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# Pension Protection Fund Valuations and Results

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Pension Protection Fund

## Agenda

- Review of the first year results
- S179 valuations
  - Purpose
  - Issues that have arisen to date
- S143 valuations
  - Purpose
  - Materiality
  - What Pension Protection Fund does
  - Issues that have arisen to date

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## Pension Protection Fund Results review

# PPF accounting basics

| | Liability | Provision | Contingent Liability | Contingent Assets | Assets |
|---|---|---|---|---|---|
| PPF Example | NPV of scheme liabilities after Transfer Notice | Claims (i.e. the deficit) for schemes whose entry into the PPF is probable | Claims (i.e. the deficit) for schemes where eventual entry to PPF is possible | Future streams of levy income | Levy – receipts invested<br>Scheme assets after transfer to PPF |
| Where in the Accounts? | Balance Sheet | Balance Sheet | Notes to the Accounts | Not to be included | Balance Sheet |
| Basis | NPV | Net deficit of NPV of scheme liabilities over current scheme assets | Net deficit of NPV of scheme liabilities over current scheme assets | N/A | Fair value |
| Required by | Accrual Accounting | FRS 12 | FRS 12 | FRS 12 | FRS 13 |



# PPF actuarial basics

- Work within the UK GAAP framework and the actuarial profession's conduct standards
- Provisions in respect of schemes with an insolvency event before 31 March 2006
- Only summary membership details available for those schemes so:
  - Roll-forward of section 179 or MFR valuation to 31 March 2006
- Basis 1 is the set of assumptions used to calculate provisions 'on-going basis'
  - Based on swap yields and best estimate mortality
  - Enables us to match compensation cash-flows closely
- Basis 2 is a set of assumptions that provides a buy-out comparator 'buy-out basis'
  - Based on section 179 assumptions incorporating best estimate mortality

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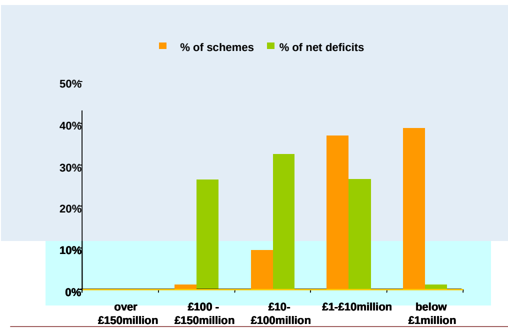
# Net claims profile

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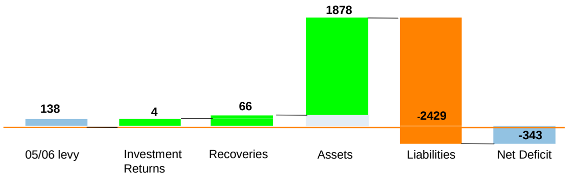
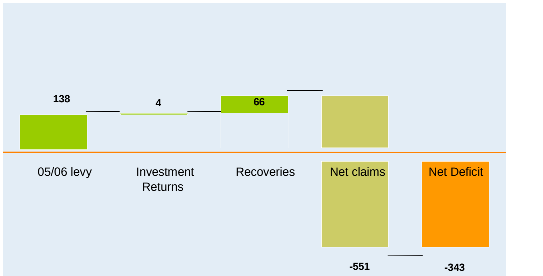
# Financial results 2005/06 (£M)






# Financial results 2005/06 (£M)

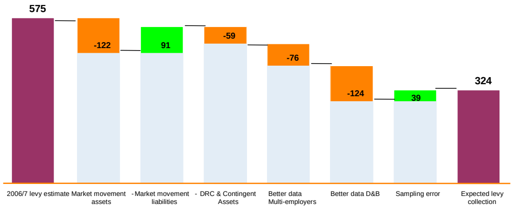





# Risk-Based Levy for 2006/2007

- £575m estimate v £324m likely collection
- Fixing the scaling factor in December 2005 has led to the difference due to factors changing significantly
- Some of the reduction is attributable to schemes posing less risk (e.g. market movements reduced deficits, schemes received deficit reduction contributions and / or were granted contingent assets)
- In future years the scaling factor will be based on a formula to allow for changes in factors

# 2006/7 levy estimate (£m)



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Pension Protection Fund
s179 valuations

## Purpose

- Key purpose of s179 is to inform Pension Protection Fund about deficit for levy calculation
- Required by Act and details set out in regulations
- Detailed guidance is available on the Pension Protection Fund web-site
- Over 1,500 were received prior to March 31 2006 for the 2006/07 risk-based levy

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## Issues with s179 valuations to date

- Valuation must be based on audited accounts
- Scheme actuary must submit a s179 certificate (if submitted electronically)
- Treatment of insured assets and liabilities
- Interaction of s179 valuation with deficit reduction contributions and bulk transfers





## Pension Protection Fund
## s143 valuations

## Purpose

- S143 valuation is the key determinant of whether a scheme enters the Pension Protection Fund.
- If assets less than protected liabilities then scheme enters Pension Protection Fund.
- In the interest of the members and levy-payers, it is vital that no material or significant error occurs
- Dealing with 2 large numbers - small changes can have a significant impact on the outcome

## Materiality

- Key to ensure correct decision
- In particular, Board cannot transfer in a scheme that could in fact have bought out better than PPF compensation from an insurer.
- Hence s143 basis is intended to be slightly weaker than a buy-out basis
- PPF will look harder at schemes whose s143 valuation funding ratio is close to 100%.



## What Pension Protection Fund does

- Aim to agree data with trustees before asking actuary to carry out s143 valuation (not always achieved in the early cases)
- Review ratios derived from liability breakdown and corresponding data item breakdown for reasonableness (this is not a detailed check, however)
- Ensure report complies with legal requirements
- Actuary is asked to submit a draft report and agree it with the PPF before submission of the final report



## Issues with s143 valuations to date (1)

- Calculations are proving somewhat difficult (e.g. tranches with different NPAs, mortality varying with benefit size, split of benefit into pre-1997 and post-1997, application of compensation cap)
- Valuation system updates are usually necessary
- Form and content of report must comply with regulation 9(1) of Valuation Regulations 2005
- There are additional content requirements in part 10 of version 2 of the PPF guidance
- Financial assumptions must be stated

## Issues with s143 valuations to date (2)

- Confusion can arise because the end-date of the audited accounts does not have to be the valuation date (although this will be changed if regulations, presently in draft, are brought into force)
- Clarity is needed in the report over how assets value for valuation is derived from assets value in audited accounts, particularly as regards AVCs, insurance policies

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Questions????