Pension Protection Fund

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15th March 2019

Dear Jenny

GMP equalisation and section 179 valuations

I refer to the FAQ we published on 12 December last year, and our recent discussions on the topic. As always, we are grateful for the engagement, and we endeavour to be as helpful and flexible as we can within the constraints under which we operate.

We appreciate that deciding how to equalise for the effect of GMP and addressing some of the practicalities is a work-in-progress in the industry and that actuaries may feel that it is difficult to accurately assess the section 179 funding impact at this stage. We are aware that a range of potential impacts are being considered by regulatory bodies and the PASA-led industry group looking at GMP equalisation. Against that background we are well aware that the short term obligation to file s179 valuations presents a challenge.

You asked if we were able to clarify further the FAQ we issued on 12 December. You asked us to consider whether we could either provide assurance that valuations did not need to include allowance for the effect of GMP equalisation at all, or to provide a set assumption that actuaries could apply. As you know, we proposed alternative approaches which might address some of these concerns but your view (expressed in our call of 6 March) was that these would make the situation for advisers more difficult not less.

The legislation is clear that it is the scheme actuary's role to value a scheme's liabilities. Whilst we have a power to issue guidance on how to value those liabilities for the purposes of s179, that does not permit us simply to assert that liabilities do not need to be valued, or provide a valuation (e.g. 1%) to be applied across the board when there is no basis for such a figure.

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However, we have considered very carefully what we can do to assist schemes and actuaries grappling with the issues raised by the Lloyds judgment. We consider the most pressing concern is for those schemes who must submit their valuation in the near term (by 31 March). Generally such schemes will have begun their s179 valuation before 26 October 2018 (the date of the Lloyds judgment). The question of what should be covered in a valuation is ultimately for the scheme not the PPF to decide. However we consider that it would be reasonable for schemes in this position not to make provision for GMP equalisation – reflecting that much of their valuation work was done prior to the judgment. Schemes and their advisers may also consider it reasonable to reflect the known legal position at the time of the effective date where this was before the judgment. This consideration led to our FAQ published on 12 December where we made it clear that we consider it would be reasonable for schemes with valuations in hand prior to the date of the FAQ to make no allowance for the Lloyds judgment.

We recognise that a small number of schemes that have valuations with effective dates after the date of our FAQ may be considering submitting their valuation early in order for it to impact 2019/20 levies. This is an entirely voluntary choice – and therefore we expect schemes to reach a conclusion as to what is an appropriate way forward given the Lloyds judgment, after having taken the appropriate actuarial (and legal) advice in regard to the liability position.

We understand that many scheme sponsors will be reflecting the cost of equalisation in company accounts, reflecting input from actuaries. While we appreciate that there are differences in the treatment of sums for accounting purposes and for a valuation, we consider that this experience could offer a basis for making an estimate of impact. We also note that there are a range of views as to how readily an assessment can be made, with some firms offering calculation tools. Taken together we believe that this should allow for a prudent assessment to be made.

Once again we are grateful to have been able to discuss this and welcome further engagement from the ACA on this and other issues, including how to address this point in future levy years.

Yours sincerely

David Taylor

David Taylor
Executive Director and General Counsel