Written evidence from the Institute for Family Business (PPF0114)

The Institute for Family Business (IFB) is the UK’s not for profit family business organisation, supporting and promoting the UK family-owned business sector through events, networking, representation and thought leadership.

We work closely with family firms to support them in growing enterprises for generations to come. IFB’s members represent a strong collective voice, with a combined turnover approaching £100 billion and employing over half a million people.

There are four and a half million family businesses in the UK – over 16,500 of which are medium and large firms. They generate over a quarter of UK GDP and employ almost twelve million people.

Introduction

Family businesses have a long history of acting as responsible employers, and this includes their provision of pensions to their employees. Many firms now have significant pension scheme obligations, and family business owners are committed to ensuring that their business is able to meet these sustainably whilst also investing in growth for the future. Whilst firms may no longer accept new entrants into final salary schemes, those schemes remain a company liability until all beneficiaries of the scheme have passed away.

Whilst the Pensions Regulator (TPR) has a stated objective to “minimise any adverse impact on the sustainable growth of an employer” we believe that the way in which deficits are calculated does impede investment in business growth.

We welcome the Chairman’s comments at the launch of this inquiry that “It is important, however, that businesses that are run reputably and responsibly are not put under undue restriction. Ultimately, Defined Benefit (DB) schemes must be placed on a sustainable footing.” Family businesses, with their long term outlook and strong values, are committed to acting responsibly, but also recognise that investment and growth is essential if they are to be sustainable.

Calculating Pension Deficits

Family businesses are committed to their role as responsible employers, and they aspire to be responsible stewards. For family businesses to meet future commitments it is essential that they are able to invest in their future. However the impact of lower gilt yields mean pension deficits have increased, significantly reducing the funds available to family firms to invest in growth. We believe that the Government needs to review this area to ensure that businesses can grow and fulfil their pension obligations.

Currently, defined benefit pension scheme liabilities are calculated with reference to gilt yields, the lower the gilt yield, the higher the deficit. The recent Brexit vote, the subsequent quantitative easing measures and the base rate reduction announced by the Bank of England, have further reduced an already low gilt yield to exceptionally low levels. This has had a catastrophic effect on the size of pension scheme liabilities and deficits, increasing them to levels much greater than may ever be expected to be paid out. This means that either deficit funding contributions and/or timeframes need to be significantly increased.

Whilst responsible family firms are committed to ensuring that they are able to meet their pension commitments, many businesses feel that the current regime for calculating liabilities does not
provide a reasonable representation of the liabilities on their balance sheets. Even where a family business is confident that it is able to meet the requirements of their scheme, the calculated deficit can be high. We would support measures to explore changes to the way in which the potential future costs are represented. This particularly impacts on family firms which do not usually have the same access to capital markets as other ownership models.

As a result, family firms are forced into a position whereby they are required to find funds to ‘plug’ the calculated deficit. This approach to calculating deficits applies a considerable constraint on their ability to invest in increasing productivity, creating employment or moving into export. Firms are required to set aside funds which would otherwise be put towards investment in new machinery, research and development, products and service improvements, training and job creation. All this is sacrificed, whilst at the same time the system provides no practical benefit to the members of the pension schemes themselves.

We would support measures to explore changes to this system, to support businesses in their growth ambitions, and to ensure there are strong businesses in place to meet the pension commitments. In light of the ongoing impact of very low gilt yield it is essential that TPR takes a proactive approach to reviewing the conditions for calculating deficits, and acceptable recovery period lengths, to ensure that otherwise viable companies are able to continue to invest, grow, and create employment. As part of this we believe that the assessment of pension provision in family businesses should take into account the different business model of this type of firm. Family firms typically take long-term decisions and seek to provide stable continued ownership.

The Government and the pension regulators must work together to urgently address these issues and explore ways to introduce a level of flexibility to existing rules to ensure that long term family business sustainability is not threatened.

**Pension Protection Fund Levy**

The PPF Levy rating system transition from Dun and Bradstreet to Experian has raised particular issues for family businesses. The changes to factors and weightings have had significant impact on some family firms. The move away from factors such as age of business and information on Directors, to a focus on financial factors has arbitrarily skewed the results less favourably towards family firms.

Anecdotal evidence reported to the IFB has seen family businesses face large increases in their PPF Levy, some facing six figure increases. Family businesses are responsible and long term businesses, and their unique characteristics need to be understood and recognised in establishing levy contributions. It is therefore important that the new model is reviewed to ensure it is accurately reflecting the insolvency risk of businesses of all ownership types, sectors, sizes and age.

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