

December 2002

To All Members

Dear Member

GN27: Retirement Benefit Schemes – Minimum Funding Requirement

Introduction

This Guidance Note sets out the way in which actuarial calculations are performed for the purpose of the Minimum Funding Requirement (MFR) and allied measures under the Pensions Act 1995.

On 25 February 2002 my predecessor as chairman of the Pensions Board wrote to all members about certain changes to GN27. These followed amendments to the regulations that set the framework for MFR calculations, and the Government's decision to reduce the central dividend yield used to determine Market Value Adjustments for equities in MFR calculations.

I am now writing to inform you about a number of minor changes that have been made to GN27 and which have been agreed by the Government. These changes were recommended by the actuarial profession to the Government to clarify certain aspects of MFR calculations in the light of the changes made to regulations earlier this year.

This revised version of GN27 - version 2.1 - will come into effect on 13 January 2003.

Detail

a) Annual certification

To ensure that the MFR is being met by schemes between valuations, trustees must obtain periodic certificates signed by the actuary. Since 19 March 2002, this requirement has applied only to schemes that did not meet the MFR at either:

- their most recent effective date; or
- the date seven days before the date of the initial certification of the schedule of contributions – referred to in GN27 as the calculation date.

The wording of the amended regulations leaves scope for different interpretations of the latter condition – in particular it could be read as requiring the actuary to carry out detailed calculations to test whether the MFR was met at the calculation date. Accordingly, we have obtained the Government's agreement to amend GN27 to clarify this matter.

Paragraph 4.1 of GN27 has been amended to make clear that the latter condition is met where the *estimated* MFR position at the calculation date (determined in accordance with the methodology set out in paragraph 4.6 of GN27) reveals a shortfall. This paragraph has also been amended to clarify that this estimated position at the calculation date is used to determine whether the schedule period is either five or ten years.

A reference to the Professional Conduct Standards (PCS) has been added. This is a reminder to members that the PCS applies to work covered by all Guidance Notes.

b) Gilts matching policy

Section 4 of GN27 makes reference in two paragraphs to the impact of gilts matching on the calculations necessary to certify a schedule of contributions. These can be found at paragraphs 4.4 and 4.5.3.3.

These paragraphs were modified earlier this year since the previous wording could be read as being inconsistent with the legislation. In the earlier version of GN27, gilts matching had to be applied to all scheme members before the gilt-based calculation for the schedule of contributions applied. However, the amendments made have introduced an inconsistency for those few schemes that have active members but have declared a gilts matching policy for deferred pensioners and pensioners.

Given this the type of scheme affected in both paragraphs has been qualified to apply to those where there are no active members. This will then reflect the original intention which was to apply equally to those schemes where the former active members retained a salary link in relation to past service and the more common case where they were entitled to deferred pensions.

Supplements to the Manual of Actuarial Practice are now only being sent to those members who have previously requested them in writing. If therefore you have requested a posted copy of Guidance Notes, the revised Version 2.1 of GN27 will be attached to this letter as an A4 document. From the effective date it can be found on the profession's website at <http://www.actuaries.org.uk/map/Contents.pdf>

Before then it can be found at http://www.actuaries.org.uk/pensions/latest_news.html

A copy of Version 2.1 of GN27 that tracks the changes which have been made since Version 2.0 can be found at http://www.actuaries.org.uk/pensions/pensions_gns_track.html

Yours sincerely

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Chairman
Pensions Board