Pension Protection Fund

Guidance for actuaries undertaking the valuation under section 152 of the Pensions Act 2004 and Statement setting out how the Board of the Pension Protection Fund will make a funding assessment under Section 152 (10C) of the Pensions Act 2004

Version D4

November 2021

Contents

Part 1 – Introduction

1.1 Process

1.1.1 The Pensions Act 2004 (“**the Act**”) sets out the conditions that must be met for the Board of the Pension Protection Fund (“the PPF”) to assume responsibility for a scheme.

1.1.2 An application for reconsideration may be made to the PPF under section 151 of **the Act** where:

- the trustees or managers of the scheme have received a binding scheme failure notice;
- the section 143 valuation or funding determination of the scheme has become binding; and
- the funding position of the scheme shows that it had sufficient assets to meet the **protected liabilities** at the **relevant time** of the section 143 valuation.

1.1.3 **Reconsideration applications** must be made within the **authorised period**, in writing and be accompanied by the required evidence.

1.1.4 Part of this process will involve satisfying the PPF that reasonable steps have been taken to obtain a **Protected Benefits Quotation**. Where schemes are unable to obtain such a quotation as specified in section 152(2A) of **the Act**, the PPF will require either a valuation or a **funding assessment** of the scheme’s assets and liabilities at the **reconsideration time**.

1.1.5 Where a **reconsideration application** is made with an accompanying **Protected Benefits Quotation**, the PPF may require a valuation of the scheme’s assets and liabilities at the **reconsideration time** to be completed.

1.1.6 Where the PPF is of the opinion that a roll forward of the section 143 valuation may be sufficient to determine if the scheme is clearly overfunded or clearly underfunded at the **reconsideration time** it may seek to make a section 152 **funding assessment** rather than a full section 152 valuation.

1.1.7 The section 152 valuation or **funding assessment** will be used by the PPF to determine whether the scheme can afford to secure benefits that are at least equal to the compensation that the PPF would pay if it assumed responsibility for the scheme. If the scheme cannot afford to secure sufficient benefits, and the relevant process and procedures have been completed (as set out in section 152 of **the Act**), then the PPF will assume responsibility for the scheme and compensation will then become payable.

1.1.8 A glossary providing details of the highlighted technical terms used in this document is provided at the end of this document.

1.2 Purpose of this document

1.2.1 This document combines the PPF's Statement (section B) setting out how it will make a **funding assessment** under section 152(10C) of **the Act** and the Guidance (section A) intended for actuaries undertaking a valuation for the purposes of section 152 of **the Act**. Section 152 of **the Act** requires any valuation undertaken for the purposes of section 152 of **the Act** to be carried out in accordance with guidance issued by the PPF. 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**"). This document also contains information for actuaries undertaking an **estimate** for the purpose of informing the PPF's **funding assessment**.

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

1.2.3 The Guidance in Section A and the Statement in Section B will be reviewed at regular intervals as the PPF deems appropriate.

1.2.4 Additional information that may be of use to the actuary carrying out the section 152 valuation is available on the **Board**'s website in the form of two documents – "Additional information for carrying out a section 143 valuation" (the "**additional information document**") and "Information for valuing benefits in respect of the Hampshire, Hughes and Bauer judgments in a section 143 valuation" (the "**Hampshire, Hughes and Bauer note**"). The judgments supplement the legislation, and therefore it is important that they are considered in practice.

1.3 Purpose of the funding calculations

1.3.1 The purpose of the valuation or funding assessment (the **funding calculations**) is to determine whether the scheme has sufficient assets to meet the **protected liabilities** at the **reconsideration time**.

1.3.2 Once the **funding calculations** have been completed, the PPF must make a determination in accordance with section 152 of **the Act** to decide the **reconsideration application**.

1.3.3 Where the **funding calculations** establish that the assets are not sufficient to meet the **protected liabilities**, the PPF must assume responsibility for the scheme as required under section 152 of **the Act**.

1.3.4 Where the assets are sufficient to meet the **protected liabilities** and an appropriate application has been authorised under section 153 of **the Act** the scheme will continue as a closed scheme.

1.4 Legislative requirements

1.4.1 **The Act** sets out the requirement for the trustees or managers of the scheme to provide certain information and evidence when making a **reconsideration application**.

1.4.2 The effective date of the section 152 valuation or section 152 **funding assessment** should be:

- within the **authorised period** i.e. within 6 months after the receipt of the binding scheme failure notice or the binding of the section 143 valuation or funding determination (whichever is later); and
- immediately before the end of the period to which the audited accounts relate.

This is known as the **reconsideration time**.

Multi-employer schemes

1.4.3 Where a scheme with more than one employer operates a sectionalised scheme, separate section 152 calculations will be required for each separate section of the scheme, setting out the assets and **protected liabilities** attributable to each section.

1.4.4 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. In relation to a segregated part a section 152 valuation must always be completed and a funding assessment may not be undertaken. Otherwise, and in the case of non-segregated multi – employer schemes, one valuation will be required.

1.4.5 The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441 provide details of the treatment of non-segregated and segregated schemes.

1.5 Completion of the funding calculations and timing

1.5.1 The PPF will write to the trustees after they have received the **reconsideration application** to notify them whether a section 152 valuation is required or if a section 152 **funding assessment** will be undertaken.

1.5.2 Where a section 152 **funding assessment** is to be undertaken the PPF will request an **estimate** to provide information to the PPF to enable it to determine whether the value of the assets of the scheme at the reconsideration time was less than the amount of the **protected liabilities** at that time and accordingly whether it should assume responsibility for a scheme. This **estimate** is only required within an assessment period, and the instruction will be given by the PPF for the trustees to provide the **estimate**.

1.5.3 The valuation or **estimate** must be prepared and signed by the actuary appointed under section 47(1)(b) of the Pensions Act 1995 in relation to the scheme, or if no such actuary has been appointed

(i) a person with prescribed qualifications or experience, or

(ii) a person approved by the Secretary of State.

1.5.4 All calculations must be signed and submitted to the PPF within 28 days of completion. The PPF will confirm receipt of the relevant documentation. The PPF will then consider whether it is able to make its determination under section 152(2) or section 152(2B) of **the Act** and as appropriate issue a determination notice in accordance with section 152(3) of **the Act**.

1.5.5 The contact address for the PPF is:

Pension Protection Fund
Renaissance
12 Dingwall Road
CROYDON
CR0 2NA

Tel: 0845 600 2541

1.6 Legislation or authority for actuarial calculations

The following lists key legislation that is relevant to section 152 calculations but is not intended to be comprehensive.

The Pensions Act 2004 (**the Act**), in particular section 152, section 162 and Schedule 7

The Pensions Act 2008

The Pensions Act 2011

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 (Hybrid Schemes) (Modification) Regulations 2005 SI 2005/449

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

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

The Pension Protection Fund (Compensation) (Amendment) Regulations 2018 SI 2018/95

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

Note: the Hughes judgment of July 2021 is overriding – in particular, the compensation cap must not be applied for the purposes of the section 152 valuation

Note: It is the responsibility of the actuary to ensure that the calculations are compliant with all relevant legislation in force at the date of signing the certificate.

Part 2 – Effective date of Statement and Guidance

2.1 This is version D4 of the Guidance for all s152 valuations and the Statement describing how the Board of the Pension Protection Fund ("PPF") will make a section 152 **funding assessment**. It applies for all section 152 valuations and section 152 **funding assessments** ("**funding calculations**") with an effective date on or after 1 December 2021.

2.2 This Guidance and Statement is relevant for actuaries undertaking calculations that may be required for a **reconsideration application** under section 151 of the Pensions Act 2004.

2.3 The assumptions to use for the calculations under section 152 are the same as those relevant to section 143. This document should therefore be read in conjunction with the relevant version of our **assumptions guidance**.

2.4 Additional information that may be of use to the actuary carrying out the section 152 valuation is available on the Pension Protection Fund website in the form of an **additional information document** – "Additional information for carrying out a section 143 valuation".

2.5 It is important that the actuary reads and considers the **Hampshire, Hughes and Bauer note** - "Information for valuing benefits in respect of the Hampshire, Hughes and Bauer judgments in a section 143 valuation" – published on our website. The judgments supplement the legislation, and therefore it is important that they are considered in practice.

2.6 The information set out in the **Hampshire, Hughes and Bauer note** (including in respect of the removal of the PPF compensation cap which previously applied) is also relevant to section 152 with an effective date on or before 1 December 2021, and therefore under previous versions of the guidance.

2.7 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 section 152 valuation.

Section A – section 152 valuation

Part 3 – Valuation method

3.1 Any reasonable age definition may be used for the purpose of the calculation provided consistency with the revaluation and increase periods can be demonstrated.

3.2 For each scheme member, the **protected liabilities** must be calculated as the present value of the accrued benefits using the assumptions specified in the version of **assumptions guidance** in force at the valuation date. Alternative assumptions may be used in certain circumstances. See Part 4 for details.

3.3 The amount of the **protected liabilities** should be determined at the **reconsideration time** as the estimated cost of securing scheme benefits calculated in accordance with Schedule 7 of **the Act** at the **relevant time**. Revaluation in deferment and / or increases in payment, as appropriate between the **relevant time** and the **reconsideration time** are those that apply to PPF compensation.

- The **reconsideration time** means the day at which the assets are valued and the **protected liabilities** are calculated. Details of the information that must be provided in the audited accounts at the effective date are provided in section 151(4)(b) of **the Act**.

- The market indices used to determine the financial assumptions for the purpose of the valuation should be based on close of business at the **reconsideration time**. 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 amount of 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).

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

3.6 Where the actuary decides to make any approximations in the calculations, other than those agreed with the PPF in accordance with paragraph 5.6 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 When calculating the **protected liabilities,** the appointed actuary may be permitted to use different assumptions (including for discount rates) to those prescribed in the **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 of the Pension Protection Fund to the use of different assumptions to 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.

Part 5 – Liabilities

5.1 The scheme's **protected liabilities** are defined in section 131 of **the Act**. They comprise:

- **a** Liabilities for and in respect of members which corresponds to the compensation that would be payable if they had transferred to the PPF at the **relevant time**, 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

These are explained in more detail 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 by purchasing an annuity at the best value rate available in the market as estimated by the Board. They should be valued at the **reconsideration time** (see 3.3).

The **protected liabilities** should be determined using the assumptions set out in the **assumptions guidance** unless prior written agreement has been obtained from the **Board** to the use of alternative assumptions.

Additional information on the benefits to be valued is provided in the document – "Additional information for carrying out a section 143 valuation" available on the PPF website. The **Hampshire, Hughes and Bauer note**, also available on the PPF website, provides additional information on how to allow for the Hampshire, Hughes and Bauer court judgments, where appropriate, when calculating the **protected liabilities.**

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 sections 131 and 151 of **the Act** 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**. However, actuaries should ensure this is appropriate subject to circumstances specific to the scheme. Further details are provided in part 8 below.

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

5.3 **The Act** provides that in certain circumstances where the PPF 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 it is expected that the appointed actuary or trustees will have already requested guidance from the PPF.

5.4 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.

5.5 Hybrid schemes and money purchase benefits

5.5.1 It is expected that any money purchase benefits should usually have been discharged during the assessment period, i.e. prior to the **reconsideration application**. (This also applies for hybrid schemes where the benefits were considered to be defined contribution benefits.)

If any money purchase or defined contribution benefits remain they should be excluded from both the **protected liabilities** and the assets.

5.5.2 The definition of money purchase was amended by the Pensions Act 2011. Further information for how to determine what benefits are money purchase is given in the section 143 guidance.

5.5.3 If there are undischarged “money purchase” benefits at the **reconsideration time**, it will be necessary to consider whether those benefits have been correctly categorised previously in light of the current legal position.

5.5.4 The section 143 guidance also gives detailed guidance on how to value the liabilities of cash balance schemes, underpins and top-ups.

5.6 Approximations in the calculation of the protected liabilities

5.6.1 The PPF 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 **reconsideration time**.

- An approximation overestimating the **protected liabilities** may be permitted if, after allowing for the approximation, the scheme turns out to be overfunded for the purpose of section 152 of **the Act**.
- An approximation underestimating the **protected liabilities** may be permitted if, after allowing for the approximation, the scheme turns out to be underfunded for the purpose of section 152 of **the Act**.

The actuary must obtain the prior agreement of the PPF if he or she wishes to make any such approximations in their calculation of the protected liabilities.

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

The **Hampshire, Hughes and Bauer note,** available on our website, sets out a number of simplifications that can be adopted in certain circumstances when allowing for the impact of the Hampshire, Hughes and Bauer judgments on the **protected liabilities**.

Part 6 – Assets

6.1 Assets must be taken from the audited accounts at the **reconsideration time** as specified in section 151(4)(b) of **the Act**.

6.2 The actuary must treat as an asset of the scheme any section 75 debt under the Pensions Act 1995, contribution notices, financial support directions and restoration orders that fall due to the scheme after the **reconsideration time** which he or she believes will be recouped by the scheme.

- This applies only where the Regulator issues a contribution notice, financial support direction or restoration order prior to the effective date of the valuation.
- Where any recovery in respect of section 75 debt remains outstanding at the reconsideration time, the actuary should contact the PPF to determine the figure to include in the valuation. The PPF will advise the appointed actuary of the amount of the section 75 debt to be taken into account when establishing the value of the assets.
- Equity stakes and other assets acquired by way of a compromise of a section 75 debt may be included in the assets of the scheme. The PPF will provide guidance to the 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 audited accounts if he or she thinks it is appropriate. This adjustment may not be made for changes in the market value of the assets that have accrued after the **reconsideration time**. The actuary may also take into account any other amounts that might fall due to the scheme after the **reconsideration 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 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 PPF where the valuation of any assets not included in the audited accounts at the **reconsideration time** is to be used to determine assets for this valuation. This may be, for example:

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

6.5 Any remaining assets in respect of money purchase benefits must be disregarded. (See also 5.5 of this Guidance.)

6.6 Any insurance policies should be valued in accordance with Regulation 7(2)(a), (b) or (c) of the **Valuation Regulations**. The actuary should state in the valuation the value placed on any policy and justification where this is appropriate.

6.7 The method to be used for placing a value on contracts that hedge demographic risks, such as longevity hedging arrangements, is given in the s143 guidance.

6.8 Relevant contract of insurance

6.8.1 The value to be placed on any relevant contract of insurance should take into account the benefits that the contract actually provides.

6.8.2 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.

6.8.3 Details of any additional assumptions used to value the relevant insurance policies should be set out in the valuation, with justification for the assumptions adopted.

6.8.4 Details of the calculations of the value placed on the policies should be provided to the PPF using the Data and Liability Information spreadsheet.

6.8.5 Where the proceeds from any insurance policies include pension increases in a different form to those that apply to PPF compensation in payment, the PPF may permit an adjustment to be made to the assets to allow for the charges that may apply in amending the policies. Any adjustment to the assets must be agreed with the PPF prior to the valuation being submitted.

6.9 Approximations in the calculation of the assets

6.9.1 The PPF **may,** having taken into account the circumstances of the scheme, allow approximations to be made in calculating the value of the assets:

- An approximation overestimating the value of the assets may be permitted if, after allowing for the approximation, the scheme turns out to be underfunded for the purpose of section 152 of **the Act**.
- An approximation underestimating the value of the assets may be permitted if, after allowing for the approximation, the scheme turns out to be overfunded for the purpose of section 152 of **the Act**.

Actuaries must obtain the prior agreement of the PPF if they wish to make any such approximations in their calculations of the value of the assets.

Part 7 – Data

7.1 The actuarial report should summarise the checks that the actuary has undertaken to assure himself or herself of the accuracy of the data. As stated in the section 152 certificate (see Appendix 1), the actuarial valuation or estimation must detail any "residual concerns" regarding the data, or indicate if no such concerns exist.

Part 8 – Reporting

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

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

- addressing the report to the PPF; 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 **Valuation Regulations** and this Guidance. Details of the items required are provided below.

Reconsideration time and guidance used

- The reconsideration time.
- 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 PPF.
- 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 how the estimated cost of winding-up should be calculated are set out in the section 143 assumptions guidance. Schemes completing a section 152 valuation may already have incurred a large part of the winding-up expenses prior to the **reconsideration time**. Where the use of the standard winding-up expenses may change the outcome of the valuation the actuary should ensure that the winding-up expenses included in the section 152 valuation are appropriate to circumstances specific to the scheme. The actuary should make a statement in his or her report to indicate that this has been considered.
- 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 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 Information 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 PPF shall be provided with a summary of the main benefit provisions of the scheme including accrual rates, normal pension ages and 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 PPF has directed that this figure should be used.
- Reconciliation between the asset value from the audited 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 5.6 or 6.9 of this Guidance have been agreed in advance with the PPF (other than where part 5.6 of this guidance specifically states that this is not required) and that the effect of the approximations will not change the outcome of section 152 of **the Act**.

Section 152 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 or her signature. The actuary's professional qualification and employer's name should be stated.

Section B – section 152 funding assessment

Part 9 – Method

9.1 A funding assessment is an alternative to a full section 152 valuation. The actuary is required to provide an estimate of the **protected liabilities** and assets that would otherwise have been calculated for the purposes of a section 152 valuation.

9.2 The estimated **protected liabilities** should be based on the binding section 143 valuation originally approved during the assessment period by adjusting the results of the section 143 valuation at the **relevant time** to the **reconsideration time** using standard actuarial roll-forward methodology.

9.3 Assets must be taken from the audited accounts at the **reconsideration time** as specified in section 151(4)(b) of **the Act**.

9.4 This section 152 **funding assessment** will determine whether the value of the assets of the scheme at the effective date was less than the amount of the **protected liabilities** at that time. An **estimate** is made by using the information contained within the section 143 valuation and updating that information in accordance with this Statement to the **reconsideration time**.

9.5 The **estimate** must be reconciled to the results of the section 143 valuation. The section 152 **estimate** should be provided to the PPF by completing the template; an example of which is provided in Appendix 2 to this Statement. The template includes details of the key assumptions used in both the section 143 valuation and the **funding assessment**.

9.6 The actuary will also be required to certify that the funding position of the scheme is unlikely to exceed 100% (where underfunded) or unlikely to fall below 100% (where overfunded).

Part 10 – Estimated protected liabilities

10.1 The actuary is required to carry out an estimate of the **protected liabilities** that would otherwise have been determined by a section 152 valuation. The estimated **protected liabilities** should be determined by reference to the relevant section 143 assumptions in force at the **reconsideration time**. The purpose of the **estimate** is to provide information to the PPF to enable it to determine whether the value of the assets of the scheme at the **reconsideration time** was less than the amount of the **protected liabilities** at that time and accordingly whether it should assume responsibility for a scheme.

10.2 Where the actuary wishes to use non-standard assumptions as permitted under part 3.2 these assumptions must be agreed with the PPF. Full details of the assumptions used and the effect on the **protected liabilities** must be provided in the **estimate**.

10.3 When estimating the **protected liabilities** from a section 143 valuation the actuary may want to take account of movements such as:

- Changes in assumptions
- Ageing of membership
- Membership movements
- Allowance for the winding-up expenses required under section 152 valuations
- Allowance for the impacts of the Hampshire, Hughes and Bauer judgments (especially if not originally allowed for within the section 143 valuation) using the information in our separate **Hampshire, Hughes and Bauer note**

10.4 The above list contains examples of the sort of changes we would expect to be taken into account and is not intended to be exhaustive. A short summary of what movements the actuary has taken into account should be provided with the **estimate** along with quantification of the impact. Where the actuary has made approximations in the section 143 valuation that overstate the **protected liabilities** then an adjustment to the **protected liabilities** must be made to remove this overstatement.

10.5 Where approximations are made in arriving at the estimated **protected liabilities** at the **reconsideration time**, the actuary should have regard to the expected funding level of the scheme at the effective date. Approximations should be made so as to understate the **protected liabilities** where the scheme is expected to be underfunded and vice versa for a scheme which is expected to be overfunded. Any approximations made must be detailed when providing the section 152 **estimate** to the PPF. The information provided in the **estimate** will be used by the PPF to make its **funding assessment**.

10.6 It is, therefore, acceptable to make no allowance for certain movements in the **protected liabilities** since the section 143 valuation, if by not doing so serves to understate the **protected liabilities** (for a scheme expected to be underfunded) or to overstate the **protected liabilities** (for a scheme expected to be overfunded). If no allowance has been made for certain movements this should be reported when providing the **estimate** to the PPF.

10.7 A brief description of the items being reconciled should be given in the template by providing details in the cells set aside for adjustments to the **protected liabilities**.

Part 11 – Estimated assets

11.1 Assets must be taken from the audited accounts at the **reconsideration time** as specified in section 151(4)(b) of **the Act**.

11.2 The actuary should treat as an asset of the scheme any section 75 debt under the Pensions Act 1995, contribution notices, financial support directions and restoration orders that fall due to the scheme after the **reconsideration time** of the valuation as outlined in 6.2 above.

11.3 The actuary should also make appropriate adjustments to the assets as outlined in 6.3 – 6.5 above. Any such adjustment should be detailed in the estimate.

Relevant contract of insurance

11.4 The actuary should estimate the value to be placed on any relevant contract of insurance at the **reconsideration time** from the value placed on such contracts of insurance at the section 143 valuation date. In placing a value on such contracts, the actuary may want to take account of movements such as:

- Changes in assumptions
- Ageing of membership
- Membership movements

Where the actuary needed to make additional assumptions in placing a value on the relevant contract of insurance in the section s143 valuation the actuary should confirm that consistent methodology has been used in determining the assumptions to be used to value contracts of insurance in the section 152 **estimate**.

Where the proceeds from any insurance policies, include pension increases in a different form to those that apply to PPF compensation in payment, the PPF may permit an adjustment to be made to the assets to allow for the charges that may apply in amending the policies. Any adjustment to the assets must be agreed with the PPF prior to the valuation being submitted and full details must be provided in the **estimate**.

Part 12 – Reporting

12.1 The **estimate** must be submitted to the PPF via the completion of the PPF standard template.

12.2 The **estimate** must provide all the information set out in this Statement and the template.

12.3 To provide the **estimate**, the actuary should submit:

- A completed version of the section 152 estimate template spreadsheet (please contact your Scheme Delivery Associate for this)
- An electronic copy of the full scheme accounts at the **reconsideration time**

12.4 The template should state the actuary's full name, professional qualification, employer's name and be dated.

12.5 It is not anticipated that the PPF will take account of any information provided in addition to that listed above unless specifically requested by the PPF. We consider that it is unlikely that actuaries will have to submit any further information in order to comply with the Technical Actuarial Standards issued by the Financial Reporting Council (FRC). However, this is ultimately a matter for the judgement of the actuary preparing the estimate.

Part 13 – Matters for decision by the PPF

The PPF must take the following matters into account when making a s152 **funding assessment**, where relevant.

13.1 Treatment of pre-97 contracts of insurance

For the treatment of pre-97 contracts of insurance, the PPF shall adopt the section 143 valuation actuary's approach to the sufficiency of information, unless it is informed by the trustee that there has been a material change in the information available in respect of those pre-97 contracts of insurance.

13.2 Treatment of relevant contracts of insurance

For the treatment of relevant contracts of insurance, the PPF shall use the information given by the actuary in the certificate containing the estimate and other relevant information in making any determination regarding relevant contracts of insurance.

13.3 Recoveries

To determine its view as to whether any section 75 debt will be recovered the PPF shall form a view in light of information received from the insolvency practitioner. This will take account of the dividends declared and/or forecast in the insolvency and any other relevant information relating to potential recoveries provided to the PPF.

Where appropriate, the PPF will seek an independent valuation of an equity stake or other assets acquired by way of a compromise of a section 75 debt.

13.4 Making the s152 funding assessment

13.4.1 Once the PPF has received the **estimate** and certificate and considered the matters required of it as the appropriate person, it shall make its **funding assessment**. In making its **funding assessment** the PPF shall review the assets and **protected liabilities** set out in the **estimate** along with any other information provided by the actuary in the certificate. The PPF will take into account any opinions it has where those had not previously been communicated to the actuary providing the **estimate**.

13.4.2 Following a review of the relevant information the PPF will make its **funding assessment** where it has sufficient information to do so. Where it is not clear that a **funding assessment** can be made based on the information provided the PPF will request what other further information it deems necessary in order to make its **funding assessment**.

Appendix 1 - Certificate for the purposes of section 152 of the Pensions Act 2004

Scheme name:

Reconsideration time:

End of period covered by audited accounts:

Version number of section 152 guidance used:

Version number of section 143 assumptions guidance used:

Protected liabilities		**£'000**
a	Liabilities for and in respect of members which corresponds to the compensation that would be payable if they transferred to the PPF, 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 for protected liabilities in accordance with section 152 of the Pensions Act 2004		**%**

I certify that the protected liabilities have been determined in accordance with the provisions of the section 152 of the Pensions Act 2004 and regulations made thereunder and the guidance issued by the Board of the Pension Protection Fund.

I have no / some* residual concerns regarding the completeness and accuracy of the data used in this valuation. The formal report on the actuarial valuation details my residual concerns where appropriate.
*delete as appropriate

A copy of the valuation proposal for the purposes of section 152 of the Pensions Act 2004 is attached.

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

Name...

Qualification...

Employer..

Appendix 2 – Example of completed template

Estimate of Protected Liabilities and assets at the Reconsideration Time on s143 assumptions for PPF s152 funding assessment purposes

1. Scheme Name	**The ABC Plc Pension Fund**	
2. PSR Number		**10223333**
3. Effective Date of s152 funding assessment		**30/03/2012**
4. Date submitted to the PPF		**06/08/2012**
5. Version of Statement used		**D1**
6. Version of s143 Assumptions used		**B5**
7. Estimated Protected Liabilities at the Reconsideration Time		**£17,590,000**
8. Estimated Assets at the Reconsideration Time		**£15,650,000**
9. Relevant Time of the binding section 143 valuation		**12/08/2010**
10. Summary of assumptions used at:	**12/08/2010**	**30/03/2012**
Yields:	**Relevant Time for s143 valuation**	**Effective Date for s152 funding assessment**
Net pre retirement discount rate - pre 09	**0.45%**	**-0.30%**
Net pre retirement discount rate - post 09	**n/a**	**n/a**
Net post retirement discount rate - pre 97	**4.36%**	**3.14%**
Net post retirement discount rate - post 97	**1.86%**	**0.64%**
Mortality:		
Base table (men)	**PMA00**	**PMA00**
Base table (women)	**PFA00**	**PFA00**
Future improvements (men)	**PCMA00 1.25% floor**	**PCMA00 1.50% floor**
Future improvements (women)	**PCFA00 1.00% floor**	**PCFA00 1.00% floor**

11. Approximate reconciliation of liabilities between section 143 valuation and effective date:

Protected Liabilities at Relevant Time in s143 valuation:		**£**
Pensioners & dependants	Pre 97 benefits	5,040,000
	Post 97 benefits	980,000
Non-pensioners	Pre 97 benefits	4,630,000
	97 - 09 benefits	3,340,000
	Post 09 benefits	0
Benefit installation/payment expenses		152,000
Estimated Costs of winding-up		419,700
Total		**14,561,700**

Allow for unwind of discount rate (effect of passage of time on liabilities)	**980,000**
Change in assumptions	**2,418,300**
Benefits paid	**-790,000**
Change in expense allowance	**420,000**
Adjustment 5 (please specify in this box)	**0**
Adjustment 6 (please specify in this box)	**0**
Adjustment 7 (please specify in this box)	**0**
Adjustment 8 (please specify in this box)	**0**

Estimated Protected Liabilities at Effective Date:		
Pensioners & dependants	Pre 97 benefits	5,340,000
	Post 97 benefits	1,140,000
Non-pensioners	Pre 97 benefits	6,190,000
	97 - 09 benefits	4,770,000
	Post 09 benefits	0
Benefit installation/payment expenses		150,000
Estimated Costs of winding-up*		0
Total		**17,590,000**

Estimate of Assets at Effective Date	
Assets from audited accounts at Effective Date	**14,500,000**
Value of annuity policies at Effective Date	**150,000**
Adjustment for recoveries as directed by the Board	**1,000,000**
Adjustment to Assets 1 (please specify in this box)	**0**
Adjustment to Assets 2 (please specify in this box)	**0**
Total	**15,650,000**

12. Estimate of s152 funding level at Effective Date **89.0%**

13. Certification

I certify that in my opinion based on calculations carried out in line with the relevant Statement issued by the PPF that it is unlikely that the s152 funding level at the effective date is:

more than 100%

Additional Information

Please provide details of:

- any non standard assumptions that have been agreed by the Board; and
- any further information which you believe should be taken into consideration by the PPF in relation to the s152 funding assessment.

***Please include a comment on the Estimated costs of winding-up used at the Effective Date.**

s143 assumptions have been used throughout apart from the allowance for winding-up expenses. No additional assumptions were required to value the annuity policies at the effective date. The winding-up expenses have been input as zero. This is permitted under paragraph 11.5 of the s152 Statement and has acted to understate the Protected Liabilities. The winding-up expenses assumption was agreed by the Board and has not affected the outcome of the estimate.

Valuation completed by:	**AN Actuary**
Qualification:	**FIA**
Employer:	**ABC Consultancy**

Glossary of terms used in this document:

Additional Information Document	-	this document is titled "Additional information for carrying out a Section 143 valuation" and is published on our website
The Act	-	the Pensions Act 2004
Assumptions Guidance	-	"Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act", available on the PPF website
Authorised period	-	The period within which a reconsideration application must be made, 6 months after the receipt of the binding scheme failure notice or the binding of the section 143 valuation or funding determination (whichever is later)
Estimate	-	an estimate of the protected liabilities and assets provided to the PPF for the purposes of making its determination under section 152(10C) of the Pensions Act 2004
Funding assessment	-	an alternative to a full section 152 valuation, where the Board of the PPF is of the view that a roll forward of the section 143 valuation may be sufficient to determine whether the scheme can afford to secure benefits that are at least equal to the compensation that the PPF would pay if it assumed responsibility for the scheme
Funding calculations	-	calculations required for a section 152 valuation or for a section 152 funding assessment
Hampshire, Hughes and Bauer note	-	this note is titled "Information for valuing benefits in respect of the Hampshire, Hughes and Bauer judgments in a section 143 valuation" and is published on our website
Protected Benefits Quotation	-	a quotation for one or more annuities at the reconsideration time which would provide, in respect of each member, PPF-level benefits or full scheme benefits (whichever can be secured by the trustees at the lower cost for that member).
Protected liabilities	-	the estimated cost of securing scheme benefits in accordance with Schedule 7 of the Pensions Act 2004
Reconsideration application	-	an application as prescribed under Regulation 24 of the Pension Protection Fund (Entry Rules) Regulations and section 151 of the Pensions Act 2004

Reconsideration time	-	the time immediately before the end date of the period to which the reconsideration application accounts relate, e.g. if accounts end on 31 December than the reconsideration time would also be 31 December.
Relevant time	-	section 143 valuation date
Valuation Regulations	-	The Pension Protection Fund (Valuation) Regulations 2005