

YMCA Pension Plan

Impact of the Credit Rating of a Participating Employer on the Expenses paid to the Plan

Part of the expenses that every participating employer in the YMCA Pension & Assurance Plan (The Plan) incurs is a payment of the Pension Protection Fund (PPF) levy. We have no choice but to pay this as it is a legal requirement under Pension Regulation, and the levy is based on two factors:

1. The number of members in the Plan;
2. The “risk based” element which includes the funding level of the Plan and the credit worthiness of the participating employers in the Plan.

A key factor of the risk based element is the failure score (credit worthiness) of each participating employer. This failure score is determined by a company called Dun & Bradstreet, and they amend a participating employers’ failure score on a daily basis – see further details below.

At the end of March each year Dun & Bradstreet calculate the **average** failure score for each participating employer for the year and this score is used to calculate the risk based levy and heavily influences what that levy is set at. The best failure score (most credit worthy) is 100, with 1 being the worst (least credit worthy).

These failure scores can, and do, have a huge impact on the levy that we pay. In the 2011/12 financial year the Trustee paid a levy of £128,054. I understand that the invoice received for the 2012/13 financial year saw the levy increase significantly to £323,867. This was primarily due to one participating employer having a failure score of 1. This levy invoice will be included in the expenses of the Plan payable in the 2013/14 financial year that we will all have to pay.

The Plan’s Actuary has indicated that any score **below 87** could have significant impact on the PPF levy. Worryingly, 25 out of the 106 participating employers in the Plan have a failure score below 87.

Therefore the monitoring of the failure scores is a key issue for participating employers as is the management of the factors that affect the score.

There are a number of key factors that influence a failure score:

Principals ie Board Members

A reduction in the number of Board members, the age and experience of Board members and whether any Board member has been associated with another failed company can impact negatively on the score.

Demographic

The age and size of the charity, the primary sector under which the business operates the number of employees, and its location throughout the UK.

Public negative data

This includes County Court Judgements, any mortgages or legal charges, and any recovery or debt claims.

Financials

This includes profitability, solvency, any late filing of accounts for those participating employers that are companies, and key ratios and trends.

Trade payments

This includes the percentage of trade experiences ie invoices, paid promptly or beyond the term of the invoice, the volatility of such payments and a payment score as created by Dun & Bradstreet, and called Paydex.

As an example the table below illustrates the volatility of the failure score for one participating employer:

| Period | Failure Score | Commentary |
|---------------|----------------------|---|
| 30/12/11 | 99 | - |
| 31/1/12 | 91 | The company's classification with D & B changed. |
| 29/2/12 | 86 | This was due to an increase in the percentage of failed other companies that Board members are involved with. |
| 30/3/12 | 86 | - |
| 30/4/12 | 86 | - |
| 31/5/12 | 69 | This was due to a decline in the 3 and 12 month average for paying invoices on time. |
| 29/6/12 | 86 | This was due to an improvement in the 3 and 12 month average fro paying invoices on time |

Proposed Actions Taken

The Pension Trustee works alongside the Principal Employer to review the changes in the failure score for each participating employer. Paul Smillie as Company Secretary to the Pension Trustee receives a monthly report from the Plan's administrator Xafinity. This information is shared with myself and Denise Hatton, Executive Director of Movement Services for YMCA England.

In order to minimise the impact on the levy, the Pension Trustee and the Principal Employer have been looking at an appropriate mechanism to alert participating employers where their average failure score drops below 87 or where there is a substantial drop in their failure score from the previous month. It is also important to alert a participating employer where the failure score has improved to 87 or greater. Therefore, on a monthly basis, the Pension Trustee will now contact those participating employers falling into the above categories and provide them with further information on the reasons for the change in failure score.

There are a number of participating employers who have been linked with the Principal Employer's failure score and therefore they will automatically have the same failure score as the Principal Employer, currently 100. Therefore such participating employers would not receive any communication on changes to their score and they will be advised that this is the case.

This briefing sheet is an important document in understanding how aspects of your operation can impact on your failure score, your credit worthiness and the PPF levy. **Please share this briefing sheet with your Board members and key staff in your Association.**

If in the meantime you have any queries please do not hesitate to contact Paul Smillie on 01823 325860 or 07971 213227 (paul.smillie@england.ymca.org.uk) who can provide you with details of your failure score.

Ian Green
Chief Executive of YMCA England
On behalf of the Principal Employer