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JULIA BERRIS REPORTS FROM THE ACT PENSIONS CONFERENCE.

Companies improve their failure scores

Many companies have succeeded in improving their Dun & Bradstreet Pension Protection Fund (PPF) failure score, according to Duncan Hale, Global Customer Manager at D&B.

The score is composed of five elements, which calculate the risk of a pension fund's insolvency: demography, negative public data such as county court judgements, principals, trade payments and financial data.

Speaking at the ACT's pensions conference, which was sponsored by ABN Amro and Mercer Human Resource Consulting, Hale said: "Some companies have done very well at understanding how we calculate the score and have taken steps to improve theirs."

Hale explained that although the methodology had been criticised by corporates at first, as time had moved on companies had come to learn more about the methodology and learnt how to influence the score.

He said: "It is a common misconception that only 1% of companies can score at the high end of the failure score. This is not true. All businesses can score at the top end."

Now, some months on from the implementation of the failure score, D&B has tweaked the methodology and incorporated feedback from companies about how the score is calculated.

Hale: D&B methodology altered.

Hale said: "The methodology had been customised for the PPF. For example, with the parent severe risk override, the standard rule is ignored and the failure score now reflects individual derived scores.

"We do take into account what people say and we are always looking at the methodology to see if it needs to be altered in any way." ■

Strategic goals will win funding battle

An analyst from pension consultant Mercer has advised companies to adopt a military-style approach to funding their pension deficits.

Principal at Mercer, Adrian Hartshorn, said: "When setting a strategy you have to be very clear on what you are trying to achieve. You have to agree the level of risk. This is done by looking at the business as a whole."

Hartshorn: fight back.

Hartshorn said that the significant changes in the pension environment meant that corporates had to fight back and develop a strategy that took various risks into account.

At the ACT's pensions conference, which took place in June, Hartshorn and David Swann, Group Treasurer at British American Tobacco, used the recently developed BAT risk model and strategy as a good example of how to tackle the pension issue successfully.

Swann said: "We adopted a treasury-led risk management view to get a perspective on what the main risk were.

"Pensions changed the way we looked at risk and how we thought we should look at funding around the group."

For a successful long-term strategy in the new UK environment, Hartshorn argued that an agreed level of risk that had a coherent interaction with the corporate investment policy was important to the company as a whole. ■

From HR backwater to a finance issue

The pension landscape has dramatically changed and the importance of volatility is now widely recognised, according to Keith Jecks, Global Head of Pensions Advisory at ABN Amro.

Jecks said that increased longevity had forced the government and companies to look more closely at how they could guarantee the funding of their pension deficits and provide for pensioners in the future.

The thinking behind the Pensions Reform Act and the Turner Report was that the multitude of problems that UK pension schemes had suffered and would suffer had to be tackled.

Jecks said: "Pensions used to be a human resources issue and were very much left alone. Pensions are far from that now and are a finance and treasury issue."

Jecks highlighted significant developments over the years that had made pensions stand out more as a key issue for treasurers.

Jecks said: "Pre-FRS17, companies were able to walk away from pension funds if times got tough.

"In 2003 a large company attempted to do just this, and if the government had not applied some pressure many staff with more than 35 years of service with the company would have got nothing. You can't do this any more."

Jecks believed that the future was a challenge for pensions and said that it was currently too expensive for buy-out players.

He said: "Volatility is now more transparent. Schemes that we are keeping are those we are expecting to get a return from." ■