

To All Members

September 2005

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 certain occupational pension schemes wind-up and how any debt due from an employer should be determined.

The Government has made regulations so that if an employer ceases to participate in a multi-employer defined benefit scheme, a full buyout debt arises for that employer unless a withdrawal arrangement, as described in the regulations, is put in place. GN19: Retirement Benefit Schemes – Winding-up and Scheme Asset Deficiency is therefore being amended so that it reflects this change.

Once again, the tight timescales involved in issuing these regulations has necessitated a minimal approach sufficient to ensure that the legislative references are appropriately updated. This enables actuaries to continue to ensure that any debt due from an employer that they certify has been obtained in accordance with GN19, as is required by legislation.

Detail

The Occupational Pension Schemes (Employer Debt etc.) (Amendment) Regulations 2005 (SI 2005/2224) changes, from the minimum funding requirement (MFR) to full buyout, the basis of the debt calculation on an employer's cessation of participation from a multi-employer scheme. However, these regulations allow the ceasing employer to apply to the Pensions Regulator for approval of a withdrawal arrangement in which case this debt will not be necessarily served. If a withdrawal arrangement is approved by the Pensions Regulator:

- the immediate debt on the employer will be determined on a "scheme funding basis" – referred to in the regulations as amount A; and
- the balance of the full buyout debt (referred to in the regulations as amount B) will be guaranteed by those who are guarantors under the withdrawal arrangement. There will be two possible ways of determining amount B – a default and an alternative which must be specified in the withdrawal arrangement.

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The regulations set amount A on the MFR basis. We understand that from some future date the basis of this measurement will be switched to the debt that would arise under the scheme funding provisions of the Pensions Act 2004, at which point GN19 may need further revision.

To coincide with these new requirements the Pensions Board has revised *GN19: Retirement Benefit Schemes – Winding-up and Scheme Asset Deficiency*. Version 4.7 comes into effect on 02 September 2005 as a technical amendment.

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).

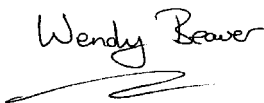
Manual of Actuarial Practice

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 4.7 of GN19 will be attached to this letter as an A4 document.

GN19 can be found on the profession's website from its effective date at <http://www.actuaries.org.uk/files/pdf/map/Contents.pdf>.

A copy of version 4.7 of GN19 that tracks the changes that have been made since version 4.6 can be found at: http://www.actuaries.org.uk/link/pensions/pensions_gns_track.xml.

Yours sincerely



Wendy M Beaver
Chairman, Pensions Board

Please reply to Staple Inn