

GN9 : Funding Defined Benefits – Presentation of Actuarial Advice

Classification

Practice standard

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES

Purpose

The main purpose of this Guidance Note is to ensure that actuarial advice on the funding of defined benefits is presented with sufficient information to enable the recipient of the advice to understand the expected future course of a scheme's contribution rates and of its solvency level. The guidance does not in itself seek to restrict the choice of funding method and assumptions, but seeks to ensure that sufficient explanation is given of the methods and assumptions being proposed or used, including the associated risks and other implications for solvency and contribution rates. The guidance covers the presentation of all advice in relation to funding, including (but not restricted to) the report that follows a formal valuation.

The guidance is, in particular, applicable to an actuary's role under Part 3 of the Pensions Act 2004, where it must be considered in conjunction with GN49. However, its application is not restricted to this role.

Application

Any actuary carrying out responsibilities in connection with Part 3 of the Pensions Act 2004, encompassing:

- (i) the giving of advice in relation to the matters covered by GN49, or
- (ii) the preparation of actuarial valuations under section 224 of that Act.

In accordance with paragraphs 1.1 and 1.4 of this Guidance Note, it also applies to any actuary responsible for presenting any actuarial advice relating to funding defined benefits where the advice is:

- a) based on actuarial methods and assumptions that are not prescribed by legislation or regulating bodies, and
- b) where the advice is being provided
 - when a scheme is initially established, or

- in order to satisfy legal requirements, including those imposed by the scheme's governing documents, or
- because funding advice is for any other reason requested by the client.

This Guidance Note applies to defined contribution schemes to the extent set out in paragraphs 1.2 and 1.3.

This Guidance Note does not apply to calculations of pension expense or directors' remuneration disclosures for employers' accounts.

This Guidance Note does not apply to valuations (relating to the Pension Protection Fund) carried out for the purposes of sections 143 or 179 of the Pensions Act 2004.

Version 7.0 may be followed for valuations with effective dates before 22 September 2005, or for other advice that relates to such valuations. Version 7.0 may also be used for and in relation to valuations with effective dates between 22 September 2005 and 29 December 2005 where the advice does not fall under Part 3 of the Pensions Act 2004. If version 7.0 is used, this must be indicated in the advice.

Legislation or Authority

Pensions Act 2004 (*'the Act'*), Part 3.

The Occupational Pension Schemes (Scheme Funding) Regulations 2005, SI 2005/3377. (*'the Funding Regulations'*)

The Occupational Pension Schemes (Disclosure of Information) Regulations 1996, SI 1996/1655. (*'the Disclosure Regulations'*)

The Pensions Regulator's Code of Practice – 'Funding defined benefits' dated December 2005 (*'the Code of Practice'*)

Northern Ireland has its own body of law relating to pensions and to family law. In relation to Northern Ireland, references to the Great Britain legislation contained in this Guidance Note should be read as including references to the corresponding Northern Ireland legislation. The Northern Ireland Regulations corresponding to the Great Britain Regulations are included in Appendix 1.

Use of words

In addition to the abbreviations indicated under 'Legislation or Authority' above, in this Guidance Note:

- the word 'trustees' must be taken to include the 'managers' of a scheme as defined in section 318(1) of the Act;

- references to contributions and contribution rates are not intended to constrain the way future contributions are described;
- *statutory estimate of solvency* means the actuary's estimate of solvency required under Regulation 7(4)(b) of *the Funding Regulations*, but otherwise the word 'solvency' need not be interpreted as *statutory estimate of solvency*.

Author

Pensions Board.

Status

Approved under Due Process. Adopted by the Board for Actuarial Standards on 19 May 2006.

Version	Effective from
1.0	01.04.84
2.0	01.04.87
3.0	01.04.88
3.1	01.09.90
4.0	29.09.92
5.0	01.03.93
5.1	01.06.94
6.0	01.08.97
7.0	20.03.04
8.0	30.12.05 to midnight on 18.05.06

from which time it ceased to operate (and cannot, with effect from that time, be relied upon) as guidance issued by the Profession. Members needing to comply with professional standards on matters covered by this Guidance Note should in future consult the standards published by the Board for Actuarial Standards.

1 Introduction

- 1.1 Except where a word is used as indicated in the 'Use of words' section or in paragraph 3.1.1, the terminology used in this Guidance Note (including the headings of the sections) is based on Part 3 of *the Act*. However, the guidance applies more generally to funding advice (outside the scope of Part 3 of *the Act*) as set out in the Application section above, and the Guidance Note must be interpreted accordingly.
- 1.2 This Guidance Note does not generally apply to defined contribution schemes. However, it should be applied to such schemes (including

- defined contribution small self-administered schemes) if the advice given is on the contributions required to meet a particular level of benefit (other than lump sum death benefits), with the phrase ‘target benefits’ being substituted for ‘liabilities’ where appropriate.
- 1.3 The principles of this Guidance Note must be applied to advice on the benefit levels in a scheme with fixed contribution rates, where the benefit levels are set periodically rather than being based on individual account values.
 - 1.4 The actuary may need to update a piece of funding advice, for example to allow for benefit augmentations or other benefit changes or to take account of recent experience that differs from the actuarial assumptions. If the trustees’ statement of funding principles under section 223 of *the Act* has not been changed in the meantime, it is not necessary for such advice to comply with this Guidance Note, provided that the actuary makes reference to the earlier piece of advice, confirms that the new advice is consistent with that earlier advice, and explains any change in valuation assumptions necessary to maintain consistency. However, where the statement of funding principles has been changed (except in relation to a matter which in the actuary’s opinion has no material impact on funding advice), the update to the advice should normally comply with this Guidance Note. (In this paragraph ‘to comply with this Guidance Note’ means that the update of the advice would meet all the requirements of this Guidance Note that would apply to the original piece of advice that is being updated.)
 - 1.5 This Guidance Note continues to apply until a scheme is finally wound up. This includes during any assessment period in relation to the Pension Protection Fund. In circumstances where the employer no longer has any obligation to contribute to the scheme, some parts of the Guidance Note will not be applicable (see 1.6).
 - 1.6 If, in the circumstances of a particular piece of advice, compliance with any part of this Guidance Note would clearly be inappropriate, then the actuary need not comply with that part. Where the advice is given in conjunction with Part 3 of *the Act* a complete explanation of all departures from the Guidance Note must be given. In the case of other funding advice falling under the Guidance Note, a complete explanation of such departures should normally be given; an example of where such an explanation need not be given is in relation to the certification in paragraph 3.4.16, because the underlying legislative requirement does not apply to a valuation outside Part 3 of *the Act*.
 - 1.7 Although any piece of advice will be addressed to the actuary's client the actuary needs to bear in mind that the client may wish to make it available

to third parties. Any limitations on the extent to which third parties can rely on the advice must be set out in the advice.

- 1.8 This Guidance Note applies to work carried out in a jurisdiction outside the UK only to the extent required by paragraph 1.10 of the PCS.

2 Advice under Part 3 of *the Act*: General

- 2.1 The actuary must encourage the trustees to seek advice on funding principles, including the determination of the technical provisions, sufficiently early in the process of completing each actuarial valuation under section 224 of *the Act*. The actuary may wish to draw the attention of the trustees to relevant paragraphs of *the Code of Practice*, including the paragraphs concerning an ‘action plan’. The actuary must do all he or she reasonably can to ensure that the advice in 2.3 to 2.7 is given to the trustees early enough in the process for them adequately to take it into account in their final decisions on scheme funding.
- 2.2 Where, whether under a specific provision in the scheme rules or otherwise, the actuary’s role goes beyond advising the trustees on the methods, assumptions, contributions or any other matters relating to the funding of the scheme, and he or she makes recommendations on such matters or determines them, the actuary must make clear those parts of his or her advice that constitute such recommendations or determinations.
- 2.3 When advising the trustees in relation to the statutory funding objective, the actuary must indicate the overall solvency level that would correspond to the objective being exactly met. Any reasonable recent effective date may be used for this comparison. The actuary must also advise the trustees of the implications of the proposed policy for meeting the statutory funding objective for the evolution of scheme solvency over at least the next three years. This advice must include some reference to potentially different implications for different priority classes and should normally be along the lines set out in 3.5.15 below.
- 2.4 When advising the trustees in relation to the statutory funding objective, the actuary must consider whether or not there would be likely to be sufficient assets, if the objective were exactly met, for the scheme to be able to pay unreduced transfer values for all members. If in his or her opinion there is a significant likelihood that the assets would be insufficient to pay unreduced transfer values even when the statutory funding objective is met, he or she must advise the trustees accordingly.
- 2.5 When advising the trustees in relation to the statutory funding objective, the actuary must advise the trustees on the potential impact on the scheme

of the risks associated with any proposed policy for meeting the objective. This must include the impact on the solvency position of the scheme, the stability of future contribution rates and the scope for paying any discretionary benefits or granting other enhancements. The level of comment in relation to each risk must be commensurate with the actuary's view of the significance of that risk in relation to the scheme. Detailed figures are not a requirement, but a passing comment will not be sufficient in relation to any risks where the actuary considers that the impact of the risk on the scheme could be material. The following risks must be commented on, together with any other risks that the actuary considers to have a potentially material impact in the context of the individual scheme:

- 2.5.1 the risk that the scheme sponsor may not be able to continue to pay contributions or make good deficits in the future;
- 2.5.2 the risk that the future investment return on assets will be insufficient to meet the funding objective;
- 2.5.3 the risk that falls in asset values will not be matched by similar falls in the values of liabilities, thereby reducing the funding and/or solvency levels of the scheme;
- 2.5.4 the risk that unanticipated future changes in mortality will increase the cost of the benefits;
- 2.5.5 the risk associated with the potential exercise (by members or others) of options against the scheme.
- 2.6 Where the actuary is advising the trustees on another funding objective, additional to the statutory funding objective required under section 222 of *the Act*, he or she must give advice on that additional funding objective in line with 2.3 to 2.5 above. He or she must also advise the trustees on the impact of the additional objective on the statutory objective.
- 2.7 If the actuary considers that the trustees have not specified their funding principles with sufficient clarity that two actuaries could be expected to produce valuation results based on these principles which in the actuary's opinion are not materially different, the actuary must consider whether or not to request that the trustees clarify the principles accordingly. (This need not necessarily require that the trustees' statement of funding principles under section 223 of *the Act* is clarified or expanded.) If the actuary decides to produce further funding advice prior to having the principles clarified in this way, he or she must advise the trustees what assumptions he or she has had to make and request the trustees' confirmation (or otherwise) that they want to adopt these assumptions.

3 The actuarial valuation under section 224 of *the Act*

3.1 Introduction

- 3.1.1 In section 3 of this Guidance Note, the word ‘report’ is used to describe the document containing the results of the actuarial valuation and must not be confused with an ‘actuarial report’ as specifically defined by section 224(2)(c) of *the Act*.
- 3.1.2 The items in 3.2 to 3.5 below, except where otherwise indicated, are normally (see 1.6) essential components of a report. Suitable explanations of other features may also be very important and therefore additional information may often be desirable.
- 3.1.3 In section 3 of this Guidance Note references to the previous or preceding valuation or report mean the previous or preceding valuation or report of a similar nature, whether carried out by the actuary or another actuary. For this purpose, valuations produced under section 224 of the Pensions Act 2004 must be considered to be of a similar nature to those produced under section 41 of the Pensions Act 1995.
- 3.1.4 The actuary must confirm whether the report has been prepared in accordance with GN9 current at the date the report is signed. Should a preliminary report be issued not including all the components otherwise required by this Guidance Note, in the expectation that a further and full report will subsequently be made, it must be made clear in the preliminary report that it does not conform to GN9 but that the further report will do so.
- 3.1.5 The report is likely to include figures on various different bases, to comply with sections 3.4 and 3.5 of this Guidance Note and potentially also to cover other calculations such as valuations on a basis specified by the Board of the Pension Protection Fund. The report must identify the different purposes of the different sets of calculations.

3.2 Basic Information

- 3.2.1 The report must make it clear to whom it is addressed, by specifying the client. The report must state the purpose for which the valuation is made and the dates as at which the current valuation and, if applicable, the immediately preceding valuation were conducted. The report must also name the actuary who carried out the previous valuation.
- 3.2.2 The report must also refer to any applicable sections of the legal documentation of a scheme and legislative provisions under which the valuation is being made.

- 3.2.3 The report must include a statement of the benefits that have been valued. This may be a summary of the terms of the scheme or a reference to appropriate documents. Reference must be made to the extent to which allowance has been made for discretionary increases in benefit (and the recent practice in granting such increases) or discretionary benefits. If, having first considered any relevant constraints imposed by legislation, the actuary has excluded from the report assets and corresponding liabilities in respect of certain benefits, such as AVCs and pensions secured by annuities, the report must note these exclusions.
- 3.2.4 Where there is any doubt about the benefit basis, the actuary must consider seeking instructions from the trustees and must make clear the assumption made.
- 3.2.5 The report must include a summary of the membership and financial data on which the investigation is based, including a description of the assets. The report must state that the actuary has relied on the accuracy of the information provided by the trustees. The actuary must take reasonable steps to satisfy himself or herself that the data provided is of adequate quality for the purpose of the valuation. If the actuary has any reason to doubt that the data is sufficiently reliable, the report must be qualified appropriately.
- 3.2.6 A valuation should not normally be undertaken in the absence of audited accounts as at the date of the valuation. If, exceptionally (and where legislative requirements allow), the valuation has been undertaken without audited accounts, this fact must be stated.
- 3.2.7 Reference must also be made to any insurance arrangements in place to provide any of the benefits of the scheme. This includes group life assurance held by the trustees.
- 3.2.8 In the case of a scheme where benefits are no longer accruing, there must be a statement of when benefits ceased to accrue. In the case of a scheme where winding-up has commenced, the effective date of the start of the wind-up and the crystallisation date (where known) (see Regulation 4 of the Occupational Pension Schemes (Winding Up) Regulations 1996) must be stated.

3.3 **Inter-valuation Period**

- 3.3.1 The report must include a statement of the rates or amounts of contribution paid during the inter-valuation period; and also those recommended, agreed to or otherwise set out in the previous report and, where in the actuary's opinion the amounts involved are material, in any subsequent advice. The report must also include a commentary on any material developments affecting the scheme during that period, and on any

significant variations in experience from the assumptions made at the previous valuation.

3.4 **Funding**

- 3.4.1 In relation to the requirements in 3.4.2, 3.4.5, 3.4.6 and 3.4.7 below for information on the funding objectives, assumptions and funding method, it is not sufficient for the report merely to refer to the statement of funding principles prepared under section 223 of *the Act* unless the statement is included as part of the valuation report.
- 3.4.2 The report must state the funding objectives adopted by the trustees. The report must note any changes in the funding objectives since the previous report.
- 3.4.3 The implications of the funding objectives for the stability of contribution rates must be explained.
- 3.4.4 Where the scheme has more than one funding objective, comment must be made on the differences between the objectives and care must be taken to ensure that the results of calculations (both in section 3.4 and section 3.5) with different objectives are clearly identified.
- 3.4.5 The report must contain a summary of the demographic assumptions and economic assumptions made, explicitly or implicitly, in valuing both the liabilities and the assets. The summary must include assumptions such as the exercise of options by the members (where the actuary considers these to be material), for example the option for members to take transfer values (where the basis for determining these transfer values would or might affect the funding and/or solvency of the scheme). A statement must be made as to the extent to which there have been changes to the assumptions used since the previous report.
- 3.4.6 The report must explain the funding method employed, including whether and in what way future entrants have been taken into account in the valuation. A note must be made of any changes to the method set out in the previous report.
- 3.4.7 The description of the funding method in 3.4.6 above must, when taken with the assumptions summarised in 3.4.5, be sufficiently detailed that there is no unspecified assumption or element of the method which, taken on its own, could reasonably result in a different actuary producing valuation results which the original actuary considers to be materially different from the results in the report. The actuary must also seek to avoid the possibility that a combination of unspecified assumptions or other elements which are not material in themselves could, if taken together, reasonably lead to a material difference in the valuation results.

- 3.4.8 The report must draw attention to those assumptions to which the valuation results are particularly sensitive. The actuary must describe or illustrate how the results of section 3.4 will differ if these assumptions are not borne out so that the reader may understand the sensitivity of the results to the assumptions chosen. This analysis must include the susceptibility of the results to variations in future mortality experience compared with that assumed.
- 3.4.9 The report must comment on the compatibility of the basis of valuing the assets (including that used for valuing insurance contracts, for which attention is also drawn to Regulation 7(3) of *the Funding Regulations*) with that of valuing the liabilities. If the actuary is unable to confirm that these bases are compatible, an explanation must be given as to why the valuation is being produced with assets and liabilities valued on bases that he or she considers to be incompatible.
- 3.4.10 The report must comment on the sensitivity of the funding of the scheme to future investment market changes. Such comments must have particular regard to the relationship between the assets held and the form and incidence of the liabilities. Attention must also be drawn to specific investment-related risks that the actuary considers relevant, in particular mismatching, concentration of assets, and self-investment. The actuary is not required to give investment advice.
- 3.4.11 Where the funding objectives set out in 3.4.2 include a target funding level, the report must state the position of the scheme relative to that target funding level and include a reconciliation of the actuarial surplus or funding level on the basis being used for the current valuation with the position disclosed by the previous valuation. The description must be sufficient to identify the relative significance of the items of actuarial gain or loss which the actuary considers to be material, including changes in the valuation method and the valuation assumptions. The report should normally include some quantification of these items.
- 3.4.12 Where the funding objectives set out in 3.4.2 allow the separate identification of future service contributions and a past service surplus or deficit, the report must set out the future service contributions resulting from the funding objectives, method and assumptions for the period until the next formal actuarial valuation. Wherever possible, the report must also set out the adjustment to the future service contributions to take account of the past service surplus or deficit for the period until the next formal actuarial valuation. Where it is not possible to do this, because the rates payable are dependent on a recovery plan (or other aspect of the funding strategy) that has yet to be agreed or otherwise decided, the actuary must give as much information in the report on these contributions as is reasonably possible based on the funding principles already set, and make clear (where applicable) that the contribution rates will be decided

- and recorded in a schedule of contributions and/or recovery plan, indicating any legislative deadline or other timescale within which this must happen.
- 3.4.13 If the funding objectives set out in 3.4.2 do not allow the separate identification of future service contributions and a past service surplus or deficit, the principles of 3.4.12 above must be followed in relation to the overall contributions for the period until the next formal actuarial valuation.
- 3.4.14 Subject to 3.4.12 or 3.4.13 above, the level of detail in the report must be sufficient, in the normal course of events, to determine unambiguously the contributions payable without further reference to the actuary. In particular the following must be considered:
- 3.4.14.1 whether AVCs are excluded from the member contribution rate,
- 3.4.14.2 whether premiums for death benefit or other insurance are payable in addition to the contribution rate,
- 3.4.14.3 whether expense payments are payable in addition to the contribution rate,
- 3.4.14.4 whether levies (including any payable in respect of the Pension Protection Fund) are payable in addition to the contribution rate,
- 3.4.14.5 the definition of pensionable payroll,
- 3.4.14.6 the timing and frequency of contributions, and
- 3.4.14.7 the effective dates of any changes to the contribution rate including changes effective from the valuation date.
- 3.4.15 Again following the principles of 3.4.12 or 3.4.13 above, the report must set out the future contributions that on the stated assumptions will be required to meet the funding objectives over the longer term (i.e. beyond the next formal actuarial valuation). If the funding objectives or the policy for meeting them are not sufficiently well-defined for these longer-term rates to be determined without the actuary making further assumptions about the objectives, the actuary must draw attention to this fact and indicate the further assumptions he or she has made in order to derive these rates.
- 3.4.16 For valuations under Part 3 of *the Act*, the report must include the actuary's certification of the calculation of the technical provisions in the form set out in *the Funding Regulations*. The actuary must separately ensure that the report makes clear (except where this is not the case) that

the technical provisions are not the same as the cost of securing the benefits on a wind-up.

3.5 Solvency

3.5.1 The report must provide an estimate of the proportion of the accrued rights and entitlements that would have been covered by the assets of the scheme at the valuation date. Subject to 3.5.2, this estimate must be on the basis set out in 3.5.5 to 3.5.12 below.

3.5.2 For a valuation falling under section 224 of *the Act*, the report must contain the actuary's *statutory estimate of solvency*. If the actuary's estimate for this purpose is different from an estimate in accordance with 3.5.5 to 3.5.12, the actuary may for the purposes of 3.5.1 above use (instead of the basis in 3.5.5 to 3.5.12) the basis underlying the *statutory estimate of solvency*. But if in the actuary's opinion the basis used for the *statutory estimate of solvency* produces disclosures under section 3.5 that are materially different from those that would have been produced using a basis in accordance with 3.5.5 to 3.5.12, he or she must draw attention to this fact and comment in broad terms on the difference.

3.5.3 Where the estimated proportion in 3.5.1 is less than 100%, the actuary must quantify approximately (on this basis) the impact of the applicable priority order on different categories of benefit, had the scheme been wound up on the valuation date, except that if the priority order has changed since the effective date of the valuation and it is known at the date calculations are made that a different order would apply if the scheme were then to go into wind-up the revised priority order applicable at the date the calculations are made may be used instead. If the priority order has changed since the effective date of the report but the order as at the effective date is being used, then the actuary must draw attention to the change and describe in broad terms its impact on the results of the calculations under section 3.5.

3.5.4 The actuary must also state what the overall solvency level of the scheme quoted in 3.5.1 above would have been if the statutory funding objective had been exactly met on the valuation date.

3.5.5 For the purpose of the estimate under 3.5.1, the assets of the scheme must be taken at not more than market value, and the accrued rights and entitlements valued as described in 3.5.6 to 3.5.12 below.

3.5.6 If the cost of buying out the benefits at the valuation date with a suitable insurance company is available, the actuary may use the buy-out cost as the value of the accrued rights and entitlements.

- 3.5.7 Where actual buy-out cost is not used, the actuary must use those principles likely to be adopted by insurance companies for determining buy-out costs. These principles must be used irrespective of whether there is adequate market capacity available at the valuation date.
- 3.5.8 One way of estimating a cost under 3.5.7 is by using parameters provided by an insurance company as a proxy for the buy-out cost, to the extent that the actuary considers this appropriate to the circumstances of the scheme.
- 3.5.9 An alternative way of estimating a cost under 3.5.7 is by the actuary using the principles in 3.5.9.1 to 3.5.9.3 below:
- 3.5.9.1 Benefit payments must be projected including an appropriate margin for mortality improvement. The actuary must consider to what extent the mortality assumptions should reflect any available information about variations arising from annuity size, occupation, regional factors, duration and the mortality experience of the pension scheme.
- 3.5.9.2 The actuary must take account of the market terms of financial instruments of the investment quality that insurance companies would be expected to invest in to obtain as close a match as possible to the accrued rights and entitlements.
- 3.5.9.3 The actuary must include in the valuation of accrued rights and entitlements appropriate margins for the risk that the benefits will not be met by the investments that an insurance company would be expected to hold and must also allow for the risks arising from the extent to which it will not be possible for the accrued rights and entitlements to be matched precisely. In all cases, the additional allowances must be positive.
- 3.5.10 Where the actuary is using the principles in 3.5.9.1 to 3.5.9.3 but considers that detailed analysis of the risk allowances (as described in 3.5.9.3 above) is not appropriate, it would be acceptable to determine the discount rate as the redemption yield on appropriate gilt-edged securities less at least 0.5% per annum. However, in this case, the actuary must not automatically assume that 0.5% is the appropriate deduction to use. In particular, the actuary must consider the extent to which the deduction from the gilt yield should be adjusted to reflect the term (i.e. duration) of the liabilities and also whether the liabilities have zero, fixed or indexed increases. A higher deduction than 0.5% per annum from the gilt yield is likely to be appropriate where the liabilities are predominantly in respect of deferred pensioners.
- 3.5.11 Subject to 3.5.11.1 and 3.5.11.2 below, the actuary must explain the method used for the purposes of 3.5.1 and disclose each assumption that he or she considers material to the final result.

- 3.5.11.1 If the actuary has used the principles in 3.5.9.1 to 3.5.9.3, the information given under 3.5.11 must in particular include a disclosure of which risks have been allowed for under 3.5.9.3 and an explanation of the allowances made.
- 3.5.11.2 If the actuary has used an actual buyout cost under 3.5.1 or estimated the cost using the approach in 3.5.8, he or she need not disclose under 3.5.11 any specific parameters which the insurance company has given on a confidential basis. However, the actuary must still describe any of his or her own assumptions that he or she has added.
- 3.5.12 Whichever approach is being used to value the accrued rights and entitlements for the estimate under 3.5.1, the actuary must include a realistic allowance for the expenses of wind-up that would not be included in the buy-out cost. This allowance for expenses must be disclosed.
- 3.5.13 Whichever approach has been used to value the accrued rights and entitlements for the estimate under 3.5.1, the report must note that the estimate is a guide, that market changes both in interest rates and in demand and supply for this type of business mean that no one estimate can be relied on, and that ultimately, the actual true position can only be established by completing a buy-out. (The exception to this is where the benefits are being bought out and the figures are based on a guaranteed quotation.)
- 3.5.14 Where the previous valuation contained an estimate of solvency, the actuary must include the figures from the previous valuation in the report and give an explanation of the difference between the surplus or deficit on the solvency basis at this valuation and that at the previous valuation.
- 3.5.15 The actuary must comment on the effect that the contributions referred to in 3.4.12 or 3.4.13 are expected to have on the proportion of accrued rights and entitlements in each priority class (as referred to in 3.5.3) that will be covered by the assets. This analysis must cover at least the three years following the valuation date and must in particular include an estimate of the coverage at the next valuation. The degree of detail and the extent to which the effects are quantified are for the actuary to judge, in accordance with his or her view as to the materiality of this information to the trustees' understanding of the risks to members' wind-up benefits associated with the expected pattern of contributions. The actuary must also comment where he or she considers it likely that the coverage for any priority class will vary materially during the period between this valuation and the next. The actuary must state the assumptions used in making the assessments in this paragraph.
- 3.5.16 If the contributions in 3.4.12 or 3.4.13 are not expected at least to maintain the solvency coverage for all members, this fact must be explicitly and

prominently stated in the report. Where contributions in 3.4.12 or 3.4.13 are not yet able to be fully determined, and there is any possibility that the contributions subsequently determined will not be expected at least to maintain the solvency coverage for all members, then this fact must be explicitly and prominently stated in the report.

- 3.5.17 In the case of a scheme eligible (as defined by section 126 of *the Act*) for the Pension Protection Fund, the actuary must include in the report a statement (based on the position at the valuation effective date) as to whether or not the Board of the Pension Protection Fund would have been likely to have been required to assume responsibility for the scheme if an insolvency event had occurred (and no employer debt payment were recovered), and a comment of the broad implications for the benefits that would have been received by the members of the scheme.

4 The recovery plan and schedule of contributions (sections 226 and 227 of *the Act*)

- 4.1 Where the actuary's advice to the trustees, in connection with any recovery plan required or with a schedule of contributions, is issued separately from a valuation report under section 224 of *the Act*, the advice must refer to the relevant valuation report and/or other relevant funding advice. The advice must include any of the information that was omitted (either in whole or in part) from the last valuation report because it could not be determined at that time; in particular, this includes information under paragraphs 3.4.12 to 3.4.15 and 3.5.15 to 3.5.16. If in the actuary's opinion the proposed or actual recovery plan or schedule of contributions would result in any material changes to any of the information given in the last valuation report, the actuary's advice in connection with the recovery plan or schedule of contributions must detail these changes. The actuary must point out to the trustees that any advice in connection with the recovery plan or schedule of contributions that fills in gaps or supersedes information in a valuation report will not generally be available as of right to members and others under *the Disclosure Regulations*, and must ask the trustees to consider whether in the circumstances they should make it available alongside the relevant valuation report and/or the recovery plan or schedule of contributions itself.
- 4.2 The actuary must make clear the assumptions made in drawing up a recovery plan. Where assumptions have been made for the recovery plan that are additional to, or different from, those underlying the actuarial valuation or other advice given, then advice on the sensitivity of the results to these assumptions (analogous to that in paragraph 3.4.8) must be given with the recovery plan.

Appendix 1:

Northern Ireland Legislation

GB Provision

Pensions Act 2004 (c.35) – Part 3

Sections 222, 223, 224, 226 and 227

Occupational Pension Schemes
(Scheme Funding) Regulations 2005
SI 2005/3377

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