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## Current Issues in Funding

The PPF in Practice

Stephen Rice, PPF Chief Actuary

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## The PPF in Practice

- PPF Levies for 2008/09 and beyond
- Overview of Long Term Risk Model
- Carrying out Section 179 valuations
- Carrying out Section 143 valuations



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## PPF Levies for 2008/09 and beyond

### Consultation

- Consultation published 8 August 2007
- Levy roadshows held in September 2007
- Deadline for responses 3 October 2007
- Summary of responses and draft determination to be published in November 2007



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# PPF Levies for 2008/09 and beyond

## The Consultation Agenda

- Increasing stability for levy payers
- Increasing certainty for levy payers
- Managing cross-subsidy
- Reviewing the effectiveness and take-up of incentives package
- Balancing implementation costs and challenges with the benefits of change
- Improving fit between levy distribution among schemes and our Long-Term Risk Model

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# PPF Levies for 2008/09 and beyond

## Summary of Proposals

- Set a stable levy estimate for 3 years
- Data collection 12 months prior to start of levy year
- Change the parameters used in the calculation of underfunding risk
- Waive levy for schemes in assessment

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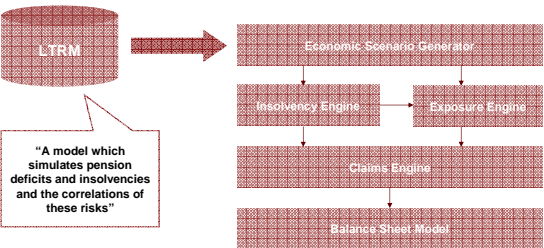
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# Long-Term Risk Model

## Overview



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# Long-Term Risk Model

## Economic Scenario Generator (ESG)

Economic and Financial Variables

- Inflation Rates
- Interest Rates
- Equity Returns
- Property Returns

10-year projection



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# Long-Term Risk Model

## Statistics

- 7,800 schemes in pensions universe
- Top 350 schemes, based on liabilities and related schemes (i.e. same sponsoring employer), classified as "large schemes"
- Remainder are pooled together based on industry sector, scheme status and funding level
- Known universe – stratified by deficit/surplus and credit rating – numbers are grossed-up to create the missing universe
- Large schemes 78% liabilities, pooled groups 18% of liabilities, and missing universe 4%

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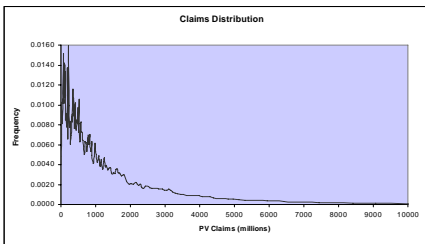
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# Long-Term Risk Model

## 5 Year Claims distribution



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## Carrying out Section 179 Valuations

### S179 Guidance Version G4

- Effective for valuations with;
  - An effective date on or after 6 April 2007
  - Valuations with an effective date prior to 6 April 2007 to be signed on or after 1 October 2007

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## Carrying out Section 179 Valuations

### S179 Guidance Version G4

- Changes from version G3;
  - NPA definition
  - Benefits to be valued more closely aligned to PPF compensation
  - Prescribes circumstances where contracts of insurance need not be valued

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## Carrying out Section 179 Valuations

### S179 Assumptions Review

- S179 Assumptions are reviewed from time to time to reflect changes in buy-out market
- Assumptions are likely to be changed in Spring 2008

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## Carrying out Section 179 Valuations

### The statutory deadline for submission of the first S179 valuation

- No later than 31 March 2008
- And within 15 months after the effective date
- Unless schemes only become registrable on or after 6 April 2007
- In absence of mandatory s179 valuation, levy will be estimated using prudent assumptions

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## Carrying out Section 143 Valuations

### Overview of process

- Appointed Actuary prepares draft report following PPF data comfort sign-off
- PPF review draft report is compliant with S143 guidance and legislation
- Appointed Actuary submits a final report for the consideration of the Board

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## Carrying out Section 143 Valuations

### Experience to date

- 10 S143 valuation reports validated in 2006/07 financial year
- c65 S143 valuation reports expected in 2007/08 financial year
- Standard has varied but is improving over time

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## Carrying out Section 143 Valuations

### Key points to consider:

- Valuation report should be addressed to the Trustees and the Board
- Report should include information set out in paragraph 10.2 of the s143 guidance and paragraph 9 (1) of the Pension Protection Fund (Valuation) Regs 2005 (SI 2005/672)
- Any additional assumptions (e.g. to value insured assets) should be disclosed
- Report should include explanation of the checks that have been undertaken by the Actuary and the Trustees to ensure the data is accurate (Part 7 of the s143 guidance)
- The wording and layout of the certificate should be the same as Appendix 1 of the s143 guidance and should not be amended

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