Pension
Protection
Fund

Guidance for undertaking the valuation in accordance with Section 143 of the Pensions Act 2004

Version H6

April 2017

Contents

Part 1 – Overview

1.1 Process

1.1.1 The Pensions Act 2004 ("**the Act**") sets out the following criteria for the Board of the Pension Protection Fund (the "**Board**") to assume responsibility for a scheme:

- the scheme must be **eligible** for the Pension Protection Fund as defined by section 126 of the Act and the Pension Protection Fund (Entry Rules) Regulations 2005;
- a **qualifying insolvency event** must have occurred in relation to the scheme's employer;
- 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 **Board** would pay if it assumed responsibility for the scheme.

1.1.2 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 **Board** will assess whether or not it must assume responsibility for the scheme.

1.1.3 The valuation under section 143 will determine whether the scheme has sufficient funds, at the **relevant time** (here, the date immediately before the qualifying insolvency event), to pay at least the Pension Protection Fund levels of compensation. If it cannot, and the relevant process and procedures have been completed, then the **Board** will assume responsibility for the scheme and compensation will then become payable. The valuation report should contain all the relevant details required by legislation together with sufficient additional information to enable the **Board** to approve the valuation.

1.1.4 The actuarial valuation must be prepared and signed by a person meeting the criteria required by section 143(11)(a)(ii) of **the Act** and specified in the Pension Protection Fund (Valuation) Regulations 2005 (the "**Valuation Regulations**").

1.1.5 Once obtained, the **Board** 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 28 days of the valuation summary being issued by the trustees.

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

1.1.7 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.

1.2 Purpose of this guidance

1.2.1 This guidance is intended for actuaries undertaking valuations to determine the level of funding in accordance with section 143 of **the Act**, which requires the valuation 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" (the "**assumptions guidance**").

1.2.2 Additional information that may be of use to the actuary carrying out the section 143 valuation is available on the **Board**'s website in the form of a booklet – "Additional information for carrying out a section 143 valuation" (the "**additional information booklet**"). Interested parties may also wish to register for email alerts from the **Board** which provide details of significant items.

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

1.2.4 This guidance note will be reviewed at regular intervals as the **Board** deems appropriate.

1.2.5 Words in a **bold** typeface are defined in the glossary in part 9 of this guidance.

1.3 Purpose of the section 143 valuation

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

1.3.2 Once the valuation has been completed, the **Board** must consider it for approval in accordance with section 144. (Where the **Board** is not satisfied that the valuation has been prepared as required by section 143, the **Board** will obtain a fresh valuation.) The valuation becomes legally "binding" once it has been approved and the period within which the approval may be reviewed has expired (28 days from the date when the scheme's trustees summarise the valuation for members in accordance with the legislation).

1.3.3 Where the binding valuation establishes that the assets are not sufficient to meet the **protected liabilities**, the **Board** 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 **Board** will require the trustees to wind up the scheme outside the Pension Protection Fund by securing benefits at least at the level of Pension Protection Fund compensation in the market. Should the scheme be incapable of securing this level of benefits in the market it can apply for reconsideration for the PPF under section 151 of **the Act**.

1.4 Legislative requirements

1.4.1 **The Act** sets out the requirement for the **Board** 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**); or
- the trustees of the scheme make an application to the **Board** (section 128(1) of **the Act**) under section 129 of **the Act**.

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

1.4.3 **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.
- Otherwise, and in the case of non-segregated multi – employer schemes, one valuation will be required.

Part 2 – Effective date of guidance

2.1 This version of the guidance (H6) must be used for section 143 valuations with an effective date on or after 6 April 2017.

2.2 This guidance should be read in conjunction with the version of our **assumptions guidance** in force at the effective date of the valuation.

2.3 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 3 – Valuation method

3.1 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 **the assumptions guidance** in force at the **relevant time**. Alternative assumptions may be used in certain circumstances. See Part 4 for details.

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

3.3 The **protected liabilities** should be valued 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).

- 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 business 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.

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

3.5 Where the appointed actuary decides to make any approximations in his or her calculations, other than those agreed with the **Board** in accordance with paragraph 5.9 or 6.9 of this guidance, he or she 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 4 – Alternative assumptions

4.1 The appointed actuary may be permitted to use different assumptions from those prescribed in the relevant assumptions guidance where:

- it is considered that the assumptions set out in the **assumptions guidance** are not appropriate to the particular circumstances of a scheme; and
- the result would be a change in the funding level from greater than 100% to less than 100%, or vice versa.

4.2 The assumptions where changes may be permitted are:

- base mortality including age ratings (but excluding mortality improvements);
- proportions married;
- age differences between members and dependants;
- children's pensions; and
- expenses of wind-up and/or benefit installation / payment expenses.

In such cases, the appointed actuary must obtain the prior agreement of the Board to the use of different assumptions from those prescribed in the assumptions guidance. Please contact your Scheme Delivery Associate to discuss the evidence that will need to be provided to the Board.

Pension Protection Fund

Part 5 – Liabilities

5.1 The scheme's **protected liabilities** are defined in section 131 of **the Act**. As set out in the section 143 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

Further details are given below.

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 best value rate available in the market as estimated by the **Board**. the **protected liabilities** should be determined using the assumptions set out in the separate **assumptions guidance** unless prior written agreement has been obtained from the **Board** to the use of alternative assumptions). They should be valued at the **relevant time**.

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 for members with long service) are provided in the **additional information booklet** 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 **assumptions guidance**.

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

5.2 For benefits whose treatment is not set out in this guidance, legal advice should be taken as the correct treatment will depend on the way the scheme rules have been drafted.

5.3 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.

5.4 **The Act** provides that in certain circumstances where the **Board** 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**, the **Board** may determine how the benefit should be calculated. Where this is the case the appointed actuary or trustees should request guidance from the **Board**.

5.5 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.

5.6 Cash balance benefits

5.6.1 Cash balance benefits are benefits where there is a sum available in respect of the member and there is a promise over the amount but no promise over the rate or amount of pension that the sum will be converted into. The promise over the sum may include a guaranteed investment return. What makes this a cash balance arrangement, rather than a defined contribution arrangement, is that the investment return is not linked directly to the performance of the scheme's underlying assets, and would typically be a fixed percentage or be derived from an index.

Cash balance with no investment guarantee

5.6.2 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. 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%.

5.6.3 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.

Cash balance with guaranteed investment returns

5.6.4 Where there is a guaranteed investment return, the higher of the fund amount with and without the guaranteed investment return applied up until the **relevant time** should be used. The valuation should be carried out in the same way as set out in paragraph 5.6.2. The guaranteed investment return should not be applied to the period after the **relevant time**.

5.6.5 Schemes may have to take legal advice on how guaranteed investment returns should be treated since it may depend upon exactly how the scheme rules are worded. This is because section 143 valuations should use the scheme benefits subject to certain adjustments.

5.6.6 For guaranteed investment returns that are based upon an averaging of historic values, for example the unit price averaged over the last three years, the value given to the liability should be the higher of the pension pot incorporating and not incorporating the averaging. For example, if the value of the fund is £10k without averaging but £15k using the average unit price, the correct approach is to convert the £15k into PPF compensation and then place a value on this using the usual section 143 assumptions.

5.7 Underpins and top-ups

5.7.1 The treatment of underpins and top-up benefits is essentially the same, in the sense that the entire benefit will be either entirely money purchase and thus discharged outside of the PPF or entirely defined benefit and therefore included in full in the valuation.

5.7.2 The treatment of underpins and top-up benefits is informed by the **"Bridge" Regulations**. The valuation will need to take account of such benefits in respect of those members where the defined benefit ("DB") benefits exceed the money purchase ("MP") benefits at the **relevant time**.

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

5.7.4 As noted, only the liabilities, which will be DB, relating to those members for whom the DB benefits exceed the MP benefits at the **relevant time** should be included in the liability calculations. The compensation cap and the 90% level should be applied in respect of the DB benefits of members of these hybrid schemes (after the underpin test has taken place).

5.7.5 Members where the MP benefits exceed the DB benefits should be treated as MP members. Both their MP benefits and corresponding assets should therefore be excluded from the valuation. (The **Board** expects trustees to discharge such MP benefits during the assessment period.

5.7.6 Where an underpin or top-up 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 DB minimum.

5.8 Money purchase benefits

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

5.8.2 For benefits which have guaranteed annuity rates attached schemes should take legal advice as to the correct treatment as it will depend upon the precise wording of the scheme rules.

5.8.3 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.

5.8.4 Benefits that have not yet been internally annuitised at the relevant time should be regarded as money purchase and excluded from both the assets and liabilities of the valuation.

5.8.5 For benefits that have been internally annuitised at the relevant time, the pensions should be valued in the same way as benefits already protected by the Board before the amended definition of money purchase benefits came into force. For example, benefits will have pension increases of inflation capped at 2.5% p.a. for post 1997 accrual, unless the benefit derives from contributions that have been annuitised through the scheme to a wholly level pension in which case no increases will be paid. There will also be the application of a 90% factor and the PPF Compensation Cap if the member is under "normal pension age" at the relevant time. The survivor's pension will be 50% if the scheme provides one, other than if the benefit has been annuitised on a single life basis.

5.8.6 Pre / post 1997 accrual should be determined using total contributions paid (member and employer) where the administration records show this or, failing this, the member's service period.

5.8.7 As part of the transitional protection given by the "Bridge" Regulations, benefits that are no longer money purchase can be treated as money purchase in cases where the schemes' assessment date is before 24 July 2014 and where the trustees can satisfy the PPF that such benefits were considered money purchase prior to 24 July 2014. Also all AVC pots that are internally annuitised through the scheme will, subject to PPF consent, be treated as money purchase in cases where the pots come into payment before 31 March 2015 and were treated as money purchase before the change in definition.

5.8.8 Actuaries should confirm with trustees that there are no other benefits that the trustees are intending to discharge in future under the transitional protection given by the "Bridge" Regulations.

5.8.9 Where these pensions should not be included in the protected liabilities 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.

5.8.10 For benefits with a guaranteed investment return, the higher of the value of the benefits with and without the guaranteed investment return applied up until the relevant time should be valued in the way set out under "cash balance" schemes above. The guaranteed investment return should not be applied to the period after the relevant time.

5.8.11 "Protected rights" exist in schemes that contracted out via the money purchase route. They may take the form of money purchase benefits or underpins depending on how they have been written into the scheme rules. Schemes should take legal advice over the correct treatment and obtain the PPF's agreement.

5.8.12 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 Scheme Delivery Associate.

5.8.13 For benefits which have guaranteed annuity rates attached schemes should take legal advice as to the correct treatment as it will depend upon the precise wording of the scheme rules.

5.9 Approximations in the calculation of the protected liabilities

The **Board** **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 if they wish to make any such approximations in their calculation of the protected liabilities.

Where schemes have not equalised for the effect of unequal GMPs the agreement of the Board is not required for underfunded schemes not allowing for GMP equalisation in the calculation of protected liabilities.

Part 6 – Assets

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

6.2 The actuary must treat as an asset of the scheme any debt under **section 75** of the Pensions Act 1995, 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**.
- If there are no such assets, the actuary should make a comment to that effect in the valuation report.
- The **Board** 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** 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.
- The amount of any **section 75** debt, contribution notice, financial support direction or restoration order should not be adjusted to reflect any delay in receiving this amount.

6.3 In certain circumstances the actuary may assign a different value to an asset from that shown in the relevant accounts if he or she thinks it is appropriate. This adjustment may not be made for changes in the market value of the assets which occur after the **relevant time**. He or she may also take into account any other amounts that might fall due to the scheme after the **relevant time** if, in his or her 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.

6.4 Guidance should also be sought from the **Board** 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**.

6.5 The assets in respect of money purchase benefits must be disregarded in accordance with section 143(11)(d) of the Act.

6.6 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 the 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.

6.7 Relevant contract of insurance

6.7.1 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.

6.7.2 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.

6.7.3 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.

6.7.4 Details of the calculations of the value placed on the policies should be provided to the **Board** using the electronic version of the Data and Liability component information spreadsheet, available on the PPF website.

6.7.5 Where the scheme actuary deems it appropriate under Regulation 7 (2) to place a value on the insurance contract equal to the discounted value of the payments secured, it would be appropriate to use assumptions consistent with those used to calculate the corresponding liabilities. For example an insurance contract that gives fixed pension increases of 3% might be valued using a yield of i% – 3% where i% is the (gross) discount rate used to value pre-6 April 1997 accrual. The assumptions should be disclosed in the report.

6.8 Contracts used to hedge mortality and other demographic risks

6.8.1 Contracts used to hedge mortality and other demographic risks may in some circumstances be allowed for in the value of assets for s143 purposes. Such contracts are typically written in the form of an insurance contract or a derivative contract. If the contract is a relevant contract of insurance as described under Regulation 7(2)(a) of the Valuation Regulations, the method described below is a suitable method to adopt to determine any additional asset value to be allowed for. The asset value should be adjusted in accordance with this regulation.

6.8.2 If a contract used to hedge mortality and other demographic risks is not an insurance contract, nor a relevant contract of insurance, then the value placed on the contract using the method described below would need to be included in the audited accounts in order for the contract to be included as an asset of the scheme for s143 purposes and the approach would need to be agreed by the auditor. If the contract is not included in the audited accounts, or is not a relevant contract of insurance and therefore not an acceptable non-accounts asset, it will not be included in the assets of the scheme.

6.8.3 Contracts used to hedge mortality and other risks typically take the form of a derivatives arrangement with two income streams, or 'legs':

(1) a "fixed leg" which will be payable by the trustees to the provider equal to the cash flows that would be payable for the class of membership concerned on a pre-agreed demographic basis, and;

(2) a "floating leg" which will be payable by the provider to the trustees equal to the cash flows actually payable for the class of membership concerned.

6.8.4 The value of the contract can be taken as the net present value of the floating leg less the net present value of the fixed leg, net of any contract expenses. These expenses might, for example, be expressed as a fixed percentage of the agreed payments comprising the "fixed leg".

6.8.5 Where the above approach produces a negative overall value, it should be used to reduce the value of the scheme's assets. When valuing the cash flows, the financial and demographic assumptions set out in the relevant version of the assumptions guidance being used to carry out the s143 valuation should be used. It is anticipated that the calculations in respect of the fixed leg will be largely independent of demographic assumptions, due to the nature of the payments under this leg. Where assumptions don't exist, for instance because the contract allows for increases to pensions in payment not in line with PPF compensation then reasonable assumptions consistent with the appropriate s143 assumptions guidance should be adopted.

6.8.6 For demographic hedging contracts that run for a fixed term with a termination payment at the end of the term, the value should allow for this termination payment (which may be a payment from the Trustees to the provider or vice versa).

6.9 Approximations in the calculation of the assets

The **Board 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 if they wish to make any such approximations in their calculation of the value of the assets.

Part 7 – Data

7.1 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.

7.2 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 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 8 – Reporting

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

8.2 Details regarding the process are provided in the **additional information booklet**.

The results of the valuation must be provided to the **Board** in accordance with regulation 9(1) of the **Valuation Regulations**. The report on results must be provided to the **Board** as soon as practicably possible following completion of the valuation and within 28 days of completion.

8.3 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.

8.4 The report must provide all the information set out in paragraph 9(1) of the **Valuation Regulations** 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 the **additional information booklet**.

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.
- A statement must be made providing justification for any assumptions that have been used where these differ from those prescribed by the assumptions guidance. Confirmation should also be given that the assumptions used have been agreed in advance with the **Board** of the Pension Protection Fund.
- 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 members' ages.

Data and Liability component information

- This should be provided using the electronic version of the Data and Liability component information spreadsheet, which is available on the PPF website.
- Where, for a membership category, tranches of benefits are payable at more than one "normal pension age", then there should be more than one row (each corresponding to a different "normal pension age") for that membership category.
- Where individual members have more than one "normal pension age", then these members will contribute data to more than one row in a particular category.
- 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. 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.

Pension Protection Fund

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** 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 **Valuation Regulations** 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 5.9 or 6.9 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** along with the valuation report.
- The actuary should not amend the wording in the certificate but may make deletions to the wording, as indicated.

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

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

8.7 The contact address for the Pension Protection Fund is:

Pension Protection Fund
Renaissance
12 Dingwall Road
East Croydon
CR0 2NA

Tel: 0845 600 2541

Part 9 – Glossary

Additional information booklet – this booklet is entitled "Additional information for carrying out a Section 143 valuation" and is published on our website

Assessment date – this is the date of the qualifying insolvency event

Assumptions guidance – this guidance is entitled "Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act" and is published on our website

Board – the Board of the Pension Protection Fund

"Bridge" Regulations – the Pensions Act 2011 (Transitional, Consequential and Supplementary Provisions) Regulations 2014 and the Pensions Act 2011 (Consequential and Supplementary Provisions) Regulations 2014

Eligible – eligibility for the Pension Protection Fund is defined in section 126 of **the Act** and the Pension Protection Fund (Entry Rules) Regulations 2005

Protected liabilities – this is the name given by the legislation to the liabilities in a section 143 valuation

Qualifying insolvency event – following a qualifying insolvency event, a scheme will enter a PPF assessment period. The conditions for an insolvency event to meet are defined in section 127 of **the Act**

Relevant time – the day immediately before the date of the **qualifying insolvency event** (assessment date) or the day before the s129 application is made.

Section 75 – following the insolvency of an employer, a debt falls due to the pension scheme under section 75 of the Pensions Act 1995

The Act – The Pensions Act 2004

Valuation Regulations – The Pension Protection Fund (Valuation) Regulations 2005

Part 10 - 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, in particular section 143, section 162 and Schedule 7

The Pensions Act 2008

The Pension Protection Fund (Valuation) Regulations 2005 SI 2005/672

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

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

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

The Pensions Act 2011 (Consequential and Supplementary Provisions) Regulations 2014

The Pensions Act 2011 (Transitional, Consequential and Supplementary Provisions) Regulations 2014

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

The Pension Protection Fund, Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2013 SI 2013/627

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.

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 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* for the purpose of the valuation 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...