The Actuarial Profession
making financial sense of the future

Pension Protection Fund

Current Issues In Pensions
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Update from the PPF on s143 valuations

Aim of today's presentation

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To help actuaries preparing s143 valuations

- The valuation process
- New 'Additional Information' document
- New valuation guidance (version H3).

1

The s143 valuation process

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A quick overview

- Required as part of the assessment process
- Used in determining whether a scheme will enter the PPF
- Different to the s179 valuation used for levy calculations
- s143 valuation is carried out by an 'appointed actuary'
- Subject to approval by the Board of the PPF.

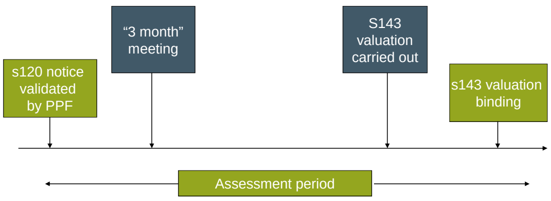
2

New 'Additional Information' document

Additional Information for carrying out a Section 143 valuation

- Designed to complement but not override s143 guidance
- Summarises actuary's involvement during the assessment period
- Initiating the s143 valuation
- Compensation, calculations and checklists.

New 'Additional Information' document
Assessment Period Overview



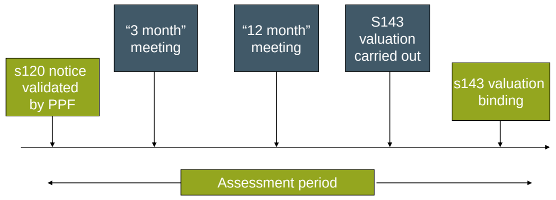
New 'Additional Information' document
'3 month' meeting

"3 month" meeting

Stakeholders meet to:

- uss the project plan
- his sets out all the tasks to be completed
- Raise issues that could affect the s143 valuation
- Agree timescales for the project
- Share any other knowledge/information

New ‘Additional Information’ document
Assessment Period Overview



New ‘Additional Information’ document
Initiating the s143 valuation

The PPF actuarial team will contact you to:

- Check you are sufficiently happy with the data to start the valuation
- Formally appoint you as the ‘appointed actuary’
- Ask you to sign a declaration which asks you to confirm:
  - you have read the relevant legislation/guidance
  - you are satisfied with the quality of the data
  - that you don’t expect the protected liabilities to change materially
  - that you expect to meet the timescales for production of the report.

New ‘Additional Information’ document
Compensation, Calculations and Checklists

The remainder of the additional information document:

- Provides a simplified summary of PPF compensation
  - Designed to provide a reminder of the main elements of compensation
  - It is not intended as a substitute for a full reading of Schedule 7 of the Pensions Act 2004
- Has examples on applying the compensation cap when a member has more than one tranche of benefit
- Sets out a checklist for essential items in the valuation report.

New valuation guidance (version H3)

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The new guidance was published in December 2009

- It applies to all valuations signed on or after 1 January 2010
- Formal document required by legislation
- Sets out the main requirements for actuaries undertaking s143 valuations
- Version H3 contains some significant differences to version H2.

New valuation guidance (version H3) Approximations

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The appointed actuary can now make approximations in the calculation of assets and protected liabilities

- The approximations must not affect the assessment of whether the scheme is under or overfunded
- The Board of the PPF must agree the approximations before work on the valuation begins.

New valuation guidance (version H3) Approximations when a scheme is overfunded

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When a scheme is overfunded:

- Over-estimate the Protected Liabilities
- Under-estimate the Assets.
- Funding level must stay above 100%

Reported Funding level is 120%

Correct Funding level is unknown, but will be higher than 120%

New valuation guidance (version H3) Approximations when a scheme is underfunded

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When a scheme is underfunded:

- Under-estimate the Protected Liabilities
- Over-estimate the Assets.
- Funding level must stay below 100%

12

New valuation guidance (version H3) Approximations – Request

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The appointed actuary should write to the PPF

- Requesting agreement to making approximations
  - Refer to part 4.7 (protected liabilities) or 5.8 (assets) of the guidance
- Describe the approximations you want to make
- Explain the impact on the Assets/Protected Liabilities
- Confirm the approach will not change whether the scheme is under/overfunded.

13

New valuation guidance (version H3) Approximations – Confirmation

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The PPF will write to the appointed actuary

- To confirm whether or not they agree the proposal
- Instruct the actuary to proceed with the valuation, allowing for the approximations
- Additional commentary must be provided in the report:
  - This includes everything that was in the original request
  - And confirmation the PPF agreed the approach.

14

New valuation guidance (version H3) Other changes

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Other changes to the guidance include the following

- Expanded entry on calculation of Protected Liabilities
  - Including hybrid schemes & money purchase benefits
- More detailed guidance on valuing the assets
  - Including the appropriate valuation of insurance policies
- Clearer guidance on the requirements for the report
  - Including new requirements to provide:
    1. a summary of the scheme benefits
    2. a comment on the allowance made for equalisation for GMPs
- Minor changes to wording of s143 certificate
- Section on multi-employer schemes

15

Equalisation for GMPs

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Required under Section 171 of the Pensions Act 2004

- PPF Board has approved "modified method (2)" as being most suitable for PPF
- Requires a comparison of male and female compensation at the Assessment Date
- Board is keen to minimise, as far as possible, burden that this may place on pension schemes in an assessment period
- Schemes currently are continuing to complete s143 valuations without equalising for GMPs

16

New valuation guidance (version H3) Multi-employer schemes

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Complicated area

- Helpful information provided in 'Additional Information' document
- Are separate s143 valuations required?
- Accounting requirements
- Allocation of members to different employers
- What happens to orphan members
- S75 debt allocation
- Additional reporting requirements

17

The s143 process
Reviewing the valuation report

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Once submitted the PPF actuarial team will review the report

- We check the report complies with the legislation and guidance
- We check the liability calculations for reasonableness
- Generate a ‘Review Log’ setting out any queries we have

The s143 process
Finalising the report

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A second draft report will be requested

- This should resolve all the issues raised in the Review Log
  - If not, additional reports will be required
- When both parties are satisfied the final, signed report can be generated
- The Board of the PPF approves the valuation after which:
  - the scheme will transfer to the PPF or;
  - leave assessment and buy-out benefits outside the PPF.

Update from the PPF

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Further information on current issues at the PPF can be found on our website

- www.pensionprotectionfund.org.uk
  - Follow the link for pension professionals to find
    - The latest news and updates relevant to you
    - All our technical guidance documents

Questions or comments?

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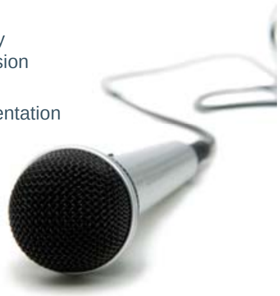
Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenters.



21