Pension Protection Fund Levy 2011/12: Insolvency risk

February 2010

The PPF has confirmed that it will change the way it measures insolvency risk for levy year *2011/12.* If you are a levy payer, you should consider how the changes will affect you and whether you need to file new information with D&B.

This is urgent because the deadline for the information that will be the basis for next year's assessment of insolvency risk is 5pm on 30 March *2010.*

The PPF is going ahead with most of the proposals it put out to consultation last November.

New probabilities of insolvency

There will be a new table of insolvency probabilities. In part this reflects alterations D&B made last summer to the way it arrives at its failure scores. But the new table is also better aligned with the PPF's experience of corporate insolvency in practice.

The probability of insolvency associated with each failure score will go up, and the rise will be greatest for employers with the lowest risk. For example, the probability for the highest rated companies rises *threefold*. This may seem counter-intuitive but the PPF points to data showing that, when recession starts, the risk of insolvency rises fastest for the strongest companies.

The PPF notes that the scaling factor will drop significantly for 2011/12 and go some way to mitigate the rise in risk-based levy. Had the new table been in use for 2010/11, the PPF says, the scaling factor would have been nearly halved.

You should consider what the new table means in your circumstances, though a rough answer is probably the most you can hope for.

Changes to D&B scoring

There are a number of changes to D&B's scoring system.

- **Business sector and location**

To limit manipulation, D&B will require companies to provide more evidence to substantiate a change of business sector or location. D&B will provide details of its new requirements.

- **"Nationwide" location category**

Companies with branches in three or more different regions will be classified as "nationwide" to reflect their risk more accurately and to prevent manipulation based on location.

If you think you should be classed as "nationwide" but are not, you should send evidence to D&B and check that you are on the list by 30 March.

- **Contingent assets to be disregarded**

PPF compliant Type B contingent assets (security over company property) will no longer count as a charge that increases the chance of the company failing. This change recognises that the current position is contradictory: today, a contingent asset that is beneficial to a scheme's funding has a negative effect on the sponsor's insolvency rating.

The PPF will tell D&B which companies have certified Type B contingent assets.

- **Cap on failure score of subsidiary**

The failure score of a subsidiary will be that of its ultimate parent company if that company is at substantial risk of insolvency (UK D&B scores 1-10). This is to recognise that a weak parent can bring down an apparently strong subsidiary (e.g. as a result of inter-company obligations like guarantees).

D&B will apply this override in its failure score calculations.

Accounts for charities

D&B will be proactive and collect charities' accounts from the Charity Commissioners in the run up to the deadline in March. (It already does this with company accounts filed at Companies House.)

More information

For more information, please get in touch with your usual contact in the pensions team or with Marcus Hellyer, senior associate and professional support lawyer, at marcus.hellyer@burges-salmon.com or on 0117 902 7789.

For our briefing on the filing deadlines for the 2101/11 and 2011/12 levies, please go to www.burges-salmon.com/Practices/pensions_and_incentives/Publications/Pension_Protection_Fund_approaching_deadlines.pdf

Full information about the levy is available at www.pensionprotectionfund.org.uk/levy/Pages/PensionProtectionLevy.aspx

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