EQUINITI

Infocus Document
Non PPF Capped Valuations

Contents

Scope

This document covers Capped Non-PPF Runs for the Active, Deferred and Pensioner Modules.

In some circumstances, users may want to apply the Compensation Cap to a 'non-PPF' run. This note sets out what fields are used and which ones are ignored when this option is selected.

 It also covers the outputs available.

This document is based on Version 9.25 of SuperVal. Any screenshots which may be included from previous versions of SuperVal are not materially different from those in V9.25.

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Introduction

SuperVal has the ability to run a Non PPF Capped Valuation ie a valuation where the Pension Protection Fund (PPF) Compensation Cap is applied to the benefits but all other aspects of the Pension Protection Fund valuation methodology are ignored. This can be undertaken on all funding methods ie AAN, PUC & DAB for Actives and for the Deferred and Pensioner runs.

When applied, the Compensation Cap will be used in the calculation of the <u>Accrued Liabilities</u> results pages.

Application of Compensation Cap

The Compensation Cap test applied under a Non PPF Capped Run is different to that which SuperVal will apply in the PPF Valuation Run. Please consult the Infocus document " PPF S179 (Levy) Valuations" for more information on how SuperVal carries out PPF Valuations.

A summary of how the Compensation Cap is applied is as follows:

- Only the Accrued Benefits (ie benefit if left at Valuation Date) are compared.

- The Compensation Cap and Age Factors set up in the PPF parameters relevant to the Valuation Date are applied.

- For Pensioners, the capping method used in the PPF valuations is the same as Non PPF Capped runs. For example, if any pensions have a ceasing age less than 120, they are not compared to the compensation cap. This is in line with guidance from the PPF as members may have temporary bridging pensions which are not subject to comparison to the compensation cap. Please look through the PPF Infocus document regarding capping for more information on how the Pensioner module applies the compensation cap to benefits.

- Retirement cash-on-top will be added to the Accrued Benefit. Cash will be converted to pension using the Cash Factors specified in the PPF parameters.

- In the Pensioner module, any benefits valued as cash will not be compared to the compensation cap. If a member is below the "Capped Retirement Age" they will receive 90% of their cash benefits otherwise they will receive 100% of their cash

- There is a "Cap Increases before/after discontinuance" field on the "Scheme PPF screen" for both Actives and Deferreds modules. This allows control over how the Compensation Cap will increase in deferment. Any rate of increase set here will be applied in addition to the rate of increase set for the benefits in deferment in the valuation basis.

- There is a "Discontinuance Pension Increases" field on the "PPF/Cap" tab for all modules to allow control over how Pre and Post 97 benefits increase in payment.

- In the Actives module, the "Offset Slice" parameter will determine which pension is Pre 97 and which is Post 97. For Deferreds and Pensioners, each PUP and Pension definition respectively includes a Pre 97/97 to 09/Post 09 Indicator listed as the "PPF Service Period".

- For Deferreds and Pensioners, the "PPF Service Periods" indicated on the PUPs tab and Pensions tab respectively determine which pension increase is applied to the benefits. Benefits assigned to "Pre97" PPF Service Period get "Pre97" Discontinuance Pension Increases in payment, while those benefits assigned to "97 to 09" or "Post09" PPF Service Periods get "Post97" Discontinuance Pension Increases in payment.

- Note that no other PPF assumptions or parameters will apply. In particular, NRAs specified on the Retirement tab (for Actives), the Membership tab (for Deferreds) and the Capped Retirement Ages on the PPF/Cap tab (for Pensioners) are applied. The PPF NRAs specified on the PPF/Cap tab are ignored for Actives and Deferreds.

- The Pre 97 pension will be compared to the GMP at Valuation Date and increased if appropriate. Thereafter, GMP will be treated as zero. See also the note on GMPs in the Actives and Deferreds section later in this document.

- PPF Slice Loading Adjustment factors for Actives will be ignored.

- The "Main" and "Special" Deferred adjustment factors on the Financial tab are applied. The Deferred Adjustment Factors specified for "PenInc3" and "PenInc4" respectively are ignored

- Underpins will be ignored.

- Death-in-Deferment spouse's pension (where % member's pension type only) will be tested assuming the Compensation Cap Age Factor at NRA applies throughout the whole period of deferment. [The PPF Valuation looks at the Compensation Cap Age Factors at each age (at death) in deferment.]

The benefits for members under Scheme NRA are compared with the Compensation Cap (x Age Factor as appropriate) and the result is then multiplied by 90%. Any restriction is applied (uniformly), and then the restricted benefit is valued starting at the Valuation Date.

Benefits for members aged nearest Scheme NRA and over at the Valuation Date are not compared to the compensation cap and do not get adjusted by 90%.

Setting up Basis Files for Non PPF Capped Runs

Global Parameters

First users will need to activate the relevance rules for Non PPF Capped runs which basically provide a guided approach so it is obvious to users what needs to be filled in.

This is can be enabled through the Defaults section on the Scheme Details accessed through File an then Properties:

The home screen is a quick way to check which one of these check boxes is used

The User should also take a look at the Scheme level PPF assumptions as this also has fields which need to be updated for Non PPF Capped runs.

The PPF Cap Date will be used to get the applicable compensation cap and the Cap Increases Before and After Discontinuance are needed here as well.

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Actives

Financial and Demographic Assumptions

The Financial and Demographic Assumptions will be applied as specified in the valuation basis ie interest rate, deferred revaluation rate, and mortality. Only the deferred adjustment loading factors for Main and Special increases. The deferred adjustment factors for PenInc3 and PenInc 4 increases are ignored.

The Pension Escalation rates specified on the Financial tab and on the slices tabs are ignored. SuperVal will increase the benefits in line with the "Pre97/Post97 Discontinuance Pension Increases" fields specified on the "PPF / Cap" tab.

PPF / CAP Tab

The fields which SuperVal refers to are highlighted in the screenshot below:

"PPF Cap Date" will be used to determine the cap at VDATE, based on the Normal Retirement Age specified on the "Retirement" tab.

"Cap Increases" fields are used when projecting the Compensation Cap. Note that the rates entered in these fields are **relative** to the net interest rate used to value deferred benefits.

Therefore:

- Enter 0 for the Cap to be increased in line with deferred benefits
- Enter the appropriate rate to reflect whether the Cap should increase at a faster rate than deferred benefits (and enter the rate required relative to the net rate in deferment). The rate should be entered as a percentage i.e. for 3% enter 3 and not 0.03.

  "Discontinuance Pension Increases" fields will be applied to pre & post-97 benefits as applicable.

Pre 97 and Post 97 Benefits for PPF

For Active members, SuperVal will use the "Offset Slices" field on the Financial tab to determine which benefits are pre 6/4/1997 and which are post 5/4/1997.

In the case of the screenshot above, number of offset slices = 3. Therefore Superval will assume all benefits arising from slices 3 upwards are "Pre 97", and benefits arising from Slices 2 downwards are "Post 97", irrespective of the PPF Service Periods indicated on the Slices tab.

Please Note

The pension increase rate parameter on the Slices will be <u>ignored</u> – even when applying the deferred revaluation adjustments.

When applying the deferred revaluation adjustments, "Pre 97" pension will be adjusted using the **"Adj to Special"** parameters. "Post 97" pension will be adjusted using the **"Adj to Main"** parameter. Both as specified on the Financial tab.

GMPs

SuperVal will compare the "Pre 97" pension with the GMP at the Valuation Date. If GMP is larger this will replace the "Pre 97" pension (and will be valued as "Pre 97" pension). GMP is ignored altogether if this is less than the "Pre 97" pension.

Cash On Top

Where the Scheme provides a retirement cash benefit on top of pension then this will be valued in the Non-PPF Capped run unless it is of the following type.

- 2 - 25% Pension
- 3 -IR Max Cash
- 8 -% of pension

If any of these 3 options are selected then the cash on top benefit will be ignored (as for PPF Valuations).

Death in Deferment Benefits

SuperVal only carries out a Cap test on the spouse's pension where this is defined as a % member's pension ie Options type <u>only</u>. Death in Deferment Lump Sum will not be included in the test by SuperVal but will be valued and multiplied by 90% before being added to the liabilities.

The Cap test that is carried out by SuperVal for Death in Deferment spouse's pension for accrued benefit liabilities for non-PPF Valuation runs is as follows:

Member's pension at death

Compared with

Compensation Cap at NRA *(i.e. allowing for increases in excess of inflation if applicable)*

 x NRA Age Factor *(table specified on the PPF/Cap tab of the PPF Set)*

Result is then multiplied by 90%

 In contrast, a PPF valuation will apply age factors at each age in deferment.

If there is a Cash On Top benefit that results in a restriction being applied to the member's pension this will in turn result in a lower spouse's pension both for death after **and** death before retirement.

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Deferreds

Please refer to the document "PPF S179 (Levy) Valuations.doc " for information about setting the PPF parameters. This document is located in the *InFocus* folder and can be viewed by selecting *Help + View Document* from within SuperVal.

The PPF Compensation Cap can be applied to the accrued benefit liabilities for Enhanced Deferred Ongoing run as follows:

The Scheme level PPF assumptions with the PPF Cap Date and the Cap increase Before and After Discontinuance are done exactly as above if the Deferred input files are in a separate folder to the Active Input files.

Financial and Demographic Assumptions

The Financial and Demographic Assumptions applied will be as specified in the valuation basis with the exception of pension increase rates (for "Pre97" and "Post 97" Benefits as shown below).

PPF / CAP

The PPF/CAP tab for Deferreds is identical to the one for Actives:

The rate should be entered as a percentage i.e. for 3% enter 3 and not 0.03.

"Discontinuance Pension Increases" fields will be applied to pre & post-97 benefits as applicable.

Pre 97 and Post 97 Benefits for PPF

Benefits are split between pre & post 97 based on the "PPF Service Period" field on the PUPs tab.

	Mortality	Demographic	PUPs	Membership	Ret Pension	Ret Cash

PUPs

	PUP 1	PUP 2	PUP 3	PUP 4	PUP 5
PUP Description	PUP 1	PUP 2	PUP 3	PUP 4	PUP 5
{ PUP Payment Parameters }					
PUP Amount	qPRE97XS	qPOST97XS	qPOST09XS	qPOST2010XS	qNONREVPEN
Revaluation Rate Override					RevRate (2)
Spouses DAR Override					
Override % for DBR Pension					
Complete Years Only Override					
NRA Exits Rounding Override					
Start Date	qDJF				
Finish Date	06/04/1997				
PUP Adjustment Factor	1	1	1	1	1
{ PUP Indicators }					
Ignore for Cash	No	No	No	No	No
Ignore for DBR	No	No	No	No	No
ERF Indicator	Use Barber Start and End Dates	ERF1	ERF1	ERF1	ERF1
Pension Increases in Payment	Main Pension	Special Pension	Special Pension	Special Pension	Main Pension
Include In Underpin	Exclude	Exclude	Exclude	Exclude	Exclude
{ PUP PPF Parameters }					
Male PPF NRA (Levy Valuations)					
Female PPF NRA (Levy Valuations)					
PPF Service Period	Pre 97	97 to 09	97 to 09	97 to 09	Pre 97

GMPs

SuperVal will add the GMP to the "Special" (i.e. "Pre 97") benefit and then ignore any further effects of the GMP.

If "Franking in Deferment" on the GMP tab however is set to "Yes" then SuperVal will ignore the GMP completely.

NSPUPs (Non Standard PUPs)

Please note that any benefits specified on the "NSPUPs" tab will **not** be restricted by the Compensation Cap. However, benefits for members under Scheme NRA are adjusted by 90%.

Death in Deferment Benefits

Please note that SuperVal will carry out a Cap test on the spouse's pension where this is % member's pension type <u>only</u>. Death in Deferment Lump Sum will not be included in the test by SuperVal but will be costed and multiplied by 90% before being added to the liabilities.

The Cap test that is carried out by SuperVal for Death in Deferment spouse's pension for accrued benefit liabilities of non-PPF Valuation runs is as follows:

Member's pension at death

compared with

Compensation Cap at NRA *(i.e. allowing for increases in excess of inflation if applicable)*

 x NRA Age Factor *(table specified on the PPF/Cap tab of the PPF Set)*

Result is then multiplied by 90%

In contrast, a PPF valuation will apply age factors at each age in deferment.

If there is a Cash On Top benefit that results in a restriction being applied to the member's pension this will in turn result in a lower spouse's pension both for death after **and** death before retirement.

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Pensioners

Financial and Demographic Assumptions

The Financial and Demographic Assumptions applied will be as specified in the valuation basis with the exception of pension increase rates (for "Pre97" and "Post 97" Benefits as shown below).

PPF / CAP

The PPF/CAP tab for Pensioners is similar to the one for Actives and Deferreds except we have set out an allowance for one Capped Retirement Age. In the Actives and Deferreds, this isn't necessary as the system uses the Normal Retirement Age but because the Pensioner module didn't have this we placed a retirement age on the PPF/Cap tab to be used when capping:

The Capped Retirement Age can range from 0 to 80. If valuing Children or Dependants who should not be subject to the Cap, please ensure these members have the "MEMORSP" indicator in the data set to "S" so that the system reads them as dependants who only require a single life liability and are excluded from comparison to the cap and are given unreduced benefits.

If members are below the Capped Retirement Age, their entire benefits are compared to the PPF compensation cap at their current age. If their pension is below the cap, then they are entitled to 90% of their benefits. If their pension is above the cap, then their benefits are reduced to the cap and they receive 90% of their capped benefits.

Please ensure your PPF Compensation Cap factor table covers a range of ages from 20 to 80 say, so that if there are any members who are much younger or older than Capped Retirement Age, the system is able to look up an appropriate cap factor.

"Discontinuance Pension Increases" fields will be applied to Pre & Post 97 benefits as applicable.

Pre 97 and Post 97 Benefits for PPF

The output will show the liabilities for all Pension definitions and highlight any members who have been capped. Benefits are assigned Pre and Post 97 Discontinuance pension increases based on the "PPF Service Period" field on the Pensions tab.

GMPs

SuperVal will value the GMP as a Pre 97 benefit and apply Pre97 discontinuance pension increases as a result. If members are above SPA usually their set up has "No" set in the "Include Adjustment at SPA/Death" section and GMP is then added on top of the excess pension to create the total pension in payment.

For members below SPA, if "Include Adjustment at SPA/Death" is set to "Yes" and the Legislation tab has "Reduce Pensions at SPA" checked then the system assumed that the Pre97 pension is a total including GMP and so does not value GMP0 and GMPE0 to avoid double counting. This is consistent with the PPF (S179) valuation capping process.

Setting up a Non PPF Capped Run

When setting up a batch run for a Non-PPF Capped Run, firstly select the type of run required and then ensure that the check-box for "Cap Accrued Benefits" is ticked.

This parameter is available when either a AAN, PUC and DAB funding method or a deferred or a pensioner valuation is selected.

Output

Excel Results

The Excel results output filename will indicate whether the Compensation Cap is applied for accrued benefit liabilities by containing the text "(Capped)" after the description of the funding method/module.

Any members where the accrued benefit liabilities have been affected by the Compensation Cap will be highlighted as illustrated below:

ALL members affected by the compensation cap are included (i.e. including those who are only affected by the cap on death-in-deferment).

Results can be viewed either by pension increase type or by beneficiary. The Actives and Deferreds output show both the ongoing liability as well as the discontinuance liability.

Pensioner Results show the liabilities for all Pension Definitions and GMP. In addition to this, they also show both the Ongoing Liability and the Capped Pension liability including tabulated totals:

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PEN (Capped) using TEST MATCHING DATA at 31-12-2014.xlsm - SuperVal [Version 9.04]

Tabulated Total Results Listing

Valuation Results Summary

Client: *Training Scheme*
Valn Method: *PEN (Capped)*
Valn Date: *31/12/2014*
Basis File: *TEST MATCHING DATA*

All Members: 8   Pensions: 233,500

Pension Number	Number of Pensioners	Average Age (by Pension)	Pension in Payment	Annual Pension	Present Value of Pensions			Average Valuation Factor	
					Single Life	Reversionary	Total	Single Life	Reversionary
Total	8	48.6	228,000	233,500	4,374,165	311,797	**4,685,962**	18.733	1.335
1	8	45.5	65,000	65,000	1,126,556	70,279	**1,196,835**	17.332	1.081
2	8	48.5	84,000	84,000	1,775,559	137,586	**1,913,146**	21.138	1.638
3	8	48.5	44,000	44,000	782,201	53,901	**836,102**	17.777	1.225
4	8	48.5	24,000	24,000	416,037	28,142	**444,178**	17.335	1.173
17 (Pre 88 GMP)	6	61.3	5,000	7,500	109,498	8,101	**117,600**	14.600	1.080
18 (Post 88 GMP)	6	61.3	6,000	9,000	164,313	13,787	**178,101**	18.257	1.532

Capped Pensions

Pension Number	Number of Pensioners	Average Age (by Pension)	Pension in Payment	Annual Pension	Present Value of Pensions			Average Valuation Factor	
					Single Life	Reversionary	Total	Single Life	Reversionary
Total	8	47.5	215,500	215,500	4,396,495	309,357	**4,705,852**	20.401	1.436
1	8	44.7	61,826	61,826	1,157,338	77,297	**1,234,636**	18.719	1.250
2	8	47.7	78,886	78,886	1,652,261	119,892	**1,772,153**	20.945	1.520
3	8	47.7	41,226	41,226	863,163	62,470	**925,633**	20.938	1.515
4	8	47.7	22,563	22,563	472,651	34,338	**506,989**	20.948	1.522
17 (Pre 88 GMP)	4	61.5	5,000	5,000	114,128	6,982	**121,110**	22.826	1.396
18 (Post 88 GMP)	4	61.5	6,000	6,000	136,954	8,378	**145,332**	22.826	1.396

PEN (Capped) using TEST MATCHING DATA at 31-12-2014.xlsm - SuperVal [Version 9.04]

215,500 | 61,826 | 78,886 | 41,226 | 22,563 | 5,000 | 6,000 | 4,705,852 | 1,157,338 | 77,297 | 1,652,261 | 119,892 | 863,163 | 62,470 | 472,651 | 34,338 | 114,128 | 6,982 | 136,954 | 8,378

	Capped Pension Amounts						Present Value of Capped Pensions												
								Pension 1		Pension 2		Pension 3		Pension 4		Pre 88 GMP		Post 88 GMP	
Total	Pen 1	Pen 2	Pen 3	Pen 4	Pre88 GMP	Post88 GMP	Total	Member	Spouse	Member	Spouse	Member	Spouse	Member	Spouse	Member	Spouse	Member	Spouse
45,750	10,000	18,000	10,000	5,000	1,250	1,500	866,824	153,324	27,928	291,109	55,652	161,727	30,918	80,864	15,459	19,165	3,491	22,999	4,189
12,750	5,000	3,000	1,000	1,000	1,250	1,500	236,792	76,662	13,964	48,518	9,275	16,173	3,092	16,173	3,092	19,165	3,491	22,999	4,189
45,750	10,000	18,000	10,000	5,000	1,250	1,500	1,493,928	303,188	0	604,016	0	335,565	0	167,782	0	37,899	0	45,478	0
12,750	5,000	3,000	1,000	1,000	1,250	1,500	402,753	151,594	0	100,669	0	33,556	0	33,556	0	37,899	0	45,478	0
31,500	7,326	13,186	7,326	3,663	0	0	852,246	163,820	21,933	317,919	45,623	176,622	25,346	88,311	12,673	0	0	0	0
9,000	4,500	2,700	900	900	0	0	238,171	100,632	13,473	65,098	9,342	21,699	3,114	21,699	3,114	0	0	0	0
48,000	15,000	18,000	10,000	5,000	0	0	509,552	156,088	0	192,798	0	107,110	0	53,555	0	0	0	0	0
10,000	5,000	3,000	1,000	1,000	0	0	105,585	52,029	0	32,133	0	10,711	0	10,711	0	0	0	0	0