

Deficit-Reduction Contributions Appendix

Summary

This is the Deficit-Reduction Contributions Appendix to the Board's determination under Section 175(5) of the Pensions Act 2004 in respect of the 2010/11 Levy Year. It 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 under Rule D1 for the 2010/11 Levy Year.

What is in a Deficit-Reduction Contribution Certificate?

1. For the purposes of Rule D1.2(1) the certificate to be Submitted for Rule D1 must contain:
 - The effective date of the Section 179 Valuation, Post-Transfer Valuation (or exceptionally MFR Valuation) to which the certificate relates (date 1) – see paragraph 2 below for clarification;
 - The end-date of the period covered by the accounts for the purposes of that valuation (date 2);
 - The last day of the month before the date of this certificate (date 3);
 - The value of the deficit-reduction contributions;
 - The effective date of the certificate; and
 - A statement that the amount certified has been calculated in line with this Appendix.

Note that some of these contents will be generated automatically by Exchange and the remainder must be entered by the Scheme Actuary or a duly appointed substitute.

2. The certificate should relate to the valuation that will be transformed by the Board to a section 179 position as at 31 March 2009 (using the Appendices where appropriate).
3. For the avoidance of doubt, separate certification is required for each separate section or Segregated Part of a Multi-Employer Scheme.
4. The information provided in the certificate must be consistent with the value of the Deficit-Reduction Contributions most recently calculated in accordance with this Appendix and such advice (if any) given to the trustees by the Scheme Actuary.
5. The date of the certificate means the date on which it is Submitted and the certificate cannot be backdated.

How do you calculate the amount to certify?

6. For the purposes of the calculations below:
 - **date 1** is the effective date of the valuation to which the certificate relates, as described in paragraph 2 above
 - **date 2** is the end date of the period of time covered by the accounts used for the purposes of that valuation
 - **date 3** is the last day of the month before the date of the certificate.

7. Contributions, accrual, expenses and augmentation costs must all be measured up to **date 3**.
8. 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 9 to 14 inclusive.
9. **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 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 accounts at **date 2**
 - contributions paid on or before **date 2** if such contributions have not been recognised as an asset in the accounts at **date 2** on the grounds that they are payable for a period starting after **date 2**.
- a** should exclude:
- contributions recognised as an asset in the 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
10. **b** is the cost of accrual of Scheme benefits (subject to the adjustments described in section 4 of the section 179 guidance version G5) 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**;
 - no allowance should be made for salary increases from **date 3** to expected retirement date;
 - no allowance should be made for 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 age¹ 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**; and
 - Version G5 of the Section 179 Valuation guidance and version A4 of the assumptions guidance should be used.

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

- Version A4 of the assumptions guidance does not specify the yield in deferment for compensation increasing in deferment and accrued after 5 April 2009. The following assumption should be used for such accrual –

For each non-pensioner the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the **adjusted yield** shown below.

As this yield implicitly allows for increases to normal pension age no allowance should be made for increases to benefits between the relevant date and normal pension age.

adjusted yield = higher of (**Yield A** – 0.4%) and (**Yield B** – 2.7%)

where:

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

- i) 5% inflation; and
- ii) 0% inflation.

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

Alternatively actuaries may treat the post 5 April 2009 benefits as being accrued before 6 April 2009 as this will overstate the cost of accrual.

11. **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 expenses).
12. **d** is the cost, measured on a Section 179 Valuation basis, of any augmentations granted between **date 1** and **date 3**. **d** includes:
 - benefits for which the Board does not provide compensation (e.g. an augmented lump sum on death in service) and benefits in excess of PPF levels of compensation;
 - the cost of discretionary pension increases granted;
 - enhanced early retirements made using an augmentation power in the Scheme rules; and
 - enhanced early retirements which require the trustees or employer to exercise discretion or grant consent in granting the benefit.**d** does not include:
 - early retirements which are an application of the Scheme rules and 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 age¹;
 - the cost of benefit increases that arise as an entitlement under the Scheme rules without the need for the fulfilment of any conditions or the exercise of a discretion.

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.

13. **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 the 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.
14. 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.
15. No adjustment should be made for investment returns. Therefore the contributions, expenses, etc. should not be rolled up or discounted in any way.