

**TERMS OF REFERENCE
FOR REVIEW OF THE MINIMUM FUNDING REQUIREMENT****Underlying objectives:**

Benchmark funding level for salary related occupational pension schemes to protect members' accrued rights in the event of the sponsoring employer becoming insolvent.

Protection at a level to enable pensions in payment to continue in full (excluding future discretionary increases) and give non-pensioners a reasonable expectation of receiving benefits at a level that would have been paid if they had become deferred members and the scheme continued as an ongoing scheme.

"Reasonable expectation" means an "even chance" on transfer to an appropriate alternative pensions vehicle.

The benchmark funding level should be derived from an objective test which is independent of the circumstances of each scheme (except for gilt-matched schemes).

In most circumstances, meeting MFR should not require, in the long term, contributions which exceed the contributions produced by ongoing valuations for a scheme which is fully funded on the ongoing basis on reasonably prudent actuarial assumptions.

Analysis of existing valuation method against those objectives:

Consider the extent to which adjustments might be made to the existing valuation method (within the existing framework of primary legislation) so that it is better adapted to the objectives (e.g. whether it should also include assumptions about investment in overseas equities and property, and whether it takes proper account of capital growth).

Consider fundamental changes in approach which could achieve the underlying objectives and advise the DSS on these alternatives.

Other factors to take into account:

Variations in the valuation basis for schemes of different size/maturity and for insured schemes.

The effect of taking greater account of market values and capital growth compared with the greater reliance on long term rates of return (taking into account proposals from the Accounting Standards Board in relation to a more market based approach to accounting standards).

The desirability (or otherwise) of smoothing out volatility in outcomes and the means of achieving this.

Possible changes to the supporting structure of the MFR (e.g. the schedule of contributions and time limits for underfunded schemes).

Links between the MFR and minimum cash equivalent transfer values, deficiency calculation on wind-up/employer insolvency, solvency test for contracting-out, calculation of compensation.

Consideration of a central discontinuance fund/employer or scheme insurance/compensation with a levy.