

Appendix to the guidance on method and assumptions to use when undertaking a valuation under Regulation 22 of the Financial Assistance Scheme Regulations 2005

Underpin Benefits
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Appendix – treatment of underpin benefits

1. The Government has updated its guidance on the treatment of underpin benefits in the FAS valuation. This update, which is set out below, replaces paragraph 65 of Section 2 of the current valuation guidance, and will be incorporated into the full version of that guidance in due course.
2. This guidance impacts on FAS qualifying schemes that have underpin benefits, and are transferring assets to government.
3. Actuaries undertaking underpin tests in relevant schemes should contact their PPF associate or the scheme's allocated actuarial contact at the PPF if they require further advice on how to undertake the underpin test in line with this guidance.

General approach

4. The Government intends that defined benefit underpins to money purchase benefits should only take effect if the value of the accumulated money purchase pot is less than the value of the underpin benefit at the point of determination (the *test date*). Similarly, a money purchase underpin to a defined benefit should only take effect if the value of the accumulated money purchase pot is equal to or exceeds the value of the defined benefit at the test date.
5. The underpin test date should be before the *Calculation Date* to ensure that the final valuation process is not delayed. See the section on test dates for further details.
6. If a defined benefit underpin does not take effect at the test date, then all the money-purchase assets and all liabilities for that *Beneficiary should be excluded* from the valuation. Similarly, if a money-purchase underpin does take effect then all the money purchase assets and all liabilities **should be excluded** from the valuation.
7. If the defined benefit underpin does take effect and different parts of the remaining benefit need to be allocated to different priority classes, then actuaries should adopt a method consistent with that explained in paragraph 3.9.1 of version 4.8 of GN19.

Test dates

Members who reached NRA before the scheme commenced wind up

8. Where retirement occurred before the start of scheme wind-up, the Government expects members to have been tested prior to the date of scheme wind up, and will not require these members to be re-tested.

Members who reach NRA after wind up commenced

9. These members will need to be tested or re-tested for the purposes of establishing their status in relation to the FAS, as set out below.
10. Members who reached NRA after wind up but before the publication of the revised guidance should be tested as soon as the scheme has completed all of the necessary activities to ensure that the data is correct and the test can be done correctly on the new basis. The test should be done at a current date, rather than looking back to NRA.
11. Members who reach NRA after the publication of this guidance and before the final determination date described below, should be tested as at their NRA.

Deferred members at the final determination date

12. There will be a final determination date for testing those members who have yet to reach NRA by the time a scheme is approaching the *Calculation Date*. This date should be no more than 3 months before the *Calculation Date* in order to avoid delaying activity linked to the final valuation.
13. The test should be done using accrued benefits at the final determination date, rather than projecting to NRA.
14. Trustees should liaise with the PPF associate or the scheme's allocated actuarial contact at the PPF to identify a suitable final determination date.

The Test

15. The actuary should first undertake an initial test to compare the money purchase pot with the value of the member's defined benefit as at the test date, converted from a pension amount to a value using the basis set out in Section 4 of the FAS valuation guidance.
16. When undertaking the test, the actuary should adjust the money purchase pot to allow for investment returns, payments that the member has received up until the test date and expenses levied on the pot from the date the pot was last valued, if this is relevant. The actuary should select an appropriate method for allowing for investment returns, for example with regard to performance of the scheme's assets.
17. This initial test should identify those members whose money purchase pot is small compared to the value of the defined benefit without the need to seek quotes from

insurers. For such cases the actuary should merely record the outcome of the test and treat them as defined benefit.

18. For those members who could theoretically buy a better benefit than the defined benefit with their money purchase pot, the actuary should consider whether they have a good chance of buying something higher in the current market. Where appropriate, the trustees should then seek quotes from insurers for these members.
19. If the trustees cannot obtain a quote, or the quote offers a lower level of benefits than the defined benefit, the member will be classed as defined benefit and will be included in the FAS valuation. Otherwise, the member should be considered money purchase and discharged.
20. This approach should ensure that members do not lose out, while also minimising delays and expense associated with getting quotes from insurers.

Survivors

21. Where a member died, a comparison of the eligible survivor's defined benefits and the money purchase pot should be undertaken for their survivor. Unless scheme rules specify otherwise, the money purchase pot for the deceased member should pass to the survivor without any reduction on their death.
22. At the test date the comparison is made for the survivor. The money purchase pot will be the deceased member's money purchase pot on death, plus any adjustments for benefits paid to the survivor, investment returns over the period since death and expenses levied on the fund to the test date.
23. If there are multiple survivors, the deceased member's money purchase pot should be divided between them in accordance with the scheme rules.

Consequential action which may be needed as a result of the underpin tests described above

24. Some defined benefit members in payment may have received an increased interim pension as a result of previous assumptions in respect of money purchase members in underpin cases.
25. Where benefits have been increased in this manner, trustees should consider whether it is appropriate to adjust interim pensions in payment going forward to account for the reallocation of assets within the scheme following the underpin test, and to avoid further overpayments. Overpayments made prior to the adjustment of these benefits will not be reclaimed. Trustees should ensure that the relevant guidance to completing the S1 is followed to ensure that these overpayments are treated correctly.
26. Trustees should liaise with the PPF if they require further advice on this matter.