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DWP Department for Work and Pensions

The Financial Assistance Scheme

Information on the preparation of relevant accounts and guidance for actuaries to value particular assets to support FAS valuations

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v1.0

Information on the preparation of relevant accounts (including guidance on valuing particular assets and permitted actuarial adjustments)

Introduction

1. The Financial Assistance Scheme Regulations 2005 (SI 2005/1986) as amended ('the FAS Regulations') provide for the transfer of assets from certain FAS qualifying schemes to Government, and enable the FAS to make certain payments to qualifying members by reference to the share of scheme assets determined for that qualifying member.

2. A valuation of scheme assets, liabilities and asset shares will be required as part of the asset transfer process. The valuation will be undertaken by an actuary ('the valuation actuary') and obtained by scheme trustees on instruction from the FAS scheme manager (the Board of the Pension Protection Fund (PPF)).

3. This guidance is issued under regulation 23(11) of the FAS Regulations which provides that in valuing certain assets the valuation actuary should act in accordance with guidance issued by the Secretary of State for Work and Pensions. This document also sets out the manner and form in which the FAS Scheme Manager expects 'relevant accounts' to be prepared to support valuations.

Preparation of accounts

Relevant legislative provisions

4. The FAS Regulations provide that "relevant accounts" for the purposes of identifying and valuing the assets of a scheme, means the audited accounts for the scheme which—
    (a) show a true and fair view of—
        (i) the financial transactions of the scheme during the period to which the accounts relate ("the accounting period");
        (ii) the amount and disposition of the assets at the end of the accounting period; and
        (iii) the liabilities of the scheme, other than the liabilities to pay pensions and benefits after the end of the accounting period;
    (b) are in such manner and form as the scheme manager may request;
    (c) include a report by the auditor in writing as to whether or not in his opinion the requirements in paragraphs (a) and (b) above are satisfied; and
    (d) are prepared in respect of the period ending with the calculation date.

5. Industry-standard pension scheme accounting and auditing techniques will be adequate to meet the requirements for producing audited accounts to support the asset share valuations, subject only, where relevant, to specific directions issued by the FAS Scheme Manager. The following paragraphs provide further information on the Scheme Manager's expectations in respect of audited accounts.

Processes

6. Scheme valuations will only be undertaken once necessary preparation work has been completed. This will be determined by the scheme's FAS caseworker in consultation with the scheme trustees. The preparatory work will include the identification and consideration of assets that may raise particular valuation issues (such as debts owed to the scheme).

7. The FAS Scheme Manager is mindful that there are various existing requirements on trustees to obtain annual audited accounts within certain timescales and that these can place demands on the resources of schemes at certain points in the year. The FAS Scheme Manager will seek to work with schemes, accountants and auditors during the preparation period to provide an indication of when a valuation is likely to take place. This will allow them to decide whether to exercise the flexibility allowed within existing accounting requirements to adjust their accounting cycle so that the audited accounts produced at the calculation date meet both FAS valuation and other requirements.

Circumstances where audited accounts may not be required

8. In general, audited accounts will be required for this purpose of determining the value of assets to be used in the FAS valuation in order:

   - to be consistent with actuarial guidance regarding the use of asset information in actuarial valuations;
   - to give trustees proper assurance over the total value of scheme assets being shared across qualifying members; and
   - to give the Government proper assurance over its commitment to fund the difference between scheme assets and the promised level of assistance.

9. However, the FAS Regulations provide that in circumstances where audited accounts are not readily available and the FAS Scheme Manager is of the view that it is not necessary for audited accounts to be prepared, the value of assets at the calculation date may be established on the basis of such information as the FAS Scheme Manager considers appropriate.

10. It is anticipated that this flexibility might apply where, for example, schemes would not have prepared audited accounts were they winding-up outside of the FAS, perhaps where they are wholly invested in insurance products. The FAS Scheme Manager will work with schemes to identify appropriate accounting information in the period leading up to transfer.

Closing accounts (covering the period between valuation and transfer)

11. The Statement of Recommended Practice "Financial Reports of Pension Schemes" describes the preparation and audit of closing accounts as best practice when schemes complete winding up and the FAS Scheme Manager would not seek to dissuade trustees from obtaining such accounts where they can present a good business case for doing so. However, given the anticipated short period between the valuation date and the transfer of assets, it is not expected that further audited accounts to date of closure will typically be required. In exceptional circumstances where such accounts may be required, it is anticipated that the FAS Scheme Manager will discuss preparation with trustees and their auditors, and include the work in the trustees' project plans, well ahead of the transition date.

12. If closing accounts are not prepared, certain information will be required from trustees to account for transactions prior to transfer. This information will include:

    - a statement from the trustees of the cash amount received for any asset sold before transfer (and an explanation for any significant difference between the cash amount received and the realisation value included in the valuation); and
    - a statement of the amount of cash transferred and of the transactions since the calculation date and an explanation of any significant differences from the cash amount included in the valuation (it is anticipated that this information will include an explanation of any unplanned expenditure on pensions; services etc which was not anticipated prior to the valuation and accounted for in the valuation).

13. It is anticipated that trustees might provide such information via their advisors.

Valuing assets in accounts

14. The calculation date used in the valuation will be the last day of the month in which the FAS Scheme Manager instructs the scheme trustees to obtain the valuation. All assets must be valued as at the calculation date.

15. With the exception of certain assets described below, asset values should be determined in line with existing guidance and legislation that relates to the production of scheme accounts, including:

    Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 (SI 1996/1975)

16. The Schedule to these Regulations provides that scheme assets should be valued at market value, and, where market value is not readily ascertainable, the trustees or managers should estimate the market value (and state why the valuation is an estimate).

Statement of Recommended Practice Financial Reports of Pension Schemes (SORP)

17. This provides detailed advice on the valuation of assets in circumstances where the scheme can no longer be considered a going concern. (See paragraphs 2.86 to 2.94 of the 2007 revision of the SORP.) The Statement does not refer specifically to the accounts of schemes preparing FAS asset share valuations, but it is expected that trustees, accountants and auditors will apply these "winding up" valuation policies to the assets valued in these accounts, or explain in their accounting policy notes why they believe this is not appropriate.

Audit Practices Board – Practice Note 15 – The Audit of Occupational Pension Schemes in the United Kingdom

18. This note is available on the web at the following address:
http://www.frc.org.uk/images/uploaded/documents/PN15%20WEB.pdf

19. It is anticipated that the value of most investment assets of most schemes will be readily available by reference to bid values quoted on a recognised investment exchange; and that most non-invested assets will consist of cash or near-cash assets valued at cash equivalent values.

20. The value allotted to any non-listed investment assets should be in the context of the scheme not being a going concern, i.e. at realisation values. It is very likely therefore that there will be circumstances where the valuation of these assets will be on a "forced sale" rather than willing buyer/willing seller basis.

21. A valuation provided by a relevant expert may be required for any assets such as property and valuables such as art or antiques.

22. There are established techniques for experts (for example, actuaries, surveyors, auctioneers, corporate finance and insolvency experts) to value illiquid assets and we envisage that this expertise will be used to arrive at a suitable value for assets. The PPF is setting up a panel to provide advice on the valuation of unlisted and private equity for agreed fees to assist in these and similar circumstances. If trustees do not have ready access to such experts themselves they will be able to make use of this arrangement for the valuation of any relevant FAS assets.

Excluded assets

23. All scheme assets and current liabilities should be included in the scheme accounts, with sufficient detail provided to enable the valuation actuary to exclude from the actuarial valuation those assets and liabilities which the FAS Regulations require to be disregarded. This detail may be provided on the face of the primary statements or in the notes.

24. In certain cases it may be necessary to include certain liabilities and assets in valuations to help inform trustees and the FAS Scheme Manager's decisions on

appropriate treatment (for example, trustees have some discretion over the discharge of certain liabilities relating to additional voluntary contributions and may take decisions on the treatment of these liabilities after preliminary valuation calculations have been undertaken). In such circumstances, it is expected that the valuation actuary, in liaison with trustees and the FAS Scheme Manager, will make appropriate deductions from assets as part of the valuation in order to meet relevant legislative requirements.

25. If such adjustments are made on an individual rather than a scheme basis, it is recognised that the accounts may not provide sufficient detail to identify the assets to be deducted. In these circumstances the valuation actuary will make an appropriate deduction in liaison with the trustees and the FAS Scheme Manager.

26. Assets and liabilities that should be disregarded from the valuation are listed in regulation 22(7) of the FAS Regulations (quoted in full in **Annex A** to this document).

27. Disregarded assets include assets relating to money purchase benefits, assets relating to payments to the scheme from the FAS Scheme Manager[1] and reasonable expenses that have been (or will be) incurred by the trustees. In keeping with standard accounting principles, expenses which have been incurred before the valuation calculation date should be included in the accounts (thus no additional actuarial disregard will be required in the valuation for such expenses).

28. Scheme benefits and expenses should be accounted for using the usual accruals concept of accounting, to ensure that all expenditure incurred in the period is accounted for in the period. As such, any payments due to be paid in the period but not actually paid (for example in respect of members for whom payment is due but who cannot be traced) should be treated as having been incurred in the period.

29. Any payments due to be made in respect of State Scheme Premiums (SSPs) should be included in the accounts as a debt of the scheme.

30. Expenditure committed to but occurring after the end of the accounting period, such as ongoing benefit payments and the costs of managing the scheme through to the completion of wind-up, should not be accounted for in these accounts. Actuarial guidance will cover the treatment of these future liabilities in the asset share valuation.

31. As noted in paragraph 48, section 75 debts owed by employers may be subject to adjustment by the valuation actuary in consultation with the FAS Scheme Manager. Section 75 debts should be recognised in the accounts (or disclosed in the notes to the accounts) in line with accounting standards Even if the likelihood of recovery is remote, disclosure of that fact in the notes to the accounts should be made.

[1] The FAS Regulations provide that payments may be made by the FAS Scheme Manager to FAS qualifying schemes that have run out of available funds in certain circumstances.

32. As noted in paragraph 51, annuity policies that transfer to Government will be valued by valuation actuaries in line with the liabilities covered by those policies. Annuity policies should be valued in the accounts in accordance with standard practice.

Intervention in values of assets

Relevant legislative provisions

33. Regulation 23 of the FAS Regulations provides that for the purposes of the valuation the valuation actuary shall adopt the given value of the assets of the scheme stated in the relevant accounts as the value of those assets as at the calculation date. Certain exceptions are also provided for in regulation 23. Those exceptions are stated in **Annex B**.

34. The following guidance is provided in accordance with regulation 23(11) which provides that in valuing excepted assets the valuation actuary should act in accordance with guidance issued by the Secretary of State for Work and Pensions.

Intervention by the FAS Scheme Manager

35. It should be noted that under regulation 24 of the FAS Regulations the FAS Scheme Manager has the power to require the valuation actuary to adopt a different value for an asset in the valuation. It is anticipated that such a power will only be used in exceptional circumstances and FAS caseworkers will discuss any changes with actuaries and trustees in advance.

Actuarial intervention

36. Regulation 23 of the FAS Regulations allows the valuation actuary:
    - with the FAS Scheme Manager's agreement, to place a different value on an asset held by or owed to the scheme if the actuary is of the opinion that the value of the asset is substantially different at the calculation date from that set out in the relevant accounts; and
    - to include and place a value on an asset of the scheme which is not listed in the relevant scheme accounts.

37. It is envisaged that such powers might be used where:
    - a surrender value has been placed on an insurance contract in the audited accounts but that contract is transferring to government – in such circumstances the valuation actuary will place a value on the liability secured in line with any guidance provided by the FAS Scheme Manager; or

- new assets come to light (which will not have had a value placed upon them) between the production of the audited accounts and the valuation being completed by the valuation actuary.

38. Actuaries will be expected to discuss any potential adjustments to values with trustees and the FAS caseworker during the valuation process. The valuation actuary must bring adjustments to the attention of the FAS Scheme Manager as part of the information provided to support the approval of the valuation.

Assets received / debts recovered after the valuation has commenced

39. Trustees will notify the FAS Scheme Manager of the amount and nature of the debts owed to the scheme while preparing for transfer.

40. As part of the preparation for the scheme valuation the FAS Scheme Manager will decide whether to instruct the valuation actuary to proceed with the valuation applying a value to the debt or whether to wait for the debts to be repaid.

41. In general, it is anticipated that the value applied to an asset in the valuation would not be revised, irrespective of the actual returns received in respect of that asset subsequently.

Debts owed by members to the scheme

42. Some schemes may be owed money by members or other beneficiaries who have been overpaid by the scheme.

43. Where beneficiaries have been overpaid by their scheme before the start of wind up and debts in respect of such overpayments remain outstanding at transfer, those debts will transfer to government as part of the assets of the scheme. In such circumstances the Regulations allow any payments made by the FAS to be adjusted to take account of such overpayments. Where repayment plans are already in place it is anticipated that the FAS Scheme Manager will discuss and agree with members whether those plans should remain in place or whether standard FAS adjustments should apply instead.

44. Any debts relating to overpayments made to beneficiaries after the start of wind-up (other than those relating to SSP cases described below) will be calculated as a matter of course once beneficiaries' 'notional pensions' have been determined. Any interim pensions paid during wind-up during the period ending with the calculation date should be accounted for and no further allowance is required in the accounts to cover the difference between the pension actually paid and the pension that should have or could have been paid.

45. If members have had or will have rights reinstated into the State Scheme by payment of an SSP then any interim pension payment made in respect of

guaranteed minimum pensions (GMPs) to those members during wind-up should be treated as a debt payable by the member to the scheme unless such payments have been repaid.

46. In general, any beneficiary debts, whether relating to overpayments made before wind-up or relating to GMP provision in SSP cases during wind-up should be valued assuming full repayment. However, given the likelihood that debts will not be repaid in cases where beneficiaries have died, any debts relating to deceased beneficiaries should be valued assuming no repayment unless repayment will be made from the Estate.

Corporate debts owed to the scheme

47. Where there are corporate debts due to the scheme as a result of contribution notices, financial support directions or restoration orders the valuation actuary should adopt the amount due to the scheme given in the notice, direction or order as the value of the asset. However, where the valuation actuary is of the opinion that that the amount due will not be recouped in full by the scheme then they should adjust the value of the asset to reflect the amount that is likely to be recouped in consultation with the FAS Scheme Manager. The FAS Scheme Manager may seek expert advice on these assets where it regards it as necessary.

48. Where there are Section 75 debts due, the same approach should be followed as described above.

49. If there are no such assets, the actuary should confirm this fact (through discussion with trustees if necessary).

50. It should be noted that any payments in respect of debts made post-transfer will be made to the Government rather than into the pension scheme.

Annuity policies

51. Some annuity policies may be transferred to government. Trustees, in discussion with the FAS Scheme Manager will decide which policies will transfer to government and which will be transferred to individual members under the process set out below.

52. Where any such products transfer they will need to be valued by the actuary. The value placed on such assets should reflect the liabilities covered by the product. Actuaries should apply the synthetic buy-out basis that applies for valuing liabilities at ‘full buy out’ for this purpose. All liabilities should be valued as at the calculation date. The synthetic buy-out basis is set out in the actuarial guidance for calculating asset shares, ‘Guidance on method and assumptions to use when undertaking a valuation under Regulation 22 of the Financial Assistance Scheme Regulations 2005 (version GA1)’.

Process for deciding whether insurance products transfer to Government

53. Some schemes may have individualised insurance contracts which are held in the name of the trustees. Under normal winding up arrangements trustees would have sought to convert these contracts into individual annuity contracts. It is understood that many insurers have terms which allow assignment to an individual, although this may not be appropriate in cases where the structure of the annuities available are different to scheme benefits.

54. Where a contract has a higher surrender value than the value of the liability secured by that product, it should be cashed and the funds transferred to government.

55. However, the Government understands that such products tend to have surrender values that are low in comparison with the value of the cash flows expected to be received from them.

56. Where an insurance product is held by the trustees:

    - that provides payouts linked to a particular member;
    - the surrender value of that product is less than the value of the liability secured by that product;
    - can be transferred into an annuity contract for that member on the same terms as the original contract; and
    - will not provide payments to that member above those that can be justified by the funding level of the scheme,

    then the FAS Scheme Manager will work with the scheme trustees to facilitate annuity purchase for individuals prior to transfer and such products will not be included in the valuation.

57. However, where the surrender value of a policy held in the name of a trustee is less than the value of the liability secured by that product and either:

    - the policy cannot be reassigned to the member; or
    - where the payments to members under that contract are higher than those justified by the funding position of the scheme,

    then policies will transfer to government.

58. Under such arrangements the policy should be included in the FAS valuation and the actuary should value the policy in line with the liabilities covered by the product. On transfer, the Government would replace the trustees of the scheme as the policyholder and would become the recipient of the cash flows generated by the policy.

Treatment of members whose liabilities have been partially discharged by purchase of an annuity policy

59. The Government understands that there are likely to be some members of relevant FAS schemes who will have had some of their liabilities discharged by annuity purchase and to whom further assets would be allocated were standard winding-up processes to apply. Typically such members may be those who retired before the start of wind-up for whom full un-indexed pensions have been secured and for whom additional assets would have been allocated in respect of indexation.

60. The Government intends that schemes should continue to discharge such members' liabilities rather than transfer the additional assets that would be allocated to such members to government. For practical reasons, the Government anticipates that in such circumstances such members' liabilities and assets may need to be included in 'preliminary valuations' in order to establish correct asset allocation. FAS caseworkers will work with valuation actuaries and trustees to ensure appropriate asset allocation and facilitate discharge in relation to such members.

61. The Government anticipates that there may be some partial annuity cases in which members would not stand to gain from further annuity purchase (because any additional annuity purchase would simply offset the amount of FAS top-up payment that would otherwise be payable). Caseworkers will work with schemes to identify such cases and consider whether it would be appropriate for relevant assets to transfer rather than be used to purchase further annuities. As part of these discussions, the caseworker will consider whether a full valuation is necessary or appropriate.

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Annex A

Extract from regulation 22 of the FAS Regulations 2005 (SI 2005/1986), setting out assets that should be disregarded from FAS valuations

22 (7) When valuing the assets of the scheme, the valuation actuary shall disregard—

(a) any assets representing the value of any rights in respect of money purchase benefits under the scheme rules;

(b) any assets held by or vested in the trustees or managers of the scheme which are to be used prior to transfer of the scheme's assets in accordance with section 161 (as modified by Schedule 1 to these Regulations) to discharge liabilities in respect of voluntary contributions;

(c) any assets, the value of which is required to discharge the scheme's pension liabilities to or in respect of a qualifying member to whom this Part does not apply;

(d) any debt due, or treated as due, to the trustees or managers which, in the opinion of the scheme manager, is unlikely to be recovered without disproportionate cost or within a reasonable time;

(e) an amount in respect of the value of any pre-6th April 1997 contract of insurance if—

(i) the trustees or managers have taken all reasonable steps to obtain information concerning that contract of insurance (whether by searching the records of the scheme or otherwise); and

(ii) the information that they provide concerning that contract of insurance is insufficient, in the opinion of the valuation actuary, to conduct a valuation;

(f) any payments made to the trustees or managers of the qualifying pension scheme under regulation 14B (payments in relation to administration and other costs); and

(g) any amount which is required to discharge expenses which have been, or will be reasonably incurred by the trustees or managers of the scheme.

(8) In paragraph (7)(e), "pre-6th April 1997 contract of insurance" means a contract of insurance—

(a) which is a relevant contract of insurance within the meaning given by section 161(8) or Article 145(8);

(b) which was taken out before 6th April 1997; and

(c) of which the trustees or managers are, or should reasonably be, aware.

(9) Where the scheme manager is of the opinion that it is not appropriate for an asset to be disregarded under paragraph (7)(c), the valuation actuary shall not disregard it.

Annex B

Extract from regulation 23 of the FAS Regulations 2005 (SI 2005/1986) relating to actuarial adjustments of asset values

23.—(1) This regulation is subject to regulation 24.

(2) Subject to paragraphs (3) to (10), for the purposes of the valuation of the assets of a qualifying pension scheme the valuation actuary shall adopt the given value of the assets of the scheme stated in the relevant accounts as the value of those assets as at the calculation date.

(3) The value of a contract of insurance shall be—

(a) where the contract of insurance is a relevant contract of insurance within the meaning given by section 161(8) or Article 145(8), the value of the liability secured; or

(b) subject to paragraph (4), where the contract of insurance is not a relevant contract of insurance within that meaning, the surrender value of the contract of insurance.

(4) Where a contract of insurance is not a relevant contract of insurance within the meaning given by section 161(8) or Article 145(8) and it appears to the valuation actuary that the surrender value of the contract of insurance does not accurately reflect the actual value at the calculation date, the valuation actuary shall adopt such a value as appears to that actuary to be appropriate.

(5) Subject to paragraph (6), where—

(a) a contribution notice has been issued under section 38 or 47 or Article 34 or 43;

(b) a financial support direction has been issued under section 43 or Article 39; or

(c) a restoration order has been made under section 52 or Article 48,

in relation to the qualifying pension scheme, the valuation actuary shall adopt the amount due to the scheme given in the notice, direction or order as the value of the asset.

(6) Where—

(a) an amount is due under a notice, direction or order referred to in paragraph (5); and

(b) the valuation actuary is of the opinion that the amount due in relation to the notice, direction or order will not be recouped in full by the scheme,

the valuation actuary shall adjust the value of the asset referred to in paragraph (5) to the value which, in the opinion of the valuation actuary is likely to be recouped by the trustees or managers of the qualifying pension scheme.

(7) Where the valuation actuary is of the opinion that any debt due, or treated as due, will be recouped in the future, the proportion of the debt that the valuation actuary expects to be recouped shall be treated as an asset of the scheme.

(8) Where—

(a) the valuation actuary has been given notice; or

(b) (i) the valuation actuary is of the opinion; and

(ii) the scheme manager agrees with the valuation actuary's opinion,

that the value of any asset set out in the relevant accounts, that is not excluded from the valuation, is substantially different at the calculation date from that set out in the relevant accounts, the valuation actuary shall adjust the value of the asset to the market value of the asset at the calculation date.

(9) Where the valuation actuary has been given notice, or is of the opinion, that there exists an asset of the scheme which is not listed in the relevant accounts and which is not excluded from the valuation, the valuation actuary shall adopt such a value for the asset as appears to that actuary to be appropriate.

(10) Where the relevant accounts are not readily available and the scheme manager is of the opinion that it is not necessary for the purposes of this Part to require their preparation, the valuation actuary shall determine the value of the assets as at the calculation date on the basis of such information as the scheme manager considers appropriate.

(11) When acting under this regulation, the valuation actuary shall act in accordance with guidance issued by the Secretary of State.