

The Actuarial Profession

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How to do a S143 valuation

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Pension Protection Fund

NEWS

Issue 2 January 2007

Pension Protection Fund




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 pension scheme members themselves, the people we are here to protect.

S143 Valuation

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



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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

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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

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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.

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Data/Benefits/Compensation

Benefits	S143	S179
Compensation cap increases	RPI + 1.5%	Deferred compensation increases ie min (RPI, 5%pa)
Treatment of cap for multiple NPA tranches*	Consider % of cap used at each NPA. Once compensation exceeds 100%, no further compensation paid in relation to tranches with later NPAs.	Approx method
Hybrid	Only consider assets and protected liabilities for DB members, where DB members are those whose scheme DB benefits are more valuable than alternative DC benefits.	Per S143

* http://www.pensionprotectionfund.gov.uk/index/faqs/section_143_faqs.htm
http://www.pensionprotectionfund.gov.uk/index/faqs/section_179_faqs.htm

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Data/Benefits/Compensation

- Data summary submitted to PPF
 - Submission made for all members
 - PPF format
 - Basic details
 - Benefit: pre/post 97, NPA
 - S143 liability

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Assumptions

Provision	S143	S179
Yield in Deferment	Net index-linked yield = •Yield A – 0.70% Where Yield A = average of 15yr+ ILG real yields on 0% and 5% inflation.	Per S143
Yield in Payment	Pension without increases yield = •Yield B Where Yield B = 10yr gilts yield. Pension with increases yield = •Max (Yield C – 0.5%, Yield B – 2.5%) Where Yield C = average of 5yr+ ILG real yields on 0% and 5% inflation.	Per S143

Yields rounded to nearest 0.01%. Differences determined by arithmetic not geometric difference.

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Assumptions

Provision	\$143	\$179
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	\$143	\$179
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	\$143	\$179
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 	<p>Per S143</p> <p>Per S143</p>

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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	£'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.

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Member Communications

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

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Questions



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