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Part 1– Date from which guidance applies

- 1.1 This is version C1 of the guidance.
- 1.2 This guidance is relevant for actuaries undertaking a valuation of a **closed scheme** in accordance with section 156.
- 1.3 The assumptions to be used for a **closed scheme** valuation are the same as those relevant to a section 143 valuation. This guidance should therefore be read in conjunction with the relevant version of our *"Guidance on assumptions to use when undertaking the valuation in accordance with Section 143 of the Pensions Act 2004"* in force at the **effective date** of the valuation.

Part 2 – Overview

2.1 Process

- 2.1.1 The Pensions Act 2004 (“the Act”) sets out the conditions that must be met for the Board of the Pension Protection Fund (“PPF”) to assume responsibility for a scheme.
- 2.1.2 A scheme will become a **closed scheme** where:
- the binding section 143 valuation (entry valuation) completed during its assessment period had a funding level of 100% or greater
 - there is a binding scheme failure notice in relation to it;
 - it has been unable to obtain a full buy-out quotation; and
 - it has applied to the PPF, under section 153(2) of the Act and the PPF has authorised it to continue as a **closed scheme** under the Act.
- 2.1.3 The trustees of a **closed scheme** are required to obtain actuarial valuations of the scheme, at intervals prescribed by legislation.

2.2 Purpose of this guidance

- 2.2.1 This guidance is for actuaries undertaking **closed scheme** valuations to determine the levels of funding in accordance with **section 156** of the Act. **Section 156**¹ of the Act requires a **closed scheme** valuation to be carried out in accordance with guidance issued by the PPF and for that valuation to be verified by the PPF. It should be used in conjunction with “Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act 2004” applicable at the **effective date** of the valuation.
- 2.2.2 The Act and the Closed Schemes Regulations set out the principles relating to the valuation with this guidance setting out the detail required by legislation. (The actuary may of course include further information in their report where they consider that the Trustees of the scheme may find such information useful.)

2.3 Purpose of the Closed Scheme valuation

- 2.3.1 The purpose of a **closed scheme** valuation is to enable the trustees of the scheme to determine:
- (i) what benefits are payable under the scheme rules; and
 - (ii) whether to make an application to the PPF for it to assume responsibility for the Scheme
- 2.3.2 Once the valuation has been prepared, the PPF must verify it².
- 2.3.3 Where the **closed scheme** valuation establishes that the assets of the scheme are not sufficient to meet the **protected liabilities** the trustees must apply to the PPF for it to assume responsibility for the **closed scheme**. Where the PPF receives such an application a further assessment period will begin in relation to the scheme. During that assessment period a further section 143 entry valuation will be undertaken to establish whether the PPF is required to assume responsibility for the scheme.
- 2.3.4 Unless an application is made to the PPF for it to assume responsibility for the scheme, the scheme will continue as a **closed scheme**. The amount of benefits payable, while the scheme is a **closed scheme** not in an assessment period, will be at an appropriate level having regard to the funding level indicated by the comparison of **full scheme liabilities** and the assets.

¹ Section 156 (3)

² Paragraph 7 of Part 1 of the Schedule to the Closed Schemes Regulations

2.4 Legislative requirements

- 2.4.1 The trustees or managers of **closed schemes** are required to obtain actuarial valuations at intervals prescribed by legislation.
- 2.4.2 The **effective date** of the first **closed scheme** valuation should be either:
- within 3 years after the **effective date** of the section 143 (entry) valuation; or
 - where the scheme was not authorised as a **closed scheme** within 3 years of the **effective date** of the section 143 (entry) valuation, within 15 months of the **determination date**.
- 2.4.3 Where the trustees of a scheme have applied for authorisation to continue as a **closed scheme**, the PPF issues a determination notice to confirm whether the scheme is authorised to continue as a **closed scheme**. The PPF's determination notice is subject to a review period before it becomes binding. The day on which the determination to authorise the scheme as a **closed scheme** becomes binding is called the **determination date**.
- 2.4.4 Subsequent **closed scheme** valuations shall be obtained with an **effective date** within 3 years after the **effective date** of most recent **closed scheme** valuation.

Multi - employer schemes

- Where as part of the assessment period the scheme was assessed by reference to sections and/or segregated parts, separate section 156 valuations will be required for each separate section or segregated part of the scheme.
- The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441 provide details of the treatment of non-segregated and segregated schemes.

2.5 Completion of the valuation and by when?

2.5.1 The actuarial valuation must be prepared and signed by the actuary appointed under section 47(1)(b) of the Pensions Act 1995 in relation to the scheme, or if no such actuary has been appointed

- (i) a person with prescribed qualifications or experience, or
- (ii) a person approved by the Secretary of State.

The prescribed qualification is set out in Regulation 5 of the Closed Scheme Regulations.

2.5.2 A **closed scheme** valuation must be signed and submitted to the trustees of a **closed scheme** within 15 months of its **effective date**³.

2.5.3 Before a **closed scheme** valuation is signed by the actuary, it must have been verified by the PPF⁴.

2.5.4 At the start of the process of completing a **closed scheme** valuation, please contact the PPF to notify them that you will be submitting a **closed scheme** valuation for verification and when you anticipate submitting that valuation.

2.5.5 Notifications of valuations and draft **Section 156** valuations should be sent by email to "s156_ppf@ppf.gsi.gov.uk". In addition final s156 valuations should be sent by post to the address at 2.5.7.

2.5.6 For further details about **closed schemes** please visit www.pensionprotectionfund.org.uk.

2.5.7 The contact address for the PPF is:

Pension Protection Fund
Knollys House
17 Addiscombe Road
CROYDON
CRO 6SR
Tel: 0845 600 2541

³ regulation 3(4), the Closed Schemes Regulations

⁴ paragraph 7 of Part 1 of the Schedule to the Closed Schemes Regulations

2.6 Legislation or authority for actuarial valuations

The following lists key legislation that is relevant to section 156 valuations but is not intended to be comprehensive.

The Pensions Act 2004 (the Act), in particular section 156, section 162 and Schedule 7

The Pensions Act 2008

The Pension Protection Fund (Closed Schemes) Regulations 2007 SI 2007/865 as amended from time to time (the "Closed Scheme Regulations")

The Pension Protection Fund (Partially Guaranteed Schemes) (Modification) Regulations 2005 SI 2005/277

The Pension Protection Fund (Compensation) Regulations 2005 SI 2005/670 as amended from time to time

The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441 as amended from time to time

Relevant compensation cap orders (the Cap Regulations) - these are updated annually, the most recent being The Pension Protection Fund (Pension Compensation Cap) Order 2010 SI 2010/667

All legislation made under and/or modifying any of the above.

Note: It is the responsibility of the actuary to ensure the valuation is compliant with all relevant legislation in force at the date of signing their report.

Part 3 – Introduction

- 3.1 A **closed scheme** is one that has been authorised by the PPF, under section 153(2) of the Act, to continue as a **closed scheme**.
- 3.2 Under **section 156** of the Act the trustees or managers of a **closed scheme** must obtain an actuarial valuation within 15 months of its **effective date**.
- 3.3 The valuation report should contain all the information required by legislation together with sufficient additional information to enable the PPF to verify the valuation.
- 3.4 In this guidance note the “**effective date**” for the purposes of a **section 156** valuation has the meaning given in the Closed Scheme Regulations (see 2.4.2).

Part 4 – Protected liabilities and full scheme liabilities

4.1 The **closed scheme** valuation should include an assessment of the **protected liabilities** and the **full scheme liabilities** calculated in accordance with this guidance.

4.2 Protected Liabilities

The scheme's **protected liabilities** are defined in **section 131** of the Act. As set out in the **closed scheme** valuation certificate they comprise:

- a Liabilities for and in respect of members which corresponds to the compensation that would be payable with effect from the **effective date** (assuming there had been an insolvency event on the day after the **effective date**) excluding benefit installation/payment expenses and cost of winding-up
- b Liabilities other than for and in respect of members
- c Benefit installation/payment expenses
- d Estimated cost of winding-up

4.3 Further information on determining Protected Liabilities

- a The amount of the **protected liabilities** relating to benefits for or in respect of members shall be the estimated cost of securing these benefits to members by purchasing an annuity at the market rate. They should be valued at the **effective date** (see 7.5).

The amount of the **protected liabilities** should be determined using the assumptions set out in the separate "Guidance on Assumptions" for undertaking a s143 valuation document.

When determining **protected liabilities** the benefits for non-pensioners who have not attained Normal Pension Age at the **effective date** need to take into account the application of the compensation cap at a future date. The compensation cap for such members should be assumed to increase by 1.5% a year, in excess of limited price index increases with a limit of 5% a year, during any period of deferment after the **effective date**.

- b** The amount of liabilities that are not for or in respect of members shall be determined in accordance with **sections 131 and 156** of the Act and this guidance. These are liabilities that do not fall due to the members of the scheme and include items such as fees due to professional advisors.
- c** Details of how to calculate benefit installation/payment expenses are set out in the guidance on assumptions to use when undertaking a section 143 valuation.
- d** Details of how the estimated cost of winding-up should be calculated are also set out in the section 143 assumptions guidance.

4.3 **Full scheme liabilities**

The scheme's **full scheme liabilities** are defined in **section 156(6)** of the Act. As set out in the **closed scheme** valuation certificate they comprise:

- a** Liabilities under the scheme rules to and in respect of members, excluding benefit installation/payment expenses and cost of winding-up
- b** Liabilities other than for and in respect of members
- c** Benefit installation/payment expenses
- d** Estimated cost of winding-up

4.4 The scheme actuary should determine the assumptions required to calculate the **full scheme liabilities**, having regard to the scheme's status. Additional assumptions compared to those set out in the s143 assumptions guidance may be required to make allowance for the actual benefits provided by the scheme. Full details of the assumptions that the scheme actuary is proposing to use for calculating **full scheme liabilities** should be provided to the PPF for agreement before they are used in the s156 valuation.

4.5 In accordance with **section 156(4)** of the Act any provision in the scheme rules which limits the amount of the scheme's liabilities by reference to the value of its assets is to be disregarded in calculating the amount of the **protected liabilities** and **full scheme liabilities**.

4.6 The Act provides that in certain circumstances where the Board of the Pension Protection Fund is satisfied that it is not possible to identify one or more elements of the benefit formulae as defined in **Schedule 7** to the Act, they may determine how the benefit should be calculated. Where this is the case the actuary or trustees should request guidance from the PPF. Where the PPF has previously given guidance to the actuary or trustees for the purposes of the section 143 valuation or previous **closed scheme** guidance, there is no requirement to seek further guidance unless either the trustees or actuary are aware of a material change of circumstances.

4.7 For schemes with a partial Crown guarantee, the valuation should only be of the part of the scheme that is not covered by the Crown guarantee.

4.8 **Hybrid schemes test for protected liabilities**

For a hybrid “better of” scheme, the assets and **protected liabilities** will relate to only those members where the defined benefits exceed the defined contribution benefits at the **effective date**.

The calculation for each individual should consider whether the underpin bites at the **effective date** using the current scheme methodology and section 143 valuation assumptions.

Only those members for whom the defined benefits exceed the defined contribution benefits at the **effective date** should be included in the **protected liability** calculations. The compensation cap and the 90% level should be applied to the defined benefit members of the hybrid scheme (after the underpin test has taken place).

Members where the defined contribution benefits exceed the defined benefits should be treated as defined contribution members. Both their defined contribution benefits and corresponding assets should therefore be excluded from the valuation.

In a hybrid defined contribution scheme with a defined benefit underpin, for any period of service where the defined benefit underpin would not apply, the corresponding assets and **protected liabilities** should be excluded from the valuation.

In a hybrid defined contribution scheme with a defined benefit underpin that only applies for a particular period of service, the member’s fund in relation to that period of service alone should be compared to the underpin.

4.9 **Money purchase benefits**

Any money purchase benefits should usually have been discharged during the assessment period i.e. prior to the scheme having been permitted to continue as a **closed scheme**.

If any money purchase benefits remain then they should be excluded from both the **protected liabilities** and **full scheme liabilities** valuation. Please contact the PPF in such cases.

4.10 **Approximations in the calculation of the protected liabilities**

The PPF may, having taken into account the circumstances of the scheme, allow approximations to be made in calculating the **protected liabilities**. Such an approach may be used where it will not alter whether or not the value of the assets of the scheme was less than the value of the **protected liabilities** of the scheme at the **effective date**.

- If a scheme is overfunded in relation to **full scheme liabilities** then an approximation over-estimating the **protected liabilities** may be permitted.
- If a scheme is underfunded for the purpose of **section 156** of the Act in relation to **protected liabilities** then an approximation under-estimating the **protected liabilities** may be permitted.

The actuary may wish to obtain the agreement of the PPF, prior to verification, if they wish to make any such approximations in their calculation of the protected liabilities.

4.11 **Approximations in the calculation of full scheme liabilities**

We do not envisage that it would be appropriate to make material approximations in calculating the value of the **full scheme liabilities** unless the scheme is shown to be underfunded in respect of **protected liabilities**.

4.12 **Multi – employer schemes**

Separate **section 156** valuations will be required for each separate section or segregated part of a scheme setting out the assets, **protected liabilities** and **full scheme liabilities** attributable to that section or segregated part.

Part 5 – Assets

- 5.1 Assets must be taken into account as specified in the Closed Schemes Regulations.
- 5.2 The actuary must treat as an asset of the scheme any **section 75** (of the Pensions Act 1995) debt, and amounts due under contribution notices, financial support directions and restoration orders to the extent that he believes they will be recouped by the **closed scheme**.
- This applies only where the Regulator issues a contribution notice, financial support direction or restoration order prior to the **effective date** of the valuation. (It doesn't apply to **section 75** debt.)
 - If there are no such assets, the actuary should make a comment to that effect in the valuation report.
- 5.3 In certain circumstances the actuary may assign a different value to an asset from that shown in the relevant accounts if he thinks it is appropriate. This adjustment may not be made for changes in the market value of the assets that have accrued after the **effective date**. Details of any amendments and additions should be provided in the valuation results report by setting out both:
- the amount of any adjustment; and
 - that the adjustment has been made under paragraph 6(4)(c) of Part 1 of the Schedule to the Closed Schemes Regulations.
- 5.4 Any remaining assets in respect of money purchase benefits must be disregarded in accordance with **section 156(6)** of the Act (which provides that assets do not include assets representing the value of any rights in respect of money purchase benefits under the scheme rules). (See also paragraph 4.6 of this guidance.)
- 5.5 Any insurance policies should be valued in accordance with paragraph 6(2)(a), (b) or (c) of Part 1 of the Schedule to the Closed Schemes Regulations. (This applies to both pre 97 contracts of Insurance and post 97 contracts of Insurance.) The actuary should state in their report the value placed on any policy, the relevant sub-paragraph of the regulations that has been used to assess this value and the reason why that sub-paragraph is appropriate.

5.6 Relevant contract of insurance

- The value to be placed on any relevant contract of insurance⁵ should take into account the benefits that the contract actually provides.
- This value should be determined using section 143 assumptions, adjusted to make allowance for the benefits provided by the policy e.g. pension increases, the level of contingent benefits, any guarantees etc.
- Details of any additional assumptions used to value the relevant insurance policies should be set out in the valuation report, with justification for the assumptions adopted.
- Details of the calculations of the value placed on the policies should be provided to the PPF using the electronic version of the Data and Liability component information spreadsheet, available on the PPF website.

5.7 Approximations in the calculation of the assets

The PPF may, having taken into account the circumstances of the scheme, allow approximations to be made in calculating the value of the assets to be used in determining the funding level in relation to **protected liabilities**. (We do not envisage that it would be appropriate to make material approximations in calculating the value of the assets to be used in determining the funding level for **full scheme liabilities** unless the scheme is shown to be underfunded in respect of **protected liabilities**.)

The actuary may wish to obtain the agreement of the PPF, prior to verification, if they wish to make any such approximations in their calculation of the value of the assets.

⁵ paragraph 6(2)(a) of Part 1 to the Schedule of the Closed Schemes Regulations

Part 6 – Data

- 6.1 The actuarial report should summarise the checks that the actuary has undertaken to assure themselves of the accuracy of the data. As stated in the **closed scheme** valuation certificate, the actuarial report must detail any residual concerns regarding the data, or indicate if no such concerns exist.

Part 7 – Valuation method

7.1 Any reasonable age definition may be used for the purpose of the calculation provided consistency with the revaluation and increase periods can be demonstrated. The age definition should be stated within the report.

7.2 For each scheme member, the **protected liabilities** must be calculated as the present value of the accrued benefits using the assumptions specified in the version of *“Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act 2004”* in force at the **effective date**.

When calculating the **protected liabilities** the appointed actuary may be permitted to use different assumptions (including for discount rates) to those prescribed in the relevant assumptions guidance where:

- it is considered that the assumptions set out in the assumptions guidance are not appropriate to the particular circumstances of a scheme; **and**
- the result would be a change in the funding level from greater than 100% to less than 100%, or vice versa.

In such cases, the appointed actuary must obtain the prior agreement of the Board of the Pension Protection Fund to the use of different assumptions to those prescribed in the assumptions guidance.

7.3 The amount of the **protected liabilities** should be determined at the **effective date** in accordance with **Schedule 7** to the Act, the associated regulations and the scheme’s admissible rules (as defined in paragraph 35 of **Schedule 7**).

7.4 The amount of the **full scheme liabilities** should be determined at the **effective date** as the estimated cost of securing scheme benefits as set out under the trust deed and rules of the scheme.

7.5 The **effective date** means the day at which the assets are valued and the **protected liabilities** and **full scheme liabilities** are calculated. Details of the information that must be provided in the audited accounts at the **effective date** are provided in Part 2 of the Schedule to the Closed Schemes Regulations.

The market indices used to determine the financial assumptions for the purpose of the valuation should be based on close of business on the **effective date**. Where market indices are not published for that date, those for close of business on the latest available prior date should be used.

7.6 Where the actuary decides to make any approximations in his calculations of **protected liabilities** or assets, other than those agreed with the Board in accordance with paragraph 4.10 or 5.7 of this guidance, he should confirm that the overall impact of these approximations is not material to the result of the valuation. Material in this context is defined as being a difference of more than 1% between the approximate and accurate values of the **protected liabilities**.

7.7 No approximations should be made in the calculation of **full scheme liabilities** or assets unless the scheme is shown to be underfunded in respect of **protected liabilities**.

Part 8 – Reporting

- 8.1 A closed scheme valuation is required to be determined, calculated and verified in accordance with the Closed Schemes Regulations. The Closed Schemes Regulations require the valuation to be verified by the PPF.
- 8.2 The report must provide all the information set out in the Closed Schemes Regulations and this guidance. Details of the items required are provided below.

Determination date and guidance used

- The determination date.
- The versions of both this guidance and the assumptions guidance that have been used.

Assumptions

- Details of all the assumptions (financial and demographic) used in the calculations should be set out in the valuation report.
- Full details of all the assumptions used to value full scheme benefits must be included with justification of how the assumptions have been calculated, if appropriate. Confirmation that the PPF has agreed the assumptions used for calculating full scheme benefits must also be provided.
- The assumption regarding the proportions married, used in valuing contingent benefits, must be justified by making reference to the scheme rules.
- All assumptions used in calculating the value of insurance policies must be included with justification of how the assumptions have been calculated, if appropriate.
- Details of the assumptions used to calculate the expenses.
- A description of the definition used to calculate the member's age.

Data and Liability component information

- This should be provided using the electronic version of the Data and Liability component information spreadsheet. The Data and Liability spreadsheet will be provided to closed schemes completing a s156 valuation by the PPF.
- Details regarding the valuation of insurance policies should also be provided on the relevant section of the Data and Liability spreadsheet.

Protected liabilities information

- Where, for a membership category, tranches of benefits are payable at more than one Normal Pension Age (NPA), then there should be more than one row (each corresponding to a different NPA) for that membership category.
- Where individual members have more than one NPA, then these members will contribute data to more than one row in a particular category.

Full scheme liabilities information

- For each membership category, benefits will need to be split according to Normal Pension Age (NPA), the rate of revaluation in deferment and rate of increase to pensions in payment.
- Individual members may therefore contribute data to several different rows in the full scheme liabilities section of the Data and Liability spreadsheet.

Data

- The valuation report must summarise the checks the actuary has undertaken to assure themselves on the accuracy of the data.
- A statement must be made in the report regarding any residual concerns the actuary has about the data (see also 6.1). If the actuary has any residual concerns then a further statement should be made quantifying the possible effect of these concerns and the impact it may have on the protected liabilities.

Scheme benefits

- The PPF shall be provided with a summary of the main benefit provisions of the scheme relevant to valuing full scheme benefits including normal pension ages, rates of revaluation in deferment, rates of increases to pensions in payment, details of death benefits, details of any guarantees and details of any underpin etc.
- If any DC benefits (including DC AVC arrangements) remain within the scheme, details of these arrangements should be provided.
- A statement should be made in the report indicating if the scheme has equalised benefits for differences in the GMP formula for males and females.

Assets

- A statement must be made in the report about whether there is a section 75 debt, contribution notice, financial support direction or a restoration order.
- Reconciliation between the asset value from the relevant accounts (as defined in Part 1 of the Schedule of the Closed Schemes Regulations) and the asset value used in the valuation figures must be provided. Details of the appropriate section of the Schedule of the Closed Schemes Regulations used to make each adjustment to the assets must be provided where this has been used.

Approximations

- Where the actuary has made any approximations under part 4.10 or 5.7 of this guidance in calculating the protected liabilities, full scheme liabilities or value of the assets they should:
 1. provide details in the report to the approximations made;
 2. confirm that any approximations made (under part 4.10 or 5.7 of this guidance) have been previously agreed with the PPF; and
 3. make a statement that the effect of the approximations will not change whether the scheme is funded above or below 100% of the protected liabilities.

Closed Scheme valuation certificate

- The actuary should complete the certificate in draft included as Appendix 1 to this guidance.
- The draft certificate should be sent to the PPF along with the valuation report for verification.
- The actuary should not amend the wording in the certificate but may make deletions to the wording, as indicated.

8.3 The report should be submitted in the form which the actuary intends to sign and date once the Board has verified it. The actuary's full name should be printed below his signature. The actuary's professional qualification and employer's name should also be stated.

Part 9 – Review

- 9.1 This guidance note will be reviewed at regular intervals as the PPF deems appropriate.

Appendix 1 - Certificate for the purposes of section 156 of the Pensions Act 2004

Scheme name:

Effective date:

End of period covered by relevant accounts:

Version number of section 156 guidance used:

Version number of section 143 assumptions used:

Protected liabilities

£'000

- a Liabilities for and in respect of members which corresponds to the compensation that would be payable if they transferred to the PPF, excluding benefit installation/payment expenses and cost of winding-up
- b Liabilities other than for and in respect of members
- c Benefit installation/payment expenses
- d Estimated cost of winding-up

Total

Assets

Funding level for protected liabilities in accordance with section 156 of the Pensions Act 2004

%

Full scheme liabilities

£'000

- a Liabilities under the scheme rules to and in respect of members, excluding benefit installation/payment expenses and cost of winding-up
- b Liabilities other than for and in respect of members
- c Benefit installation/payment expenses
- d Estimated cost of winding-up

Total

Assets

Funding level for full scheme liabilities in accordance with section 156 of the Pensions Act 2004

%

I certify that the protected liabilities and full scheme liabilities have been determined in accordance with the provisions of the section 156 of the Pensions Act 2004 and regulations made thereunder and the guidance issued by the Board of the Pension Protection Fund.

I have no / some* residual concerns regarding the completeness and accuracy of the data used in this valuation. The formal report on the actuarial valuation details my residual concerns where appropriate.

*delete as appropriate

A copy of the formal report on the actuarial valuation for the purposes of section 156 of the Pensions Act 2004 is attached.

SignatureDate.....

Name.....

Qualification.....

Employer.....