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Part 1 – Effective date of guidance

- 1.1 This is version B9 of the guidance.
- 1.2 This version of the guidance is effective for valuations with an **effective date** on or after 1 May 2021.
- 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 143 of the Pensions Act 2004*.

Part 2 – Overview

2.1 Introduction

- 2.1.1 The Pensions Act 2004 (“the Act”) sets out the conditions that must be met for the Pension Protection Fund to assume responsibility for a scheme.
- 2.1.2 In order for the Pension Protection Fund to assume responsibility for a scheme, the scheme must satisfy the following key criteria:
- the scheme must be a scheme which is **eligible** for the Pension Protection Fund;
 - the scheme must not have commenced wind-up before 6 April 2005;
 - an **insolvency event** must have occurred in relation to the scheme's employer which is a **qualifying insolvency event**;
 - there must be no chance that the scheme can be rescued; and
 - there must be insufficient assets in the scheme to secure benefits on wind-up that are at least equal to the compensation that the Pension Protection Fund would pay if it assumed responsibility for the scheme.
- 2.1.3 A valuation under **section 143** of the Act will determine whether the scheme has sufficient funds to pay at least the Pension Protection Fund levels of compensation as set out above.
- 2.1.4 This guidance must be read in conjunction with the most recent version of our *“Guidance for undertaking the valuation in accordance with Section 143 of the Pensions Act”*.

2.2 Purpose of this guidance

- 2.2.1 This guidance on assumptions is intended for actuaries undertaking valuations to determine the level of funding in accordance with **section 143** 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 the estimated cost of securing scheme benefits is calculated in accordance with Schedule 7 of the Act (pension compensation provisions) to 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 following lists key legislation that is relevant to section 143 valuations but it is not intended to be comprehensive.

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

The Pension Protection Fund (Valuation Regulations) 2005 SI 2005/672 (“the valuation regulations”)

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

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

Relevant compensation cap orders - these are updated annually

The Pensions Act 2008

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

Part 3 – Financial basis for use when undertaking valuations

3.1 Calculation of yields as at the effective date of valuation

Yields should be measured as at the close of business on the effective date of the valuation. 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%. Expressions of the form (Yield Z - k%) should be calculated as an arithmetic difference and not a geometric difference.

3.2 Yields in deferment

Compensation increasing in deferment and accrued prior to 6 April 2009

For each non-pensioner, where compensation which accrued prior to 6 April 2009 increases in deferment, 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.

$$\text{Adjusted net index-linked gilt yield} = \text{Yield A (i)} + 0.2\%$$

- (i) Yield A should be determined daily as 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields 5 to 15 years assuming:
- a 5% inflation; and
 - b 0% inflation.

Compensation increasing in deferment and accrued after 5 April 2009

For each non-pensioner, where compensation which accrued after 5 April 2009 increases in deferment, the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the adjusted 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.

$$\text{Adjusted yield} = \text{higher of (Yield A (i)} + 0.2\%) \text{ and (Yield B (ii)} - 2.5\%)$$

- (ii) Yield B should be determined daily as the annualised yield on the FTSE Actuaries' Government 15 year Fixed Interest Index.

Compensation not increasing in deferment

For each non-pensioner, where compensation does not increase in deferment, the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the adjusted gilt yield shown below.¹

$$\text{Adjusted gilt yield} = \text{Yield C (iii)} - 0.2\%$$

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

3.3 Yields in payment

Separate yields are used for pensioners and for non-pensioners post retirement. For the period from which payments are assumed to commence, the liability must be obtained by reference to the following (adjusted) yields.

Non-pensioners: compensation with no increases in payment

$$\text{Adjusted yield} = \text{Yield D (iv)} - 0.2\%$$

(iv) Yield D should be determined daily as the annualised yield on the FTSE Actuaries' Government 20 year Fixed Interest Index.

Non-pensioners: compensation increasing in payment

$$\text{Adjusted yield} = \text{higher of (Yield E (v) + 0.7\% and (Yield D (iv) - 2.5\%)}$$

(v) Yield E 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.

Pensioners: compensation with no increases in payment

$$\text{Adjusted yield} = \text{Yield C (iii)} + 0.3\%$$

Pensioners: compensation increasing in payment

$$\text{Adjusted yield} = \text{higher of (Yield A (i) + 1.2\% and (Yield C (iii) - 1.9\%)}$$

¹ This assumption only applies to schemes that do not provide for any revaluation of benefits for, or in respect of, any member. If one or more members receive revaluation on any part of their pension then this assumption does not apply to that scheme.

Part 4 – Mortality for use when undertaking valuations

The mortality baseline in respect of an active, deferred or pensioner member, pre and post retirement, shall be:

Gender of first life	First life	Contingent life
Men	S3PMA	S3DFA
Women	S3PFA	S3DMA

The mortality baseline in respect of a current dependant shall be S3DMA (men) and S3DFA (women).

Future changes to mortality in line with CMI_2019_M [1.50%; S=7.5] and CMI_2019_F [1.25%; S=7.5] for men and women respectively (from 2013).

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.

The mortality table used for an active, deferred or pensioner member should be based on an individual's pension size (before application of the compensation cap and 90% reduction) as follows:

Pension size²	First life	Contingent life
Males:		
< 5,500	S3PMA_H	S3DFA
>= 5,500 and < 22,500	S3PMA_M	S3DFA
>= 22,500	S3PMA_L	S3DFA
Females:		
< 1,000	S3PFA_H	S3DMA
>= 1,000 and < 9,000	S3PFA_M	S3DMA
>= 9,000	S3PFA_L	S3DMA

² For non-pensioners include revaluation to the relevant time only, where appropriate, and include the pension equivalent of any lump sum entitlement using the annualised value of a lump sum factors available on the PPF website.

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 85% (males) or 75% (females) at normal pension age.

Where the scheme only makes provision for survivor pensions for a legal spouse or civil partner, an assumption consistent with 75% (males) or 65% (females) at normal pension age.

Using a proportion married assumption consistent with 85% / 75% (males) or 75% / 65% (females) at normal pension age may require mortality rates for calendar years before 2013 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, 85% (males) or 75% (females).

Where the scheme only makes provision for survivor pensions for a legal spouse or civil partner, the assumption must be, at the assumed date of retirement or earlier death, 75% (males) or 65% (females).

A **“relevant partner”** is as defined in SI 2005/670, being a person of either sex who was not married to, or in a civil partnership with, the member and who was living with the member as if that person and the member were husband and wife or, in the case of two adults of the same sex, as if they were civil partners. For the purpose of the above, two adults of the same sex are to be regarded as living together as civil partners if they would be regarded as living together as husband and wife were they instead two adults of opposite sex. Schemes that were formerly contracted-out on a protected rights basis may be required to pay a survivor’s pension to a wider category than just the legal spouse.

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 is 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

This calculation of expenses is intended to give an estimate of the cost of securing a full buyout with an insurance company. The expenses 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

4% of liabilities (excluding benefit installation / payment expenses) up to £5 million

plus

1% of liabilities (excluding benefit installation / payment expenses) between £5 million and £25 million

plus

0.5% of liabilities (excluding benefit installation / payment expenses) between £25 million and £545 million.

The estimated wind-up expenses will be no more than £3 million for all schemes.

b) Benefit installation / payment expenses

Non-pensioners

An allowance of £950 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	800
60 – 70	650
70 – 80	550
80 +	450

If a member has two or more records, e.g. a pension and a deferred pension, then only one expense allowance (the highest) should be calculated.