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Part 1 – Effective date of guidance

1.1. This is version H3 of the guidance.

1.2. This version of the guidance is effective for valuations with an **effective date** on or after 1 April 2009 or for valuations with an **effective date** prior to 1 April 2009 which are signed on or after 1 January 2010.

1.3. This guidance should be read in conjunction with the version of our *Guidance on assumptions to use when undertaking the valuation in accordance with Section 143 of the Pensions Act 2004 in force at the* ***effective date*** of the valuation.

1.4. Additional information, that may be of use to the actuary carrying out the section 143 valuation, is available on the Pension Protection Fund website in the form of a booklet – "Additional information for carrying out a section 143 valuation".

Part 2 – Overview

2.1 Process

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;
- 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 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 Pension Protection Fund will assess whether or not 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 Pension Protection Fund would pay if it assumed responsibility for the scheme.

2.1.5 The valuation under **section 143** will determine 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 cannot and the relevant process and procedures have been completed, then the Pension Protection Fund will assume responsibility for the scheme and compensation will then become payable.

2.2 Purpose of this guidance

2.2.1 This guidance is intended for actuaries undertaking valuations to determine the level of funding in accordance with **section 143** of the Act. **Section 143** [1] of the Act requires any valuation undertaken for the purposes of section 143 of the Act to be carried out in accordance with guidance issued by the Board. It should be read in conjunction with "Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act".

2.2.2 Additional information, that may be of use to the actuary carrying out the section 143 valuation, is available on the Pension Protection Fund website in the form of a booklet – "Additional information for carrying out a section 143 valuation". The format of this booklet is such that it is likely to be subject to more frequent updates than the guidance. Interested parties may wish to register for email alerts from the Pension Protection Fund which provide details of significant items.

2.2.3 The Act and associated regulations set out the principles relating to the valuation with this guidance setting out the detail.

2.3 Purpose of the section 143 valuation

2.3.1 The purpose of the valuation is to determine whether the Board of the Pension Protection Fund should assume responsibility for a scheme. This valuation is only required within a Pension Protection Fund assessment period, and the Board of the Pension Protection Fund will instruct an actuary to carry out the valuation.

2.3.2 Once the valuation has been completed, the Board of the Pension Protection Fund must approve it in accordance with **section 144**. The valuation becomes legally binding once it has been approved and the period within which the approval may be reviewed has expired.

2.3.3 Where the binding valuation establishes that the assets are not sufficient to meet the **protected liabilities**, the Board of the Pension Protection Fund will assume responsibility for the scheme and pay compensation to scheme members in accordance with **Schedule 7** to the Act. Where the assets are sufficient to meet the protected liabilities the scheme will be ordered to wind up outside of the Pension Protection Fund by securing benefits in the market.

[1] Section 143 (6)

2.4 Legislative requirements

2.4.1 The Act sets out the requirement for the Board of the Pension Protection Fund to obtain an actuarial valuation of an eligible scheme where either:

- a **qualifying insolvency event** has occurred in relation to the employer (**section 127(1)**) of the Act;
- the trustees of the scheme make an application to the Board of the Pension Protection Fund (**section 128(1)** of the Act) under **section 129** of the Act.

2.4.2 An eligible scheme is defined by **section 126** and associated regulations.

2.4.3 **Multi - employer schemes**

- Where a scheme with more than one employer operates a sectionalised scheme, separate valuations will be required for each separate section of the scheme, setting out the assets and **protected liabilities** attributable to each section.
- Where a scheme with more than one employer has either a requirement or option to segregate on the insolvency of one of its employers, separate valuations will be required for each segregated part of the scheme.
- The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441 provide details of the treatment of non-segregated and segregated schemes.

2.5 Completion of the valuation and when?

2.5.1 The actuarial valuation must be prepared and signed by a person appointed by the Board of the Pension Protection Fund, who must meet the criteria specified in **section 143(11)(a)(ii)** and the Pension Protection Fund (Valuation) Regulations 2005.

2.5.2 Details regarding the process are provided in the "Additional information for carrying out a section 143 valuation" document.

2.5.3 For further details about the Pension Protection Fund please visit the Pension Protection Fund website at: www.pensionprotectionfund.org.uk

2.5.4 The contact address for the Pension Protection Fund is:
Pension Protection Fund
Knollys House
17 Addiscombe Road
CROYDON
CR0 6SR
Tel: 0845 600 2541

2.6 Legislation or authority for actuarial valuations

The following lists key legislation that is relevant to section 143 valuations but is not intended to be comprehensive.

The Pensions Act 2004 (the Act), in particular section 143, section 162 and Schedule 7

The Pensions Act 2008

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 (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

Relevant compensation cap orders (the Cap Regulations) - these are updated annually, the most recent being The Pension Protection Fund (Pension Compensation Cap) Order 2009 SI 2009/795

All legislation made under and/or modifying any of the above.

Note: It is the responsibility of the appointed actuary to ensure the valuation is compliant with all relevant legislation in force at the date of signing their report.

Part 3 – Introduction

3.1 Under **section 143** of the Act the Board of the Pension Protection Fund must obtain an actuarial valuation of an eligible scheme where either:

- a **qualifying insolvency event** has occurred in relation to the employer (**section 127(1)** of the Act): or
- the trustees of the scheme make an application to the Pension Protection Fund (**section 128(1)**) under **section 129** of the Act.

3.2 An eligible scheme is defined by **section 126** of the Act and the Pension Protection Fund (Entry Rules) Regulations 2005.

3.3 The valuation report should contain all the relevant details required by legislation together with sufficient additional information to enable the Board of the Pension Protection Fund to approve the valuation.

3.4 Once obtained, the Board of the Pension Protection Fund will consider whether to approve the valuation. Following approval, trustees will be required to provide a valuation summary to members of the scheme. Members have the opportunity to request a review of the Board's decision to approve the valuation within 2 months of the valuation summary being issued by the trustees(**Schedule 9**).

3.5 The valuation becomes legally binding once all rights of review have been exhausted.

3.6 In this guidance note "**relevant time**" has the meaning given in either **sections 127(4)(b)** or **128(3)(b)** of the Act as appropriate.

3.7 The actuarial valuation must be prepared and signed by a person meeting the criteria specified in **section 143(11)(a)(ii)** of the Act and the valuation regulations.

Part 4 – Protected liabilities

4.1 The scheme's protected liabilities are defined in **section 131** of the Act. As set out in the section143 valuation certificate they comprise:

a Liabilities for and in respect of members, excluding benefit installation/payment expenses and cost of winding-up

b Liabilities other than for and in respect of members

c Benefit installation/payment expenses

d Estimated cost of winding-up

a The amount of the protected liabilities relating to benefits for or in respect of members shall be the estimated cost of securing these benefits to members by purchasing an annuity at the market rate. The protected liabilities should be determined using the assumptions set out in the separate "Guidance on Assumptions" document. They should be valued at the **relevant time** (see 7.3).

The benefits for non-pensioners who have not attained Normal Pension Age need to take into account the application of the compensation cap at a future date. The compensation cap for such members should be assumed to increase by 1.5% a year, in excess of limited price index increases with a limit of 5% a year, during any period of deferment after the **relevant time**.

Additional information on the benefits to be valued and the application of the compensation cap (including the application to post 5 April 2009 accrual) are provided in the booklet – "Additional information for carrying out a section 143 valuation" available on the PPF website.

b The amount of protected liabilities relating to liabilities that are not liabilities for or in respect of members shall be determined in accordance with **section 143** of the Act, the valuation regulations and this guidance. These are liabilities that do not fall due to the members of the scheme and include items such as fees due to professional advisors.

c Details of how to calculate benefit installation/payment expenses are set out in the guidance on assumptions to use when undertaking a section 143 valuation.

d Details of how the estimated cost of winding-up should be calculated is set out in the assumptions guidance.

4.2 In accordance with **section 143(7)** of the Act the amount of liabilities should not be limited to the value of the assets, even where the scheme rules may so provide.

4.3 The Act provides that in certain circumstances where the Board of the Pension Protection Fund is satisfied that it is not possible to identify one or more elements of the benefit formulae as defined in **Schedule 7** to the Act, they may determine how the benefit should be calculated. Where this is the case the appointed actuary or trustees should request guidance from the Board of the Pension Protection Fund.

4.4 For schemes with a partial Crown guarantee, the valuation should only be of the part of the scheme that is not covered by the Crown guarantee.

4.5 Hybrid schemes

- For a hybrid "better of" scheme, the assets and liabilities will relate to only those members where the defined benefits exceed the defined contribution benefits at the **relevant time**.

- The calculation for each individual should consider whether the underpin bites at the **relevant time** using the current scheme methodology and section 143 valuation assumptions.

- Only those members for whom the defined benefits exceed the defined contribution benefits at the **relevant time** should be included in the liability calculations. The compensation cap and the 90% level should be applied to the defined benefit members of the hybrid scheme (after the underpin test has taken place).

- Members where the defined contribution benefits exceed the defined benefits should be treated as defined contribution members. Both their defined contribution benefits and corresponding assets should therefore be excluded from the valuation.

- In a hybrid defined contribution scheme with a defined benefit underpin, for any period of service where the defined benefit underpin would not apply, the corresponding assets and liabilities should be excluded from the valuation.

- In a hybrid defined contribution scheme with a defined benefit underpin that only applies for a particular period of service, the member's fund in relation to that period of service alone should be compared to the underpin.

4.6 Money purchase benefits

- The liabilities of the scheme in respect of money purchase benefits must be disregarded for the purposes of determining the protected liabilities.

- Some schemes have a practice of allowing members the option to convert money purchase funds (particularly AVC funds) into a pension paid directly from the scheme's assets, rather than from an insurance company. Provided the terms for conversion of the fund into pension are applied at retirement, the pension purchased continues to be classed as a money purchase pension. [2]

- These pensions should not be included in the protected liabilities for the valuation. A deduction should be made from the scheme assets based on the estimated cost of purchasing an annuity to secure the money purchase pensions in the market.

If you are unclear as to whether a particular pension should be classed as money purchase or defined benefit, the query should be referred to the Scheme's PPF caseworker.

4.7 Approximations in the calculation of the protected liabilities

The Board of the Pension Fund **may,** having taken into account the circumstances of the scheme, allow approximations to be made in calculating the Protected Liabilities. Such an approach may be used where it will not alter whether or not the value of the assets of the scheme was less than the value of the protected liabilities of the scheme at the relevant time.

- If a scheme is overfunded for the purpose of either **sections 127(2)(a)** or **128(2)(a)** of the Act then an approximation over-estimating the protected liabilities may be permitted.

- If a scheme is underfunded for the purpose of either **sections 127(2)(a)** or **128(2)(a)** of the Act then an approximation under-estimating the protected liabilities may be permitted.

The appointed actuary must obtain the prior agreement of the Board of the Pension Protection Fund if they wish to make any such approximations in their calculation of the protected liabilities.

[2] This is the Board's view of the current law in respect to the meaning of "money purchase benefits" for the purposes of Part 2 of the Act

Part 5 – Assets

5.1 Assets must be taken into account as specified in the Valuation Regulations.

5.2 The actuary must treat as an asset of the scheme any **section 75** (of the Pensions Act 1995) debt, contribution notices, financial support directions and restoration orders that fall due to the scheme before the valuation is approved.

- This applies **even if it falls due after the relevant time of the valuation.**
- If there are no such assets, the actuary should make a comment to that effect in the valuation report.
- The Board of the Pension Protection Fund will advise the appointed actuary of the amount of the **section 75** debt, contribution notice, financial support direction or restoration order to be taken into account when establishing the value of the assets. This advice will usually be provided just before the final report is requested.
- Equity stakes and other assets, acquired by way of a compromise of a **section 75** debt, may be included in the amount of the **section 75** debt. The Board of the Pension Protection Fund will provide guidance to the appointed actuary on obtaining a valuation to ascertain the value to be placed on such an equity stake or other asset.

5.3 In certain circumstances the actuary may assign a different value to an asset from that shown in the relevant accounts if he thinks it is appropriate. This adjustment may not be made for changes in the market value of the assets. He may also take into account any other amounts that might fall due to the scheme after the **relevant time** if, in his opinion, it is appropriate that it should be counted as an asset. Details of any amendments and additions should be provided in the valuation results report by setting out both:

- the amount of any adjustment; and
- the relevant section of paragraph 7 of the Valuation Regulations under which the adjustment has been made.

5.4. Guidance should also be sought from the Board of the Pension Protection Fund where the valuation of any assets not included in the relevant accounts is to be used to determine assets for this valuation. This may be, for example:

- assets acquired after the **relevant time** such as those which were contingent assets at the relevant time; or
- proceeds from any insurance policies.

This adjustment should be made under paragraph 7(4)(e) of the valuation regulations.

5.5 The assets in respect of money purchase benefits must be disregarded in accordance with section 143(11)(d) of the Act. (See paragraph 4.6 of this guidance.)

5.6 Any insurance policies should be valued in accordance with paragraph 7(2)(a), (b) or (c) of the Valuation Regulations. The actuary should state in their report the value placed on any policy, the relevant sub-paragraph of the regulations that has been used to assess this value and the reason why that sub-paragraph is appropriate.

5.7 Relevant contract of insurance

- The value to be placed on any relevant contract of insurance (paragraph 7(2)(a) of the Valuation Regulations) should take into account the benefits that the contract actually provides.
- This value should be determined using section 143 assumptions, adjusted to make allowance for the benefits provided by the policy e.g. pension increases, the level of contingent benefits, any guarantees etc.
- Details of any additional assumptions used to value the relevant insurance policies should be set out in the valuation report, with justification for the assumptions adopted.
- Details of the calculations of the value placed on the policies should be provided to the PPF using the electronic version of the Data and Liability component information spreadsheet, available on the PPF website.

5.8 Approximations in the calculation of the assets

The Board of the Pension Fund **may,** having taken into account the circumstances of the scheme, allow approximations to be made in calculating the value of the assets.

The appointed actuary must obtain the prior agreement of the Board of the Pension Protection Fund if they wish to make any such approximations in their calculation of the value of the assets.

Part 6 – Data

6.1 To assist with assessing the scheme's protected liabilities for and in respect of its members, the trustees or managers of the scheme must:

- take appropriate action to ensure that, as far as is practicable, all potential scheme beneficiaries have been identified; and
- do all they can to resolve any data uncertainties in respect of all potential scheme beneficiaries. This may necessitate, for example, going through paper records and liaising with scheme members.

6.2 The actuarial report should summarise both the process the trustees have taken to assure themselves of the accuracy of the data and the checks the actuary himself has undertaken. As stated in the section 143 certificate, the actuarial valuation must detail any residual concerns regarding the data, or indicate if no such concerns exist.

Part 7 – Valuation method

7.1 Any reasonable age definition may be used for the purpose of the calculation provided consistency with the revaluation and increase periods can be demonstrated. The age definition should be stated within the report.

7.2 For each scheme member, the protected liability must be calculated as the present value of the accrued benefits using the assumptions specified in the version of *"Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act 2004"* in force at the valuation date.

7.3 The protected liabilities should be valued at the **relevant time**.

- The **relevant time** is the day immediately before the date of the qualifying insolvency event (assessment date) or the day before the s129 application is made. The accounts and valuation should therefore be prepared up to close of play the day before the assessment date. This applies even where the assessment date falls on a Monday or after a Bank Holiday.

- The market indices used to determine the financial assumptions for the purpose of the valuation should be based on close of business on the day before the assessment date. Where market indices are not published for that date, those for close of business on the latest available prior date should be used.

7.4 The protected liabilities should be determined at the **relevant time** in accordance with **Schedule 7** to the Act, the associated regulations and the scheme's admissible rules (as defined in paragraph 35 of **Schedule 7**).

7.5 The benefits to be valued for any reviewable ill-health pensions should be as determined and notified by the Board of the Pension Protection Fund in accordance with **section 141(2)** of the Act.

7.6 Where the appointed actuary decides to make any approximations in his calculations, other than those agreed with the Board in accordance with paragraph 4.7 or 5.8 of this guidance, he should confirm that the overall impact of these approximations is not material to the result of the valuation. Material in this context is defined as being a difference of more than 1% between the approximate and accurate values of the **protected liabilities**.

Part 8 – Reporting

8.1 The results of the valuation must be provided to the Board of the Pension Protection Fund in accordance with **regulation 9(1)** of the valuation regulations. The valuation results report must be provided to the Board of the Pension Protection Fund as soon as practicably possible following completion of the valuation but certainly within 28 days of completion.

8.2 The Board must be able to rely on the report and this can be achieved by either:

- addressing the report to the Board; or
- including a statement to this effect in the report.

8.3 The report must provide all the information set out in paragraph 9(1) of the Pension Protection Fund (Valuation) Regulations 2005 and this guidance. Details of the items required are provided below. In addition, a checklist of the items required in the valuation report is provided in our booklet – “Additional information for carrying out a section 143 valuation”.

Assessment date and guidance used

- The assessment date.
- The versions of both this guidance and the assumptions guidance that have been used.

Assumptions

- Details of all the assumptions (financial and demographic) used in the calculations should be set out in the valuation report.
- The assumption regarding the proportions married, used in valuing contingent benefits, must be justified by making reference to the scheme rules.
- All assumptions used in calculating the value of insurance policies must be included with justification of how the assumptions have been calculated, if appropriate.
- Details of the assumptions used to calculate the expenses.
- A description of the definition used to calculate the member’s age.

Data and Liability component information

- Where, for a membership category, tranches of benefits are payable at more than one Normal Pension Age (NPA), then there should be more than one row (each corresponding to a different NPA) for that membership category.
- Where individual members have more than one NPA, then these members will contribute data to more than one row in a particular category.
- This should be provided using the electronic version of the Data and Liability component information spreadsheet, which is available on the PPF website.
- Details regarding the valuation of insurance policies should also be provided on the relevant section of the Data and Liability spreadsheet.

Data

- The valuation report must summarise both the process the trustees have taken to assure themselves on the accuracy of the data and the checks the actuary has undertaken.
- A statement must be made in the report regarding any residual concerns the actuary has about the data (see also 6.2). If the actuary has any residual concerns then a further statement should be made quantifying the possible effect of these concerns and the impact it may have on the valuation result.

Scheme benefits

- The Board shall be provided with a summary of the main benefit provisions of the scheme including accrual rates, normal pension ages, details of any underpins etc.
- Details of any AVC arrangements within the scheme, including how they operate, should be provided.
- A statement should be made in the report to indicate if the scheme has equalised benefits for GMPs.

Assets

- A statement must be made in the report about whether there is a section 75 debt, contribution notice, financial support direction or a restoration order. This should make reference to the fact that the Board of the Pension Protection Fund has directed that this figure should be used.
- Reconciliation between the asset value from the relevant accounts and the asset value used in the valuation figures must be provided. Details of the appropriate section of regulation 7 of the Pension Protection Fund (Valuation) Regulations 2005 used to make each adjustment to the assets must be provided where this has been used.

Approximations

- A statement must be made in the report regarding any approximations that have been made in calculating the Protected Liabilities or value of the assets.
- Confirmation must also be given that any approximations made under part 4.7 or 5.8 of this guidance have been agreed in advance with the Board of the PPF and that the effect of the approximations will not change the outcome of s127(2)(a) or s128(2)(a) of the Act.

Section 143 certificate

- The actuary should complete, sign and date the certificate included as Appendix 1 to this guidance.
- The certificate should be sent to the Board of the Pension Protection Fund along with the valuation report.
- The actuary should not amend the wording in the certificate but may make deletions to the wording, as indicated.

8.4 The report should be signed and dated by the actuary. The actuary's full name should be printed below his signature. The actuary's professional qualification and employer's name should be stated.

Part 9 – Review

9.1 This guidance note will be reviewed at regular intervals as the Board of the Pension Protection Fund deems appropriate.

Appendix 1 - Certificate for the purposes of section 143 of the Pensions Act 2004

Scheme name :

Relevant time :

End of period covered by relevant accounts :

Version number of section 143 guidance used :

Version number of section 143 assumptions used :

Protected liabilities		**£'000**
a	Liabilities for and in respect of members, excluding benefit installation/payment expenses and cost of winding-up	
b	Liabilities other than for and in respect of members	
c	Benefit installation/payment expenses	
d	Estimated cost of winding-up	
Total		

Assets

Funding level in accordance with section 143 of the Pensions Act 2004 **%**

I certify the protected liabilities have been determined in accordance with the provisions of the section 143 of the Pensions Act 2004 and regulations made thereunder and the guidance issued by the Board of the Pension Protection Fund.

In my opinion appropriate action/insufficient action* has been taken to ensure that as far as practical all potential scheme beneficiaries have been identified and data uncertainties resolved. The formal report on the actuarial valuation details my residual concerns where appropriate.

*delete as appropriate

A copy of the formal report on the actuarial valuation for the purposes of section 143 of the Pensions Act 2004 is attached.

Signature ....Date.......................

Name ....

Qualification...

Employer...