Guidance for undertaking the value test under paragraph 22A of Schedule 7 to the Pensions Act 2004 and paragraph 22A of Schedule 6 to the Pensions (Northern Ireland) Order 2005

Effective from 1 January 2024

1. Introduction

1.1 This guidance sets out how the calculations in each of Paragraph 22A of Schedule 7 of the Pensions Act 2004 (the "**Act**") and Paragraph 22A of Schedule 6 to the Pensions (Northern Ireland) Order 2005 (the "**Order**"), and any adjustment to PPF compensation that is required by Paragraph 22A, should be done. This guidance should be read in conjunction with the Act and the Order, as applicable.

1.2 This guidance only applies in respect of eligible schemes (as defined in the Act or the Order, as applicable) which enter an assessment period on or after 1 January 2024.

1.3 This guidance sets out the actuarial methodology and assumptions to determine, as at the start of the assessment period, the total value of PPF compensation payable to or in respect of a member under the Act or the Order, as applicable (the "PPF Value"), and the total value of benefits (other than money purchase benefits) payable to or in respect of the member under the admissible rules (the "Scheme Value"). These calculations are referred to in this guidance as the "Value Test".

1.4 For the purpose of calculating the Scheme Value, the reference to "benefits" does not include the value of any rights in respect of money purchase benefits under the admissible rules.

1.5 Where the PPF Value is less than 50% of the Scheme Value, the member's PPF compensation entitlement as at the start of the assessment period will be uplifted so that the PPF Value equals 50% of the Scheme Value. This is a one-off adjustment so the member's adjusted PPF compensation is subject to the increases in deferment (if applicable) and in payment set out in Schedule 7 of the Act or Schedule 6 to the Order, as applicable.

1.6 The methodology set out in this paper can also be used for determining the value of the scheme's protected liabilities for the purposes of assessing its funding level to decide whether it will transfer to the PPF (i.e. for the purposes of s143 valuations). It is also helpful to schemes in a PPF assessment period to help the trustees determine the benefits payable to members (since, during an assessment period, scheme benefits have to be reduced to the extent necessary to ensure that they do not exceed the PPF compensation which would be payable to the member if the scheme transfers to the PPF).

1.7 This guidance will be reviewed at regular intervals as the Board deems appropriate.

2. Actuarial methodology

Pensioner members at Assessment Date

2.1 For members who were pensioners at the Assessment Date the Value Test is carried out at the Assessment Date comparing the PPF Value and the Scheme Value using the actuarial method and assumptions as described below.

2.2 If the PPF Value is less than 50% of the Scheme Value, PPF compensation from the Assessment Date will be uplifted by the percentage increase required to bring the PPF Value up to 50% of the Scheme Value. Pre and post 97 compensation in payment will be uplifted by the same percentage increase so that the relative proportions of pre and post 97 compensation remain unchanged.

2.3 The table below shows further detail for pensioner members at the Assessment Date.

Item	**Approach**
Early retirees	The Value Test for pensioners who retired early (either voluntarily or due to ill-health) before the Assessment Date uses the PPF compensation entitlement and the admissible rule benefit in payment at the Assessment Date. It is assumed that ill-health benefits continue for the remaining lifetime of the member even though in some cases the original scheme rules might have allowed for a regular review of the appropriateness of the continuation of this benefit.
Tranches of benefits	The uplift is made to the total compensation for members in payment, and the same percentage uplift will be applied to the pre 97 and post 97 elements.
Survivors' pension payable on death of pensioner who was in payment at Assessment Date	Upon the death of a member whose PPF compensation was adjusted under paragraph 22A of Schedule 7 to the Act or Schedule 6 to the Order (as applicable), eligible survivors receive the percentage prescribed in PPF legislation of the compensation to which the member was entitled at the date of death.
Survivors' pension in payment at Assessment Date (Spouses and non-child dependents)	The Value Test is carried out for the survivors in payment at the Assessment Date in the same way as for pensioner members at the Assessment Date, except that no allowance is made for contingent survivor benefits in the calculation of the PPF Value and the Scheme Value.

Item	Approach
Children in payment at the Assessment Date	In cases where the child's pension is payable for a longer period under the admissible rules than under PPF regulations (e.g., for life under the admissible rules if the child has a disability) carry out the Value Test in the same way as for survivors in payment at the Assessment Date. In all other cases it is assumed that the child doesn't require an uplift.
Pension debit members (pension debit implemented pre–Assessment Date)	Use the same methodology as for other members.
Pension debit members (pension debit implemented post Assessment Date)	For cases where a pension sharing order is made and implemented after the Assessment Date, the Value Test is applied in the same way as for other members by reference to the member's unreduced PPF compensation and scheme benefits as at the Assessment Date. If the member's PPF compensation has to be adjusted under paragraph 22A of Schedule 7 to the Act or Schedule 6 to the Order (as applicable), the pension debit and credit is recalculated at the implementation date by reference to the member's adjusted PPF compensation. The member's PPF compensation entitlement should reflect both the adjustment under paragraph 22A and the revised pension debit. The ex-spouse's PPF compensation entitlement should reflect the revised pension credit. Note that there are cases where a pension sharing order was made before the Assessment Date but was not implemented before the member drew their benefits and before the scheme entered assessment (either because the implementation period did not start, or there was an error). In such cases, please discuss with PPF.
Pension credit members (in payment or not in payment) at Assessment Date	The Value Test is not calculated for pension credit members since paragraph 22A of Schedule 7 to the Act or Schedule 6 to the Order (as applicable) does not apply to them.

Non-pensioner members at Assessment Date

2.4 For members who were non-pensioners at the Assessment Date, the Value Test is calculated as at the Assessment Date in the same way as for members who were pensioners at the Assessment Date.

2.5 The table below shows the further considerations for non-pensioner members at the Assessment Date.

Item	**Approach**
Member reached NPA before the Assessment Date	If the member is above NPA at the Assessment Date, assume retirement is at Assessment Date
Members with multiple NPAs	The Scheme Value of benefits with multiple tranches with different Normal Pension Ages is calculated having regard to the age(s) at which benefits would have been put into payment under the admissible rules (for example, would all benefits have had to be put into payment at the same time under the admissible rules, or would different tranches have been put into payment at different times). When calculating the PPF Value, members are assumed to take each tranche of benefits at the Normal Pension Age applicable to that tranche. If the member is above NPA at the Assessment Date, assume retirement is at the Assessment Date.
Pension debit members (pension debit implemented pre–Assessment Date)	The negative deferred pension debit (e.g., the revaluation of the deducted amount) is to be taken into account when calculating the PPF Value and the Scheme Value as at the Assessment Date.
Pension debit members (pension debit implemented after Assessment Date)	Use the same approach as for members who were pensioners on the Assessment Date.

3. Actuarial assumptions to use (financial and demographic)

Item	Approach
Effective date – what is effective date of the test	The effective date of the test is the scheme's Assessment Date. This is the case whether the member was in payment at the Assessment Date or not.
Assumptions – what assumptions are used for the one-off Value Test to value both PPF compensation and the admissible rule benefits	S143 assumptions as set out in the relevant s143 guidance and assumptions documents in force at the Relevant Time (i.e. the day before the Assessment Date), adjusted by: • removing the allowance for expenses (benefit installation and wind up) • adjusting the allowance for indexation if appropriate as per the 'RPI/CPI' line below • creation of additional assumption for pension increases under scheme rules that are not fixed rate and are not covered by the s143 guidance (see section on 'Non-fixed rate increases' line below)
Assumed RPI/CPI gap	From S143 assumptions document B10 onwards, the assumptions moved to a curve-based approach. To determine an appropriate forward rate RPI curve-based assumption, the user should start with the CPI curve-based assumption (named 'adjusted inflation rate' in Section 3.3 of the B10 guidance), and then add on the appropriate wedge assumption. For assumptions version B10 this was: • 0.6% pa for periods to 1 March 2030 • 0.1% pa from 1 March 2030 onwards For earlier versions of the guidance, please contact the PPF actuarial team.
Fixed-rate increases	Fixed pension increases will be adopted directly.
Non-fixed-rate increases - what assumptions are used for rates of increases in	For calculating the Scheme Value, types of benefit increase that are not fixed rate and are not covered by the s143 guidance are allowed for by setting an assumption consistent with other increase assumptions covered in the guidance. In effect this is by deriving the assumption that the PPF would have specified had it provided that level of increase. This mainly impacts increases in line with different inflation measures and those which are subject to different caps and collars.

Item	Approach
payment/deferment not set out in the S143 assumptions guidance	If the scheme offers annual capped and collared pension increases linked to RPI or CPI, they should determine appropriate pension increase assumptions using the methodology described in Section 3.4 of the B10 guidance, with the following exceptions: • S, the inflation rate, becomes the measure of inflation underlying the pension increase (i.e. either RPI or CPI), • v is the volatility of S. An appropriate assumption for your benefits should be requested from your PPF contact. • The formulae for the pension increase curve generalises to: LPI(collar,cap) = S + P(collar%) – C(cap%) Where the collar and the cap are those underlying the specific pension increase being valued.