have benefited from a reduced levy as a result), but subsequent legal advice indicated that they were not LMS. For example, it may be necessary to agree a period over which to recover any underpayments.

There are cases where trustees in good faith believed they were a LMS scheme, only for legal advice to contradict that view on a technicality. We believe those cases, especially where some protection from a multi-employer structure exists, should be treated more leniently than cases where LMS status was more wilfully misrepresented

There are also schemes who may have been advised not to take the legal advice to confirm LMS status for the 2015/16 levy as the cost involved would not have covered the reduction in levy on the new basis. They may now suffer a penalty on previous years' levies. There should be a mechanism allowing these schemes to obtain legal advice now, which would be recognized for previous years, which is what they would have done had they known that there would be clawback in relation to previous levies.

### Other comments

We have comments on some other areas not formally covered by the consultation, as set out below.

### 1. Treatment of organisations that do not file accounts at Companies House

Under the current position, organisations that do not file information at Companies House are given a neutral score in respect of how the mortgage variable feeds into the insolvency risk calculation. Many such organisations do not have mortgages in place, but currently there is no method by which they can confirm this to the PPF. The result is a higher PPF levy, sometimes materially so.

It would be preferable if the PPF would permit some form of self-certification in this area, with the PPF perhaps reviewing a sample of these to get comfort that the certifications were valid.

### 2. Not for Profit criteria

We are aware of a small number of not-for-profit organisations, in particular unincorporated private members clubs, that are failing to meet the criteria for Not for Profit entities as set out in the Determination. As a result these organisations are being assessed by reference to an inappropriate scorecard, resulting in unfavourable insolvency risk scores and PPF levies that are not consistent with the level of risk that these entities represent.

Although this issue only affects a handful of organisations, and hence is unlikely to be material overall, for the individual schemes it can have a big impact.

We believe it would be preferable to make a minor adjustment to the Not for Profit criteria in order that unincorporated private members clubs would be assessed under the Not for Profit scorecard.

### 3. Scorecard for holding companies

Under the current position, holding companies are generally being treated adversely because they are generally assessed by reference to a Group scorecard that does not reflect the particular characteristics of such companies. In particular it is common for holding companies to have zero turnover and trade creditors, which are scoring factors used in the Group scorecards.

We believe it would be preferable to develop a specific scorecard for holding companies.

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