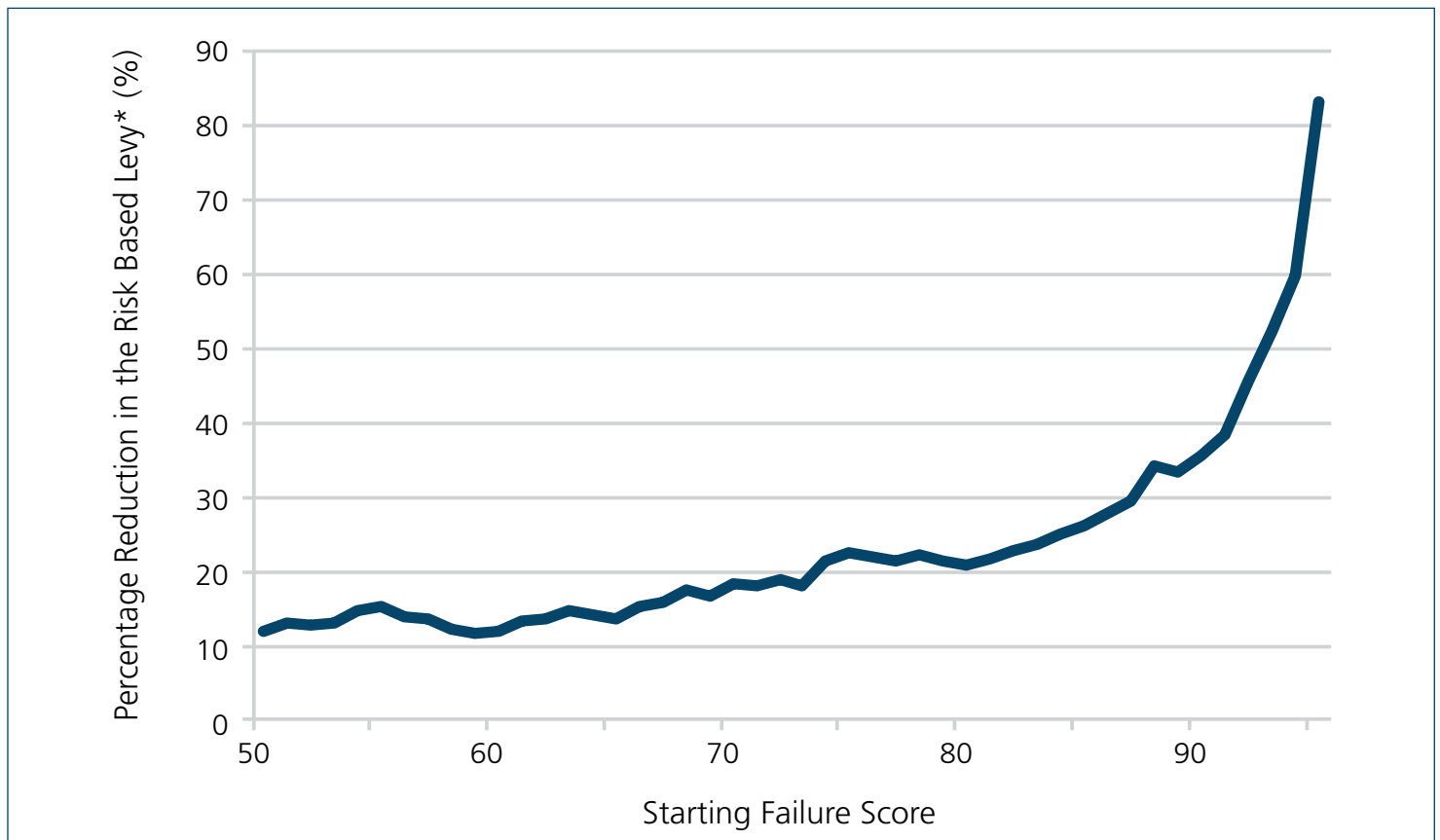


# Understanding and Influencing your Failure Score

The Pension Protection Fund (PPF) levy has further increased the costs of running defined benefit pension schemes. However, a well informed company may be able to take steps to reduce their levy by improving their Dun and Bradstreet (D&B) failure score.

In many cases a relatively innocuous change to the information held by D&B, can result in a small change in the failure score which has a big effect on the levy. The graph below shows the percentage reduction in your risk-based levy resulting from a five point improvement in your failure score.



\*based on the insolvency probabilities set out in the PPFs November 2009 consultation

The D&B failure score on 31 March 2010 will be used to calculate the 2011/12 levy. If the PPF levy represents a significant cost for your pension scheme there are issues employers and trustees should be considering now. Attached is a short checklist setting out some of the points that need to be considered.

At Barnett Waddingham we have built up considerable expertise in this area. In particular we have carried out a detailed analysis of the D&B scoring system and have identified the weightings given by D&B to different company factors. This means we can assist our clients in making specific individual changes which optimises their score.

Over the summer of 2009 D&B made a number of changes to their scoring methodology. As a result failure scores have become much more volatile and need to be monitored carefully. In addition the PPF are proposing to update the insolvency probabilities they use to calculate the PPF levy. All other things being equal, this will significantly increase the risk based part of the levy payable by stronger rated companies.

We can quantify the reduction in the levy resulting from a particular course of action taken by the company. Clients have found this particularly useful when considering which changes to make and has enabled them to save many thousands of pounds on their levies.

With the PPF looking to raise ever more from levies, it is even more important for companies to manage their failure scores and ensure they are not paying more than their fair share.

“NMR found Barnett Waddingham to be ahead of the game when it came to the D&B score, advising us to implement simple changes that resulted in dramatic improvements to our score, and also advising on the pitfalls of changes that may have an adverse effect on the business that would outweigh any D&B score gains.”

**Chris Hughes, National Milk Records.**

“As a result of the advice we received from Barnett Waddingham, we were able to improve our D&B score by taking some very simple action. This saved us about £60,000 (over 25%) on this year’s levy. We also receive regular notifications if the D&B score changes, which has helped us to monitor the situation.”

**John Mumford, Dollond & Aitchison.**

## D&B Failure Score Checklist

- **Is the information held by D&B correct?** In some cases an improvement in the failure score can result from simple corrections to the information held by D&B on your company. However, you need to know exactly which factors D&B take into account as certain items of information are not available on the standard reports provided by D&B.
- **Company accounting figures** – D&B consider a number of financial ratios when determining the failure score. As you might expect D&B place a lot of emphasis on these ratios in determining the failure score. Knowing which ratios D&B use to assess the failure score could be important when producing your company’s accounts and also deciding when to file them with Companies House. There may be issues that you will want to consider in advance of your year end to maximise your failure score.
- **Company Principals** – One of the areas considered by D&B in setting the failure score is the principals running the organisation. D&B use a number of objective measures to assess the very subjective issue of the quality of the management of your company. It is important that you understand exactly what these objective criteria are and that D&B hold information that truly reflects your management structure.
- **Trade** – It is important that you understand how your payment habits will affect your failure score. Following the

recent changes in D&B’s methods more weight has been placed on this area, making it more important than in previous years.

- **Inadvertently worsening your failure score** – There are a number of actions you could take in the running of your business that would inadvertently worsen your failure score. Some of these may be unavoidable but you need to be aware in advance what these changes are so that they can be avoided if at all possible.
- **Group Structure** – The structure of a company may result in a financially weak employer’s failure score being used to determine the PPF levy even when it is supported by a financially strong group. Where the PPF levy represents a significant cost to the company the distribution of assets within the group could be considered.

We would be very pleased to discuss how we may be able to help you improve your failure score. Please contact your usual Barnett Waddingham consultant or alternatively contact:

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