Additional information for carrying out a Section 143 valuation

Version 6

November 2021

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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 guidance are available separately on the PPF website.)

An additional note with information for valuing benefits in respect of the Hampshire, Hughes and Bauer judgments in a s143 valuation is also available on our website for actuaries carrying out s143 (and related) valuations.

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 call/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 have a call/meeting to agree a project plan. The intention of this call/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. The scheme administrators and scheme actuary are also usually involved from an early stage, so that any data issues can be addressed early on in the assessment process and all parties are aware of timescales.

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.

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. There is a Memorandum of Understanding that exists between the PPF and the UK Actuarial profession.

A link to the memorandum is available from the Institute and Faculty of Actuaries website:

ppf-mou.pdf (actuaries.org.uk)

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 a template for this: "Data and Liability Information spreadsheet".)

The appointed actuary will also need to consider how to allow for the impact of the Hampshire, Hughes and Bauer judgments within the calculation of the liabilities. Our separate note, available on our website, for valuing benefits in respect of the Hampshire, Hughes and Bauer judgments in a s143 valuation is intended to help actuaries to do this. It also covers what additional information may need to be provided to the PPF in respect of such calculations, and when it is likely to be beneficial to liaise with the PPF actuarial team about this aspect of the valuation.

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 approved. 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?

Where it has been necessary to allow for the Hampshire, Hughes and Bauer judgments, this will also be covered in the checks undertaken by the PPF actuarial team. In addition, if the appointed actuary has proposed any alternative assumptions (where permitted under the s143 guidance) these must have been agreed to by the PPF in advance of the draft s143 report being submitted, and the PPF actuarial team will ensure these are then appropriately reflected in the s143 report.

Comments on draft s143 report

The actuaries at the PPF will provide comments to the appointed actuary on the draft s143 report. 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 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 one draft s143 report. 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, may be asked 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.

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 underfunded) or the PPF assessment period ends once 6 months has elapsed after the valuation has become binding. During this 6 month period the trustees and advisers of the scheme should seek quotations for the buy-out of benefits outside of the PPF (work on which may well have started earlier during the assessment period) and / or consider whether the scheme will be applying for reconsideration and/or closed scheme status.

Section 2

This section provides an introduction to the 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.

- 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 member's 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.

Note that, since the Hughes judgment in July 2021, the PPF compensation cap no longer applies for any period, therefore the compensation cap must not be used in the calculation of PPF compensation in the s143 valuation.

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 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**. These 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. These 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.

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 about this, they should be referred to your PPF Scheme Delivery Associate.

Split of benefits at the valuation date

Due to the differences in revaluation and pension increases that may apply to different tranches of compensation in deferment and payment, benefits need to be subdivided according to the dates that they accrued.

(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,** the 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 and 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. Further information on the treatment of this type of benefit is included within the s143 guidance.

(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. Details on how to allow for such benefits are included within the s143 guidance.

(v) Bridging pensions / step-downs

For schemes that begin a PPF assessment period on or after 24 February 2018, if a member is entitled to a bridging pension under the scheme rules, their PPF compensation will be split into the portion that the member was, or would have been, entitled to for life ("the basic element") and the portion that the member was, or would have been, entitled to only until the scheme decrease date under the **admissible rules** of the scheme ("the bridging element"). The PPF bridging end date is the day before what would have been the scheme decrease date.

Annual increases will accrue separately on the tranches of compensation relating to the bridging element and the basic element. The increases which relate to the bridging element will cease to be payable once the member reaches the decrease date. After this point the member will only receive compensation payments in relation to the basic element. A surviving spouse or civil/relevant partner of a member will receive 50% of the deceased member's compensation in respect of the bridging element, with payments continuing until the decrease date.

(vi) Guaranteed minimum pension (GMP)

Generally, Guaranteed Minimum Pension (GMP) equalisation should have been carried out before completing a section 143 valuation, or otherwise an allowance for GMP equalisation should be included within the liabilities. However, if this is not the case, for a valuation which shows a funding level greater than 100 per cent, the report must contain an explicit statement that: 'making allowance for Guaranteed Minimum Pension (GMP) equalisation will not change the funding level to less than 100 percent'.

Section 3

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 should members be allocated 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 s143 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 provisions in the trust deed and rules of the scheme[1]. 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.

[1] 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.

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.

The methodology for splitting recoveries on a debt due from a scheme employer between the segregated parts of the scheme is not the same as for other assets, and may result in a different proportion of the recoveries being allocated to the segregated part. Regulations provide that recoveries relating to liabilities within a particular segregated part are allocated to that part of the scheme. Please speak to your PPF actuarial contact with any queries on specific schemes.

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.

Section 4

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 Regulation 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 applicablec	
- 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	
- relevant to benefit installation / payment expenses	
- relevant to expenses of wind – up	
- Additional assumptions applicable to valuing relevant insurance policies (with justification of how these assumptions have been calculated)	
Age definition used	
Data and Liability information is attached in standard format as an excel spreadsheet	
Data and 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 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 calculatiojns:	
- 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 saying whether the scheme has equalised benefits for GMPs and, if not, what allowance is made for GMP equalisation within the liabilities	
What allowances have been made for the impact of the Hampshire, Hughes and Bauer judgments within the liabilities, along with methodology and assumptions for calculating these (for further details, see our additional note with information for valuing benefits in respect of the Hampshire, Hughes and Bauer judgments in a s143 valuation)	

* 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 in the questions section below.

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 member's dates (date of birth; date of joining the scheme; date of exit etc) are in chronological order and are consistent with the member's 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)	Transfer value 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 5

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
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 only criteria is the attainment of a particular age or length of service (see paragraph 34 of Schedule 7 of Pensions Act 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 s128(3)(b) of the Pensions Act 2004 for the definition of the relevant time.