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6th October 2006

Dear Ms Protheroe

The 2007/08 Pension Protection Levy Consultation Document September 2006

I am writing on behalf of the Association of Consulting Actuaries in response to the consultation document issued by the Board of the Pension Protection Fund dated September 2006.

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 are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

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

We note that this is the first consultation on the levy for 2007/08 and that further consultation on the overall amount of the levy is scheduled for later this year. In general our clients would like information on changes to the manner in which the cost is to be shared to be available as early as possible, so that those who are able to take steps to mitigate the risk to the PPF as reflected in the levy calculation have sufficient time to do so. We welcome the intention to publish the draft Determination with the Levy Estimate Consultation document.

We welcome in Chapter 2 the additional options in terms of limited caps on the contingent assets.

We note in Chapter 3 that the Board intends to work with D&B to consider whether to further revise the weightings applied to items such as County Court Judgements. We would request that such changes are announced promptly so that companies have time to understand the impact of any changes on the Failure Score to enable any actions to be taken if scores reduce as a result of the changes. We also note that there may be changes to the methodology to deal with large employers and the not-for-profit sector, but it is not set out why such changes are required or how the changes will operate.

The paper states that you will be updating the specific probabilities of insolvency associated with the failure scores and will publish these with the final determination in January 2007. It would be helpful if these were also included with the draft determination.

We welcome the additional guidance on providing information for multi-employer schemes in section 3.3.5 to 3.3.7 in relation to members who cannot be apportioned accurately. We agree that this may be challenging for schemes which until now have not had a compelling reason to ensure that each member's record indicates clearly to which employer his or her employment relates.

Chapter 4 announces that the Board has issued revised guidance on section 179 valuation assumptions. Although the initial consultation on assumptions indicated that any such guidance would be effective from 11th September, we would request that such changes are announced separately aside from a consultation document, so that users of the guidance can be aware that new guidance is in force. It would also be helpful if the PPF could publish a timetable of all the key dates over the next year on its website.

We note that updated versions of the formulae for rolling forward section 179 and MFR valuations including minor amendments for the 2007/08 levy year will be available on the website from November 2006. We assume that these formulae will allow for conversion to the revised section 179 assumptions, for valuations completed using the previous assumptions.

One area that has changed from the initial consultation on assumptions is the date from which the new guidance is effective. It had been proposed that the new assumptions would apply to valuations with an effective date on or after 8th September 2006 and the existing assumptions to all valuations before that date. In the final version of the guidance, the new assumptions apply to both valuations with an effective date on or after 11th September 2006, as well as earlier valuations signed on or after 1st November 2006 (we assume that signed is effectively electronically submitted). This may mean that valuations which have already commenced and for which calculations are in train or have been completed would need to be revisited at additional cost, if schemes do not sign section 179 valuations before 1st November 2006. As this is a change from the initial proposal, it would have been helpful to highlight this.

Consequent to this change there are two areas in the PPF's valuation guidance where it is not entirely clear as to which assumptions should be used.

- First, in section 4.7.5 of G3, reference is made to the factors for converting the lump sum into an equivalent pension; on the website, the guidance for use of these factors refers to “compensation determinations with effective dates on or after 11th September 2006”, but does not consider the use for section 179 valuations.

- Second, in 2.6 of the guidance for submitting an actuarial certificate of deficit-reduction contributions, reference is made to “a section 179 valuation basis between date 1 and date 3”. (Previous guidance had referred to the date half way between date 1 and date 3). We note that a deficit reduction certificate can only be submitted after 1st November 2006 when the forms are released, but it is not entirely clear which assumptions should be adopted to value the accrual of benefits during the period.

We assume that the guidance will be updated once more when the proposed amendments to the Valuation regulations are settled.

We welcome the incorporation of information previously contained in the Frequently Asked Questions section into the guidance documents themselves. However, the FAQs on section 179 still seem to exist – you may wish to remove them now so as to avoid room for confusion.

Finally, we welcome the additional flexibility given to deal with the problem that some schemes face in relation to historical information on insured liabilities for pensions in payment.

Yours sincerely

David Everett
Acting Chairman
Pension Schemes Sub-Committee of the Association of Consulting Actuaries