**PENSIONS AND LIFETIME SAVINGS ASSOCIATION**

Chris Collins
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**Re: The PLSA's response to the 2021/22 Pension Protection Levy Consultation**

Dear Mr Collins,

We welcome the opportunity to respond to the proposals set out in the PPF's Levy Consultation 2021/22.

We're the Pensions and Lifetime Savings Association (PLSA); we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

The PLSA conducted a survey with its members and consulted with its Defined Benefit Committee to inform our response to the proposals set out in the consultation. We support many of the PPF's proposals, including work to make the online services more user friendly and the decision to keep the insolvency model created by D&B consistent with that of Experian. Below, we detail additional views on the key policy areas highlighted in the consultation document.

## Online services

The PPF's work to make its website more user friendly is welcome, with our members confirming that they found the beta version easier to navigate and "less clunky" than the current site.

We do believe, however, that further changes could be made to the website to make it more functional for users. Firstly, it would be helpful if PPF were to add in a filter which would allow multi-employer schemes to find employers more easily and, in particular, to be able to identify those which have the largest score changes. In the case where a scheme has hundreds of employers, this change would save them time and resource. On top of this, a download functionality would be useful to schemes, making it easier for them to use and analyse the data.

Secondly, the PPF could provide a history of submissions, which would make it easier for members to track their changes over time. Additionally, our members have stated that it would be helpful if the website clearly showed the details as to what has changed, in terms of the recalibration and methodology, and how these changes have affected the levy score. If implemented, these alterations would make the system more transparent and help schemes understand the reasons behind their levy score.

**Updating the PPF insolvency risk model**

We welcome the decision to not conduct a complete overhaul of the insolvency risk model as it transitions from Experian to D&B. We believe this approach will bring much needed consistency for schemes.

**Calibration of the model**

We believe PPF's approach to recalibrating the scorecards is sensible, adjusting the coefficients so predictions will better reflect actual levels of insolvency, which will improve efficiency.

Stability is particularly important to our members; it is therefore vital that the PPF and D&B properly justify any changes which will have a significant effect on schemes. The proposed increase in the levy paid by those on scorecard 1 following this recalibration may be substantial, and so the PPF must be as transparent as possible in order to ensure schemes continue to feel secure that the method used by the PPF accurately estimates the level of insolvencies.

**Scorecard variables**

We agree with the PPF's approach to make only minor adjustments to the scorecards. It must be noted, however, that the true impact of any scorecard changes on the results will be difficult to assess in isolation, given that the outcome depends on multiple variables, including, depending on the scorecard, pre-tax profit, return on capital, total assets and remuneration.

With regards to the changes made to creditor days, we understand the PPF's decision not to replace the variable due to a lack of suitable alternatives and we support placing a cap of 60 days, which will reduce the risk of outliers.

We believe that replacing the mortgage age variable with the ratio cash to current liabilities is a step in the right direction. Despite making numerous changes to the variable in the past – excluding certain immaterial mortgages and ignoring charges – it was still seen as burdensome for employers, and it is welcome that the PPF has decided to make changes.

However, the cash to liabilities ratio may also have its limitations in predicting the risk of insolvency. For example, a company may have a specific business strategy which calls for maintaining lower cash reserves. While some companies work using trade credit, in this case, the cash to liabilities ratio may not properly reflect their financial position. On balance, given that the variable will not be viewed in isolation, we do believe that the cash to liabilities ratio will be a suitable alternative to the mortgage age variable.

For some employers, a rolling metric may be more appropriate to inform longer term default probabilities. We suggest PPF explores the viability of this option in the future.

**Data**

Overall, the data changes proposed by the PPF seem practical. However, given the high volume of data which needs to be captured by D&B as it takes over from Experian, there is a risk that gaps will appear. D&B must work to address any such gaps quickly and efficiently, reducing disruption and ensuring employers are placed on the correct scorecard.

Our members have also expressed concern over the request for stakeholders to resubmit any self-submitted accounts to D&B, fearing a lack of continuity in the handover from Experian. We understand that not all data can be transferred from Experian to D&B as it must be completely up-to-date, however, we urge the PPF to take steps to minimise the burden on schemes. By, for example, providing a reasonable timeline for schemes to get data to D&B following a request.

We would also encourage as much transparency as possible when it comes to how data is used by D&B to arrive at the scores given to employers.  This way, with greater transparency – the importance of which is also discussed in the previous – section on scorecard recalibration– trustees will be able to better understand the reasoning behind them and how best they can influence changes in the future. Members have expressed concerns that D&B's approach in the past was quite opaque, which made it difficult to understand why they had been given a particular score. Any changes brought about by the move to D&B must only bring greater transparency and improvements to customer service.

**S&P Credit model**

We agree that if the S&P Credit does not offer value for money, it is a pragmatic decision to retire it. Costs such as this have an impact on the levy charged to members. It is therefore prudent for the PPF to review their models on an ongoing basis, and ensure they deliver what is expected.

We trust that you will find our response helpful, and will be happy to discuss our positions in further detail if you have any questions.

Yours Sincerely,

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