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Pension Scheme Termination – PPF and Wind Up S143: What Actuaries Are Doing Wrong

S143: What Actuaries Are Doing Wrong

Overview of validation process

Important documentation

Actuarial review process

Top 10 tips

Key points

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Overview of Validation Process

•Appointed Actuary prepares draft report following PPF data comfort sign off

•PPF review draft report to check for compliance with S143 guidance and legislation

•Appointed Actuary submits a final report for the consideration of the Board



Important Documentation

Main documents are:

Section 143 of the Pensions Act 2004

•The Pension Protection Fund (Valuation Regulations) 2005 SI 2005/672

-Guidance for undertaking the valuation in accordance with Section 143 of the Pensions Act 2004 (Version H2)

 Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act 2004 (Version B2)

S143 FAQ section on PPF website

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PPF Review Process

•Liabilities are within reasonable bounds for each membership category

Assets are consistent with audited accounts

•Review the data audit exercise undertaken by trustees and the checks performed by the appointed Actuary on the data

 $\ensuremath{\text{-Consider}}$ whether there any outstanding data issues that may materially affect the valuation results

•Check the valuation report includes disclosure requirements set out in legislation and s143 guidance

 Identify any non-standard scheme-specific issues that may require further investigation (e.g. special membership category)

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Outlines key issues for actuaries to consider prior to submission Based on experience to date Issued to appointed Actuary before preparation of draft report

Key Points

Effective date of s143 valuation

- Accounts & valuations should be prepared up to the close of play the day before the date of the qualifying insolvency event (even if this is not a business day).
- The financial assumptions should be determined using market indices at the close of business at the latest available date prior to the insolvency event.

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Key Points

Benefits for and in respect of members (Part 5 of s143 guidance)

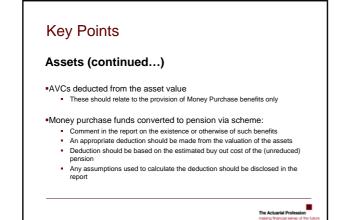
•Liabilities in respect of non-pensioners > NPA at the assessment date should be valued in accordance with Schedule 7 paragraph 34 of the Act. i.e:

- Benefits payable at different NPAs treated as separate pensions
 Non-pensioners over NPA for one tranche of pension would receive this pension at a level of 100% of scheme benefits (plus increase due to late retirement as set out in Schedule 7 paragraph 8)

•Benefits should be tested against the compensation cap in accordance with part 5.4 and part 5.5 of the s143 guidance.

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Key Points Assets (Part 6 of s143 guidance) •State the date of the Relevant Accounts from which the assets have been taken Differences between the asset value in the valuation and that shown in the Relevant Accounts The difference should be explained and reconciled in the report The report should include referencing to the appropriate paragraph of section 7 of the Valuation Regulations Recoveries Comment on the existence or otherwise of any recovery from a s75 debt, Financial Support Direction, Contribution Notice or a Restoration Order Comment on whether allowance for these has been included in the asset value



Key Points

Insurance polices (paragraph 7(2) of Valuation Regulations)

Report should include:

- Comment on the existence or otherwise of any insurance policies
 Comment on whether the policies have been assigned to individual members or are in the name of the Trustees
- Details of benefits covered (pension increases, spouses pensions, guarantees, any other differences between the insured benefits and PPF compensation Details as to how any assumptions (outside the s143 guidance on assumptions) have been determined .
- Details of the amount of pension insured and the associated calculated liability split by membership category

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Key Points

Data (Part 7 of s143 Guidance)

•Checks undertaken by the Trustees and the Actuary on the accuracy of the data should be set out in the report

•The report should also comment on whether the Actuary has any residual concerns with the data providing any further explanation if necessary



Key Points

Reporting (Part 10 of s143 Guidance)

Report should include all disclosure requirements set out in paragraph 9(1) of the Valuation Regulations and paragraph 10.2 of the s143 guidance

All of the assumptions used for the valuation should be set out including:

 Mortality assumptions (including allowance for future improvements)
 Proportion married assumption and justify based on the definition of 'relevant partners'
 Expenses assumptions

•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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