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Pension Scheme Termination – PPF and Wind Up

S143: What Actuaries Are Doing Wrong

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- 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

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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

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
- 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)

Top 10 Tips

- 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

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Key Points

Assets (continued…)

- AVCs deducted from the asset value
  - These should relate to the provision of Money Purchase benefits only
- Money purchase funds converted to pension via scheme:
  - Comment in the report on the existence or otherwise of such benefits
  - An appropriate deduction should be made from the valuation of the assets
  - Deduction should be based on the estimated buy out cost of the (unreduced) pension
  - Any assumptions used to calculate the deduction should be disclosed in the report

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

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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