

**To All Members**

May 2004

Dear Member

**GN19: Retirement Benefit Schemes – Winding-up and Scheme Asset Deficiency**

**Introduction**

This Guidance Note sets out the way in which the actuary should determine the assets available to each priority liability class when an occupational pension scheme subject to the MFR requirements winds-up and how any debt due from an employer should be determined.

The Government has laid regulations that set out a replacement to the current statutory priority order. GN19: Retirement Benefit Schemes – Winding-up and Scheme Asset Deficiency is therefore being amended so that it references this new approach for the allocation of assets to priority liability classes that will apply to schemes that start to wind-up between 10 May 2004 and 5 April 2007.

**Detail**

In October 2003 the Government published its plans to replace the current priority order that must be followed when an occupational pension scheme subject to the MFR requirements winds-up. The concern was that on wind-up of an under-funded scheme of an insolvent employer, those members close to retirement could find that due to the way that the current ‘transitional’ statutory priority order works, they lose most of their pension entitlement. The broad effect of the draft regulations was to bring forward the ‘final’ statutory priority order (which remains due to come into force in April 2007), but in a modified form so that within the non-pensioner priority classes those with the greatest pensionable service would experience the least reduction in their benefits.

However, on 24 February 2004 the Secretary of State for Work and Pensions announced that the proposal to *“upgrade the rights of those deferred members with longer scheme memberships against those with shorter tenures”* would not be taken forward given that consultation had revealed its impracticability.

The Occupational Pension Schemes (Winding Up) (Amendment) Regulations 2004 (SI 2004/1140) reflect this revised policy intention and provide that schemes commencing winding-up between 10 May 2004 and 5 April 2007 be subject to separate requirements in relation to the apportionment of assets to priority liability classes to those schemes that commenced winding up before this date.

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To coincide with these new requirements the Pensions Board has revised *GN19: Retirement Benefit Schemes – Winding-up and Scheme Asset Deficiency*. Version 4.4 comes into effect on 10 May 2004 as a technical amendment.

The changes made ensure that the correct references to Section 73(3) of the Pensions Act 1995 continue to be made. In most cases no changes have been necessary as the regulations use the same references to the Act whether the scheme commenced winding up from 10 May 2004 or before this date.

Members are reminded that guidance must be read in conjunction with the relevant legislation and that they must always comply with the Professional Conduct Standards (PCS).

#### **Implications for transfer value reductions**

Trustees may have reduced transfer values in accordance with Regulation 8(4) of the Occupational Pension Scheme (Transfer Values) Regulations 1996 and section 5.2 of GN11 as a result of scheme under-funding. In some such cases, scheme actuaries may feel that the current reductions are no longer appropriate in light of the revised statutory priority order; if so, they should advise the trustees accordingly.

#### **Manual of Actuarial Practice**

Supplements to the Manual of Actuarial Practice are now only being sent to those members who previously requested in writing that this source be continued. If therefore you have requested a posted copy of Guidance Notes, the revised version 4.4 of GN19 will be attached to this letter as an A4 document.

GN19 will be found, from its effective date, on the profession's Website at:

<http://www.actuaries.org.uk/files/pdf/map/Contents.pdf>.

Before then, it can be found at: [http://www.actuaries.org.uk/link/board\\_area/pensions.html](http://www.actuaries.org.uk/link/board_area/pensions.html).

A copy of version 4.4 of GN19 that tracks the changes that have been made since version 4.3 can be found at: [http://www.actuaries.org.uk/link/pensions/pensions\\_gns\\_track.xml](http://www.actuaries.org.uk/link/pensions/pensions_gns_track.xml).

Yours sincerely

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Pensions Board

*Please reply to Institute, London*