

MFR Conversion Appendix

Summary

This is the MFR Conversion Appendix to the Board's determination under Section 175(5) of the Act in respect of the 2010/11 Levy Year. It sets out the methodology for adapting MFR valuations to estimate liabilities on a Section 179 basis for the purpose of calculating the Levies in respect of the 2010/11 Levy Year where no Section 179 Valuation has been provided by the statutory deadline but the Board has an MFR Valuation in respect of the Scheme.

This Appendix sets out the formulae developed by the Board to calculate valuation results on a Section 179 basis as at 31 March 2009 (the "Output Date") in such cases.

1 Background

1.1 This Appendix applies if:

- (1) no Section 179 Valuation has been received in respect of a Scheme by 31 March 2009 but
- (2) a valuation on an MFR basis has previously been provided and has been used in the calculation of the Levies for the 2007/08 levy year.

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 transform 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 formed the inputs for the calculation of the estimated Section 179 results for levy years 2008/09 and 2009/10 and will form the inputs for the calculation of the estimated Section 179 results as at 31 March 2009 for levy year 2010/11.

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 the Transformation Appendix, from 31 October 2006 to the Output Date.

2.3 The estimated value of assets thus derived as at 31 March 2009 will be reduced by 5% a year compound in respect of the period (measured in years and proportions of years) between the effective date of the MFR valuation used in the calculation of the 2007/08 levy for the Scheme and the Output Date.

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 expenses)	S179PL
• Liabilities for deferred Members (excluding section 179 expenses)	S179DL
• Liabilities for active Members (excluding section 179 expenses)	S179AL
• External liabilities	S179ExLiab
• Section 179 estimated cost of wind-up (excluding benefit installation/payment)	S179WUExp
• Section 179 estimated expenses of benefit installation/payment	S179PayExp
• Effective date of the section 179 valuation required for output (31 March 2009)	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 (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 the Transformation Appendix 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 the Transformation Appendix will be used)	S179InputDPre97 Ppn

<ul style="list-style-type: none"> • Proportion of active Member liabilities, excluding expenses, relating to service before 6 April 1997 (the default value as described in section 5 of the Transformation Appendix will be used) 	S179InputAPre97Ppn
<ul style="list-style-type: none"> • Proportion of assets held in the form of insurance contracts not included in scheme accounts 	S179InputInsPpn
<ul style="list-style-type: none"> • External liabilities 	S179InputExLiab
<ul style="list-style-type: none"> • Effective date of the section 179 valuation (31 October 2006) 	S179InputDate
<ul style="list-style-type: none"> • Version number of section 179 guidance used for this valuation (G3) 	S179InputGuiVNo
<ul style="list-style-type: none"> • Version number of section 179 assumptions used for this valuation (A3) 	S179InputAssVNo
<ul style="list-style-type: none"> • Effective date of the MFR valuation used in the 2007/08 levy invoice calculation for the scheme 	MFRDate

Scheme asset information as Submitted as at the Measurement Time – 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:

<ul style="list-style-type: none"> • Bonds 	Bo%
<ul style="list-style-type: none"> • Equities 	Eq%
<ul style="list-style-type: none"> • Property 	Pr%
<ul style="list-style-type: none"> • Insurance policies (excluding managed funds and contingent annuities) 	IP%
<ul style="list-style-type: none"> • Deferred or immediate fully insured annuities 	An%
<ul style="list-style-type: none"> • Hedge funds 	He%
<ul style="list-style-type: none"> • Cash and deposits 	Ca%
<ul style="list-style-type: none"> • Commodities 	Co%
<ul style="list-style-type: none"> • Other 	Ot%
<ul style="list-style-type: none"> • Date of asset breakdown 	AssetDate

Numbers of Members with defined benefits only or partial defined benefits from the relevant Scheme Return data

<ul style="list-style-type: none"> • Pensioner Members 	PMemNo
<ul style="list-style-type: none"> • Deferred Members 	DMemNo
<ul style="list-style-type: none"> • Active Members 	AMemNo

Average ages of different classes of Members from the relevant Scheme Return data

• Pensioner Members	PAvAge
• Deferred Members	DAvAge
• Active Members	AAvAge

Normal Pension Age data taken from the Scheme Return data

• Normal Pension Age in respect of pre-6 April 1997 benefits	NPAPre97
• Normal Pension Age in respect of post-5 April 1997 benefits	NPAPost97

Where any of the information in this section 3 has not been provided (or is not in the form that the Board requires), 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 the Transformation Appendix. Note also that average ages falling outside particular ranges will be subject to adjustment (see section 5 of the Transformation Appendix 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 section 179 valuation result to 31 March 2009 (OutputDate) in accordance with the formulae as detailed in the Transformation Appendix.

4.2 Asset adjustment

The asset value at OutputDate (S179Ass) is then adjusted

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

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