ASSOCIATION OF ACA CONSULTING ACTUARIES

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8 July 2014

Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon
Surrey CR0 2NA

Dear Sir / Madam

PPF consultation on money purchase benefits

I am writing on behalf of the Association of Consulting Actuaries (ACA) in response to the consultation document of the above title dated 28 May 2014. Our thoughts are set out in the Appendix to this letter.

As you can see, we believe that it is not necessary to call for out of cycle section 179 valuations. If you decide that you wish to we ask that you consider some adjustments to your proposed approach.

We hope that you find our comments of assistance and would be happy to discuss them further if that is helpful. Please contact me on 020 7432 6635 (david.everett@lcp.uk.com).

Yours faithfully

David Everett
Chairman
ACA Pension Schemes Committee

Sent by e-mail to: amendedmpdefinition@ppf.gsi.gov.uk

APPENDIX

ACA'S RESPONSES TO SPECIFIC QUESTIONS

***Question 1**: Do you consider it is reasonable for the PPF to exercise its discretion to require out of cycle s179 valuations in circumstances where it judges the effect to be material?*

We note that the Bridge Regulations require all newly eligible schemes to submit their first section 179 valuation by 31 March 2015 and that the effective date of such a valuation must be within the period beginning with the appointed day (24 July 2014) and ending on 31 March 2015. We believe this to not be proportionate on two fronts:

- It would have been better, from the scheme's point of view, to give a range of possible effective dates for the first valuation that covers at least a full year in order that schemes can coincide the valuation date with their normal scheme year end, so avoiding the need to obtain special audited accounts and in many cases to make the provision of valuation data simpler.

- Some schemes may become newly eligible purely because some minor aspect of their otherwise money purchase benefit structure has moved away from being regarded as money purchase.

We are of the view that schemes that are newly eligible because of the Bridge legislation should be subject to the same timescale for the submission of their first section 179 valuation as new non-money purchase schemes – namely delivery must occur within 15 months of the first scheme funding valuation.

Turning to the question in hand we agree that it would not be proportionate to ask all increased liability schemes to submit out of cycle section 179 valuations. But we ask you to consider the nature of the increased liability schemes. They will surely be restricted to liabilities that increase as a result of the following moving away from being regarded as money purchase:

- Money purchase benefits with a guaranteed rate of return provided within the scheme (as opposed to through the investment product); and

- Pensions in payment from the internal conversion of money purchase benefits.

You already cater, within the section 179 valuation guidance for other benefit types that under the Bridge legislation will move away from potentially being regarded as money purchase – ie:

- Hybrid benefits; and

- Cash balance benefits.

Given this, we suggest that although there is in an intellectual attraction to subjecting the request for out of cycle valuations to those where the effect of the change of definition of money purchase benefits is material, the likely reality is that in the overwhelming majority of cases the changes will not be material.

So we suggest that you should not call for any out of cycle valuations as a matter of course, but wait instead for when schemes are required to submit their next section 179 valuation. The majority of schemes affected will fall under the pensions in payment from the internal conversion of money purchase benefits scenario. For these schemes, including these liabilities should improve the section 179 position relative to the current approach (where the cost of securing the full scheme benefit, rather than PPF compensation, is deducted from the scheme assets). So waiting for the next scheduled section 179 valuation should be acceptable.

If you are not willing to do this we ask that you let increased liability schemes that breach the materiality limit follow the same model as that for block transfers – ie submit by 30 June 2015.

Question 2: *Do you consider the materiality test to be reasonable? If not, what would you propose as an alternative?*

If you choose to go forward with the proposed policy as set out in paragraph 2.4 of the consultation document we find that the concept of the materiality test as proposed is reasonable, but we suggest some refinements. We agree that it would not be proportionate to base this test on the impact on the scheme's PPF levy.

Our suggested refinements are so that the effect is only material if the surplus or deficit worsens (not changes) by at least 10% in relative terms and worsens (not changes) by at least £10m (not £5m) in absolute terms.

Our reason for suggesting the increase to £10m is that section 179 funding is likely to be improving for most increased liability schemes, but you won't be immediately picking that good news up. So you only need to know about bad news where it is really material, as anything else will be offset by all the good news.

Where the scheme actuary has advised the trustees that the effect is material, we suggest that the trustees are given the option of either updating the most recent section 179 valuation already submitted on Exchange to reflect the new definition of money purchase benefits (ie using the same effective date as that submitted), or submitting a new section 179 valuation.

We support the suggestion that once the scheme actuary has advised the trustees that the effect is not material, no further action is needed by the trustees, including not having to contact the PPF.

Question 3: *Do you have any information on the approximate number and size of schemes that would be required to provide an out of cycle s179 valuation if the proposed materiality test is applied? If so then we would be very interested to hear about any information that you can provide.*

No, but as discussed above, we expect very few schemes to be affected.

Question 4*: Do you consider the proposed updates to the PPF Valuation Guidance to be reasonable? If not, what would you propose as an alternative?*

Yes.

Question 5*: Are there any benefits you are aware of that need to be included in the updated PPF Valuation Guidance that aren't included in the current guidance or in the proposed updates (i.e. internally annuitised pensions, money purchase underpins/top-ups and guaranteed investment returns)?*

No.

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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