



The Actuarial Profession

making financial sense of the future

Consultation response **Pension Protection Fund**

Calculation of PPF compensation and FAS assistance in the context of equalisation for schemes contracted-out on a GMP basis

March 2011

About the Actuarial Profession

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Pension Protection Fund
Knollys House
17 Addiscombe Road
Croydon
CR0 6SR

21 March 2011

gmpconsultation@ppf.gsi.gov.uk

Dear Sir

Consultation on the calculation of PPF compensation and FAS assistance in the context of equalisation for schemes contracted-out on a GMP basis

Thank you for the opportunity to comment on your consultation on PPF compensation and FAS assistance in the context of equalisation for schemes contracted out on a GMP basis.

The Actuarial Profession has the following comments on questions 3.5 and 3.6:

Question 3.5: we think that, to be clear, the PPF should confirm that (at least for the time being) s179 liabilities are not required to reflect equalisation in any form in respect of GMPs. Stating only that they are not required to reflect the underpin approach leaves ambiguous the issue of whether they must encompass equalisation in respect of GMPs in some way (which would lead to inconsistency between schemes) or can ignore equalisation in respect of GMPs altogether. Whilst we trust that the Board intends the latter approach, if there is any doubt we would point out that amending the calculation of s179 liabilities to encompass equalisation in respect of GMPs in any way would significantly increase the cost of this calculation. It is not clear to us whether there would be any benefit to justify such a significant increase in cost.

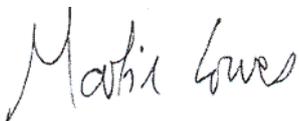
Question 3.6: we do not see how the actuary's certification could be expected to encompass the potential impact of adopting the underpin approach on protected liabilities if the valuation of s179 liabilities does not. Whilst the Board states in paragraph 3.7 that its proposal is to ignore the underpin approach in the actuary's certification, we are nevertheless concerned by the implications of question 3.6 which suggests that the calculation of s179 liabilities and the "unlikely to be understated" certification might each treat equalisation of GMPs differently. If the Board's view begins to move towards such an approach we would welcome a chance to discuss this further with you before any final decision is made. We note that it is particularly important that if the PPF expects actuarial certification of s179 liabilities, then the specification of what constitutes s179 liabilities must be clear.

We note that the remainder of the consultation addresses legal issues, on which, in general, we do not propose to comment. However, there were a couple of issues which did not match our understanding of the position. Although we have not taken any legal advice to check our understanding, we thought it might be helpful to mention them as the PPF may wish to consider them further. The two issues are as follows:

- a) there is an assumption in Example 1(a) of Appendix B that - even in the absence of equalisation - the GMP payable at age 60 for a male member would include GMP revaluation to age 60. We do not believe this is required by legislation (i.e. we understand that no GMP revaluations are required until age 65 for a male member). It would, however, be rendered academic by equalisation; and
- b) dismissing the Scheme NPA approach to reflecting GMP – e.g. in Example 2(c) - as not recognising the female's right to draw all GMP at age 60, may be confusing the right to draw the pension early with the amount of the pension then payable. We do not necessarily see a problem with having a right to draw the pension early from age 60, with the scale pension reduced for early payment, subject to this covering the GMP payable from age 60, which does "reflect the female's right to draw all GMP from age 60". However, we do agree that no part of the female's GMP should be subjected to the 90% PPF factor where the calculation is made after age 60 (due to the fact that the GMP could be immediately payable with no reduction), so some adjustment is needed.

We hope you find our comments useful. We are happy to discuss the points further if that would help and, as mentioned above, would welcome the opportunity to discuss the implications for the certification of s179 liabilities. Please contact us via Margaret Watchorn, the Pensions Practice Manager, on 020 7632 2185 or Margaret.watchorn@actuaries.org.uk

Yours faithfully,



Martin Lowes
Chairman, Consultations Group, Pensions Practice Executive Committee