Contents

Part 1 – Effective date of guidance

1.1 This is version B3 of the guidance.

1.2 This version of the guidance is effective for valuations with an effective date on or after 31 March 2008.

1.3 This guidance should be read in conjunction with the most recent version of our *Guidance for undertaking the valuation in accordance with Section 143 of the Pensions Act 2004.*

Part 2 – Overview

2.1 Introduction

2.1.1 The Pensions Act 2004 ("the Act") sets out the conditions that must be met for the Pension Protection Fund to assume responsibility for a scheme.

2.1.2 In order for the Pension Protection Fund 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;
- the scheme must not have commenced wind-up before 6 April 2005;
- an **insolvency event** must have occurred in relation to the scheme's employer which is a **qualifying insolvency event**;
- 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 Pension Protection Fund would pay if it assumed responsibility for the scheme.

2.1.3 A valuation under **section 143 of the Act** will determine whether the scheme has sufficient funds to pay at least the Pension Protection Fund levels of compensation as set out above.

2.1.4 This guidance must be read in conjunction with the most recent version of our "*Guidance for undertaking the valuation in accordance with Section 143 of the Pensions Act*".

2.2 Purpose of this guidance

2.2.1 This guidance on assumptions is intended for actuaries undertaking valuations to determine the level of funding in accordance with **section 143** of the Act.

2.3 Legislative requirements

2.3.1 Assumptions must be set in compliance with Regulation 6 of the Pension Protection Fund (Valuation) Regulations 2005, which provides that the estimated cost of securing scheme benefits is calculated in accordance with Schedule 7 of the Act (pension compensation provisions) to the member by means of an annuity purchased at the market rate at the relevant time.

2.4 Legislation or authority for actuarial valuations

The Pensions Act 2004 (the Act)

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

The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441

The Pension Protection Fund (Compensation) Regulations 2005 SI 2005/670

The Pension Protection Fund (Valuation Regulations) 2005 SI 2005/672 (“the valuation regulations”)

The Occupational Pension Schemes (Modification of Pension Protection Provisions) Regulations 2005 SI 2005/705

“The Cap regulations” – these are updated annually, the most recent being The Pension Protection Fund (Pension Compensation Cap) Order 2007 SI 2007/989

Part 3 – Financial basis for use when undertaking valuations

3.1 Calculation of yields as at the effective date of valuation

Yields should be measured as at the close of business on the effective date of the valuation. For any dates where yields are not available the yields for the nearest preceding date should be used. Yields should be calculated to the nearest 0.01%. Expressions of the form (Yield Z - k%) should be calculated as an arithmetic difference and not a geometric difference.

3.2 Yields in deferment

Compensation increasing in deferment

For a non-pensioner, where compensation increases in deferment the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the adjusted net index-linked gilt yield shown below. As this yield implicitly allows for increases to normal pension age no allowance should be made for increases to benefits between the relevant time and normal pension age.

Adjusted net index-linked gilt yield = Yield A (**i**) – 0.4%

(**i**) Yield A should be determined daily as 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over 15 years assuming:

a 5% inflation; and

b 0% inflation.

Compensation not increasing in deferment

For a non-pensioner, where compensation does not increase in deferment the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the adjusted gilt yield shown below.

Adjusted gilt yield = Yield B (**ii**) – 0.2%

(**ii**) Yield B should be determined daily as the annualised yield on the FTSE Actuaries' Government 20 year Fixed Interest Index.

(This is in anticipation of new regulations being introduced with effect from summer 2008 whereby compensation would not increase in deferment if the corresponding benefit from the scheme in assessment would not have increased.)

3.3 Yields in payment

For both a pensioner and a non-pensioner, for the period from which payments are assumed to commence, the liability must be obtained by reference to the following (adjusted) yields:

Compensation with no increases in payment

Adjusted yield = Yield C (**iii**) + 0.3%

(**iii**) Yield C should be determined daily as the annualised yield on the FTSE Actuaries' Government 10 year Fixed Interest Index.

Compensation increasing in payment

Adjusted yield = maximum of (Yield D (**iv**) - 0.2%) and (Yield C (**iii**) – 2.2%)

(**iv**) Yield D should be determined daily as 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over five years assuming:

a 5% inflation; and

b 0% inflation.

Part 4 – Mortality for use when undertaking valuations

The mortality tables to be used in respect of a member and the member's dependant, pre and post retirement, shall be PCMA00 (for males) and PCFA00 (for females), as appropriate, in each case with the medium cohort mortality improvement rates, and with a 1% floor to the annual improvements, both applying from the year 2000.

These mortality tables are published by the Continuous Mortality Investigation. For each individual, the set of mortality rates used shall be those applicable to that individual's year of birth.

The derived rates shall be subject to an age rating based on an individual's benefit size as follows:

Pension size*	**Age rating**
< 25% x compensation cap at age 65	+ 2
25% - 50% x compensation cap at age 65	0
> 50% x compensation cap at age 65	- 2

* For non-pensioners include revaluation to the relevant time only, where appropriate, and include the pension equivalent of any lump sum entitlement using the annualised value of a lump sum factors available on the PPF website.

Part 5 – Other assumptions for use when undertaking valuations

5.1 Assumptions for contingent benefits

a) Proportions married

Where the scheme provides for survivor pensions:

For pensioners

Where the scheme makes provision (including discretionary provision) for survivor pensions for ‘relevant partners’ an assumption consistent with 90% (males) or 80% (females) at normal pension age.

Where the scheme does not make provision for survivor pensions for ‘relevant partners’ other than legal spouses an assumption consistent with 80% (males) or 70% (females) at normal pension age.

Using a proportion married assumption consistent with 90%/80% (males) or 80%/70% (females) at normal pension age may require mortality rates for calendar years before 2000 for a “strictly correct” calculation of the proportion married assumption to apply for older pensioners. In such circumstances the appointed actuary should agree their proposed method with the PPF.

For non-pensioners

Where the scheme makes provision (including discretionary provision) for survivor pensions for “relevant partners” the assumption must be, at the assumed date of retirement or earlier death, 90% (males) or 80% (females).

Where the scheme does not make provision for survivor pensions for “relevant partners” other than legal spouses the assumption must be, at the assumed date of retirement or earlier death, 80% (males) or 70% (females).

Contracted-out schemes

Note that for schemes which are contracted out on a protected rights basis, statute requires payment of a survivor’s pension to a wider category than just the legal spouse. Scheme rules should therefore be treated as including these statutory requirements i.e. assume 90% (males) or 80% (females).

b) Age difference between member and dependant

Females are assumed to be 3 years younger than males.

c) Children's pensions

No specific additional allowance is to be included for prospective children's pensions. Children's pensions already in payment should be assumed to cease at age 18, or age 23 if currently aged over 17.

5.2 Expenses

The expenses specified in this section must be applied whatever the investment strategy of the scheme and, in particular, even if all scheme benefits are secured by immediate and deferred annuity policies.

a) Estimated wind-up expenses

3% of liabilities (excluding benefit installation / payment expenses) up to £50 million

plus

2% of liabilities (excluding benefit installation / payment expenses) between £50 million and £100 million

plus

1% of liabilities (excluding benefit installation / payment expenses) in excess of £100 million.

b) Benefit installation / payment expenses

Non-pensioners
An allowance of £500 per member should be made.

Pensioners
An age-related allowance per member should be made, according to the table below:

Age	**Expense allowance per member £**
< 60	450
60 – 70	400
70 – 80	300
80 +	250

If a member has two or more records, e.g. a pension and a deferred pension, then only one expense allowance (the highest) should be calculated.