

Department for Work and Pensions

Consultation

Draft guidance on method and assumptions to use when undertaking a valuation for relevant FAS qualifying schemes

April 2009



The Pensions Group

Part of the Department for Work and Pensions

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Date

April 2009

Dear Sir or Madam

Draft guidance on method and assumptions to use when undertaking a valuation for relevant FAS qualifying schemes

Background

The Government announced substantial reforms to the Financial Assistance Scheme (FAS) on 17 December 2007 which included payment at 90% of accrued pension from the later of scheme normal retirement age (NRA) and 14 May 2004 and the inclusion of certain schemes with solvent employers. This extension would be part-funded by taking into government the assets remaining in relevant schemes.

The Government has implemented the reforms in stages, to give priority to those elements which offered the most help to the members of FAS qualifying schemes. Key elements of the Announcement have already been implemented through two sets of Regulations which came into force in 2008.

In addition, the Government has recently consulted on a set of draft Regulations to implement the remaining parts of the Assistance structure for those FAS qualifying members whose schemes will not be transferring assets to government and to confer on the Board of the Pension Protection Fund (PPF) the functions of the FAS scheme manager, now exercised by the Secretary of State for Work and Pensions.

That consultation also provided details of the Government's initial proposals to implement the transfer of the assets remaining in FAS qualifying schemes to government and proposals relating to payments which will depend on the amount of the member's share of the pension scheme assets. Proposals for the transfer of assets reflected the Government's expectations that it is reasonable that the key activities of winding up of a pension scheme should be completed within two years. The consultation document is available on the Department's website at:

[http://www.dwp.gov.uk/consultations/2009/FAS\(Miscellaneous%20Provisions\)Regulations2009-Consultation.pdf](http://www.dwp.gov.uk/consultations/2009/FAS(Miscellaneous%20Provisions)Regulations2009-Consultation.pdf)

The Government anticipates consulting on a further package of Regulations later this year that will enable the transfer of relevant assets and set out the rules for associated payments. The valuation and allocation of assets will be a key activity in scheme's preparation for the transfer of assets as it is proposed that the share of assets allocated to the beneficiary will be used to determine whether a person stands to receive payments higher than standard FAS levels. It is also proposed that the share of assets will impact on the amount of Assistance some members might take as a tax-free lump sum.

The Government anticipates that guidance will be required to support actuaries undertaking relevant valuations. Early feedback from pension scheme professionals has suggested that that it may take some time for actuaries to prepare for the requirements of the valuation. The Government is therefore conducting this initial consultation on draft valuation guidance ahead of consultation on relevant regulations in order to obtain early feedback on potential practical issues and to enable schemes to be in a better position to start to undertake preparatory work in advance of asset transfer.

The draft guidance reflects the Government's current position on FAS policy matters as described in the consultation document referred to above. Some of these proposals will be subject to further consultation later this year and the draft guidance should not be considered as indicating final policy.

The draft guidance has been prepared by the Government Actuary's Department on behalf of the DWP. If relevant functions are conferred on to the PPF in line with current proposals then final guidance may be published by the PPF.

The buy-out basis

The draft guidance covers the method and assumptions to be used when undertaking a valuation. Under some of the relevant priority orders that apply to FAS schemes certain liabilities fall to be valued on a 'full buy out' basis (i.e. the liability is valued in accordance with the cost of securing that liability with an insurer). In a conventional wind-up the full buy out cost would reflect quotes provided by an insurer. However, when undertaking FAS valuations actual buy-out quotes will not be available. Thus, the draft guidance includes a synthetic buy-out basis that actuaries will use to determine the value of relevant liabilities.

The buy-out basis included in this draft guidance is an extension of the basis on which the Government consulted in March 2008 for the purposes of reviewing the annuity factors that are applied in the calculation of relevant members' FAS entitlements. The consultation document on the revision of the annuity factors and the Government's response is available on the Department's website at:

<http://www.dwp.gov.uk/publications/dwp/2008/revision-of-annuity-factors-in-FAS.pdf>

<http://www.dwp.gov.uk/consultations/2008/RevisionoftheannuityfactorsemployedbytheFAS-GovernmentresponseJune08.pdf>

Other issues

The Government anticipates that valuations in line with the draft guidance will be required in relation to all schemes that will transfer some or all of their assets to Government. As well as feedback on the detail of the draft guidance we particularly welcome comments on the following points:

- Whether the proposed valuation approach will be compatible in all cases with the data that may be held by schemes; and
- Whether, in circumstances where data are not compatible, there are areas in which we might partially waive the requirements (e.g. the requirement to review payments in the past, or allowing a simplified calculation for deferred members)
- Whether there are any circumstances in which it may not be cost-effective to apply the guidance in relation to relevant schemes (for example because very low funding levels mean that the calculation of asset shares for individual members will not have a material impact on members or small schemes where the fixed cost of the calculation mean that the average cost per member is a high proportion of their asset share);
- Whether it is anticipated that implementing the calculations described in the draft guidance will incur costs over and above those that would be incurred were conventional winding-up processes to be followed in relation to these schemes, and if so an estimate of those additional costs; and
- Whether specific further accounting guidance will be needed to support the valuation process.

Target audience

The consultation is technical in nature and is primarily aimed at pension industry professionals and others with an interest in defined benefit occupational pension schemes. However, views from the wider public are also welcome.

Where can I find the consultation document?

The draft guidance is available on the Department's website at: <http://www.dwp.gov.uk/consultations/2009/> (02/04/09 entry).

A document containing example calculations is also available there.

The documents can also be accessed via the FAS website: <http://www.dwp.gov.uk/fas>

Timing

The consultation period begins on 2 April 2009 and runs until 15 May 2009.

A consultation period of six weeks is in line with Departmental practice in relation to limited technical consultations.

How can I respond to the consultation?

The Government would be grateful for your comments on any of the points covered by the draft Regulations. Please ensure that your response reaches us by the closing date.

A list of those to whom this document has been sent is attached. If you have any suggestions of others who may wish to be involved in this process, please contact us.

Please send consultation responses to:

Email: fas-responses@dwp.gsi.gov.uk

Post: Financial Assistance Scheme Consultation
Department for Work and Pensions
Private Pensions Policy
The Adelphi
3rd Floor
1-11 John Adam Street
London
WC2N 6HT

When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of a larger organisation please make it clear whom the organisation represents and (where applicable) how the views of members were assembled.

All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purpose of the public consultation exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information which is provided, or remove it completely. If you want the information in your response to the consultation to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this. We cannot guarantee confidentiality of electronic responses even if your IT system claims it automatically.

If you want to find out more about the general principles of Freedom of Information and how it is applied within DWP, please contact:

Charles Cushing
Department for Work and Pensions, Adjudication and Constitutional Issues,
Information Policy Division,
Freedom of Information Unit,
1-11 John Adam Street,
London
WC2N 6HT
Phone: 0207 962 8581

Email: charles.cushing@dwp.gsi.gov.uk or carol.smith14@dwp.gsi.gov.uk

More information about the Freedom of Information Act can be found on the website of the Ministry of Justice.

What will we do after the consultation?

A summary of responses (including the next steps to be taken) will be published online (and linked from the same web page as above). Paper copies will be available on request.

The consultation process

We value your feedback on how well we consult. If you have any comments on the process of this consultation (as opposed to the issues raised) please contact our Consultation Coordinator:

Roger Pugh
Department for Work and Pensions' Consultation Coordinator,
Room 2A,
Britannia House,
2 Ferensway,
Hull
HU2 8NF
Phone: 01482 609571
Email: roger.pugh@dwp.gsi.gov.uk

Yours faithfully

Andy Maggs

Policy and Legislation - Financial Assistance Scheme

Copied to:

Age Concern
Association of British Insurers
Association of Consulting Actuaries
Association of Pension Lawyers
Auditing Practices Board
Board for Actuarial Standards
British Chambers of Commerce
Community the Union
Confederation of British Industry
Department for Business,
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Help the Aged
HM Treasury (MOCOP)
Independent Pensions Research
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