sackers extra

Smoothing the transition from the MFR

1 BACKGROUND

Proposed amendments are on the cards to help smooth the transition from the minimum funding requirement ("MFR") to the new statutory funding objective set out under the Pensions Bill 2004.

Comments are invited on the draft Regulations, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Amendment Regulations 2004 ("the Regulations"), by 15 October 2004. We summarise below the main implications of the draft Regulations.

2 THE MAIN CHANGES

The draft Regulations amend the 1996 MFR Regulations in two main ways:

- they further extend the MFR transitional period, in order to prevent the additional requirements of regulations 11 and 12 taking effect at the end of the current period (31 December 2004);
- they clarify the requirements for the statement which scheme actuaries must complete when carrying out MFR valuations.

3 REGULATIONS 11 AND 12

Regulations 11 (duty to obtain minimum funding valuations following events with significant effects on funding) and 12 (duty to obtain minimum funding valuations where new serious underfunding suspected) impose additional requirements on schemes. However, these regulations have never come into force, as their implementation was postponed until the end of a "transitional period". Following the announcement of the MFR's abolition, this period was extended to 31 December 2004 (by Regulations which came into force on 19 March 2002).

SACKER & PARTNERS

Continued
Smoothing the transition from the MFR

The draft Regulations will lengthen the transitional period again, to 5 April 2006, by which date the new statutory funding objective set out in the Pensions Bill should be in force (to comply with the European Pensions Directive, this is due to be introduced in September 2005).

4 CLARIFICATION OF ACTUARIAL STATEMENT

When valuing schemes, the scheme actuary has to make a statement about the level of benefits scheme members can expect to receive if the scheme were to start winding-up as at the date of the valuation (and based on the funding level at that time). Because of transitional provisions built into the regulations governing the priority order on winding-up, there has been a lingering uncertainty as to which priority order should be used for this purpose. The draft Regulations make it clear that the priority order applicable at the date of the valuation should be used, not the priority order which is scheduled to apply from 6 April 2007.

Of course, given that the introduction of the Pension Protection Fund is creeping closer and that the MFR is scheduled to disappear, we are likely to see more significant changes to the winding-up priority order in the near future.

5 OTHER TRANSITIONAL PROPOSALS

Although not spelt out in the draft Regulations, the Government is also seeking views on other proposals for smoothing the transition from the MFR to the statutory funding objective. In particular, it is concerned with how best to deal with schemes whose actuarial valuations fall due between the Pensions Bill receiving Royal Assent (still anticipated for November 2004) and the new funding requirement coming into force. The possibility of allowing such schemes to defer their next valuation by up to 12 months is therefore mooted.