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Rachel Altmann
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30 September 2007

Dear Ms Altmann

Consultation on the Future Development of the Pension Protection Levy

I am writing on behalf of the Hundred Group of Finance Directors in response to the consultation document issued by the Pension Protection Fund dated August 2007. The Hundred Group represents the Finance Directors of the UK's largest companies.

We would like to make the following points in relation to issues raised in your consultation paper.

1. Multiple Providers of Insolvency Risk Measurement

We are in favour of your proposal to appoint different insolvency risk measurement providers for different populations.

Whilst D&B have improved their rating criteria over the last two years, the ratings are still not transparent and are based mainly on quantitative information that can often be misleading or inappropriate for certain companies or even incorrect. Members of the Hundred Group have had some experiences of erroneous data and have had to spend time getting them corrected.

We therefore believe that there should be an override to a D&B (or any similar rating organisation) score where a company has an active rating relationship with a credible rating agency such as S&P, Moodys, Fitch or AM Best. These agencies spend much more time and have access to more information (often not available publicly) in order to determine a credit rating. There should be read across for each of the agencies to an equivalent D&B score e.g. an S&P A rating or above should automatically score 100 on the D&B scale.

Companies with a public credit rating already know what their rating is and how it will move (or more importantly, not move). It is therefore a much more appropriate measurement of insolvency risk for such companies. However, we recognise that this is not appropriate for the whole population of eligible schemes and therefore conclude that more than one provider of insolvency risk will be required.

2. Catastrophe Risk

We fundamentally disagree with the proposal to allow for catastrophe risk in the levy calculation. This would have the effect of redistributing the levy payments towards larger, stronger schemes.

Notwithstanding the Board's understandable desire to guard against catastrophe events, their own chart (page 22) suggests that larger stronger schemes already subsidise weaker schemes in all but the most extreme events. The proposal will penalise larger schemes still further with, we believe, little justification. It should be noted that larger companies already have measures in place for dealing with catastrophic events in all but the most remote circumstances.

The DWP has provided the Board of the PPF with tools to manage catastrophe risk – namely the powers it has to reduce increases to pensions in deferment and payment and the power of the Secretary of State to reduce the level of compensation. We are concerned that the Board of the PPF appears to intend to ignore these powers.

3. Measurement Dates

We are in favour of fixing the measurement date for the levy in advance. Certainty of levy payments over an extended period is desirable and a longer period of stability will help manage the planning. Changes in scaling factor at the last minute create unhelpful uncertainty.

We note that the PPF has recently announced that it will consider whether any risk reduction measures taken after the measurement date should nevertheless be allowed for in the levy. Whilst we do not object to this approach, there are many examples in our businesses where the benefit of actions taken after a certain date arrives only after a year's deferral, and so we would not be unduly concerned at having to wait for changes in risk mitigation to be picked up in the following year.

4. Funding Limits

We do not understand the rationale for needing to raise the funding limits (unless the PPF made an error last year). It appears to be the case that the PPF wants to collect a certain levy from particular types of schemes, and is proposing to adjust the funding limits in order to ensure that it continues to do so irrespective of the risk mitigation measures a scheme has in place.

If the PPF decides to persist with this proposal, it would be wholly inappropriate to implement the change for March 2008, which would give employers little or no time to react and alter their contingent asset arrangements to compensate.

5. Five Year Risk Measure

A five-year measure of risk could increase contribution stability, but on balance we believe that this is offset by the additional approximation and loss of accuracy that this would lead to. In addition, we feel that this would lead to a redistribution of levies to schemes with stronger sponsors which we believe is inappropriate.

6. PPF User Group

Over the last few years, we have welcomed the willingness of Lawrence Churchill and Partha Dasgupta to come and talk to the Hundred Group. We wonder however whether the PPF has given thought to the idea of setting up a User Group consisting of the various interested parties rather than meeting them on an individual basis. The Hundred Group Pensions Working Party would be very happy to send a representative if such a User Group were to be formed.

Please contact me if you would like any further information on any of the matters discussed in this letter.

Yours sincerely

Eddie Weiss

Edward Weiss
Chairman
Hundred Group Pensions Working Party