

Financial Assistance Scheme

Draft guidance on method and assumptions to use when undertaking a valuation for relevant FAS qualifying schemes

DRAFT VERSION 0.1

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Table of Contents

1	Effective date of guidance	1
2	Overview.....	1
3	Asset Share Calculation Approach.....	5
4	Asset Share Calculation	10
5	Notional Annuity Calculation	13
6	Basis for use when calculating liabilities on a buy-out basis	15
7	Appendix – Example calculations of financial assumptions.....	23
8	Appendix - Statutory Priority Orders	27
9	Appendix - Glossary.....	32

1 Effective date of guidance

- 1.1 This is version 1 of the guidance.
- 1.2 This version of the guidance is effective for valuations with a *Calculation Date* on or after the date at which relevant regulations come into force.

2 Overview

2.1 Introduction

- 2.1.1 The Pensions Act 2004 (“the Act”) and the Financial Assistance Scheme Regulations 2005/1986 (“the Regulations”) set out the conditions that must be met for a scheme to qualify for the Financial Assistance Scheme (FAS).
- 2.1.2 In order for an occupational pension scheme which is not a money purchase scheme (or a scheme of the type referred to in the Regulations as not being a qualifying scheme) to qualify for the FAS, the scheme must fulfil the notification requirements and satisfy one of two conditions.
- 2.1.3 The first condition is that the scheme must have commenced wind-up between 1 January 1997 and 5 April 2005 inclusive and the scheme employer must satisfy one of the following criteria:
 - > an insolvency event must have occurred in relation to the scheme's employer which is a qualifying insolvency event; or
 - > in the case of a multi-employer scheme, that an insolvency event has occurred in relation to the principal employer or to all the employers; or
 - > if the scheme began to wind-up before 11 June 2003 that the employer discharged any debt to the scheme or no debt was due from the employer when the scheme began to wind-up or the *FAS Scheme Manager* is satisfied that an appropriate proportion of the debt was discharged; or
 - > in a multi-employer scheme that either there was no debt due from the employer, or that a debt was discharged by all the employers, or when the *FAS Scheme Manager* is satisfied that an appropriate proportion of the debt due was discharged.
- 2.1.4 The alternative condition is that the scheme must have commenced wind-up between 6 April 2005 and 22 December 2008 inclusive and an insolvency event must have occurred in relation to the scheme's employer before 6 April 2005 which is a qualifying insolvency event and no further insolvency events have occurred after that date which would make the scheme eligible for PPF compensation.
- 2.1.5 Relevant members of qualifying schemes which have completed wind-up (usually by the purchase of annuities or payment of transfer values or lump sums) receive a top-up from FAS in line with the Regulations. Qualifying schemes which have not already completed wind-up – and that do not annuitise in the future as a consequence of a binding commitment or

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

- permission from the *FAS Scheme Manager* - will transfer their assets to government. If a member's liability was fully discharged by payment of a lump sum (e.g. a transfer value or a winding-up lump sum) and/or purchase of an annuity, that member will receive Assistance calculated in the same way as for the member of a scheme which completed wind-up, even if its assets are subsequently transferred to government.
- 2.1.6 The assets of the transferring scheme that are available to provide benefits to members are allocated to each member, and the amount of assets allocated to each member is that member's asset share.
- 2.1.7 A valuation will determine the asset shares of eligible members of schemes which are transferring assets. The asset shares will determine whether those members would have received more than *Standard Assistance* had their scheme wound up outside of the FAS. It is intended that some members will be entitled to give up some of their Assistance in exchange for a lump sum. For such members, the asset share will affect the member's entitlement to a lump sum since this will be limited by the asset share.
- 2.1.8 As part of the valuation, a *Notional Annuity* will be calculated for each member. This is a regular notional income that could have been paid by the scheme starting from the commencement of wind-up, or *FAS Normal Retirement Age* if later if the final funding position of the scheme had been known at the start of wind-up. If a scheme had paid members the calculated *Notional Annuity* payments during wind-up, then the asset share calculated for each member would be the actuarial equivalent of *Notional Annuity* payments due after the effective date of the asset share calculation.
- 2.1.9 The *Notional Annuity* will be used to determine whether a member could have received a higher income through an annuity purchased by their scheme than the amount that the FAS would have provided. This will then determine the shape of the payment from the FAS. It will also be used as part of the calculation of the maximum lump sum available to members.
- 2.1.10 The *FAS Scheme Manager* will appoint an actuary to carry out the asset share and *Notional Annuity* calculation. In most cases the Government expects that the existing scheme actuary will be asked to carry out the asset share and *Notional Annuity* calculation.

2.2 Purpose of this guidance

- 2.2.1 This guidance on assumptions will be followed by actuaries undertaking valuations to determine the asset shares and notional annuities of members of schemes transferring assets to government in line with relevant forthcoming FAS regulation and other statutory obligations that apply in relation to schemes in wind-up.
- 2.2.2 The Government recognises that the legislation relating to the winding-up of pension schemes is, for good reason, not always totally prescriptive. The procedures in this document should be considered as applying only to

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

schemes that are qualifying schemes for FAS and that are transferring their assets to government. The guidance should not be considered as applying more generally to other schemes in wind-up nor as indicating the Government's view of how procedures should be applied in this wider context.

2.2.3 A glossary of key terms is appended to this document. Actuaries may also find the associated document containing example calculations helpful.

2.3 Reporting

2.3.1 The results should be addressed to the *FAS Scheme Manager* and the scheme's trustees or managers. If the work is carried out by the scheme actuary, the actuary's contract will be with the trustees or managers of the scheme. However, the *FAS Scheme Manager* and the trustees or managers must be able to rely on the report, so any caveat in the report relating to third parties must allow for this.

2.3.2 The results of the calculation must be provided to the *FAS Scheme Manager* within the timescale agreed at the time that the *FAS Scheme Manager* commissions the calculation. Agreement to these timescales will involve the *FAS Scheme Manager* and the actuary who is carrying out the calculation (and the scheme trustees or managers, should the *FAS Scheme Manager* be commissioning the calculation through them). Because it is expected that the asset share calculation will only be commissioned by the *FAS Scheme Manager* following the completion of a data audit, the agreed timescale will not need to build in a time allowance for data cleansing.

2.3.3 The actuary should provide a report that covers the following areas [to be specified – this is under policy development]. The report should be submitted in conjunction with a completed spreadsheet containing member and scheme data and calculation results. A template for this spreadsheet will be made available.

2.4 Legislative requirements

2.4.1 [To be drafted with legislation]

2.5 Legislation or authority for actuarial valuations

The Pensions Act 2004 (the Act)

The Pensions Act 2007

The Pensions Act 2008

The Financial Assistance Scheme Regulations 2005 SI 2005/1986

The Financial Assistance Scheme (Modifications and Miscellaneous Amendments) Regulations 2005 SI 2005/3256

The Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2006 SI 2006/3370

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

The Financial Assistance Scheme (Halting Annuitisation) Regulations 2007 SI 2007/2533)¹

The Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2007 SI 2007/3581

The Financial Assistance Scheme (Miscellaneous Provisions) Regulations 2008 SI 2008/1432

The Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2008 SI 2008/1903

The Financial Assistance Scheme (Amendment) Regulations 2008 SI 2008/3069

The Pensions Act 2008 (Commencement No.1 and Consequential Provision) Order 2008 SI 2008/3241

The Financial Assistance Scheme and Incapacity Benefit (Miscellaneous Amendments) Regulations 2009 SI 2009/xxxx

The Financial Assistance Scheme (Miscellaneous Provisions) Regulations 2009 SI 2009/xxxx

[Regulations bringing in asset transfer]

¹ These regulations no longer have practical effect since the period of restriction has now ended. However, amendments to the Pensions Act 2004 made by the Pensions Act 2008 have a similar, although not identical, effect.

3 Asset Share Calculation Approach

3.1 Effective Date of the calculation

- 3.1.1 There should already be an agreed date of the start of the scheme's winding-up process ('*Commencement Date*'), as determined under regulation 3 of the Regulations.
- 3.1.2 It is expected that the Crystallisation Date (as defined in paragraph 4 of the 1996 Winding Up Regulations SI 1996/3126) will usually be the effective date of the start of the winding-up process.
- 3.1.3 Subject to further consultation on relevant regulations, the Government intends that the date for the purposes of the calculation of the asset shares (the '*Calculation Date*') will be a quarterly date fixed by reference to the date at which the actuary is appointed to undertake the valuation².

3.2 Approach to the calculation

- 3.2.1 The asset share calculation should be carried out in the same way as the asset share calculation that would have been prepared had the scheme completed its wind-up outside of the FAS, subject to the exceptions set out in this guidance document.
- 3.2.2 The actuary should take particular care in interpreting the legislation and actuarial guidance notes applicable on wind-up of the scheme, and ensure that these are distinguished from those aspects of the legislation and actuarial guidance notes that would otherwise have been specifically applicable for the purposes of determining any employer debt due to the scheme.
- 3.2.3 Under the terms of the FAS, wind-up will always be deemed to have commenced in the period 1 January 1997 to 22 December 2008. The actuarial guidance note GN19: *Retirement Benefit Schemes – Winding-up and Scheme Asset Deficiency* issued by the Board for Actuarial Standards should be followed by the actuary. Version 4.5 of GN19 is applicable for the purposes of this asset share calculation for schemes that commenced winding-up between 1 January 1997 and 5 April 2005. The appropriate version of GN19 for schemes that commenced winding-up between 6 April 2005 and 30 November 2008 is version 4.8. If a scheme commenced winding-up from 1 to 22 December 2008 then the calculations should be carried out as if version 4.8 of GN19 applied to the calculations.

² The current Government proposal in relation to the calculation date is described in paragraphs 38 to 43 of section 6 of the Consultation on the draft Financial Assistance Scheme (Miscellaneous Provisions) Regulations 2009:
[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)

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

3.2.4 However, the provisions of GN19 relating to the selection of the effective date of the calculation³ do not apply (see paragraph 3.1.3 above) and the actuary's advice must be addressed to the *FAS Scheme Manager*.

3.3 Members covered by the calculation

- 3.3.1 Asset shares are to be calculated for all deferred, pensioner, dependant and pension credit members.
- 3.3.2 The calculation will cover all members of the scheme at the *Calculation Date* and some members who died during wind-up as described below.
- 3.3.3 Members of the scheme on the day before the *Commencement Date* who died during the wind-up process are included in the asset share calculation only if it is still possible to pay arrears to or reclaim overpayments from the member's estate and providing that the member did not transfer out or have their liability discharged by payment of a lump sum during wind-up but before their death. The actuary should ask the trustees or managers if any deceased members fall into this category and exclude any other deceased members. The asset share calculation for such members included in the calculation should only include allowance for payments made to the member, and not to any eligible dependants of the member who will have a separate asset share calculation. In practice, if an overpayment has been made to these deceased members, then a negative asset share will be initially calculated for these members and then they will be excluded as described in paragraph 4.12.
- 3.3.4 If the member died during wind-up but before the *Calculation Date*, then the calculation of liabilities for periods before and after the *Calculation Date* should be calculated based on the benefits payable based on the member's actual date of death.
- 3.3.5 Separate calculations should be carried out for a member who died during wind-up and any eligible dependants of that member. The asset share calculation for dependants should only include allowance for payments made to the dependant and not those made to the member whose death gave rise to the dependant's pension.
- 3.3.6 The asset share calculation for members who are alive at the *Calculation Date* should include allowance for contingent payments to dependants of these members.
- 3.3.7 Members who transferred-out of the scheme during wind-up or had their liability discharged by payment of a lump sum or purchase of an annuity in their name before assets transfer to government will receive Assistance calculated in the same way as for comparable members of schemes which complete wind-up. They are not included in the asset share calculation.

3.4 Discretionary Benefits and Member Options in calculation of liabilities

³ Paragraph 1.5 in versions 4.5 and 4.8 of GN19. Also see paragraph 3.4 in version 4.5 which reiterates the instruction in paragraph 1.5.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

- 3.4.1 In the case of schemes that started winding-up before 6 April 2005, benefits paid at the discretion of the trustees or managers should be excluded from the calculation of liabilities in paragraphs 4.3 and 4.4 if those benefits would have been adjusted had section 73A of the Pensions Act 1995 applied to the scheme. For schemes that started winding-up from 6 April 2005, discretionary benefits should have been adjusted in line with section 73A.
- 3.4.2 However future awards of discretionary survivor benefits should be included to the extent that they are covered by paragraph 6.8.1.
- 3.4.3 All discretionary benefits actually paid to members covered by the calculation should be included in the calculation of *Adjusted Assets*.
- 3.4.4 If a member received a lump sum during wind-up as a result of commuting pension, then the calculation of liabilities for periods before and after the *Calculation Date* should be based on the pension that would have been paid if the commutation had not taken place.
- 3.4.5 If the member retired early during wind-up, then the calculation of liabilities for periods before and after the *Calculation Date* should be based on the pension that would have been paid if the early retirement had not taken place and if the member had retired / will retire at their *Scheme Normal Pension Age*. Similarly, if the member took any other option within the scheme during wind-up, then the calculation of liabilities should be based on the benefits that would have been paid if that option had not been taken.
- 3.4.6 If a member who died during wind-up exercised an option which affects a dependant's benefits, then the liabilities calculated in respect of that dependant should be calculated based on the benefits payable as a result of the option being taken.
- 3.4.7 Note also, the guidance on future exercising of member options in paragraph 6.10.

3.5 Basis of calculation

- 3.5.1 In calculating the value of liabilities, paragraph 3.1 of version 4.5 of actuarial guidance note *GN19: Retirement Benefit Schemes – Winding-up and Scheme Asset Deficiency* refers the actuary to actuarial guidance note *GN27: Retirement Benefit Schemes – Minimum Funding Requirement* and to Regulation 4 (varied where applicable by Regulation 4A, 4B or 4C) of the Occupational Pension Schemes (Winding Up) Regulations 1996 (SI 3126/1996) (as amended),
- 3.5.2 These references indicate the circumstances in which calculations are to be carried out using either the Minimum Funding Requirement (MFR) basis approach or an insurance company buyout basis approach. The MFR basis is described in actuarial guidance note GN27 and related legislation. Sections 6 and 7 of this document provide further guidance on the assumptions applicable when calculations require an insurance company buyout basis to be used in the calculations.

3.6 Priority order

- 3.6.1 In terms of priority order, if the wind-up is deemed to have commenced during the period 1 January 1997 to 5 April 1997 (during which a statutory priority order did not apply), the asset share calculation should be carried out following the requirements of the scheme concerned's rules. Where the scheme's rules are unclear on any point material to the outcome of the asset share calculation the actuary must seek instructions from the trustees or managers and inform the *FAS Scheme Manager*. Any consequent material assumptions made should be disclosed in the results reported to the *FAS Scheme Manager* (and consequently copied to the trustees or managers).
- 3.6.2 If the wind-up is deemed to have commenced during the period 6 April 1997 to 22 December 2008, then the asset shares will be calculated using the relevant priority order under section 73 of the Pensions Act 1995 (as amended). Section 8 summarises these priority orders and the assumptions required to calculate them. If the scheme's assets are more than sufficient to cover the statutory priority order liabilities, then the scheme's priority order should be used to allocate the remaining assets.

3.7 Adaptations required to the standard calculation approach

- 3.7.1 The standard asset share calculation approach must be adapted to allow for payments made by the scheme during wind-up, in comparison with the payments that would have been made had the final funding position of the scheme been known at outset. Schemes should not in general pay arrears or recover overpayments since some of these may be offset by under or overpayments of FAS Initial Payments over this period (i.e. payments made by FAS to a member before the member's final Annual Payment has been determined).
- 3.7.2 Further adaptations to the asset share calculations are required where any assets remain unallocated once the asset share calculations have been carried out using the statutory priority order and basis described above.
- 3.7.3 Once the asset share is determined for each member, the next stage is to calculate a *Notional Annuity* payment which the member would be entitled to. This is used to determine whether the annuity that the scheme might have purchased for the member would provide an income in excess of the level of income that the FAS is designed to protect.
- 3.7.4 The calculation procedure below can lead to negative asset shares for some members for whom past overpayments are so large as to exceed the value of future payments due to the member. The trustees or managers may decide to seek to recover overpayments from some members, and particularly those members who appear to have been paid in excess of their asset share during wind-up. If money is recovered, then the asset share calculation should be repeated with the new asset figure. It is expected that schemes in this position would be aware of this situation without the need for detailed calculations and such schemes should note that it is not necessary to recover all overpayments to avoid negative asset shares, just the amount in excess of future entitlement.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

Negative asset shares could not occur in a wind-up outside of the FAS. If they remain in the calculation, then paragraph 4.12 describes the method to be used to remove them, by effectively reducing the asset shares of other members. This is an iterative process. However, it is not expected that trustees would consider recoveries separately at each stage of the calculation.

3.7.5 The impact of the adaptations is outlined in sections 4 and 5 below.

3.8 **AVCs and money purchase benefits**

3.8.1 Paragraph 6 of Schedule 2 of the Regulations specifies that money purchase benefits are excluded when the FAS Assistance is calculated. It is the intention that money purchase assets should be transferred out rather than transferred to government. These assets should therefore be excluded from the asset shares that are reported.

3.8.2 The Government is considering how defined benefit AVCs might be treated in relation to FAS schemes transferring their assets to government and will provide proposals in forthcoming consultations on further draft FAS regulations.

4 Asset Share Calculation

- 4.1 Scheme assets must be valued as at the *Calculation Date*⁴.
- 4.2 The total amount of scheme payments actually made between the *Commencement Date* and the *Calculation Date* are to be determined for each member covered by the calculation, then aggregated and added to the asset value in step 4.1 above. No interest should be applied in this calculation. The following items should be deducted:
- > Expenses that will be incurred by the scheme to complete the process of asset transfer (and any expenses incurred that have not yet been paid);
 - > the amount of any payment that has been paid to the scheme from FAS⁵ and
 - > Money purchase assets should be deducted from the assets.
- The result of this calculation is the *Adjusted Assets*. If this amount is negative, then all members have a nil *asset share* and the calculation can move to calculating notional annuities described in section 5.
- 4.3 The actuary must calculate the liabilities for each member covered by the calculation and in each priority class in respect of payments due after the *Calculation Date*, using the relevant basis and priority order, as described in sections 6 and 8.
- 4.4 The total amount of the payments (equivalent to those in step 4.2 above) that would have been made between the *Commencement Date* and the *Calculation Date*, had the scheme continued as a going concern, should be calculated for each member, split by priority class. No interest should be applied in this calculation.
- 4.5 For each member covered by the calculation, the actuary will add on the total amount of payments that would have been made in each priority class determined in step 4.4 above to the liabilities in each priority class in respect of future payments calculated in step 4.3. The results of this calculation are the *Adjusted Liabilities* for each member.
- 4.6 The *Adjusted Liabilities* calculated in step 4.5 above are summed in each priority class across all members.

⁴ It is anticipated that regulations will provide the framework for the valuation of assets for example in relation to the treatment of outstanding debts. In developing procedures for the transfer of assets the Government will also consider the extent to which specific guidance will be required to support the valuation of those assets as at the calculation date. In the Consultation on the draft Financial Assistance Scheme (Miscellaneous Provisions) Regulations 2009, the Government provided initial proposals relating to the valuation of assets including its expectation that the value allotted to assets in the scheme accounts should be in the context of the scheme not being a going concern (i.e. at realisation values). The Government understands that the Statement of Recommended Practice on Financial Reports of Pension Schemes already covers the impact on scheme asset values when the going concern basis is no longer appropriate.

⁵ The Consultation on the draft Financial Assistance Scheme (Miscellaneous Provisions) Regulations 2009 proposes that payments may be made by the Board of the PPF to schemes that have run out of available funds in certain circumstances.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

- 4.7 The *Adjusted Assets* in step 4.2 above are allocated towards covering the *Adjusted Liabilities* in each of the priority classes, according to the relevant priority order. If the as yet unallocated *Adjusted Assets* are larger than the *Adjusted Liabilities* in any priority class, then the *Adjusted Liabilities* in that priority class will be fully covered and the remaining *Adjusted Assets* should be reduced by the *Adjusted Liabilities* in that priority class before moving on to the next priority class. In the first priority class in the priority order in which the *Adjusted Assets* are less than the *Adjusted Liabilities*, the proportion of *Adjusted Liabilities* (calculated on the statutory priority order basis if relevant) covered in that priority class is equal to the *Adjusted Assets* available for that priority class divided by the *Adjusted Liabilities* in that priority class. No *Adjusted Assets* are allocated to priority classes below the one in which the *Adjusted Assets* are exhausted.
- 4.8 Having followed the process outlined in steps 4.1 to 4.7 above, there may be *Adjusted Assets* remaining unallocated at the end of this procedure if some or all of the statutory priority order liabilities are calculated on an MFR basis. If this is the case then further priority classes should be set up in the scheme priority order where the liability in each priority class is the difference between the buy-out liability in respect of future payments for that priority class and the amount of the liability in that priority class calculated on the basis required for the statutory priority order calculation. The remaining *Adjusted Assets* should be allocated to these additional scheme priority classes in the same way as step 4.7.
- 4.9 For completeness, if there are *Adjusted Assets* unallocated after the further process in step 4.8 above has been followed, then the scheme is in surplus on a buyout basis. FAS-eligible schemes are not expected to have sufficient assets for this to be relevant but if this does occur, then the remaining *Adjusted Assets* should be allocated according to the scheme rules.
- 4.10 The *Adjusted Asset Share* allocated according to the priority order for each member covered by the calculation is equal to:
- 4.10.1 the *adjusted liability* for that member in each priority class that was fully covered by *Adjusted Assets*, plus
- 4.10.2 the proportion of *Adjusted Liabilities* covered in the class in which *Adjusted Assets* are exhausted multiplied by the *Adjusted Liabilities* for that member in that priority class
- 4.11 Finally, the accumulated value of payments made to that member from step 4.2 above are deducted from the *Adjusted Asset Share* to obtain each member's *asset share*.
- 4.12 Having followed the process outlined in steps 4.1 to 4.11 above, some members may end up with a negative *asset share*. These members have effectively been overpaid by the scheme. Under these circumstances, the *asset shares* of these members should be set to zero and the process outlined in steps 4.1 to 4.11 above should be repeated excluding these members and all payments and all future payments in steps 4.2, 4.3 and 4.5 above relating to them.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

4.13 The sum of the *asset shares* calculated plus the expenses deducted in step 4.2 should equal the assets determined in step 4.1.

5 Notional Annuity Calculation

- 5.1 The next stage of the process is to calculate the *Notional Annuity* described in paragraph 2.1.8. This is the amount that the scheme could have afforded to pay from the *Commencement Date*, if the final funding position of the scheme were known at the outset.
- 5.2 Take the *asset share* calculated above and add on all scheme payments (including lump sums) made to the member between the *Commencement Date* and the *Calculation Date* to obtain the *Annuitised Asset Share*. (The *Annuitised Asset Share* will be the same as the *Adjusted Asset Share* unless the member was affected by paragraph 4.12.) If the *Annuitised Asset Share* is nil, then the *Notional Annuity* is nil.
- 5.3 Convert the *Annuitised Asset Share* to an actuarially equivalent *Notional Annuity*. The effective date for this calculation is also the *Calculation Date*. The actuarial basis for the conversion is that described in section 6, but as for the asset share, no interest should be allowed for periods in the past. The *Notional Annuity* is an income paid from the *FAS Normal Retirement Age* or the start of wind-up if later.
- 5.4 The choice of *Notional Annuity* benefit structure that the asset share is converted into will affect the results of the calculation. If the member had not started to receive any part of their pension before the coming into force date of the asset transfer regulations, then the *Notional Annuity* payments should be a proportion of the payments that the FAS would pay to the member if the member's asset share were nil. If the member had started to receive any part of their pension before the coming into force date of the asset transfer regulations, the form of the *Notional Annuity* is based on the scheme benefit structure, allocating in the following order that should produce a stream of *Notional Annuity* payments broadly similar to the payments that the scheme paid during wind-up: [Note that this area is currently under policy development and may differ in the final guidance]
- > A pension at the rate in payment at the start of wind-up (or retirement if later) with no increases
 - > Increases on the pension
- 5.4.1 If a member received a lump sum during wind-up (usually as a result of retiring), then the amount of the lump sum should be deducted from the *Annuitised Asset Share* before converting the balance to the *Notional Annuity* payments. A lump sum paid is deemed to be part of the *Notional Annuity* payments as are the regular payments calculated. If the lump sum paid exceeded the *Annuitised Asset Share* then the only *Notional Annuity* payment is the amount of the *Annuitised Asset Share*, paid at the date the lump sum was paid – the amount of the lump sum paid in excess of the *Annuitised Asset Share* will be treated as a scheme overpayment as will any other payments by the scheme to the member. [Note that the treatment of lump sums paid on the death of a member is under policy development.]

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

- 5.4.2 If the member retired early during wind-up, then the *Notional Annuity* should be treated as being payable from the date that the member retired even if FAS Assistance is not payable from that date.
- 5.4.3 Policy relating to members who retired late during wind-up or who had passed *Scheme Normal Pension Age* but not yet retired at the *Calculation Date* is under development.
- 5.4.4 If the member died during wind-up but before the *Calculation Date*, then the *Notional Annuity* payments due should be calculated assuming that they cease at the member's death.
- 5.5 Subtract from the *Notional Annuity* payments due during wind-up the scheme payments actually paid to the member during wind-up to give the scheme arrears/ overpayment. This calculation should be split into the periods from *Commencement Date* to 13 May 2004 and from 14 May 2004 to the *Calculation Date*. Interest is not included in this calculation. This step is not needed if the member has not been paid or been due to be paid by the scheme before the *Calculation Date*.
- 5.6 The information the scheme actuary passes to FAS is specified in a separate spreadsheet. Some of this information is used to calculate Assistance and some to check the asset share calculations. The outputs from the calculation which will be used for benefit calculations are, for each member:
- > *asset share*
 - > *Annuitised Asset Share*
 - > payments made by the scheme during wind-up (split pre and post 14/5/2004)
 - > *Notional Annuity* payments due during wind-up (split pre and post 14/5/2004)
 - > scheme arrears/ overpayments (split pre and post 14/5/2004)
 - > details of *Notional Annuity* payments due after the *Calculation Date*

Note the third item is the difference between the first two. The fifth item is the difference between the third and fourth.

6 Basis for use when calculating liabilities on a buy-out basis

Financial basis

6.1 Calculation of yields as at the *Calculation Date*

Yields should be measured as at the close of business on the *Calculation Date*. 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.

In this calculation, additions or subtractions to or from percentages should be applied simple rather than compound, unless explicitly indicated.

6.2 Discount rate in deferment

For a non-pensioner, the liability must be obtained by discounting the value of the liability calculated as at the date at which it is assumed to be payable. The discount rate for the period of deferment should be the adjusted gilt yield shown below:

$$\text{Adjusted gilt yield} = \text{Yield A (i)} - 0.5\%$$

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

6.3 Increases in deferment

If benefits are revalued in deferment, then the benefit at the date at which it is assumed to be payable should be projected from the *Calculation Date* using the following assumptions.

Benefits increasing at a fixed rate in deferment

Where the benefits increase in line with a fixed rate, increases should be assumed to apply in line with the specified fixed rate.

Benefits increasing in deferment in line with the full Retail Prices Index (RPI)

Where benefits increase in deferment in line with the full Retail Prices Index, the assumed future rate of increase of the RPI should be the rate shown below.

$$\begin{aligned} &\text{Assumed annual rate of RPI increases in deferment} \\ &= (1 + \text{Adjusted gilt yield}) / (1 + \text{Adjusted net index-linked gilt yield}) - 1 \end{aligned}$$

Where

$$\text{Adjusted gilt yield} = \text{Yield A (i)} - 0.5\%$$

$$\text{Adjusted net index-linked gilt yield} = \text{Yield B (ii)} - 0.5\%$$

(ii) Yield B should be determined daily as 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over 15 years assuming:

- a) 5% inflation; and
- b) 0% inflation.

Benefits increasing in deferment in line with the Retail Prices Index subject to a cap

Where benefits increase in deferment in line with the Retail Prices Index but subject to a cap, the assumed future rate of annual increase in deferment should be the rate shown below.

Increase = minimum of (Assumed annual rate of RPI increases and cap%)

Where cap% is the annualised level of the limit on the increases granted.
For statutory revaluation, this is 5%.

The same treatment should be applied for caps which apply over the whole period of deferment (as the caps in statutory revaluation do) as for any which are applied for each year of deferment.

Benefits increasing in deferment in line with National Average Earnings (Section 148 orders)

Where benefits increase in deferment in line with National Average Earnings, the assumed future rate of annual increase in deferment should be the rate shown below.

Increase = Assumed annual rate of RPI increases + 2%

Benefits increasing in deferment in line with Limited Revaluation

Where benefits increase in deferment in line with National Average Earnings but subject to a cap, the assumed future rate of annual increase in deferment should be the rate shown below.

Increase = minimum of (Assumed annual rate of RPI increases + 2% and cap%)

Where cap% is the annualised level of the limit on the increases granted.
For Limited Revaluation of Guaranteed Minimum Pensions, this is 5%.

Benefits increasing in deferment in other ways

Whilst the scenarios described above are intended to cover the majority of revaluation practices within schemes it may be that the benefit structure in particular schemes does not fit within the options above. In such circumstances the actuary should agree their proposed method with the *FAS Scheme Manager*.

6.4 Discount rate in payment

For both a pensioner and a non-pensioner, for the period from which payments are assumed to commence, the liability must be obtained by discounting the projected benefits at the following (adjusted) yield:

$$\text{Adjusted yield} = \text{Yield C (iii)} - 0.5\%$$

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

6.5 Increases in payment

Increases to benefits in payment should be assumed to be at the rates described below. The calculation should only include allowance for increases that are awarded without the requirement for the scheme's trustees or managers to exercise any discretion.

Benefits increasing at a fixed rate

Where the benefits increase in line with a fixed rate, pension increases should be assumed to apply in line with the specified fixed rate

Benefits increasing in payment in line with the full Retail Prices Index

Where benefits increase in payment in line with the Retail Prices Index, the assumed future rate of annual increase in payment should be the rate shown below.

$$\begin{aligned} &\text{Assumed annual rate of RPI increases in payment} \\ &= (1 + \text{Adjusted gilt yield}) / (1 + \text{Adjusted net index-linked gilt yield}) - 1 \end{aligned}$$

where

$$\text{Adjusted gilt yield} = \text{Yield C (iii)} - 0.5\%$$

$$\text{Adjusted net index-linked gilt yield} = \text{Yield D (iv)} - 0.5\%$$

(iv) Yield D should be determined daily as 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over 5 years assuming:

- a) 5% inflation; and
- b) 0% inflation.

Benefits increasing in payment in line with the Retail Prices Index subject to a cap (Limited Price Indexation)

Where benefits increase in payment in line with the Retail Prices Index but subject to a cap on the maximum annual increase, the assumed future rate of annual increase in payment should be the rate shown below.

Assumed annual rate of capped RPI increases in payment =
 The lower of
 Assumed annual rate of RPI increases in payment or
 Annual cap%

Where cap% is the level of the upper limit on the increases granted.

Benefits increasing in payment in line with the Retail Prices Index subject to a floor

Where benefits increase in payment in line with the Retail Prices Index but subject to a minimum annual increase, the assumed future rate of annual increase in payment should be the rate shown below.

Assumed annual rate of capped RPI increases in payment =
 The higher of
 Assumed annual rate of RPI increases in payment or
 Annual floor%

Where floor% is the level of the lower limit on the increases granted.

Benefits increasing in payment in line with the Retail Prices Index subject to both a cap and a floor

Where benefits increase in payment in line with the Retail Prices Index but subject to both a minimum and maximum annual increase, the assumed future rate of annual increase in payment should be the rate shown below.

Assumed annual rate of capped RPI increases in payment =
 Assumed annual rate of RPI increases in payment but subject to:
 a minimum of the annual floor% and
 a maximum of the annual cap%

Where

floor% is the level of the lower limit on the increases granted

cap% is the level of the upper limit on the increases granted.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

Benefits increasing in payment in other ways

Whilst the scenarios described above are intended to cover the majority of indexation practices within schemes it may be that the benefit structure in particular schemes does not fit within these five options. In such circumstances the actuary should agree their proposed method with the *FAS Scheme Manager*.

Mortality for use when undertaking valuations

- 6.6 The mortality tables to be used in respect of a member and the member's dependant pre and post retirement, shall be PMA92 (for males) and PFA92 (for females), as appropriate, in each case with the long cohort mortality improvement rates, and with a 2% floor to the annual improvements, both applying from the year 1992.
- 6.7 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.

Other assumptions for use when undertaking valuations

6.8 Assumptions for contingent benefits

6.8.1 Proportions married

Where the scheme provides for survivor pensions:

For pensioners

Where the scheme makes provision (including discretionary provision) for survivor pensions for adult dependants with a wider definition than just spouse or civil partner an assumption consistent with 90% (males) or 80% (females) at *FAS Normal Retirement Age*.

Where the scheme does not make provision for survivor pensions for adult dependants, other than spouses or civil partners, an assumption consistent with 80% (males) or 70% (females) at *FAS Normal Retirement Age*.

Using a proportion married assumption consistent with 90%/80% (males) or 80%/70% (females) at *FAS Normal Retirement Age* may require mortality rates for calendar years before 1992 for a "strictly correct" calculation of the proportion married assumption to apply for older pensioners. In such circumstances the actuary should agree their proposed method with the *FAS Scheme Manager*.

For non-pensioners

Where the scheme makes provision (including discretionary provision) for survivor pensions for adult dependants with a wider definition than just spouse or civil partner the assumption must be, at the assumed date of retirement or earlier death, 90% (males) or 80% (females).

Where the scheme does not make provision for survivor pensions for adult dependants other than spouses or civil partners the assumption must be, at the assumed date of retirement or earlier death, 80% (males) or 70% (females).

Contracted-out schemes

Note that for schemes which are contracted out on a protected rights basis, statute allows payment of a survivor's pension to a wider category than just the legal spouse. Scheme rules should therefore be treated as allowing for payment to this wider category i.e. assume 90% (males) or 80% (females).

6.8.2 Age difference between member and dependant

Females are assumed to be 3 years younger than their male spouse/ relevant partner.

6.8.3 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 the maximum age payable if a child is aged over 17 at the *Calculation Date*.

6.9 Expenses

The expenses specified in this section 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.

6.9.1 Scheme expenses to be incurred before assets are transferred

Expenses to be incurred before assets are transferred should be deducted from the scheme's assets before the asset share calculations are undertaken. It is expected that schemes reaching the end of wind-up will, in liaison with *the FAS Scheme Manager*, agree fixed fees with those individuals and organisations who will provide services to the scheme before wind-up is completed. In most cases, the actual expenses should therefore be known by the time that the calculation is carried out.

6.9.2 Benefit installation / payment expenses

A further 2% should be added to liabilities in respect of benefit payments. This should be allocated to the same priority class as the underlying benefit payment for the asset share calculation when this is done on a buy-out basis, and should also be included in all notional annuity rates calculated..

6.10 Member options

The benefits valued should be the standard benefit structure provided by the scheme. No allowance should be made for members choosing to take an option unless the terms of the option are fully specified in the scheme rules, the member has an unfettered right to take up the option, and the liability ascribed to a member would be increased if the member were assumed to take up the option.

For example, if the scheme rules define a Normal Retirement Age of 65 but also specify that members may take their pension unreduced at age 64 then the

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

Scheme Normal Pension Age should be taken to be 64 and members should be assumed to retire at age 64. If the rules specify that members may take their pension early but that the trustees or managers decide what the reduction is, then the *Scheme Normal Pension Age* should be taken to be 65 and members should be assumed to retire at age 65, even if the trustees or managers have decided to allow members to retire at 64 with an unreduced pension. Similarly if trustee consent is required for the member to take the pension unreduced at 64, then the *Scheme Normal Pension Age* should be taken to be 65 and the member should be assumed to retire at age 65.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

7 Appendix – Example calculations of financial assumptions

For example, with a *Calculation Date* of 31 October 2008 the following yields would apply:

Yields in deferment

7.1 Discount Rate in deferment

The relevant yields to calculate Yield A are:

	Semi annual	Annualised (calculated to nearest 0.01%)
FTSE Actuaries' Government 20 year Fixed Interest Index	4.83%	4.89%

$$\begin{aligned}
 &\text{Adjusted gilt yield} \\
 &= \text{Yield A} - 0.5\% \\
 &= 4.89\% - 0.5\% \\
 &= 4.39\% \text{ rounded to nearest } 0.01\%
 \end{aligned}$$

For benefits that do not increase in deferment this yield should be used as the net yield (equivalent to the nominal yield).

For benefits that increase at a fixed rate in deferment this yield should be used as the nominal yield used to discount cashflows that include the assumed increases in line with the specified fixed rate.

7.2 Benefits increasing in deferment in line with the full Retail Prices Index

The relevant yields to calculate Yield B are:

FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over 15 years assuming:	Semi annual	Annualised (calculated to nearest 0.01%)
a) 5% inflation	1.26%	1.26%
b) 0% inflation	1.35%	1.35%

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

Adjusted net index-linked gilt yield

= Yield B – 0.5%

= 50% x (1.26% + 1.35%) – 0.5%

= 1.31% - 0.5%

= 0.81% rounded to nearest 0.01%

7.3 Benefits increasing in deferment in line with the Retail Prices Index subject to a cap

Increase = minimum of (assumed annual rate of RPI increases and cap%)

Where cap% is the annualised level of the limit on the increases granted and

Assumed annual rate of RPI increase

= (1+Adjusted gilt yield)/(1+Adjusted net index-linked gilt yield) - 1

= (1+4.39%)/(1+0.81%) – 1

= 3.55%

For example, where benefits increase in deferment in line with the Retail Prices Index subject to a 5% cap:

Increase = minimum of (Assumed annual rate of RPI increases and 5%)

= minimum of (3.55% and 5.00%)

= 3.55%

7.4 Benefits increasing in deferment in line with National Average Earnings (Section 148 orders)

Increase = Assumed annual rate of RPI increases + 2%

= 3.55% + 2%

= 5.55%

7.5 Benefits increasing in deferment in line with Limited Revaluation

For example, where benefits increase in deferment in line with limited revaluation subject to a 5% cap:

Increase = minimum of

([Assumed annual rate of RPI increases + 2%] and cap%)

= minimum of ([3.55%+2%] and 5%)

= minimum of (5.55% and 5%)

= 5%

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

Yields in payment

7.6 Discount rate in payment

The relevant yields to calculate Yield C are:

	Semi annual	Annualised (calculated to nearest 0.01%)
FTSE Actuaries' Government 10 year Fixed Interest Index	4.64%	4.69%

$$\begin{aligned}
 &\text{Adjusted gilt yield} \\
 &= \text{Yield C} - 0.5\% \\
 &= 4.69\% - 0.5\% \\
 &= 4.19\% \qquad \qquad \text{calculated to nearest 0.01\%}
 \end{aligned}$$

7.7 Benefits increasing in payment in line with the full Retail Prices Index

The relevant yields to calculate Yield D are:

FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over 5 years assuming:	Semi annual	Annualised (calculated to nearest 0.01%)
a) 5% inflation	1.56%	1.57%
b) 0% inflation	1.69%	1.70%

$$\begin{aligned}
 &\text{Adjusted net index-linked gilt yield} \\
 &= \text{Yield D} - 0.5\% \\
 &= 50\% \times (1.57\% + 1.70\%) - 0.5\% \\
 &= 1.64\% - 0.5\% \\
 &= 1.14\%
 \end{aligned}$$

The adjusted gilt yield was found to be 4.19% in section 7.6 above.

$$\begin{aligned}
 &\text{Assumed annual rate of RPI increases in payment} \\
 &= (1 + \text{Adjusted gilt yield}) / (1 + \text{Adjusted net index-linked gilt yield}) - 1 \\
 &= (1 + 4.19\%) / (1 + 1.14\%) - 1 \\
 &= 3.02\% \qquad \qquad \text{calculated to nearest 0.01\%}
 \end{aligned}$$

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

8 Appendix - Statutory Priority Orders

- 8.1 The statutory priority order and the basis of the calculations is determined by the date that wind-up commenced and whether the sponsoring employer was solvent or insolvent at the date that winding-up commenced.
- 8.2 If winding-up commenced from 1 January to 5 April 1997, then the scheme's rules should be followed when allocating assets.
- 8.3 GAD's understanding of the statutory priority orders, showing the text from section 73 of the Pensions Act 1995, is summarised below. Assets are allocated first to liabilities described in paragraph (a), then those described in paragraph (aa) (if any), then those described in paragraph (b) and so on. Liabilities described under separate numbered paragraphs (i), (ii) and (ia) under the same lettered paragraph have equal priority.
- 8.4 There is also a body of case law relating to statutory priority order calculations. It is expected that this will be taken into account when the asset share calculation is carried out.

8.5 Winding-up commenced 6 April 1997 to 9 May 2004

(a) any liability for pensions or other benefits which, in the opinion of the trustees, are derived from the payment by any member of the scheme of voluntary contributions,

(aa) where-

(i) the trustees or managers of the scheme are entitled to benefits under a contract of insurance which was entered into before 6th April 1997 with a view to securing the whole or part of the scheme's liability for any pension or other benefit payable in respect of one particular person whose entitlement to payment of a pension or other benefit has arisen and for any benefit which will be payable in respect of that person on his death, and

(ii) either that contract may not be surrendered or the amount payable on surrender does not exceed the liability secured by the contract (but excluding liability for increases to pensions),

the liability so secured

(b) in a case not falling within paragraph (aa), where a person's entitlement to payment of pension or other benefit has arisen, liability for that pension or benefit and for any pension or other benefit which will be payable in respect of that person on his death (but excluding increases to pensions),

(c) any liability-

(i) for equivalent pension benefits (within the meaning of section 57(1) of the National Insurance Act 1965), guaranteed minimum pensions, protected rights, section 9(2B) rights (within the meaning of regulation 1(2) of the Contracting-out (Transfer and Transfer Payment) Regulations 1996), or safeguarded rights (within the meaning of section 68A(1) of the Pension Schemes Act 1993) (but excluding increases to pensions), or

(ii) in respect of members with less than two years pensionable service who are not entitled to accrued rights under the scheme, for the return of contributions,

(d) any liability for increases to pensions referred to in paragraphs (aa) and (b),

(e) any liability for increases to pensions referred to in paragraph (c),

(f) so far as not included in paragraph (c) or (e), any liability for-

(i) pensions or other benefits which have accrued to or in respect of any members of the scheme (including increases to pensions), or

(ii) future pensions, or other future benefits, attributable (directly or indirectly) to pension credits (including increases to pensions).

8.6 Winding-up commenced 10 May 2004 to 5 April 2005

(a) any liability for pensions or other benefits which, in the opinion of the trustees, are derived from the payment by any member of the scheme of voluntary contributions,

(aa) where-

(i) the trustees or managers of the scheme are entitled to benefits under a contract of insurance which was entered into before 6th April 1997 with a view to securing the whole or part of the scheme's liability for any pension or other benefit payable in respect of one particular person whose entitlement to payment of a pension or other benefit has arisen and for any benefit which will be payable in respect of that person on his death, and

(ii) either that contract may not be surrendered or the amount payable on surrender does not exceed the liability secured by the contract (but excluding liability for increases to pensions),

the liability so secured.

(b) in a case not falling within paragraph (aa), where a person's entitlement to payment of pension or other benefit has arisen, liability for that pension or benefit and for any pension or other benefit which will be payable in respect of that person on his death (but excluding increases to pensions),

(c) any liability for-

(i) pensions or other benefits which have accrued to or in respect of any members of the scheme (but excluding increases to pensions), or

(ia) future pensions, or other future benefits, attributable (directly or indirectly) to pension credits (but excluding increases to pensions),

(ii) (in respect of members with less than two years pensionable service) the return of contributions,

(d) any liability for increases to pensions referred to in paragraphs (aa) and (b);

(e) any liability for increases to pensions referred to in paragraph (c).

8.7 Winding-up commenced 6 April 2005 to 22 December 2008

(a) where-

(i) the trustees or managers of the scheme are entitled to benefits under a relevant pre-1997 contract of insurance entered into in relation to the scheme, and

(ii) either that contract may not be surrendered or the amount payable on surrender does not exceed the liability secured by the contract,

the liability so secured;

(b) any liability for pensions or other benefits to the extent that the amount of the liability does not exceed the corresponding PPF liability, other than a liability within paragraph (a);

(c) any liability for pensions or other benefits which, in the opinion of the trustees or managers, are derived from the payment by any member of voluntary contributions, other than a liability within paragraph (a) or (b);

(d) any other liability in respect of pensions or other benefits.

"corresponding PPF liability" in relation to any liability for pensions or other benefits means-

(a) where the liability is to a member of the scheme, the cost of securing benefits for or in respect of the member corresponding to the compensation which would be payable to or in respect of the member in accordance with the pension compensation provisions if the Board of the Pension Protection Fund assumed responsibility for the scheme in accordance with Chapter 3 of Part 2 of the Pensions Act 2004 (pension protection), and

(b) where the liability is to another person in respect of a member of the scheme, the cost of securing benefits for that person corresponding to the compensation which would be payable to that person in respect of the member in accordance with the pension compensation provisions if the Board assumed responsibility for the scheme in accordance with that Chapter;

"relevant pre-1997 contract of insurance" means a contract of insurance which was entered into before 6th April 1997 with a view to securing the whole or part of the scheme's liability for-

(a) any pension or other benefit payable to or in respect of one particular person whose entitlement to payment of a pension or other benefit has arisen, and

(b) any benefit which will be payable in respect of that person on his death.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

8.8 The basis of the statutory priority order calculation is described in regulation 4 of the Winding-Up Regulations 1996 (SI 1996/3126) (as amended). GAD's understanding of this is summarised below:

Date wind-up commenced	Solvent Employer	Insolvent Employer
6 April 1997 to 18 March 2002	MFR	MFR
19 March 2002 to 10 June 2003	Combination	MFR
11 June 2003 to 14 February 2005	Buy-out	MFR
15 February 2005 to 22 December 2008	Buy-out	Buy-out

MFR liabilities should be calculated excluding the expense allowance.

The "combination" basis is buy-out for liabilities "in respect of any entitlement to the payment of any pension or other benefit (including any increase in a pension) that has arisen under the scheme on or before the crystallisation date" and MFR for all other liabilities.

- 8.9 Certain money purchase assets are excluded from the statutory priority order calculation by virtue of regulation 13 of the Winding-Up Regulations 1996 (SI 3126/1996). These money purchase assets should be allocated to members according to the scheme rules and the liabilities associated with those assets, provided that they equal the assets, can essentially be treated as having a priority above the liabilities that are allocated through the statutory priority order calculation. In practice, since these assets are not going to be transferred to government, the actuary can simply note the aggregate amount of the assets which are not to be transferred.
- 8.10 Note that it is possible that there may be some members for whom some entitlements to payment had arisen at the crystallisation date and some had not. Typically this may occur when a member has benefits payable from different dates and the crystallisation date falls between those two dates. In this case, a single asset share should be calculated for the member, even if assets come from pensioner and deferred liability classes. Such a member will probably have retired before the coming into force of the asset transfer Regulations, so the *Notional Annuity* calculated for them will reflect the scheme's benefit structure.
- 8.11 This appendix is a summary of GAD's understanding of the relevant legislation.

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

9 Appendix - Glossary

The FAS Scheme Manager – the person who manages the FAS. The FAS is currently administered by the Department for Work and Pension and the Scheme Manager is the Secretary of State for Work and Pensions. In a recent consultation document the Government has proposed that the Board of the Pension Protection Fund becomes the FAS Scheme Manager.

Member – all deferred, pensioner, dependant and pension credit members covered by the valuation (3.3.1). Section 3.3 sets out the members to be covered by the calculation.

Calculation Date – the date as at which the valuation is undertaken. Subject to further consultation on relevant regulations, the Government intends that the calculation date will be a quarterly date fixed by reference to the date at which the actuary is appointed to undertake the valuation (3.1.3).

Commencement Date – the date of the start of the scheme's winding-up process, as determined under regulation 3 of the FAS Regulations which reflects relevant winding-up legislation (3.1.1).

Standard Assistance – the maximum amount that would be payable by the FAS to a member were a member to receive no payment from their scheme either before or after their liabilities were discharged.

FAS Normal Retirement Age – in relation to a member of an occupational pension scheme, the age specified in the rules of that scheme at which that member will normally retire. If that age is more than 65 it should be treated as 65; if less than 60, it should be treated as 60.

Scheme Normal Pension Age – in relation to a member of an occupational pension scheme, the age at which any pension or part of a pension would have been payable to that member for life without actuarial adjustment under the rules of the qualifying pension scheme (disregarding any rule making special provision as to early payment on the grounds of ill health or otherwise).

Notional Annuity – a regular notional income that could have been paid by the scheme starting from the commencement of wind-up, or FAS Normal Retirement Age if later if the final funding position of the scheme had been known at the start of wind-up (2.1.8). Guidance is provided on calculating the notional annuity in section 5.

Adjusted Liabilities – The liabilities for members covered by the valuation in respect of payments due after the calculation date calculated in accordance with the relevant basis and priority order plus the total amount of payments that would have been made to the member between the commencement date and the calculation date had the scheme not started to wind-up (4.5).

Adjusted Assets – The total value of scheme assets as at the calculation date plus the total aggregate amount of scheme payments made to beneficiaries covered by the valuation before the calculation date minus future expenses, any payments made by the FAS to the scheme and any money purchase assets (4.2).

Financial Assistance Scheme

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

Version 0.1

DRAFT

April 2009

Adjusted Asset Share – The amount of assets allocated to a member in accordance with the adjusted assets by reference to the member's adjusted liabilities (4.10).

Asset Share – The 'adjusted asset share' minus the total amount of defined benefit scheme payments made to the member between the commencement date and the calculation date. Any negative asset share so calculated is adjusted to zero (4.11 and 4.12).

Annuitised Asset Share – The 'asset share' plus all scheme payments made to the member between the commencement date and the calculation date. The amount of a member's annuitised asset share will be used to determine their notional annuity payments (5.2).