Pension Protection Fund

Statement under section 143(5C) of the Pensions Act 2004 setting out how the Board of the Pension Protection Fund will make a Funding Determination under section 143(2)(a)

Version F3

January 2024

Contents

Part 1 – Effective date of Statement

1.1 This is version F3 of the Statement describing how the Board of the Pension Protection Fund (“PPF”) will make a Funding Determination under section 143(2)(a) of the Pensions Act 2004 (“the Act”).

1.2 This version of the Statement is effective for the making of Funding Determinations on or after 1 January 2024.

Part 2 – Introduction

2.1 Background

2.1.1 The Pensions Act 2004 sets out the conditions that must be met for the PPF to assume responsibility for a scheme.

2.1.2 In order for the PPF to assume responsibility for a scheme, the scheme must satisfy the following key criteria:

- the scheme must be a scheme which is eligible for the Pension Protection Fund;
- an insolvency event must have occurred in relation to the scheme's employer which is a qualifying insolvency event (or in certain circumstances there has been an application to the PPF);
- there must be no chance that the scheme can be rescued; and
- there must be insufficient assets in the scheme to secure benefits on wind-up that are at least equal to the compensation that the PPF would pay if it assumed responsibility for the scheme.

2.1.3 If a qualifying insolvency event occurs in relation to an employer of an eligible scheme, this will trigger the beginning of an assessment period. During this period, the PPF will assess whether it must assume responsibility for the scheme.

2.1.4 Part of this process involves looking at the scheme's assets and liabilities to determine whether the scheme can afford to secure benefits that are at least equal to the compensation that the PPF would pay if it assumed responsibility for the scheme.

2.1.5 If, based on information available to it at the start of the assessment period, the PPF is of the opinion that the s143 valuation will be significantly underfunded or significantly overfunded it will consider making a Funding Determination instead of requesting a section 143 valuation. Information available to the PPF may include the latest section 179 valuation, audited accounts, expected recoveries and other information provided by the trustees or Scheme Actuary.

2.1.6 In order to inform the PPF's determination, an estimate of the Protected Liabilities and assets (the Estimate) will be sought from the trustees of the scheme. The Funding Determination establishes whether the scheme has sufficient funds, at the relevant time, to pay at least the Pension Protection Fund levels of compensation as set out above. If it does not have sufficient funds and the relevant process and procedures have been completed, then the PPF will assume responsibility for the scheme and compensation will then become payable.

2.2 Purpose of this Statement

2.2.1 This Statement is issued in accordance with section 143(5C) of the Act as the PPF's Statement setting out how it will make determinations under section 143(2)(a) of the Act.

2.2.2 The Act and associated regulations set out the principles relating to the Funding Determination while this Statement sets out the detail.

2.2.3 This Statement also contains information for actuaries undertaking the Estimate for the purpose of informing the PPF's determination.

2.3 Purpose of the Estimate

2.3.1 The purpose of the Estimate is to provide information to the PPF to enable it to determine whether the value of the assets of the scheme at the relevant time was less than the amount of the Protected Liabilities at that time and accordingly whether it should assume responsibility for a scheme. The Estimate is only required within an assessment period, and the instruction will be given by the PPF for the trustees to provide the Estimate.

2.3.2 Once the Estimate has been completed, the PPF will use it to make a Funding Determination in accordance with section 143(2)(a).

2.3.3 Where the Funding Determination establishes that the assets are not sufficient to meet the Protected Liabilities, the PPF will assume responsibility for the scheme and pay compensation to scheme members in accordance with Schedule 7 of the Act. Where the assets are sufficient to meet the Protected Liabilities, the scheme will be required to wind up outside of the Pension Protection Fund by securing benefits in the market.

2.4 Legislative requirements

2.4.1 The Act sets out the requirements for the PPF to assess the funding of an eligible scheme (whether or not the value of the assets of the scheme at the relevant time was less than the amount of the Protected Liabilities at that time) where an assessment period has commenced by either:

- making a Funding Determination under section 143(2)(a); or
- obtaining a valuation under section 143(2)(b).

2.4.2 The PPF will notify the trustees of the scheme whether it will be making a Funding Determination or obtaining a section 143 valuation except in the case of certain multi-employer schemes (see section 2.5.2 below).

2.5 Multi – employer schemes

2.5.1 The PPF may only choose to make a Funding Determination in relation to some categories of multi-employer scheme. It will only apply to multi-employer schemes that fall within parts 2, 3 and 6 of the Pension Protection Fund (Multi-employer schemes)(Modifications) Regulations 2005, which are single employer sections, last man standing sections of sectionalised schemes and last man standing non-segregating schemes.

2.5.2 For multi-employer schemes which fall within part 4, 5, 7 and 8 of the Pension Protection Fund (Multi-employer schemes)(Modifications) Regulations 2005, i.e. where a segregated part is created by the insolvency because the scheme or section contains provision for partial wind up, the PPF will continue to obtain a valuation as the Funding Determination legislation does not apply to these schemes. Where a scheme is not eligible for a Funding Determination to be made, the PPF will obtain a section 143 valuation in accordance with the valuation process which applied prior to 23 July 2012, the date on which the enabling Regulations came into force. Please refer to the Guidance for undertaking a valuation in accordance with Section 143 of the Pensions Act 2004.

2.6 When should the Estimate be completed?

2.6.1 The PPF will write to the trustees to notify them whether a section 143 valuation will be performed or whether it will make a Funding Determination. The trustees will then have 28 days to request a review of the PPF's decision.

2.6.2 If no review is requested then the PPF will proceed with making its determination or obtaining a valuation. If the PPF has decided to make a Funding Determination, it will ask the trustees to provide the Estimate.

2.6.3 The Estimate and certification must be prepared and signed off by a Fellow of the Institute and Faculty of Actuaries. However, the actuary does not need to be the Scheme Actuary.

2.6.4 For information about the PPF please visit the PPF's website at: www.ppf.co.uk

2.6.5 The contact address for the PPF is:

The Board of the Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon
CR0 2NA

Tel: 0345 600 2541

2.7 Legislation or authority for Funding Determinations

The following lists key legislation that is relevant to Funding Determinations but is not intended to be comprehensive.

Pensions Act 2004 (the Act), in particular sections 143, 143A, 162 and Schedule 7

Pensions Act 2008

Pensions Act 2011

All legislation made under the above statutes including but not limited to:

The Pension Protection Fund (Valuation) Regulations 2005 SI 2005/672 ("the Valuation Regulations") as amended from time to time

The Pension Protection Fund (Partially Guaranteed Schemes) (Modification) Regulations 2005 SI 2005/277

The Pension Protection Fund (Hybrid Schemes) (Modification) Regulations 2005 SI 2005/449

The Pension Protection Fund (Compensation) Regulations 2005 SI 2005/670 as amended from time to time

The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441 as amended from time to time

All legislation modifying the primary and secondary legislation listed above.

Part 3 – Overview

3.1 If, based on information available to it at the start of the assessment period, the PPF is of the opinion that a scheme is either significantly underfunded or significantly overfunded, the PPF will consider making a Funding Determination instead of obtaining a section 143 valuation. This covers schemes that have only recently experienced a qualifying insolvency as well as schemes that are already in an assessment period but for which a section 143 valuation had not yet been commissioned when the Regulations came into force on 23 July 2012.

3.2 The Funding Determination will determine whether the value of the assets of the scheme at the relevant time was less than the amount of the Protected Liabilities at that time. A Funding Determination is made by using the information contained within the most recent section 179 valuation or an appropriate alternative valuation and updating that information in accordance with this Statement to the relevant time; being the day immediately before the assessment date.

3.3 The Funding Determination will be made based on an estimate of the Protected Liabilities and assets at the effective date being the day immediately before the assessment date.

3.4 The Estimate should be based on an existing section 179 valuation or, where available, a suitable alternative actuarial valuation if this would be expected to give a better estimate. Alternatively, the Estimate may be made by reference to the membership data at the effective date. However, in all cases, the Estimate should be reconciled to a suitable existing valuation and shown as an update to that valuation.

3.5 In determining a suitable existing valuation, the date of the existing valuation should be no more than three years (or such other shorter period specified by the PPF) before the effective date. In addition the liabilities in the existing valuation should not themselves have been estimated from the liabilities of a previous valuation.

3.6 The Estimate should be provided to the PPF by completing the certificate, an example of which is provided in the Appendix to this Statement.

3.7 The PPF may request further information to be provided or calculations to be carried out after the Estimate has been submitted, for example in cases where the Estimate shows that the value of the assets is close to the value of the Protected Liabilities at the relevant time.

Part 4 - Estimating Protected Liabilities and assets

4.1 Method

4.1.1 The actuary is required to provide an Estimate of the Protected Liabilities and assets that would otherwise have been determined for the purposes of a section 143 valuation. Details of what constitutes Protected Liabilities and assets for a section 143 valuation can be found in the relevant version of the “Guidance for undertaking the valuation in accordance with Section 143 of the Pensions Act 2004” on the PPF website.

4.1.2 The Estimate of the Protected Liabilities and assets must be reconciled to the results of a previous valuation. The previous valuation can be a section 179 valuation or other suitable valuation with an effective date no more than three years before the date at which the Estimate is being produced. A suitable valuation must be one which has been signed off by a Fellow of the Institute and Faculty of Actuaries and could include, for example, one which had been carried out for the purposes of stating the scheme’s assets and liabilities for the purpose of reporting pension costs in the sponsoring employer’s company accounts. The PPF will liaise with the actuary regarding the selection of an appropriate valuation. The PPF doesn’t expect that the most suitable valuation will always be the latest section 179 valuation.

4.1.3 The Estimate itself can be determined from the membership data and asset information actually held at the effective date but the results must be reconciled to a suitable previous valuation and shown as an update to that valuation.

4.1.4 The results of the Estimate and reconciliation with the previous valuation should be summarised in the certificate, an example of which is included in the Appendix to this Statement. The actuary should also provide details of the key assumptions used in both the previous valuation and the Estimate. A soft copy of the certificate can also be found on the PPF website.

4.1.5 The actuary will also be required to certify that the funding position of the scheme is unlikely to exceed 100% (where underfunded) or unlikely to fall below 100% where overfunded. If the actuary is unable to certify the funding position, then more detailed calculations are likely to be required until the actuary is able to make the certification.

4.2 Protected Liabilities

4.2.1 The actuary is required to provide an estimate of the Protected Liabilities that would otherwise have been determined for the purposes of a section 143 valuation. The estimated Protected Liabilities should therefore be determined by reference to the relevant section 143 assumptions in force at the effective date. The actuary may use the financial assumptions from the relevant s179 assumptions in force instead of the s143 assumptions.

4.2.2 When estimating the Protected Liabilities from a previous valuation the actuary may want to take account of movements such as:

- Changes in assumptions
- Allowance for the expenses required under section 143 valuations
- Membership movements
- Change from scheme benefits to PPF compensation
- Benefits paid including member liabilities transferred out
- Members not included in the previous valuation but who should be included in the Estimate (i.e. members whose benefits are exactly matched by relevant contracts of insurance may have been excluded from the previous valuation)
- Members included in the previous valuation but who should not be included in the Estimate (i.e. money purchase members may have been included in the previous valuation)
- Any over or understatement already included in the previous valuation

4.2.3 The above list contains examples of the sort of changes we would expect to be taken into account and is not intended to be exhaustive. A brief summary of what movements the actuary has taken into account should be provided with the Estimate along with quantification of the impact.

4.2.4 Where approximations are made in arriving at the estimated Protected Liabilities, the actuary should have regard to the expected funding level of the scheme at the effective date. Approximations should be made which understate the Protected Liabilities where the scheme is underfunded and vice versa for a scheme which is overfunded. Any approximations made must be detailed in the Estimate provided to the PPF.

4.2.5 It is, therefore, acceptable to make no allowance for certain movements in the Protected Liabilities since the existing valuation if not doing so serves to understate the Protected Liabilities (for a scheme that is underfunded) or to overstate the Protected Liabilities (for a scheme that is overfunded). If no allowance has been made for certain movements this should be reported when providing the Estimate to the PPF.

4.2.6 A brief description of the item being reconciled should be given in the certificate by overwriting the cells set aside for adjustments to Protected Liabilities.

4.3 Hybrid schemes/Money purchase benefits

4.3.1 The liabilities of the scheme in respect of money purchase benefits must be disregarded for the purposes of determining the Protected Liabilities and assets. Where a section 179 valuation is being updated, money purchase benefits and assets should have already been excluded from the valuation. However if an appropriate alternative valuation is being used and/or there is uncertainty as to whether the previous valuation has correctly categorised or treated certain benefits as money purchase benefits, the actuary needs to consider what allowance needs to be made in the Estimate.

4.4 Assets

4.4.1 The actuary is required to provide an estimate of the assets that would otherwise have been determined for the purposes of a section 143 valuation (although the financial assumptions relevant for a s179 valuation may be used instead of the s143 assumptions). Note that audited assets are not usually required for the purpose of making a Funding Determination.

4.4.2 In many cases, assets will be able to be estimated from fund manager and bank statements although these will need to be adjusted for accrued expenses incurred by the scheme and for any amounts advised by the PPF in respect of the recovery of any section 75 debt, contribution notices, financial support directions, restoration orders or equity stakes.

4.4.3 If it is not possible to estimate the assets as set out in 4.4.2 and these need to be estimated from a previous valuation (the same as that used to estimate the Protected Liabilities) the actuary may want to take account of movements such as:

- Market movements
- Benefits paid
- Investment income received
- Employer and member normal contributions
- Deficit reduction contributions
- Expenses accrued by the scheme since the previous valuation
- The value of any relevant contracts of insurance held by the trustees not included in the previous valuation
- Any other adjustments falling under Regulation 7(1) and (2) of the Valuation Regulations as amended from time to time

4.4.4 The above list contains examples of the sort of changes we would expect to be considered and is not intended to be exhaustive. A brief summary of the movements the actuary has taken into account should be provided with the Estimate along with quantification of the impact.

4.4.5 Where assets have been estimated by reference to asset statements at the effective date, copies of these should be sent to the PPF at the same time as submitting the certificate.

4.4.6 Whether assets have been estimated from asset statements at the effective date or by references to changes from the existing valuation, the estimated assets at the effective date must be reconciled to the previous valuation.

4.4.7 Where approximations are made in arriving at the estimated assets, the actuary should have regard to the expected funding level of the scheme at the effective date. Approximations should be made which overstate the assets where the scheme is underfunded and vice versa for a scheme which is overfunded. Any approximations made must be detailed in providing the Estimate to the PPF.

4.4.8 It is, therefore, acceptable to make no allowance for certain movements in the assets since the existing valuation if by not doing so serves to overstate the assets (for a scheme that is underfunded) or to understate the assets (for a scheme that is overfunded). If no allowance has been made for certain movements this should be reported.

4.4.9 The actuary should state if pre-97 contracts of insurance have been omitted if there is no information available to place a value on them.

4.4.10 The PPF will advise the actuary of any additional assets which should be allowed for in the Estimate arising from the recovery of any section 75 debt, contribution notices, financial support directions or restoration orders.

4.4.11 The PPF will advise the actuary of what value to include in the Estimate in relation to any equity stake, or other assets acquired by way of a compromise of a section 75 debt.

4.4.12 A brief description of the item being reconciled should be given in the certificate by overwriting the cells set aside for adjustments to assets. Additional information can also be given in the space provided on the certificate.

Part 5 – Reporting

5.1 The Estimate must be submitted via completion of the certificate to the PPF.

5.2 The Estimate must provide all the information set out in this Statement and the certificate.

5.3 To provide the Estimate, the actuary should submit:

- A completed version of the Certificate of Estimate for PPF funding determination purposes spreadsheet available on the PPF website
- An electronic copy of the latest audited accounts
- Copies of fund manager and bank statements displaying the asset value at the effective date, where these can be obtained

5.4 The certificate should state the actuary's full name, professional qualification, employer's name and be dated.

5.5 It is not anticipated that the PPF will take account of any information provided in addition to that listed above unless specifically requested by the PPF. We consider that it is unlikely that actuaries will have to submit any further information to comply with the Technical Actuarial Standards issued by the Financial Reporting Council. However, this is ultimately a matter for the judgement of the individual actuary.

Part 6 – Matters for decision by the PPF

The PPF must take the following matters into account when making a Funding Determination, where relevant.

6.1 Treatment of pre-97 contracts of insurance

6.1.1 For the treatment of pre-97 contracts of insurance, where the Estimate is reconciled to a previous section 179 valuation, in making its determination the PPF shall adopt the section 179 valuation actuary's approach to the sufficiency of information, unless it is informed by the trustees that there has been a material change in the information available in respect of those pre-97 contracts of insurance. Where the Estimate is reconciled to any other suitable valuation the PPF shall use the information given by the actuary in the certificate containing the Estimate and other relevant information and as the appropriate person shall determine whether there is sufficient information available based on the information provided in the Estimate.

6.2 Treatment of relevant contracts of insurance

6.2.1 For the treatment of relevant contracts of insurance, the PPF shall use the information given by the actuary in the certificate containing the Estimate and other relevant information in making any determination regarding relevant contracts of insurance.

6.3 Recoveries

6.3.1 To determine its view as to whether any section 75 debt will be recovered the PPF shall form a view in light of information received from the insolvency practitioner. This will take account of the dividends declared and/or forecast in the insolvency and any other relevant information relating to potential recoveries provided to the PPF.

6.3.2 Where appropriate, the PPF will seek an independent valuation of an equity stake or other assets acquired by way of a compromise of a section 75 debt.

6.4 Making the Funding Determination

6.4.1 Once the PPF has received the Estimate and certificate and considered the matters required of it, it shall make its determination. In making its determination the PPF shall review the assets and Protected Liabilities set out in the Estimate along with any other information provided by the actuary in the certificate. The PPF will take into account any opinions it has where those had not previously been communicated to the actuary providing the Estimate.

6.4.2 Following a review of the relevant information the PPF will make its determination where it has sufficient information to do so. Where it is not clear that a Funding Determination can be made based on the information provided the PPF will request what other further information it deems necessary in order to make its determination.

6.4.3 Once the PPF has made its determination, it shall issue its determination to the trustees of the scheme, the Pensions Regulator and the Insolvency Practitioner/employer.

Part 7 – Review

7.1 This Statement will be reviewed at regular intervals as the PPF deems appropriate.

Appendix – Example of completed certificate

Estimate of Protected Liabilities and assets at the effective date on the section 143 basis for PPF Funding Determination purposes

1. Scheme Name	The ABC Pension Fund
2. PSR number	15596432
3. Effective date of calculation	30/03/2012
4. Date submitted to the PPF	06/08/2012
5. Version of Statement used	F1
6. Version of Assumptions used	B5
7. Estimate of Protected Liabilities on the section 143 basis at effective date	36,600,000
8. Estimate of assets at effective date	12,100,000
9. Date of existing valuation	01/01/2012
10. Purpose of existing valuation	FRS17

11. Summary of assumptions used (please specify in additional information below for existing valuation if necessary)

	Existing valuation	Effective date
Net pre retirement discount rate - pre 09	0.50%	-0.30%
Net pre retirement discount rate - post 09	0.50%	0.51%
Net post retirement discount rate - no increases in payment	3.00%	3.14%
Net post retirement discount rate - increases in payment	0.50%	0.64%

Mortality:

	Existing valuation	Effective date
Base table (men)	PMA92	PMA00
Base table (women)	PFA92	PFA00
Future improvements (men)	MC92 1.25% floor	PCMA00 1.25% floor
Future improvements (women)	MC92 1.25% floor	PCFA00 1% floor

12. Approximate reconciliation of liabilities between existing valuation and effective date:

Liabilities included in existing valuation:	
Pensioners / dependants	20,000,000
Deferreds	10,000,000
Actives	5,000,000
Other (expenses, reserve etc)	0
Total	35,000,000

Allow for unwind of discount rate (effect of passage of time on liabilities)	400,000
Change in assumptions	1,000,000
Benefits paid	-300,000
Accrual of benefits	600,000
Change from Scheme benefits to PPF compensation	-1,500,000
Change in expense allowance	1,200,000
Miscellaneous	200,000
Adjustment 8 (please specify in this box)	0
Adjustment 9 (please specify in this box)	0
Adjustment 10 (please specify in this box)	0

Estimated Protected Liabilities at effective date:	
Pensioners / dependants	20,900,000
Non-pensioners	14,500,000
Expenses (winding-up and benefit installation)	1,200,000
Total	36,600,000

13. Approximate reconciliation of assets between existing valuation and effective date:

Assets included in existing valuation:	
Invested assets	11,400,000
Relevant contracts of insurance	0
Other	0
Net current assets	100,000
Total	**11,500,000**
Employer & employee normal contributions	600,000
Employer special contributions to reduce deficit	500,000
Benefits paid	-300,000
Expenses paid	-100,000
Miscellaneous	-100,000
Adjustment 6 (please specify in this box)	0
Adjustment 7 (please specify in this box)	0
Adjustment 8 (please specify in this box)	0
Adjustment 9 (please specify in this box)	0
Adjustment 10 (please specify in this box)	0
Estimated assets at effective date	
Invested assets	12,100,000
Relevant contracts of insurance	0
Other	0
Net current assets	0
Total	**12,100,000**

14. Estimate of funding level at effective date **33.1%**

15. Certification

I certify that in my opinion based on calculations carried out in line with the relevant Statement issued by the PPF that it is unlikely that the funding level at the effective date is: **more than 100%**

Additional Information

Please provide any further information which you believe should be taken into consideration by the PPF in making its Funding Determination.

Following a benefit audit it was found that the the scheme had not equalised benefits properly and so the Barber window remained open. I have ignored the effect of this on the calculations as taking it into account would lead to an increase in liabilities and my calculations already demonstrate that the scheme is unlikely to be overfunded.

Valuation completed by:	**A Actuary**
Qualification:	**FIA**
Employer:	**ABC Consultancy**