

Intellect Response to The Pension Protection Levy Consultation Document from the Board of the Pension Protection Fund

Intellect has 1000 members comprising organisations both large and small from the UK's information technology, telecommunications and electronics sectors. Intellect is a vital source of knowledge and expertise on all aspects of the hi-tech industry.

We are supportive of the setting up of the Pension Protection Fund ("PPF") and agree that employees should be protected by a safety net. We also appreciate that most UK companies have significant pension deficits and that they should be encouraged to reduce these both in the short and in the medium term. We also understand why the PPF may disregard guarantees from non-EU parent companies, at least in the short period in which it has to assess the risk-based levy.

However, we believe that the levy proposals pose a number of problems, some of which are particular to IT outsourcing companies.

Most outsource contracts include a transfer of pension liabilities so IT outsourcers have large liabilities in relation to the size of their UK company. Also, most of the leading outsource companies are owned by non-EU parents and the PPF plans to look at the UK subsidiary rather than the overseas parent when assessing the levy. Both these factors magnify the levy. Finally, outsourcing is a high volume, low margin business and a levy of several million would threaten companies' ability to fund their pension schemes.

In their review of the levy, we urge the PPF to

- accept contingent funding such as escrow accounts and letters of credit issued by EU banks from April 2006
- take account of scheme maturity in calculating the levy as younger schemes have more time to deal with deficits
- set up an appeal process so that schemes can challenge the levy assessed on them
- provide an indication of the cost of the levy earlier than their current planned date of the end of November