

# **Annex B to the Board's determination under Section 175(5) of the Pensions Act 2004 in respect of the financial year 1 April 2009 – 31 March 2010**

## **Requirements in respect of deficit-reduction contributions**

### **Summary**

This document sets out how actuaries must calculate the amount to be certified, and how that amount should be communicated to the Board, in respect of deficit-reduction contributions for the 2009/10 levy year. Terms used in this Annex shall have the same meanings as prescribed in the schedule to the determination (if applicable).

### **1 Background**

- 1.1 As described in paragraph 28 of the schedule to the determination, for the 2009/10 levy year the Board will recognise within the calculation of a scheme's underfunding risk special contributions paid into the scheme since the most recent (MFR or section 179) valuation which have served to reduce the section 179 deficit (or increase the section 179 surplus where appropriate).
- 1.2 The Board will only take such contributions into account where an actuary has formally certified the amount of deficit-reduction contributions in respect of that scheme.

### **2 Certification**

- 2.1 The Board will take account of deficit-reduction contributions where a valid certificate is submitted by 5pm on 7 April 2009. Where a certificate was submitted and accepted for use in the 2008/09 levy, and where no further certificate for that scheme is submitted on or before 7 April 2009, the certificate used for 2008/09 will be carried forward and used in 2009/10 provided the valuation referred to in that certificate is the one being used in the calculation of the scheme's underfunding risk for the 2009/10 levy calculation.
- 2.2 In 2008/09 and previous levy years, deficit-reduction contributions were certified to the Board via a certificate published on the Pension Protection Fund's website. For 2009/10 this certificate has been incorporated into the Pensions Regulator's online scheme maintenance system. Actuaries will therefore for 2009/10 be required to certify deficit-reduction contributions online via the scheme maintenance system.
- 2.3 The certificate on the scheme maintenance system requires the following information to be recorded (some of which will be generated automatically by the system, the remainder being entered by the actuary or a duly appointed substitute):
  - Effective date of the section 179 (or exceptionally MFR) valuation to which the certificate relates (date 1) – see paragraph 2.4 below for clarification
  - End-date of the period covered by the audited accounts for the purposes of the valuation (date 2)
  - The last day of the month before the date of this certificate (date 3)
  - Amount of deficit-reduction contributions

- Effective date of the certificate
  - A statement that the amount certified has been calculated in line with this annex
- 2.4 The certificate should relate to the valuation that will be transformed by the Pension Protection Fund to a section 179 position as at 31 March 2008 (the formulae for which are given in Appendix 1 and supplemented in Appendices 2 and 2A where appropriate) in accordance with paragraph 10 of the schedule to the determination.
- 2.5 The deficit-reduction contributions certificate will be available for electronic completion from November 2008.
- 2.6 Separate certification is required for each separate section or segregated part of a multi-employer scheme.
- 2.7 The information provided in the certificate must be consistent with the most recent deficit-reduction contributions calculated and certified by the scheme actuary..

### 3 Calculating the amount to certify

- 3.1 For the purposes of the calculations below:
- **date 1** is the effective date of the (Minimum Funding Requirement or section 179) valuation to which the certificate relates, as described in paragraph 2.4 above
  - **date 2** is the end date of the period of time covered by the audited accounts used for the purposes of that valuation
  - **date 3** is the last day of the month before the date of the certificate. The date of the certificate means the date on which it is signed and the certificate cannot be backdated. Contributions, accrual, expenses and augmentation costs must all be measured up to the end of the month before the date of the certificate.
- 3.2 The amount of the deficit-reduction contributions is calculated as:
- a – (b + c + d + e)** where **a**, **b**, **c**, **d** and **e** are described in paragraphs 3.3 through to 3.7.
- 3.3 **a** is the contribution paid by the employer(s) and employees (and, where relevant, HM Revenue & Customs in respect of age-related National Insurance rebates) before **date 3**. Allowance should be made only for contributions that have been received, irrevocably and in full, by the trustees or scheme managers before the date of the certificate.
- a** should include:
- contributions to the scheme in respect of scheme expenses (where expenses are met out of scheme assets)
  - contributions in respect of augmentations to benefits
  - contributions in respect of the cost of accrual of scheme benefits between **date 2** and **date 3** that are shown as a liability in the audited accounts at **date 2**.
- a** should exclude:

- contributions recognised as an asset in the audited accounts at **date 2** (even if they are not paid until after **date 2**)
  - contributions in respect of the cost of accrual of scheme benefits after **date 3** but paid before that date
- 3.4 **b** is the cost of accrual of scheme benefits (subject to the adjustments described in section 4 of the section 179 guidance version G4) on a section 179 valuation basis between **date 1** and **date 3**. In calculating the cost of accrual allowance should be made for salary increases over the period from **date 1** to **date 3**, but no allowance should be made for salary increases from **date 3** to expected retirement date (nor any increase in section 179 liabilities for service before **date 1** resulting from salary increases between **date 1** and **date 3**). Any step increase in liability arising when a member attains normal pension age<sup>1</sup> between **date 1** and **date 3** should not be included. The effective date used in calculating the cost of accrual should be the date halfway between **date 1** and **date 3**. Version G4 of the section 179 valuation guidance and version A4 of the assumptions guidance should be used in calculating the cost of accrual.
- 3.5 **c** is the amount of expenses (if expenses are met out of scheme assets) incurred between **date 2** and **date 3** (inclusive of investment management).
- 3.6 **d** is the cost, measured on a section 179 valuation basis, of any augmentations granted between **date 1** and **date 3**. This includes benefits for which the Board of the Pension Protection Fund does not provide compensation (e.g. an augmented lump sum on death in service) and benefits in excess of Pension Protection Fund levels of compensation. This item should also include the cost of discretionary pension increases granted. Enhanced early retirements made using an augmentation power in the scheme rules, or which require the trustees or employer to exercise discretion or grant consent in granting the benefit, should be included as an augmentation. Where early retirements are an application of the scheme rules which do not require the satisfaction of any conditions (eg consent, discretion or use of an augmentation power) and would therefore be deemed to be retirement at normal pension age<sup>1</sup>, they do not count as augmentations for the purpose of the certificate. Similarly, the cost of accrual should not include the cost of benefit increases that arise as an entitlement under the scheme rules without the need for the fulfilment of any conditions. If, however, increases are the result of an augmentation granted or a discretion exercised, then the cost should be included in the cost of augmentations. The effective date used in calculating the cost of augmentations should be the date halfway between **date 1** and **date 3**. Version G4 of the section 179 valuation guidance and version A4 of the assumptions guidance should be used in calculating the cost of augmentations.
- 3.7 **e** is the amount of benefits (including transfers in and out) paid out between **date 2** and **date 1**, where **date 2** is earlier than **date 1**. Where a scheme holds annuity policies in respect of some or all beneficiaries, the annuity income received by the scheme should be deducted from the benefits paid out by the scheme in the calculation of **e**. However, if the annuity income in respect of any member exceeds the benefits paid out in respect of that member, the contribution to **e** in respect of that member shall be nil.
- 3.8 Where **a**, **b**, **c**, **d** or **e** cannot be determined exactly, prudent estimation is acceptable, where prudent means that **a** is not overestimated and **b**, **c**, **d** and **e** are not underestimated.

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<sup>1</sup> The Board has published the opinion of Andrew Simmonds QC on this term which represents how this should be interpreted.

- 3.9 No adjustment should be made for investment returns. Therefore the contributions, expenses, etc. should not be rolled up or discounted in any way.