

## **Appendix 2 to the Board's determination under Section 175(5) of the Pensions Act 2004 in respect of the financial year 1 April 2008 – 31 March 2009**

### **Methodology for adapting MFR valuations to estimate liabilities on a section 179 basis for the purpose of calculating the pension protection levy in respect of the financial year 1 April 2008 – 31 March 2009 where no section 179 valuation has been provided by the statutory deadline**

#### **Summary**

This document sets out the formulae developed by the Board of the Pension Protection Fund to calculate valuation results on a section 179 basis as at 31 October 2007 (referred to as "the output date" below) in cases where no section 179 valuation has been received by 31 March 2008.

#### **1 Background**

- 1.1 Each scheme that became registrable prior to 6 April 2007 is required to submit its first section 179 valuation to the Pension Protection Fund by 31 March 2008. Some schemes will have submitted more than one section 179 valuation by that date. This information will be used, as described in Appendix 1, to assess the scheme's funding position on the section 179 basis as at 31 October 2007. If a scheme to which the statutory 31 March 2008 deadline applies fails to submit a section 179 valuation by this deadline, then the funding position as at 31 October 2007 will be calculated as described in this Appendix 2.
- 1.2 A model was created for the 2007/08 levy year in conjunction with the Government Actuary's Department which enabled the Board to adapt and roll forward valuation results on the MFR basis to produce section 179 results valid at the chosen output date. In the 2007/08 levy year this model provided estimated section 179 figures as at 31 October 2006 which were used in the calculation of the 2007/08 levy for schemes which had not submitted a section 179 valuation at that time. These results will form the inputs for the calculation of the estimated section 179 results as at 31 October 2007.

#### **2 Summary of the calculation**

- 2.1 For those with a broad interest in the conversion methodology, the main stages of the calculations are summarized below.
- 2.2 The section 179 results that were used for the 2007/08 levy invoice calculation will be rolled forward, in the manner described in Appendix 1, from 31 October 2006 to 31 October 2007.
- 2.3 The estimated value of assets thus derived as at 31 October 2007 will be reduced by 5 per cent per annum compound in respect of the period (measured in years and fractions of years) between the effective date of the MFR valuation used in the calculation of the 2007/08 levy for the scheme and 31 October 2007.

### 3 Summary of outputs from and inputs to the formulae

#### 3.1 Outputs

• Assets for section 179 valuation	S179Ass
• Liabilities for pensions in payment (excluding section 179 member-related expenses)	S179PL
• Liabilities for deferred members (excluding section 179 member-related expenses)	S179DL
• Liabilities for active members (excluding section 179 member-related expenses)	S179AL
• External liabilities	S179ExLiab
• S179 estimated cost of wind-up (excluding benefit installation/payment)	S179WUExp
• S179 estimated expenses of benefit installation/payment	S179PayExp
• Effective date of the section 179 valuation required for output (31 October 2007)	OutputDate
• Total liabilities (including section 179 expense allowance)	S179TL

#### 3.2 Inputs

The section 179 valuation results as at 31 October 2006, calculated as part of the 2007/08 levy invoice calculation:

• Assets for section 179 valuation purposes	S179InputAss
• Date of asset figure (that is 31 October 2006)	RelAcDate
• Total value of protected liabilities	S179InputTL
• Liabilities for pensions in payment	S179InputPL
• Liabilities for deferred members	S179InputDL
• Liabilities for active members	S179InputAL
• Estimated costs of windup (excluding benefit installation/payment)	S179InputWUExp
• Estimated expenses of benefit installation/payment	S179InputPayExp
• Proportion of pensioner liabilities, excluding expenses, relating to service before 6 April 1997 (the default value as described in section 5 of Appendix 1 will be used)	S179InputPPre97 Ppn

• Proportion of deferred pensioner liabilities, excluding expenses, relating to service before 6 April 1997 (the default value as described in section 5 of Appendix 1 will be used)	S179InputDPre97 Ppn
• Proportion of active member liabilities, excluding expenses, relating to service before 6 April 1997 (the default value as described in section 5 of Appendix 1 will be used)	S179InputAPre97 Ppn
• External liabilities	S179InputExLiab
• Effective date of the section 179 valuation (i.e. 31 October 2006)	S179InputDate
• Version number of s.179 guidance used for this valuation (i.e. G3)	S179InputGuiVNo
• Version number of s.179 assumptions used for this valuation (i.e. A3)	S179InputAssVNo
• Effective date of the MFR valuation used in the 2007/08 levy invoice calculation for the scheme	MFRDate

Scheme asset information in the scheme return data – percentages of the total assets as at the date of the last audited financial statement (referred to as “AssetDate” below). Note that this may be different from both the S179InputDate and the RelAcDate identified above; the value of assets at AssetDate is not known, and it may be rather different from S179InputAss where, for instance, a bulk transfer has taken place:

• Gilts/fixed interest products	FI%
• Equities	Eq%
• Property	Pr%
• Insurance policies (excluding managed funds)	IP%
• Cash and deposits	Ca%
• Commodities	Co%
• Other	Ot%
• Date of asset breakdown	AssetDate

Numbers of members with defined benefits only or partial defined benefits from the scheme return data

• Pensioner members	PMemNo
• Deferred members	DMemNo

• Active members	AMemNo
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Average ages of different classes of members from the scheme return data

• Pensioner members	PAvAge
• Deferred members	DAvAge
• Active members	AAvAge

Where any of the above information has not been provided, the Board will need to assume a value. Details of the assumptions that will be made in these circumstances are set out in section 5 of Appendix 1. Note also that average ages falling outside particular ranges will be subject to adjustment (see section 5 of Appendix 1 for details).

## 4 The formulae

### 4.1 Initial Roll forward

The inputs set out in section 3.2 of this appendix are used to roll forward the s.179 valuation result to 31 October 2007 (OutputDate) in accordance with the formulae as detailed in Appendix 1.

### 4.2 Asset adjustment

The asset value at OutputDate (S179Ass) is then adjusted

$$S179Ass = S179Ass \text{ [as calculated in section 4.2.3 of appendix 1]} \\ \times 0.95^{(\text{OutputDate} - \text{MFRDate})}$$

The time period OutputDate – MFRDate is measured in years and fractions of years.