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 2011/12 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 2011/12 Levy Year.

What is in a Deficit-Reduction Contribution Certificate?

1. For the purposes of Rule D1.2 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 last day of the month before the date of this certificate (date 2);
   - 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 2010 (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 last day of the month before the date of the certificate.
   - **References to the "accounts"** are to the accounts used for the purpose of the valuation to which the certificate relates.

7. Contributions, accrual, expenses and augmentation costs must all be measured up to the end of **date 2**.

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 the end of **date 2**. 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 1** and the end of **date 2** that are shown as a liability in the accounts at **date 1**
   - contributions paid on or before **date 1** if such contributions have not been recognised as an asset in the accounts at **date 1** on the grounds that they are payable for a period starting after **date 1**.

   a should exclude**:**

   - contributions recognised as an asset in the accounts at **date 1** (even if they are not paid until after **date 1**)
   - contributions in respect of the cost of accrual of Scheme benefits after **date 2** 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 the end of **date 2**. In calculating the cost of accrual:
    - allowance should be made for salary increases over the period from **date 1** to the end of **date 2;**
    - no allowance should be made for salary increases from after **date 2** 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 the end of **date 2;**
    - any step increase in liability arising when a member attains normal pension age[1] between **date 1** and the end of **date 2** should not be included;
    - the effective date used in calculating the cost of accrual should be the date halfway between **date 1** and the end of **date 2**; and

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

- Version G5 of the Section 179 Valuation guidance and version A5 of the assumptions guidance should be used.

11. **c** is the amount of expenses (if expenses are met out of Scheme assets) incurred between **date 1** and the end of **date 2** (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 the end of **date 2**. **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 age[1];
    - 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 the end of **date 2**. Version G5 of the Section 179 Valuation guidance and version A5 of the assumptions guidance should be used in calculating the cost of augmentations.

13. **e** is any net benefit outgoings which were paid out before date 1 but were not reflected in the assets used for the valuation at that date 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. When applying prudent estimation (as set out in this paragraph), the Scheme Actuary (or duly authorised representative) must have due regard to Rule D1.1(iii) of the Determination.

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