

# Part 1 – Overview

## 1.1 Introduction

- 1.1.1 To calculate the risk based element of the pension protection levy the Board of the Pension Protection Fund is required to take account of the degree to which a scheme is underfunded.
- 1.1.2 The Board also recognises within the calculation of a scheme's underfunding risk, special contributions paid into the scheme between valuations (MFR or section 179) which have served to reduce the section 179 deficit.
- 1.1.3 The Board will only recognise special contributions paid where an actuary has submitted an actuarial certificate of deficit-reduction contributions in respect of that scheme or section.

## 1.2 Purpose of this guidance

- 1.2.1 This guidance is intended to support actuaries in submitting an actuarial certificate of deficit-reduction contributions to the Board for inclusion in the risk based levy calculation.
- 1.2.2 Certificates submitted and used in the calculation of the underfunding risk for a particular levy year will continue to be used for future years, until the next valuation certificate is received or a new deficit-reduction certificate submitted.
- 1.2.3 Submitting a deficit-reduction certificate replaces any deficit-reduction certificate previously submitted, and so should include all deficit-reduction contributions paid into the scheme since the most recent valuation, including those previously certified to the Board. Deficit-reduction contribution certificates are **not** cumulative.

## 1.3 Where to send the certificate

- 1.3.1 The Board will only take account of deficit-reduction contributions paid into schemes where this certificate is submitted to the Board before the published deadline for the relevant levy year.
- 1.3.2 For the 2007/08 levy year all actuarial certificates of deficit-reduction contributions must be submitted by 5:00 pm on Thursday 5 April 2007.
- 1.3.3 All new contributions for inclusion in the 2007/08 levy calculation should be certified using the 2007/08 version of the actuarial certificate of deficit-reduction contributions.

- 1.3.4 An image of the 2007/08 version of the certificate was made available on the pension protection levy section of the Pension Protection Fund website from 11 September 2006 at the following link  
[http://www.pensionprotectionfund.org.uk/0708actuarial\\_certificate.pdf](http://www.pensionprotectionfund.org.uk/0708actuarial_certificate.pdf)

This certificate will be available for electronic completion from November 2006. Certificates should not be submitted before November 2006. The Board encourages all scheme actuaries to complete the certificate electronically, and submit it by e-mail to [schemeinfo@ppf.gsi.gov.uk](mailto:schemeinfo@ppf.gsi.gov.uk). As a result of electronic data validation rules, this should increase the quality of data received, and therefore the accuracy of levy calculation.

- 1.3.5 Separate certification is required for each separate section or segregated part of a multi-employer scheme.

## 1.4 Further information

- 1.4.1 For further details about the certificate please go to the Pension Protection Fund website at: [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)
- 1.4.2 The contact address for the Pension Protection Fund is:

Pension Protection Fund  
Knollys House  
Levels 8 & 9  
17 Addiscombe Road  
CROYDON  
CR0 6SR

The Pension Protection Fund can also be contacted on by telephone on:

0845 600 2541.

## Part 2 – Completing the certificate

- 2.1 Submitting a certificate is voluntary. If a scheme decides to submit a certificate, it must be completed by the scheme actuary. Where that certificate is correctly submitted to the Board by the prescribed deadline, the information certified within it will be included in the calculation of the risk based levy payable by the scheme in accordance with **sections 175 to 180 of the Act**.
- 2.2 The purpose of the certificate is to enable the Board to recognise contributions which have served to reduce the **section 179** valuation deficit since the previous valuation.
- 2.3 Separate certification is required for separate sections or segregated parts of a multi-employer scheme where regulation 8 of the Pension Protection Fund (Valuation) Regulations 2005 would require a separate valuation.
- 2.4 Only the scheme actuary may submit a certificate on behalf of a given pension scheme. The scheme actuary can delegate and authorise another individual to submit the certificate on their behalf.
- 2.5 For the purposes of the calculations below, **date 1** is the effective date of the last (Minimum Funding Requirement or section 179) valuation.

**date 2** is the end date of the period of time covered by the audited accounts used for the purposes of that valuation. For a section 179 valuation **date 2** is not necessarily the same as **date 1**.

**date 3** is the last day of the month before the date of the certificate. The date of the certificate means the date on which it is signed and cannot be backdated. Contributions, accrual, expenses and augmentation costs must all be measured up to the end of the month before the date of the certificate.

- 2.6 The amount of the deficit-reduction contributions is calculated as:

$$a - (b + c + d + e)$$

where:

**a** is the contribution payable and paid by the employers and employees (and, where relevant, HM Revenue & Customs in respect of age-related National Insurance rebates) before **date 3**, which are not included in the asset value at **date 2**. This should include employer contributions in respect of scheme expenses (if expenses are met out of scheme assets).

This should exclude any contributions recognised in the audited accounts at **date 2**, (even if they are not paid until after **date 2**). It should also exclude any contributions in respect of the cost of accrual of scheme benefits after **date 3** but paid before that date.

**b** is the cost of accrual of scheme benefits (but subject to the adjustments described in section 4.1 of the section 179 guidance) on a section 179 valuation basis between **date 1** and **date 3**.

In calculating the cost of accrual of scheme benefits allowance should be made for salary increases over the period from **date 1** to **date 3**. No allowance should be made, however, for salary increases from **date 3** to expected retirement date, nor any increase in section 179 liabilities for service before **date 1** resulting from salary increases between **date 1** and **date 3**.

Any step increase in liability arising when a member attains MFR normal retirement age between **date 1** and **date 3** should not be included.

The effective date used in calculating the cost of benefit accrual should be the date halfway between **date 1** and **date 3**.

**c** is the amount of expenses (if expenses are met out of scheme assets) incurred between **date 2** and **date 3** (inclusive of investment management expenses).

**d** is the cost, measured on a section 179 valuation basis, of any augmentations granted between **date 1** and **date 3**. This includes benefits for which the Board of the Pension Protection Fund does not provide compensation (e.g. an augmented lump sum on death in service) and benefits in excess of Pension Protection Fund levels of compensation. This item should also include the cost of discretionary pension increases granted.

Enhanced early retirements made using an augmentation power in the scheme rules, or which require the trustees or employer to exercise discretion in granting the benefit, should be included as an augmentation. Where early retirements are an application of the scheme rules which do not require discretion or use of an augmentation power, they do not count as augmentations for the purpose of the certificate. Similarly, the cost of accrual should not include the cost of benefit increases that arise as an entitlement under the scheme rules. If, however, increases are the result of an augmentation granted, then the cost should be included in the cost of augmentations.

**e** is the amount of benefits (including transfers in and out) paid out between **date 2** and **date 1**, where **date 2** is earlier than **date 1**.

- 2.7 Where a, b, c, d or e cannot be determined exactly, prudent estimation will be acceptable, i.e. an underestimate of a and overestimates of b, c, d and e.
- 2.8 No adjustment should be made for investment returns. Therefore the contributions, expenses, etc. should not be rolled up or discounted in any way.