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Part 1 – Effective date of guidance

1.1 This is version A3 of the guidance.

1.2 This version of the guidance is effective for valuations with an effective date on or after 11 September 2006 or for valuations with an effective date prior to 11 September 2006 to be signed on or after 1 November 2006.

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 179 of the Pensions Act 2004.*

Part 2 – Overview

2.1 Introduction

2.1.1 **Section 179** of the Act requires schemes to undertake a Pension Protection Fund valuation to establish the level of the scheme's assets and liabilities in order to set the pension protection levy payable to the Pension Protection Fund.

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 179** 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:

- for a section 179 valuation, the estimated cost of securing scheme benefits in accordance with any guidance issued by the Board in accordance with section 179(4) of the Act, for 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 (Valuation Regulations) 2005 SI 2005/672 ('the valuation regulations')

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

The Pension Protection Fund (Pension Compensation Cap) Order 2005. SI2005/825 ('the Cap regulations')

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

The Occupational Pension Schemes (Levies) Regulations 2005 SI 2005/842

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

The Pension Protection Fund (Multi-employer Schemes)(Modification) Regulations 2005 SI2005/441

The Pension Protection Fund (Hybrid Schemes)(Modification) Regulations 2005 SI2005/449

Part 3 – Financial basis for use when undertaking valuations

3.1 Yield in deferment

For each non-pensioner 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 date and normal pension age.

Adjusted net index-linked gilt yield = Yield A (**i**) – 0.7%

(**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.

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%.

3.2 Yield in payment

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

Pensions with no increases in payment

Yield = Yield B **(ii)**

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

For any dates where the yield is not available the yield for the nearest preceding date should be used. Yields should be calculated to the nearest 0.01%.

Pensions increasing in payment

Adjusted yield = maximum of (Yield C (**iii**) – 0.5%) and (Yield B **(ii)** – 2.5%)

(**iii**) Yield C 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.

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%.

For the avoidance of doubt, (Yield B (ii) - 2.5%) should be calculated as an arithmetic difference and not a geometric difference.

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 PMA92 (for males) and PFA92 (for females), as appropriate, in each case with the medium cohort mortality improvement rates. 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.

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 1992 for a "strictly correct" calculation of the proportion married assumption to apply for older pensioners. In such circumstances prudent assumptions should be used.

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 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