Pension
Protection
Fund

Additional information for carrying out a Section 143 valuation

Version 5

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Contents

Note: This document is intended to provide additional information, relevant to actuaries carrying out s143 valuations, in a more accessible form than the **section 143 Guidance** that is prescribed by legislation. It is not a legal document and nothing in this document overrides the formal s143 guidance or the requirements of the legislation. It remains the responsibility of the appointed actuary to ensure that the s143 valuation report is compliant with all relevant legislation in force at the date of signing the report. However, we hope this will help you in achieving that goal. (The formal s143 guidance and assumptions are available separately on the PPF website.)

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Section 1

This section provides further information on how a scheme typically progresses through the s143 valuation process. This is split into 5 parts:

1. Initial meeting to consider possible data issues and timescales;
2. Appointment of an actuary to carry out the s143 valuation;
3. Appointed actuary submits the required information to the PPF including the draft s143 report;
4. The actuaries at the PPF review the submitted information and provide comments to the appointed actuary; and
5. Submission of the final s143 report to the PPF and what happens next.

1. Possible data issues and planning

As soon as possible after a scheme has entered an assessment period, the trustees of the scheme and representatives of the PPF meet to agree a project plan. The intention of this meeting is that the trustees are aware of the tasks that need to be completed to enable the scheme to progress through the PPF assessment process in a timely manner.

Shortly after this initial meeting there is usually a conference call which may also include the scheme administrators, the scheme actuary and an actuary from the PPF. The intention of this call is:

- to ensure that all areas that can cause delays in the assessment process are addressed to the satisfaction of all parties as early as possible; and
- to ensure that all parties are aware of the agreed timescales for completing these tasks.

The s143 valuation report must include comments on:

- the tests that the appointed actuary has undertaken on the data;
- the process that the trustees have taken to assure themselves of the accuracy and completeness of the scheme membership data; and
- whether the appointed actuary has any residual concerns about the quality of the data.

Even if the scheme actuary is not required at the conference call he or she will be provided with an opportunity to comment on the project plan. This will enable the scheme actuary to have some input on the tests being carried out on the scheme data. Any concerns regarding the scheme data should therefore be addressed early on in the assessment process.

Depending on the complexity of the scheme and the quality of the underlying data and scheme documentation, the scheme actuary's attendance may be required at further meetings. This may typically be the progress review meeting that is usually held once a scheme has been in an assessment period for 12 months.

2. Appointment of actuary to carry out s143 valuation

Once the assessment process is sufficiently well advanced, the PPF will appoint an actuary to carry out the s143 valuation. There is no legal requirement that this is the scheme actuary. Just before the PPF send out their appointment letter they will ask the actuary (that they propose to appoint) whether they are happy that the scheme data is of sufficient quality for them to proceed with the s143 valuation. Once this confirmation has been received, the appointed actuary will be sent a **formal letter** covering the appointment to carry out the s143 valuation for the named scheme.

Formal letter

The formal letter sets out details of the documentation that should be submitted to the PPF with the first draft s143 report. It also draws the scheme actuary's attention to the Memorandum of Understanding that exists between the PPF and the UK Actuarial profession. A link to the memorandum is available from the PPF website page:

http://www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/ValuationGuidance.aspx

3. Submission of draft s143 report to PPF

Once the appointed actuary has carried out the relevant calculations and prepared the required documentation he or she should submit the s143 report to the PPF as a Word document in draft form. Unless the following documents have already been provided, these should also be sent to the PPF:

- signed audited accounts for the scheme for the period ending on the valuation date; and
- an excel spreadsheet showing summary data and the results of the calculation of the protected liabilities and the value placed on any relevant contracts of insurance. (The PPF website has an example of the standard form required for this "Data and Liability Information Spreadsheet".)

4. Review of draft s143 report

The s143 valuation needs to be approved by the Board of the PPF. In practice this means that the draft report and accompanying documentation is checked by the actuarial team at the PPF before it is sent to the Board for approval. The PPF actuarial team will not commence their review of the draft s143 report until all accompanying documentation (detailed above) has been received.

The checks carried out by the actuaries at the PPF broadly fall into the following categories:

- does the report comply with the relevant legislation and PPF guidance;
- are the results of the calculation of the Protected Liabilities within reasonable bounds;
- do the figures in the report tie in with the scheme accounts and other available information for the scheme;
- have all areas been addressed within the report; and
- does the report constitute a standalone document.

Comments on draft s143 report

The actuaries at the PPF will provide comments to the appointed actuary on the draft s143 report, usually via a review log. This sets out any areas on which further clarification or amendments are required. If the appointed actuary has any questions on the issues that have been raised then he or she should speak directly to the actuaries at the PPF. It is vital that the appointed actuary satisfactorily address all the issues raised in the log before submitting the second draft s143 valuation report. It is expected that this should be done within 7 days. If this timescale is too tight then it should be agreed with the PPF when the next report can be submitted.

Quality of submitted report

The PPF expects that, for straightforward cases, it should be able to request the appointed actuary to submit the final s143 valuation report after the submission of two draft s143 reports. Appointed actuaries who submit a clearly substandard first draft or who make unsatisfactory progress in addressing the issues raised in the PPF's actuarial team's review log, may be sent a letter asking for an explanation of the reasons for the substandard first draft or the unsatisfactory progress of the s143 report. As set out in the Memorandum of Understanding, this and other information may be shared with the UK actuarial profession if it is felt that professional standards have not been maintained.

5. Submission of final s143 report and what happens next?

When all parties are happy that the report is ready to be approved by the Board the appointed actuary will submit the final report. This is sent to the Board of the PPF for approval with a summary from the PPF's actuarial team. This summary provides broad details of the checks that the PPF's actuarial team have carried out on the report and comments on its compliance with the relevant legislation.

Pension Protection Fund

Once the valuation has been approved by the Board, scheme members are provided with details of the outcome of the valuation. There follows a 28 day period during which the members may request a review of the Board's decision to approve the s143 valuation. After this 28 day period the valuation becomes binding. Members are then either transferred to the PPF (if the s143 valuation has shown the scheme to be in deficit) or the PPF assessment period ends once 6 months has elapsed after the valuation has become binding. During this 6 month period the scheme should start seeking quotations for the buy-out of benefits and considering whether it will be applying for reconsideration and/or closed scheme status.

Pension Protection Fund

Section 2

This section provides an introduction to compensation, as set out in Schedule 7 of the Pensions Act 2004, relevant to carrying out a s143 valuation. It is not a definitive statement of Schedule 7 of the Pensions Act 2004. (Some numerical examples showing how the compensation cap is applied are provided in Section 3.)

- The benefits that need to be valued depend on both:
  1. the member's status at the valuation date (i.e. the **relevant time**); and
  2. the age relative to their scheme's **normal pension age.**

  See the definition of **normal pension age** below for the treatment of members with more than one relevant **normal pension age**.

- Before the member's benefits are valued a review of the scheme's **admissible rules** should be carried out. This may result in some benefits being excluded. It is assumed in the summary below that this has already taken place.

Determining the member's status at the valuation date

1. Member is already receiving a pension from the Scheme

   (i) pensioners at or over **normal pension age**; ill-health pensioners; contingent spouses / dependants; children

   The pension remains unchanged. (Note any discretionary pension increases granted in the previous 3 years in excess of the prescribed level should have been excluded under the review of the **admissible rules**.)

   (ii) pensioners under **normal pension age**

   The pension is restricted to a maximum of the compensation cap applicable to the member's age at the valuation date. This capped pension is then multiplied by 90%.

2. Deferred pensioners

   (i) deferred pensioner at or over **normal pension age** (see paragraphs 5 & 7 of Schedule 7 of the Pensions Act 2004)

   The member is assumed to retire at the valuation date. The pension (and any separate cash lump sum) is calculated as that which would have become payable if the member had retired at that date using the scheme's late retirement factors that apply to deferred pensioners.

(ii) deferred pensioner under **normal pension age**

The deferred pension at the valuation date (and any separate cash lump sum) is calculated using the scheme's method of revaluing benefits in deferment up to and including the **relevant time**. An assessment needs to be made of whether this pension (and any separate cash lump sum) will be restricted by the compensation cap. This is made by assuming that the compensation cap increases by 1.5% pa in excess of limited price index increases, with a limit of 5% pa, during the period of deferment between the valuation date and **normal pension age**. These capped benefits are then multiplied by 90%.

3. Member in service at the valuation date

(i) active member at or over **normal pension age** (see paragraphs 8 & 10 of Schedule 7 of the Pensions Act 2004)

The member is assumed to take immediate retirement from the assessment date. The pension (and any separate cash lump sum) is calculated as that which would have become payable if the member had retired at that date using the scheme's standard method of dealing with late retirement (and late retirement factors, if applicable).

(ii) active member under **normal pension age**

For the majority of schemes (e.g. excluding schemes that provide only fixed benefits) a deferred pension (and any separate cash lump sum) is calculated as though the member had left the scheme at the assessment date. A check needs to be carried out on whether these benefits will be restricted by the compensation cap. This is made by assuming that the compensation cap increases by 1.5% pa in excess of limited price index increases, with a limit of 5% pa, during the period of deferment between the valuation date and **normal pension age**. These capped benefits are then multiplied by 90%.

Note: Members may have different **normal pension ages** for different tranches of benefit. This typically arises where there has been a change in the scheme's normal retirement age during the member's service. Some example calculations showing how the compensation cap is applied to members with more than one tranche of benefit are provided in section 3.

Normal pension age – as set out in paragraph 34 of Schedule 7 of the Pensions Act 2004 is the earliest age at which any pension or lump sum becomes payable without actuarial reduction where the only criteria is the attainment of a particular age or length of service.

Normal pension age can be different from the scheme's normal retirement age. If you have any queries on it then these should be referred to your PPF Scheme Delivery Associate.

Split of benefits at the valuation date

Owing to the differences in revaluation that may apply to different tranches of compensation in deferment and payment, benefits will need to be subdivided according to the dates that they accrue.

(i) Active and deferred pensioners

Benefits should be split into parts applicable to:

- pre 6 April 1997 service;
- service between 6 April 1997 and 5 April 2009 inclusive; and
- post 5 April 2009 service.

(ii) Pensions in payment

Benefits should be split into parts applicable to:

- pre 6 April 1997 service; and
- post 5 April 1997 service.

Where a member has more than one **normal pension age** then benefits for active and deferred pensioners should be further subdivided. For pensioners this further subdivision is only necessary when the pensioner is over **normal pension age** for one tranche of benefit and under for another tranche. It is vital that these subdivisions of benefits and their corresponding liabilities are separately recorded as they need to be provided to the PPF on the "Data & Liability Information Spreadsheet".

(iii) Benefits derived from internally annuitised AVCs

Where members have converted money purchase contributions into a pension through the scheme, these are eligible for PPF protection. Such compensation should receive indexation consistent with the rest of the PPF compensation depending on whether the contributions were made prior to 6 April 1997 or post, other than where the member converted their annuity to a wholly level pension. If the admin records do not record the pre/post 97 split then this may be approximated using the member's service dates.

(iv) Cash balance benefits

Cash balance benefits are benefits where there is a promise over the sum but there is no guarantee over the rate or amount of pension that the sum will be converted into.

For each individual under **normal pension age** aged x with a normal pension age of y and cash balance amount of (£A_1 + £A_2 + £A_3) at the **relevant time** (where £A_1, £A_2 and £A_3 are the cash balance amounts accrued in relation to pre 1997, 1997-2009 and post 2009 service respectively) the scheme actuary should:

- Apply a cap to (£A_1 + £A_2 + £A_3) equal to the compensation cap at age y multiplied by the annuity at age y. The annuity at age y is derived from two annuities at age y, weighted by pre 97 and post 97 service, using the appropriate yield in payment as defined in the **assumptions guidance**. The annuity at age y should also contain an element in respect of a contingent spouse's pension unless the scheme does not provide such a benefit or if a self annuitised member has elected to receive a single life pension. Note each of the cash balance amounts should be reduced, if necessary, by the same percentage so that the total of the capped cash balance amounts is equal to the maximum permitted;

- Discount the capped cash balance amounts payable at retirement at age y, after allowing for mortality, by a factor of $(1+i)^{x-y}$. Note i is the yield in deferment, according to the date that the compensation is accrued, as defined in **assumptions guidance**;

- Similarly, discount the cash balance amount payable on death before retirement, after allowing for the probability of death, in n years' time by a factor of $(1+i)^{-n}$;

- Sum all the discounted capped cash balance amounts over all the various contingencies;

- Multiply by 90%.

For each individual over **normal pension age** but not yet in receipt of a pension, the section 143 liabilities should equal the cash balance amount in relation to that particular member.

Section 3

Examples of calculations looking at the application of the compensation cap for members with more than one tranche of benefit.

Calculation of the relevant compensation cap for deferred pensioners

Following the change in revaluation that applies to compensation in deferment for post 5 April 2009 accrual, different projected coeffempensation caps are required for pre 6 April 2009 and post 5 April 2009 accrual.[1]

Projected compensation cap for pre 6 April 2009 accrual

The compensation cap needs to be projected to each **normal pension age** applicable to pre 6 April 2009 service using the assumption that the compensation cap will increase by 1.5% pa in excess of limited price indexation with a limit of 5% pa.

Projected compensation cap for post 5 April 2009 accrual

The compensation cap needs to be projected to each **normal pension age** applicable to post 5 April 2009 service using both:

- the assumption that the compensation cap will increase by 1.5% pa in excess of limited price indexation with a limit of 5% pa; and
- allowing for the geometric difference in the assumed yields in deferment that apply to post 5 April 2009 and pre 6 April 2009 accrual during the period of deferment.

This is illustrated in example 3.1 below.

[1] Pre 6 April 2009 compensation used to revalue in line with price inflation subject to a maximum of 5% pa compounded over the whole period. For post 5 April 2009 compensation this maximum was lowered to 2.5% pa.

(1) **Example 3.1**

- Member is a deferred pensioner aged 50 at the **relevant time** with less than 20 years pensionable service
- Member has tranches of benefit with different **normal pension ages** (using sample values for the compensation cap).
- The compensation cap needs to be projected to each **normal pension age**. The method of projection is different for pre 6 April 2009 and post 5 April 2009 tranches of benefit.
- The percentage of the compensation cap used at each **normal pension age** then needs to be calculated. The aggregate percentage of the compensation cap used at any time must be restricted to 100%. Once the aggregate percentage used has exceeded 100%, a redistribution of compensation should be carried out for tranches with later **normal pension ages**.
- The calculation can be quite complex particularly where a member has two or more **normal pension ages**, and elements of pre 1997, 1997 – 2009 and post 2009 compensation.
- The 90% compensation level percentage is applied to all tranches where the member is below **normal pension age** at the valuation date. It is applied after the compensation cap has been applied.
- If a member is over **normal pension age** for a particular tranche of benefit but under for another tranche of benefits at the **relevant time**, only the benefits in respect of the tranche(s) of benefits where the member is under **normal pension age** are compared against the compensation cap.

Tranche	**relates to service:**	**Normal pension age**	**Scheme pension at assessment date**
A	pre 1997	60	£20,000 pa
B	pre 1997	65	£ 8,000 pa
B	1997 – 2009	65	£14,000 pa
B	post 2009	65	£ 1,000 pa

1. Look up compensation cap in force at the valuation date (see tables on PPF website). Note sample values have been used in this example.
   - For age 60 - £25,000 pa
   - For age 65 - £29,000 pa
2. Project relevant compensation cap to different **normal pension ages** depending on whether the accrual relates to pre 6/4/2009 or post 5/4/2009 service
   - **Normal pension age** 60 (pre 6/4/2009 accrual) = 25,000 x 1.015^10 = £29,013.52 pa
   - **Normal pension age** 65 (pre 6/4/2009 accrual) = 29,000 x 1.015^15 = £36,256.73 pa
   - **Normal pension age** 65 (post 5/4/2009 accrual)

   =29,000 x (1.015 ^ 15) x (1.0196 ^ 15) / (1.0076 ^ 15) = £43,302.57 pa

   (where at the valuation date, 1.96% pa is the Yield in deferment for Post 5/4/2009 accrual, and 0.76% pa is the Yield in deferment for Pre 6/4/2009 accrual.)
3. Calculate percentage of the compensation cap used at different **normal pension ages**
   - % cap used at **normal pension age** 60 = 20,000 / 29,013.52 = 68.93%
   - % cap used at **normal pension age** 65

   = 68.93% + (8,000 + 14,000)/36,256.73 + 1,000 / 43,302.57= 131.92%
4. Calculate amounts of compensation at the valuation date after application of compensation cap and 90% multiplier:

Tranche A (pre 1997)

Payable from age 60 up to age 65 (pre 97) = 20,000 x 90% = £18,000.00 pa

Reducing at 65 to (20,000 / 131.92%) x 90% = £13,644.63 pa (Note care is needed here if you value this element using a deferred annuity from age 65 as no increases apply between ages 60 and 65, since pre 97 compensation.)

Tranche B (payable from age 65)

(pre 1997) = (8,000 / 131.92%) x 90% = £5,457.85 pa

(1997 – 2009) = (14,000 / 131.92%) x 90% = £9,551.24 pa

(post 2009) = (1,000 / 131.92%) x 90% = £682.23 pa

This compensation can then be valued using the net discount rates in deferment and payment applicable to the date of accrual. Information on how you should calculate these assumptions is provided in the s143 assumptions guidance.

Note no redistribution of the compensation cap is required at age 65 for this case as the compensation coming into payment at the earlier **normal pension age** is all in respect of pre 1997 service. (Example 3.3 below shows a case where redistribution of the compensation cap is required at the later **normal pension age**.)

Example 3.2

- Member is a pensioner aged 61 at the assessment date (AD) with less than 20 years pensionable service and has 3 tranches of pension all in payment
- Member retired early and exchanged part of his pension for cash.
- The maximum compensation that can be paid takes into account the fact that the member has chosen to commute some of his pension. You therefore need details of both the scheme pension at the AD and the scheme pension that would have been in payment at the AD if member hadn't commuted any pension.

Tranche	**relates to service:**	**Normal pension age**	**Scheme pension at AD**	**Scheme pension pre commutation at AD**
A	pre 1997	60	£ 3,500 pa	£ 6,500 pa
B	post 1997	63	£27,000 pa	£30,000 pa
C	post 1997	65	£ 3,000 pa	£ 6,000 pa

1. Look up compensation cap in force at the assessment date (see tables on PPF website)
   - For age 61 last birthday - £28,067.99 pa (this is a theoretical value)
2. Calculate scheme pension (before commutation) which is subject to the compensation cap
   - i.e. **normal pension age** 63 and **normal pension age** 65 elements = 30,000 + 6,000 = £36,000 pa

   (Member is over age 60, his first **normal pension age**, so only the age 63 and age 65 tranches are subject to the cap and 90% multiplier.)
3. Calculate percentage of the compensation cap that applies
   - % cap applies = 36,000 / 28,067.99 = 128.26%
4. Calculate amounts of compensation at the assessment date after application of compensation cap and 90% multiplier:

Tranche A (pre 97)

£3,500 pa continues unchanged (member is over **normal pension age** for this tranche at the AD)

Tranche B (post 97)

Compensation = (27,000 / 128.26%) x 90% = £18,945.89 pa

Tranche C (post 97)

Compensation = (3,000 / 128.26%) x 90% = £2,105.10 pa

Pension Protection Fund

This compensation can then be valued using the net discount rates in payment as applicable to the date of accrual. Information on how you should calculate these assumptions is provided in the s143 assumptions guidance.

Example 3.3 (Complicated)

- Member is a deferred pensioner aged 50 at the valuation date with less than 20 years pensionable service and with 2 different **normal pension ages.**
- In this example the member is over the compensation cap when the first tranche of compensation comes into payment at **normal pension age** 60. A redistribution of the compensation between the different tranches is required when the second tranche comes into payment at **normal pension age** 65. (Note this affects the proportion of compensation that relates to post 1997 service and so is eligible for increases in payment.)
- The member is less than **normal pension age** at the valuation date and so the 90% applies to all tranches. It is applied after the compensation cap has been applied.

Tranche	**relates to service:**	**Normal pension age**	**Scheme pension at assessment date**
A	pre 1997	60	£23,000 pa
A	post 1997	60	£ 8,000 pa
B	post 1997	65	£ 6,000 pa

1. Look up compensation cap in force at the valuation date (see tables on PPF website). Note sample values have been used in this example.
   - For age 60 - £25,000 pa
   - For age 65 - £29,000 pa
2. Project relevant compensation cap to different **normal pension ages**
   - **normal pension age** 60 (pre 6/4/2009 accrual) = 25,000 x 1.015^10 = £29,013.52 pa
   - **normal pension age** 65 (pre 6/4/2009 accrual) = 29,000 x 1.015^15 = £36,256.73 pa
3. Calculate percentage of the compensation cap used at different **normal pension ages**
   - % cap used at **normal pension age** 60 = (23,000 + 8,000) / 29,013.52 = 106.85%

   Member is over the compensation cap when the **normal pension age** 60 tranche comes into payment so this calculation is not required for the **normal pension age** 65 tranche.
4. Calculate amounts of compensation at the **relevant time** payable at the different **normal pension ages** after application of the compensation cap and 90% multiplier.

Payable from age 60 - 65
Tranche A (pre 97) = (23,000 / 106.85%) x 90% = £19,372.95 pa
Tranche A (post 97) = (8,000 / 106.85%) x 90% = £ 6,738.42 pa

At **normal pension age** 65 the compensation then assumed to be in payment should be reallocated between all the tranches at that date. This should be done using the expected compensation at each **normal pension age**.

Tranche	**relates to service:**	**Normal pension age**	**Compensation at normal pension age**** **(before application of the cap and 90%)**	**Reallocation %**
A	pre 1997	60	£25,300 pa	61.68
A	post 1997	60	£ 8,800 pa	21.45
B	post 1997	65	£ 6,922 pa	16.87
Total	n/a	n/a	£41,022 pa	100.00

** These should be projected to **normal pension age** using the implied increases in compensation in deferment calculated from the assumptions guidance. E.g. for pre 6/4/2009 accrual this can be found by taking the geometric difference between the net discount rate assumptions for "compensation not increasing in deferment" and "compensation increasing in deferment and accrued prior to 6 April 2009". Sample values have been used in this example.

Tranche	**relates to service:**	**Normal pension age**	**Assumed compensation** **at normal pension age 65** **before reallocation**	**%** **(See above)**	**Assumed compensation** **at normal pension age 65** **after reallocation**
A	pre 1997	60	£19,372.95 pa	61.68	£16,308.19 pa
A	post 1997	60	£ 7,067.05 pa ***	21.45	£ 5,671.38 pa
B	post 1997	65	£ 0.00pa	16.87	£ 4,460.43 pa
Total	n/a	n/a	£26,440.00 pa	100.00	£26,440.00 pa

*** i.e. £6,738.42 pa at **normal pension age** 60 plus 5 years assumed post 1997 increases in payment between 60 and 65. (The assumed rate of post 97 increases to compensation can be calculated by looking at the geometric difference between the net discount rate assumptions for “compensation with no increases in payment” and “compensation increasing in payment”. Sample values have been used in this example.)

Payable from age 65	
Tranche A (pre 97)	= £16,308.19 pa
Tranche A (post 97)	= £ 5,671.38 pa
Tranche B (post 97)	= £ 4,460.43 pa

Care should be taken that the correct discount rates are used for valuing these tranches of benefit.

For example, for Tranche A (pre 97) payable from age 65 you should use:

- the net discount rate for “compensation increasing in deferment and accrued prior to 6 April 2009” for the years up to age 60; and
- the net discount rate for “compensation with no increases in payment” for the 5 years between 60-65.

(For the part of Tranche A (post 97) paid from age 65, the same discount rates should be used up to age 65 as the 5 years increases on this tranche between ages 60-65 are already included in the figure above.)

Information on how you should calculate these discount rates, plus the other assumptions required for valuing protected liabilities, is provided in the s143 assumptions guidance.

Examples of calculations looking at the application of the compensation cap for members with long service in respect of schemes entering assessment on or after 6 April 2017

Background

The long service compensation cap came into force on 6 April 2017. Any valuations undertaken with an effective date on or after this date should incorporate the revised compensation cap where applicable. The new compensation cap is 3% higher than the member's original cap for each **complete** year of service over and above 20 years. The new cap, however, cannot be more than double the member's original cap. It's important to note that the member's compensation will not increase beyond their original PPF entitlement in relation to this change.

Example 3.4 (pensioner member with long service)

- Member was a pensioner under **normal pension age** at the **relevant time** so was subject to the compensation cap. He only has one tranche of benefits.
- Member took part of his compensation as cash at retirement.
- Member has 37 years and 7 months of service in his former scheme (including service transferred-in from a previous scheme).
- See table below for calculation. Note that sample values have been used in this calculation.

Data

Service	37 years 7 months
Pension in payment at effective date	£23,000 pa
Uncapped pre commutation pension at assessment date	£29,000 pa
Compensation cap in force at assessment date (before application of 90%) (from PPF website)	£27,000 pa

Calculation

Element of calculation	Calculation	Result
Uplift percentage due to new long service compensation cap	(37-20) x 3% = 51%	51%
Uplift percentage required to bring to original entitlement	(£29,000/£27,000) - 1 = 7.4%	7.4%

Relevant uplift percentage	Minimum (51%, 200%, 7.4%)	7.4%
Uplift to compensation	7.4% x 0.9 x £27,000 = £1,800	£1,800

- Resulting uplift should be split between pre and post 97 service in proportion to the current proportions of pension in payment

Example 3.5 (pensioner member with long service)

- Member was a pensioner under his **normal pension age** at the **relevant time** so was subject to the compensation cap. He only has one tranche of benefits.
- Member took part of his compensation as cash at retirement.
- Member has 26 years and 3 months of service in his former scheme (including service transferred-in from a previous scheme).
- See table below for calculation. Note that sample values have been used in this calculation.

Data

Service	26 years 3 months
Pension in payment at assessment date	£27,000 pa
Uncapped pre commutation pension at assessment date	£45,000 pa
Compensation cap in force at assessment date (before application of 90%) (from PPF website)	£32,000 pa

Calculation

Element of calculation	**Calculation**	**Result**
Uplift percentage due to new long service compensation cap	(26-20) x 3% = 18%	18%
Uplift percentage required to bring to original entitlement	(£45,000/£32,000)-1 = 40.6%	40.6%
Relevant uplift percentage	Minimum (18%, 200%, 40.6%)	18%
Uplift to compensation	18% x 0.9 x £32,000 = £5,184	£5,184

- Resulting uplift should be split between pre and post 97 service in proportion to the current proportions of pension in payment

Example of calculations looking at the application of the compensation cap for members with long service in respect of schemes entering assessment on or after 6 April 2017

Example 3.6 (pensioner member with long service)

- Member was a pensioner under his **normal pension age** at the **relevant time** so was subject to the compensation cap. He only has one tranche of benefits.
- Member took part of his compensation as cash at retirement.
- Member has 26 years and 3 months of service in his former scheme (including service transferred-in from a previous scheme).
- See table below for calculation. Note that sample values have been used in this calculation.

Data

Service	26 years 3 months
Pension in payment at assessment date	£27,000 pa
Uncapped pre commutation pension at assessment date	£45,000 pa
Compensation cap in force at assessment date (before application of 90%) (from PPF website)	£32,000 pa

Calculation

1. Calculate increase in Compensation Cap:
   - (26-20) x 3% = 18%
2. Calculate Long Service Cap (see tables on PPF website for standard cap):
   - 32,000 x 1.18 = 37,760
3. Calculate percentage of the Long Service Compensation Cap that applies
   - % cap applies = 45,000 / 37,760 = 119.17%
4. Calculate amounts of compensation at the assessment date after application of compensation cap and 90% multiplier:

   Compensation = (27,000 / 119.17%) x 90% = £20,391.04 pa

Resulting compensation should be split between pre and post 97 service in proportion to the current proportions of pension in payment.

Example of calculations looking at the application of the compensation cap for members with bridging pensions in respect of schemes entering assessment on or after 24 February 2018

Example 3.7 (Bridging pension)

- Member is a deferred pensioner aged 50 at the **relevant time** with less than 20 years' service.
- Member has tranches of benefit as follows:

Tranche	Relates to service:	Normal pension age	Scheme pension at assessment date
A	Pre 97	60	£38,000 pa
A (step-down element from 60 to 65)	Pre 97	60	£ 5,000 pa

1. Look up compensation cap in force at the valuation date (see tables on PPF website). Note actual compensation cap figures in the year starting April 2018 have been used in this example.

- For age 60 - £33,099.74 pa

2. Project relevant compensation cap to **normal pension age**

- **Normal pension age** 60 = 33,099.74 x 1.015^10 = £38.413.60 pa

3. Calculate lifetime equivalent pension of the step-down element. Note actual step-down conversion factors applicable from April 2018 have been used in this example.

- Factor to convert 5 year step-down pension from age 60 = 0.2203
- 5,000 x 0.2203 = £1,101.50 pa

4. Calculate percentage of the compensation cap used at **normal pension age**

- % cap used at **normal pension** age 60 = (38,000 + 1,101.50) / 38,413.60 = 101.79%

5. Calculate the amounts of compensation at the valuation date after application of the cap and 90% multiplier

- Tranche A (Pre 97): (38,000 / 101.79%) x 90% = £33,598.59 pa
- Tranche A (Pre 97 step-down element): = (5,000 / 101.79%) x 90% = £4,420.87 pa reducing to £0 pa at age 65

Example 3.8 (Bridging pension)

- Member is a deferred pensioner aged 50 at the relevant time with less than 20 years' service.
- Member has tranches of benefit as follows:

Tranche	Relates to service:	Normal pension age	Scheme pension at assessment date
A	Pre 97	60	£30,000 pa
A (step-down element from 60 to 65)	Pre 97	60	£ 5,000 pa
B	1997 - 2009	65	£33,000 pa

1. Look up compensation cap in force at the valuation date (see tables on PPF website). Note actual compensation cap figures for the year starting April 2018 have been used in this example.

- For age 60 - £33,099.74 pa
- For age 65 - £39,006.18 pa

2. Project relevant compensation cap to different **normal pension ages**

- **Normal pension age** 60 = 33,099.74 x 1.015^10 = £38,413.60 pa
- **Normal pension age** 65 = 39,006.18 x 1.015^15 = £48,766.78 pa

3. Calculate lifetime equivalent pension of the step-down element. Note actual step-down conversion factors applicable from April 2018 have been used in this example.

- Factor to convert 5 year step-down pension from age 60 = 0.2203
- 5,000 x 0.2203 = £1,101.50 pa

4. Calculate percentage of compensation the cap used at different **normal pension ages**

- % cap used at **normal pension age** 60 = (30,000 +1,101.50) / 38,413.60 = 80.96%
- % cap used at **normal pension age** 65 = 80.96% + 33,000 / 48,766.78 = 148.63%

5. Calculate the amounts of compensation at the valuation date after application of the cap and 90% multiplier

- Tranche A (Pre 97): 30,000 x 90% = £27,000 pa from 60 to 65
  Reducing at age 65 to: (30,000 / 148.63%) x 90% = £18,165.92 pa
- Tranche A (Pre 97 step-down element): = 5,000 x 90% = £4,500 pa
  Reducing to £0 pa at age 65
- Tranche B (Post 97): (33,000 / 148.63%) x 90% = £19,982.51 pa

Example 3.9 (Bridging pension)

- Member is a pensioner aged 59 at the relevant time with less than 20 years' service.
- Member retired early at age 58 and exchanged part of his pension for cash
- Member has tranches of benefit as follows:

Tranche	Relates to service:	Normal pension age	Scheme pension at assessment date	Scheme pension pre commutation at assessment date
A	Pre 97	60	£30,000 pa	£35,000 pa
A (step-down element ending at 65)	Pre 97	60	£ 4,000 pa	£ 5,000 pa

1. Look up compensation cap in force at the valuation date (see tables on PPF website). Note actual compensation cap values for the year starting April 2018 have been used in this example.

- For age 59 - £32,111.68 pa

2. Calculate lifetime equivalent of the step-down pension (before commutation) which is subject to the compensation cap. Note actual step-down conversion factors applicable from April 2018 have been used in this example.

- Factor to convert step-down pension with 6 years remaining from age 59 = 0.2552
- 5,000 x 0.2552 = £1,276 pa

3. Calculate scheme pension (before commutation) which is subject to the compensation cap

- (35,000 + 1,276) = £36,276 pa

4. Calculate percentage of the compensation cap used at valuation date

- 36,276 / 32,111.68 = 112.97%

5. Calculate the amounts of compensation at the valuation date after application of the cap and 90% multiplier

- Tranche A (Pre 97): (30,000 / 112.97%) x 90% = £23,900.15 pa
- Tranche A (Pre 97 step-down element): = (4,000 / 112.97%) x 90% = £3,186.69 pa reducing to £0 pa at age 65

Section 4

This section provides information on some of the additional considerations that are relevant to carrying out a section 143 valuation for schemes with more than one employer. It is split into 6 parts:

1 When are separate s143 valuations required?
2. What are the accounting requirements and how should assets be allocated?
3. How to allocate members to different parts of the scheme?
4. What happens to orphan liabilities?
5. s75 debt issues
6. s143 report issues

1. **When are separate s143 valuations required?**

Separate s143 valuation reports may be required for any scheme or section of a scheme that has more than one employer. This depends on the legal structure of the scheme / section. The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441 classifies schemes with more than one employer into 7 different types according to:

- whether the scheme is run on a sectionalised basis; and
- the partial winding-up requirements, if any, of their trust deed and rules.

The PPF's section 120 validation process identifies whether the scheme is divided into sections or segregated parts. The letter issued to the trustees confirming that there is an assessment period will indicate whether the assessment period following the insolvency event is in respect of the whole or part of the scheme. Where there is an option or requirement for a partial wind-up in the scheme's trust deed and rules, a segregated part is created in respect of the insolvent employer's part of the scheme. Depending on which part of the regulations applies to a scheme, the insolvency of one of its employers may result in either the whole scheme, a section or a segregated part of the scheme entering a PPF assessment period. A section 143 valuation will then be required for either the whole scheme, that section of the scheme or that segregated part of the scheme.

It is especially important for multi-employer schemes that discussions between all the relevant parties start as early as possible in the assessment process. Further information on the additional items that need to be addressed is available for affected schemes.

2. **What are the accounting requirements and how should assets be allocated?**

Audited accounts will be required for the whole scheme for the period ending on the day before the date of insolvency of the employer. These accounts will identify the assets allocated to each section or segregated part, as appropriate. Early consideration should be given as to whether the trustees want to treat this date as the scheme's formal accounting date or if a set of special purpose accounts should be created, solely for the purpose of supporting the s143 valuation. The assets of the scheme must be apportioned between the insolvent employer and the rest of the scheme in line with the scheme rules. Before any significant work is undertaken, the PPF should be provided with sufficient information on how the apportionment is to be carried out. This information should demonstrate that the apportionment is in accordance with the trust deed and rules of the scheme. Procedures should be put in place to ensure that the assets attributable to the insolvent employer are ring-fenced and that appropriate records are maintained to enable future transactions to be allocated to the relevant parts of the scheme, if appropriate.

3. **How to allocate members to different parts of the scheme?**

This should be carried out in line with the partial winding-up rule in the trust deed and rules of the scheme[2]. Complications can arise where members have periods of pensionable service with more than one employer. If information is not available to do this fully in accordance with the rules, agreement on the approach to be adopted should be received from the Trustees' legal advisors and the PPF before any allocation is started.

4**. What happens to orphan liabilities?**

Liabilities of the scheme which relate to members employed by a former employer which no longer participates will, in most schemes, be orphan members (liabilities). This is due to the requirement to allocate members to the segregated part in accordance with the partial wind-up rule. Typically partial wind up provisions will only extend to some or all members who have been in pensionable service with the employer which has become insolvent. If this is the case, such orphan liabilities should be allocated to the remaining part of the scheme that is not in a PPF assessment period. On the insolvency of the last remaining participating employer, the remainder of the scheme (consisting of liabilities in respect of former employees of that employer and orphan members) will enter a PPF assessment period. (Note orphan liabilities are not liabilities of the scheme in respect of members where the employer is unknown.) The application of the provisions of any individual partial wind up rule can be highly complex and is a matter on which the trustees should consult their appointed legal advisors.

[2] The legislation governing multi-employer schemes deems a scheme's partial wind up provision triggered to create the segregated part which is being assessed, so the terms of the partial wind up provision will govern which members (liabilities) and assets form the segregated part.

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5. s75 debt issues

Any employer debt must be calculated in respect of the insolvent employer in accordance with section 75 of the Pensions Act 1995. Recoverable assets received usually belong to the scheme as a whole. They should therefore be allocated between the relevant parts of the scheme in the same way as the other assets of the scheme.

6. s143 report issues

A separate section 143 valuation is required in respect of each section or segregated part of the scheme that is in a PPF assessment period. The actuary should provide details on all aspects of the apportionment process in the report to enable the PPF to have confidence that both the requirements of the Trust Deed and Rules of the scheme and appropriate legislation have been met. Instead of providing multiple s143 reports it may be possible to provide a single report covering all sections but setting out the results of each valuation separately. Please speak to your PPF actuarial contact for more details.

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Section 5

The following checklist covers the basic items that should be included in the s143 valuation report. Further items may also be required depending on the circumstances of the scheme.

Checklist for s143 Report	**Done?**
Report addressed / copied to the Board of the Pension Protection Fund	
Assessment date is …..	
Effective date of the valuation is ………**	
Date of issue of the valuation – this can be achieved by the appointed actuary signing off and dating the main report	
Written statements required under paragraph 9(1) of PPF Valuation Regs 2005	
a) The assets and protected liabilities of the eligible scheme have been calculated in accordance with the PPF (Valuation) Regulations 2005, guidance issued by the Board and s143 of the Act.	
b) The valuation has been prepared in accordance with: the PPF (Valuation) Regulations 2005; and guidance issued by the Board (in accordance with s143 of the Pensions Act 2004).	
c) The valuation does not take effect until it becomes binding.	
d) The person who has prepared the valuation is an appropriate person.	
Version of s143 Guidance used	
Version of s143 Assumptions used	
Assumptions - yield in deferment – pre 6 April 2009 accrual, if applicable	
- yield in deferment – post 5 April 2009 accrual, if applicable	
- yield in payment – pre 6 April 1997 accrual	
- yield in payment – post 5 April 1997 accrual	
- mortality assumptions including tables used and improvement rates. (Also state that these are relevant to the individual's year of birth and provide details of age ratings used.)	
- proportions married, including justification (this should make reference to the rules of the scheme)	
- age difference between member and dependant	

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- relevant to benefit installation / payment expenses	
- relevant to expenses of wind – up	
- relevant to the application of the compensation cap at normal pension age for non-pensioners	
Additional assumptions applicable to valuing relevant insurance policies (with justification of how these assumptions have been calculated)	
Age definition used	
Data & Liability information is attached in standard format as an excel spreadsheet	
Data & Liability information spreadsheet includes valuation of any relevant insurance policies	
Summary of processes trustees have taken to identify all beneficiaries of scheme (including DWP trace results, where applicable) and verify the accuracy of the data	
Details of data checks undertaken by the Trustees	
Details of additional checks appointed actuary has made on the data **	
Reconciliation of membership numbers between s143 report and accounts	
Statement regarding any residual concerns about the data	
Quantification of the effect of any residual concerns, if applicable	
Details of the approach adopted for valuing non-pensioners over normal pension age at the valuation date (please make reference to the appropriate paragraph of Schedule 7 of the Pensions Act 2004)	
Details of the compensation cap(s) used	
Details regarding the application of the compensation cap including non-pensioners over normal pension age, if applicable.	
Details of any adjustments made to the assets plus details of the relevant paragraph of the valuation regulations under which adjustment has been made, if applicable **	
Statement about s75 debt, financial support direction or restoration order included in the asset value, as advised by the PPF	
Reconciliation of asset figure from relevant accounts and figure quoted in the s143 certificate	
A summary of scheme benefits has been included	
Details of treatment of AVCs, please say if there are none	

Details of scheme including full name, address and pension scheme registration number are provided	
Details of the trustees including address	
S143 certificate is attached to the report – please only amend as indicated	
Qualification quoted on certificate is Fellow of the Institute and Faculty of Actuaries	
Approximations in calcs - full details provided	
- confirmation agreement obtained from Board	
Confirmation that the overall effect of all approximations made is within 1% materiality limits*, if applicable	
Report constitutes a stand-alone document	
Statement if the scheme has equalised benefits for GMPs	

* The Board of the PPF define materiality in terms of a section 143 valuation as not changing the value of the Protected Liabilities by more than 1%.

** Additional information on frequently asked questions.

Q. The Relevant Accounts have been prepared at the Assessment Date rather than the Effective Date. What date should I carry out the s143 valuation?

A. For consistency with the relevant accounts you may also carry out the valuation at the Assessment Date (AD). You should make a statement in your report explaining that this is the reason that you have carried out the valuation at the AD. You should also make a statement that the outcome of the valuation would have been unchanged had it been carried out at the Effective Date (obviously provided that this is the case).

Q. What are the additional tests the actuary may place on the data?

A. These are the usual sort of reasonableness checks that the actuary would typically carry out on the data for a scheme funding valuation, for example:

- Checking that all the members' dates (date of birth; date of joining the scheme; date of exit etc) are in chronological order and are consistent with the members' status;
- Checking splits of pre and post 6/4/1997 benefits look reasonable;
- Reconciling the data with that used at the previous valuation;
- Checking all pensions are of a reasonable size and that ages of members are appropriate

Q. Where do I find details of the adjustments that can be made to the asset value taken from the Relevant Accounts?

A. These are described in Regulation 7 of the PPF Valuation Regulations 2005, and under s143(11)(d) of the Pensions Act 2004. A summary of the adjustments to the assets value taken from the relevant accounts that are permitted are as follows:

Regulation from the PPF Valuation Regulations 2005	
7(1)	TV paid during the Assessment Period. (These transfer values must have been approved before the Assessment Date.)
Insurance contracts not included in the Relevant Accounts	
7(2)(a)	Relevant Contract of Insurance. (i.e. Contract that secures benefits for a particular individual and has either no Surrender Value or Surrender Value is less than the value placed on contract.)
7(2)(b)	Surrender value of insured contract used.
7(2)(c)	Insured contract that is not a Relevant Contract of Insurance and the actuary has placed a value not equal to the Surrender Value on the contract.
Recoverable assets including s75 debt	
7(4)(a)	Section 75 debt recoverable assets not yet received at date of signing. (This amount will be advised by PPF when the final s143 report is requested.)
7(4)(b)	Section 75 debt recovered assets. (i.e. s75 debt received between the Effective Date and the date the report is signed.)
7(4)(c)	Recoverable assets in relation to a contribution notice, FSD or restoration order.
Other asset adjustments	
7(4)(d)	Adjusting asset values because it is “substantially different” to the figure shown for a particular asset in the relevant accounts. (Note this does not include normal movements in the market value of the assets.)
7(4)(e)	Assets not listed in the accounts. Typically this may comprise overpayments / underpayments that fall before the Effective Date.
Reference to Pensions Act 2004	
s143(11)(d)	Assets relating to defined contribution benefits, including money purchase AVCs.

Section 6

Glossary of terms relevant to a s143 valuation.

Admissible rules	broadly these are the scheme rules disregarding any rule changes (or discretionary increases) made in the 3 years prior to the assessment date which have acted to increase the protected liabilities. (See paragraph 35 of Schedule 7 to the Pensions Act 2004.)
Appropriate person	person appointed by the Board of the PPF to carry out the s143 valuation, who meets the criteria specified in section 143(11)(a)(ii) of the Pensions Act 2004. (Term comes from the PPF (Valuation) Regulations 2005.)
Assessment date	day of the qualifying insolvency event
Assessment period	period which starts with the assessment date and finishes when an eligible scheme either transfers to the PPF, goes out into the market to buy-out benefits, is rescued etc
Compensation cap	maximum limit that applies to PPF compensation (Note 90% multiplier is applied after the compensation cap has been applied.)
Effective date	same as the “relevant time”
Normal pension age	earliest age at which any pension or lump sum becomes payable without actuarial reduction where the <u>only criteria</u> is the attainment of a particular age or length of service. (See paragraph 34 of Schedule 7 of PA 2004.)
Qualifying insolvency Event	insolvency event that meets the requirements set out in legislation relevant to the PPF (s121 and s127 of the Pensions Act 2004; PPF (Entry Rules) Regulations 2005)
Relevant accounts	audited accounts ending at the “relevant time” which contain the information set out in the PPF Valuation Regulations 2005 as amended by the PPF (Miscellaneous Amendments) Regulations 2007
Relevant insurance policy	insurance policy that can’t be surrendered or if it can be surrendered has a surrender value that is less than the value of the liability secured calculated on s143 assumptions (see s161(8) of Pensions Act 2004).

Relevant time	day immediately before the date of the qualifying insolvency event*** (as defined in s127(4)(b) and s128(3)(b) of the Pensions Act 2004)
Section 143 valuation	statutory valuation required where a scheme is in an assessment period. The valuation is described in s143 of the Pensions Act 2004.

***Where an assessment period has been triggered other than by a qualifying insolvency event, see s129 of the Pensions Act 2004 for the definition of the relevant time.