

How to do a S143 valuation

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Pension Protection Fund NEWS

Issue 2 January 2007

Pension
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Fund

URB



Pension Protection Fund makes first compensation payments

The 1st December 2006 was a landmark date for the United Kingdom pensions industry: the Pension Protection Fund made its first direct compensation payments. Members of threatened schemes were the first to benefit, thereby helping restore confidence in defined benefit pensions among pensioners themselves, the people we are here to protect.

S143 Valuation

- Guidance
- Data/Benefits/Compensation
- Assumptions
- Assets
- Report
- Member Communications



Guidance

- Guidance for undertaking a valuation in accordance with Section 143 of the Pensions Act 2004
 - Version H2, September 2006
 - Lot more detail contained in latest S179 guidance (together with notes where S143 valuations differ)
- Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act 2004
 - Version, B2, September 2006
- Schedule 7:
 - Details of PPF compensation
 - http://www.pensionprotectionfund.gov.uk/financial_management_-_appendix.pdf

Data

- S179 and S143 valuations now very similar
- Need to identify category of member:
 - Non-pensioner
 - Pensioner
 - Ill-health pensioner
 - Dependant
- Key info
 - Pension split pre/post 97
 - NPA

Data/Benefits/Compensation

| Benefits | S143 | S179 |
|--------------------|---|--|
| Data | Accurate | Some approximations allowed, so that "value of protected liabilities is unlikely to have been understated" |
| Normal Pension Age | the earliest age at which the pension or lump sum becomes payable without actuarial adjustment - "tranche" benefits where required | Per S143 |
| Commutation | Non-Pensioners •No allowance Pensioners under NPA •Allow for any cash lump sums taken | Per S143 Can ignore. |

Assumptions

| Provision | S143 | S179 |
|-----------|---|--------------------|
| Mortality | <p>Applies both pre and post retirement. PMA92 and PFA92 with medium cohort improvement factors.</p> <p>Age Rating Factors:</p> <ul style="list-style-type: none"> ▪ Pension < 25% of Cap: +2yrs ▪ 25% < Pension < 50% of Cap: nil ▪ Pension > 50% of Cap: -2yrs <p>Where: Pension = includes revaluation to relevant time plus pension equivalent of any lump sum benefit (for non-pensioners); and Cap = compensation cap at age 65</p> | No rating factors. |

PPF has adopted "More prudent mortality assumptions"

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Assumptions

| Provision | S143 | S179 |
|--------------------|--|----------|
| Proportion Married | <p>Depends on survivor provision of scheme</p> <ul style="list-style-type: none"> ▪ "relevant partners": 90% (m)/ 80% (f) at NPA ▪ "legal spouses": 80% (m)/ 70% (f) at NPA <p>Consistent assumption should be made for earlier ages.</p> | Per S143 |
| Age Difference | Females 3 years younger than males | Per S143 |

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Assumptions

| Provision | S143 | S179 |
|-----------|---|----------|
| Expenses | <p>Estimated wind-up expenses</p> <ul style="list-style-type: none"> ▪ 3% of first £50m of liabilities; plus ▪ 2% of liabilities between £50m and £100m; plus ▪ 1% of liabilities in excess of £100m <p>Benefit Installation/payment</p> <p>Non-Pensioner</p> <ul style="list-style-type: none"> ▪ £500 per member <p>Pensioners</p> <ul style="list-style-type: none"> ▪ Under age 60: £450 per member ▪ Aged 60 - 70: £400 per member ▪ Aged 70 - 80: £300 per member ▪ Aged 80+: £250 per member | Per S143 |

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Assets

- Must use audited accounts for period ending on day before assessment period started.
- Can change “normal” accounting date to avoid additional costs; or
- Prepare set of “special purpose accounts”

Assets

- Obtaining investment manager valuations:
 - If difficult, trustees advised to take advice from auditor/actuary
 - How significant?
- PPF will direct allowance to be made for any recovery from Company assets, CNs, FSDs or restoration order

Valuation Report

- Effective date:
 - Relevant time (start of PPF assessment period)
- Prepared by:
 - Person appointed by PPF
- Content:
 - Just follow the guidance ...
 - But expect PPF to request initial draft ...

CERTIFICATE FOR THE PURPOSES OF SECTION 143 OF THE PENSIONS ACT 2004

Scheme name: XYZ
Relevant date: 16 June 2005
End of period covered by relevant accounts: 31 March 2005

| | |
|--|-----------|
| Protected liabilities | E'000 |
| a Liabilities for and in respect of members, including expenses of payment | 1,810 |
| b Liabilities other than for and in respect of members | 0 |
| c Estimated cost of winding-up | <u>54</u> |
| Total | 1,864 |
| Assets | 1,393 |
| Funding level in accordance with section 143 of the Pensions Act 2004 | 75% |

I certify the protected liabilities (a) and (c) have been determined in accordance with the provisions of the Pensions Act 2004 and its relevant regulations and the Pension Protection Fund guidance for professionals #1, version 1.

Member Communications

- Valuation Summary Letters sent to all members:
- 2 month member approval period
- Confirm member data
- Inform of PPF compensation

Questions


