

# Transformation Appendix

## Summary

This is the Transformation Appendix to the Board's Determination under Section 175(5) of the Pensions Act 2004 in respect of the 2024/25 Levy Year (the "**Determination**"). It provides the formulae for transforming Section 179 Valuation results for the purpose of calculating the Levies in respect of the 2024/25 Levy Year. The transformation involves:

- transforming any Section 179 Valuation results on to a Section 179 basis as at 31 March 2024, using version A10 of the valuation assumptions guidance;
- moving the assets and liabilities forward (or backwards) from the date of the Section 179 Valuation to 31 March 2024;
- adjusting the Section 179 Valuation so as to exclude any value attributed to an ABC Arrangement;
- adjusting the results to reflect smoothed market conditions, calculated by averaging market data over five years to 31 March 2024; and
- applying stress factors and submitted risk factor stress impacts to adjust the assets and liabilities to reflect their sensitivity to specified shocks in economic conditions.

A similar transformation (with the final step above omitted) is used to calculate smoothed but unstressed asset and liability values.

The formulae have been developed by the Board to transform valuation results which have been Submitted at the Measurement Time or otherwise provided to the Board in accordance with the Rules into valuation results as at 31 March 2024 (the "Output Date"), on:

- a smoothed and stressed Section 179 basis; and
- a smoothed but unstressed Section 179 basis.

For the purposes of this Appendix, "Input Date" is the effective date of the Section 179 Valuation of the Scheme as is used under Rule D2 of the Determination, or, in a case to which Parts F1-F3 of the Rules apply, of the relevant Post-Transfer Valuation.

This Appendix also covers the transformation of Contingent Asset valuations for the purpose of calculating the Levies in respect of the 2024/25 Levy Year.

## 1. Background

- 1.1 The most recent Section 179 Valuation Submitted as at the Measurement Time will be used, as described in this Appendix, to assess the Scheme's funding position on the smoothed and (where applicable) stressed Section 179 basis as at 31 March 2024.

- 1.2 The Section 179 Valuation results provided may have been prepared in accordance with a version of the valuation assumptions guidance other than version A10 (depending on the effective date of the Section 179 Valuation and the date on which it was certified) and this is taken into account in the transformation formulae. Where the Section 179 Valuation results have been prepared in accordance with different versions of the valuation methodology guidance (for example G9 compared to G10), the Board has decided that no allowance will be made in the transformation formulae to account for any change in methodology.
- 1.3 The transformation model only uses information about each Scheme as taken from Exchange together with data on investment market conditions.

## 2. Summary of the calculation

- 2.1 The formulae constitute a technical actuarial document which is intended to be read only by those with significant experience in carrying out actuarial calculations. For those with a broad interest in the conversion methodology, the main stages of the calculations are summarised below.
- 2.2 Transformation of the value of the protected liabilities on the Section 179 basis as at the Input Date to the value of the liabilities on the smoothed and stressed Section 179 basis as at the Output Date, using version A10 of the valuation assumptions guidance:
  - The Section 179 methodology prescribes an allowance for expenses. Where the liabilities excluding expenses are not explicitly identifiable (e.g. where, exceptionally, the Board has to use data taken from an old version of the Scheme Return) then removing this allowance is the first stage in transforming the liabilities.
  - The formulae then use figures for the proportions of liabilities that relate to service before 6 April 1997, between 6 April 1997 and 5 April 2009 (both dates inclusive) and after 5 April 2009 taken, where possible, from data Submitted as at the Measurement Time, to allow for differences in PPF compensation for service attributable to these respective periods. Where these figures have not been given, assumptions are made.
  - Ratios of annuity factors and deferred annuity factors are then used to convert the adjusted Section 179 liabilities to liabilities on smoothed and stressed Section 179 assumptions as at the Output Date, using version A10 of the valuation assumptions guidance.
- 2.3 Moving assets and the liabilities forward (or backwards) from the date of the Section 179 Valuation to the Output Date:
  - The physical assets (excluding derivatives and any value attributed to an ABC Arrangement) are assumed to achieve returns in line with certain smoothed indices, allowance being made for how much of the Scheme's assets are invested in equities, bonds etc. as Submitted as at the Measurement Time.

- Liabilities are increased (or decreased) at rates that are reasonably consistent with smoothed and stressed Section 179 assumptions, as the liabilities are now closer to (or further away from) coming into payment. As a consequence of smoothing market conditions over a five year period, the transformed asset value has an effective valuation date at the mid point of the averaging period. For consistency the liability value at the Output Date is moved forward (or backwards) to the same point.
- Neither assets nor liabilities are adjusted for benefit payments. Liabilities are not adjusted for new benefit accrual, nor are assets adjusted for contributions. The comparatively short period between the Section 179 Valuation effective date and the Output Date should mean that any inaccuracies arising from this are small. Separate certification of Deficit-Reduction Contributions should be considered where these may materially affect the result.

2.4 The expenses specified for Section 179 calculations are added to the liabilities to give the total liability value.

2.5 The smoothed physical asset values are multiplied by stress factors to reflect their sensitivity to specified shocks in economic conditions, e.g. interest rates and equity prices. The overall resulting figure is then increased or decreased to allow for any submitted risk factor stress impacts.

2.6 The unstressed values of assets and liabilities are calculated in a similar way to the smoothed and stressed values, but:

- without the application of the stress factors to the smoothed physical asset values;
- without allowance for any submitted risk factor stress impacts;
- converting the liabilities using annuity factors and deferred annuity factors which reflect smoothed but unstressed Section 179 assumptions as at the Output Date; and
- moving the liability value forward (or backwards) from the date of the Section 179 Valuation at rates that are reasonably consistent with smoothed but unstressed Section 179 assumptions.

### 3. Summary of outputs from and inputs to the formulae

#### 3.1 Outputs

Effective date of the asset and liability valuations required for output (31 March 2024)	OutputDate
• Smoothed and stressed asset value	S179Ass
• Smoothed and stressed total liabilities (including Section 179 expense allowance)	S179TL

### 3.2 Inputs

The Section 179 Valuation results Submitted as at the Measurement Time:

• Assets for Section 179 Valuation	S179InputAss
• Proportion of assets held in the form of insurance contracts not included in scheme accounts	S179InputInsPpn
• Date of relevant accounts giving asset figure	RelAcDate
• Effective date of the Section 179 valuation	S179InputDate
• Liabilities for pensions in payment, possibly including expenses	S179InputPL
• Liabilities for deferred members, possibly including expenses	S179InputDL
• Liabilities for active members, possibly including expenses	S179InputAL
• Estimated costs of wind-up (excluding benefit installation/payment)	S179InputWUExp
• Estimated expenses of benefit installation/payment	S179InputPayExp
• External liabilities	S179InputExLiab
• Total value of protected liabilities	S179InputTL
• Proportion of pensioner liabilities, excluding expenses, relating to service before 6 April 1997	S179InputPPre97Ppn
• Proportion of deferred pensioner liabilities, excluding expenses, relating to service before 6 April 1997	S179InputDPre97Ppn
• Proportion of deferred pensioner liabilities, excluding expenses, relating to service between 6 April 1997 and 5 April 2009	S179InputD97_09Ppn
• Proportion of active member liabilities, excluding expenses, relating to service before 6 April 1997	S179InputAPre97Ppn
• Proportion of active member liabilities, excluding expenses, relating to service between 6 April 1997 and 5 April 2009	S179InputA97_09Ppn
• Version number of Section 179 assumptions used for this valuation	S179InputAssVNo
• Total number of pensioner members	PMemNo
• Total number of deferred pensioner members	DMemNo
• Total number of active members	AMemNo
• Pensioner members – average age	PAvAge
• Deferred members – average age	DAvAge
• Active members – average age	AAvAge

Where membership numbers are not included in the Section 179 Valuation results Submitted as at the Measurement Time, the total membership number may be determined from a different source.

• Total membership number	TotMemNo
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The asset information to be provided will depend on the Scheme's Tier (as defined in Exchange). This will be either the Tier to which it has been allocated by virtue of its Supplied Liabilities (S179InputTL above), or such higher Tier which it has elected.

Tier 1

- Supplied Liabilities less than £30 million and the Scheme has not elected Tier 2 or Tier 3.

Tier 2

- Supplied Liabilities greater than or equal to £30 million and less than £1.5 billion and the Scheme has not elected Tier 3, or;
- Supplied Liabilities less than £30 million and the Scheme has elected Tier 2.

Tier 3

- Supplied Liabilities greater than or equal to £1.5 billion; or
- Supplied Liabilities less than £1.5 billion and the Scheme has elected Tier 3.

Scheme asset information Submitted as at the Measurement Time – percentages of the total assets as at the date of the most recently audited scheme accounts (referred to as "AssetDate" below). Note that this may be different from both the S179InputDate and the RelAcDate identified above. Generally, the value of assets at AssetDate is not Submitted, and it may be rather different from S179InputAss where, for instance, a bulk transfer has taken place.

Tier 1

• Bonds	Bo%
• Proportion of bonds which are fixed interest UK Government bonds	UKFI%
• Proportion of bonds which are fixed interest investment grade bonds other than UK Government bonds	IG%
• Proportion of bonds which are fixed interest sub-investment grade	SIG%
• Proportion of bonds which are inflation-linked UK Government bonds <sup>1</sup>	UKIL%
• Equities	Eq%
• Proportion of equities which are UK quoted equities	UK%
• Proportion of equities which are overseas quoted equities	OS%
• Proportion of equities which are unquoted equities/private equity	PE%
• Property	Pr%

<sup>1</sup> Inflation-linked UK Government bonds are categorised separately, with other inflation-linked bonds being allocated to their corresponding fixed interest sub-class.

• Diversified Growth Funds	DGF%
• Deferred or immediate fully insured annuities	An%
• Cash and net current assets	Ca%
• ABC Arrangement	ABC%
• Other	Ot%
• Date of asset breakdown	AssetDate

### Tiers 2 and 3

• Bonds	Bo%
• Proportion of bonds which are fixed interest UK Government bonds	UKFI%
○ Proportion of bonds which are fixed interest UK Government bonds of short maturity (less than 5 years)	UKFIS%
○ Proportion of bonds which are fixed interest UK Government bonds of medium maturity (5 to 15 years)	UKFIM%
○ Proportion of bonds which are fixed interest UK Government bonds of long maturity (over 15 years)	UKFIL%
• Proportion of bonds which are fixed interest UK investment grade quoted bonds (other than UK Government bonds)	IGUK%
○ Proportion of bonds which are fixed interest UK investment grade quoted bonds (other than UK Government bonds) and of short or medium maturity (less than 10 years)	IGUKSM%
○ Proportion of bonds which are fixed interest UK investment grade quoted bonds (other than UK Government bonds) and of long maturity (over 10 years)	IGUKL%
• Proportion of bonds which are fixed interest overseas investment grade quoted bonds	IGOS%
○ Proportion of bonds which are fixed interest overseas investment grade quoted bonds and of short or medium maturity (less than 10 years)	IGOSSM%
○ Proportion of bonds which are fixed interest overseas investment grade quoted bonds and of long maturity (over 10 years)	IGOSL%
• Proportion of bonds which are fixed interest quoted sub-investment grade	SIG%
• Proportion of bonds which are fixed interest private debt	PD%
• Proportion of bonds which are inflation-linked UK Government bonds <sup>1</sup>	UKIL%
○ Proportion of bonds which are inflation-linked UK Government bonds of short maturity (less than 5 years) <sup>1</sup>	UKILS%

○ Proportion of bonds which are inflation-linked UK Government bonds of medium maturity (5 to 15 years) <sup>1</sup>	UKILM%
○ Proportion of bonds which are inflation-linked UK Government bonds of long maturity (over 15 years) <sup>1</sup>	UKILL%
• Equities	Eq%
• Proportion of equities which are UK quoted equities	UK%
• Proportion of equities which are overseas developed market quoted equities	OSDM%
• Proportion of equities which are overseas emerging market quoted equities	OSEM%
• Proportion of equities which are unquoted equities/private equity	PE%
• Property	Pr%
• Diversified Growth Funds	DGF%
• Absolute Return Funds	ARF%
• Deferred or immediate fully insured annuities	An%
• Cash and net current assets	Ca%
• ABC Arrangement	ABC%
• Other	Ot%
• Date of asset breakdown	AssetDate

Scheme asset information Submitted as at the Measurement Time – risk factor stress impacts as at the date of the most recently audited scheme accounts (referred to as “AssetDate” above).

### Tier 3

	<b>Risk factor stress impact</b>	<b>Risk factor stress</b>
• UK equities	UKRFSI	-16%
• Overseas developed market equities	OSDMRFSI	-16%
• Overseas emerging market equities	OSEMRFSI	-16%
• Interest rate	IRRFSI	-74bps
• Inflation	InfRFSI	-11bps
• Credit	CrRFSI	+37bps

The risk factor stress impacts are to be determined in accordance with the relevant Exchange user-guide, including the application of the risk factor stresses as shown above.

For schemes with an ABC Arrangement, Part A of the Rules sets out the value of the ABC Arrangement that will be removed from the assets prior to calculating underfunding, the “s179 ABC Amount”. For the avoidance of doubt, where the Board is satisfied that no value has been attributed to an ABC Arrangement in the assets used for the Section 179 that is used under Rule D2 or, in a case to which Parts F1-F3 of the Rules apply, the relevant Post-Transfer Valuation (whether because the ABC Arrangement was entered into after the effective date of the relevant valuation or otherwise), the s179ABCAmount shall be zero.

• s179 ABC Amount, as defined in Part A of the Rules	s179ABCAmount
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Normal Pension Age data taken from the scheme return data:

• Normal Pension Age in respect of pre-6 April 1997 benefits	NPAPre97
• Normal Pension Age in respect of benefits accrued between 6 April 1997 and 5 April 2009	NPA97_09
• Normal Pension Age in respect of post-5 April 2009 benefits	NPAPost09

Where any of the information in this section 3 has not been provided or is not in the form that the Board requires or is inconsistent, the Board will need to make assumptions. Details of the assumptions that will be made in these circumstances are set out in section 5 of this document. Note also that average ages falling outside particular ranges will be subject to adjustment (see section 5 of this document for details).

## 4. The formulae

### 4.1 Smoothing

Asset and liability values are smoothed based on market conditions over a five year period up to the Output Date. This is achieved by smoothing the underlying yields that feed into the liability transformation and smoothing the indices that feed into the asset transformation.

Smoothed yields and indices as at the Output Date should be determined as the arithmetic mean of the end of day values for each day excluding weekends over the five year period ending on the last such day preceding or coincident with the Output Date.

Where no published yield or index is available for a particular day (for example Bank Holidays or indices published on a monthly basis), the most recent yield or index available on that day shall be used.

### 4.2 Stress factors

<b>Liability stress factors</b>		
Interest rate stress factor	IntStrFac	-0.74%
Inflation stress factor	InflnStrFac	-0.11%



The inflation stress factor above represents the difference between a real rate stress factor of -0.63% and a nominal rate stress factor of -0.74% (equivalent to the interest rate stress factor), producing a negative result of -0.11%.

<b>Asset stress factors - Tier 1</b>		
Fixed interest UK Government bonds	UKFIStrFac	+17%
Fixed interest investment grade bonds other than UK government bonds	IGStrFac	+3%
Fixed interest sub-investment grade bonds	SIGStrFac	-6%
Inflation-linked UK Government bonds	UKILStrFac	+16%
UK quoted equities	QEStrFac	-16%
Overseas quoted equities	QEStrFac	-16%
Unquoted equities / private equity	PEStrFac	-19%
Property	PrStrFac	-4%
Diversified Growth Funds	DGFStrFac	-10%
Annuities	AnStrFac	+16%
Cash	CaStrFac	+0%
Other	OtStrFac	-19%

<b>Asset stress factors - Tiers 2 and 3</b>		
Fixed interest UK Government bonds of short maturity (less than 5 years)	UKFISStrFac	+2%
Fixed interest UK Government bonds of medium maturity (5 to 15 years)	UKFIMStrFac	+6%
Fixed interest UK Government bonds of long maturity (over 15 years)	UKFILStrFac	+17%
Fixed interest UK investment grade quoted bonds (other than UK Government bonds) of short or medium maturity (less than 10 years)	IGUKSMStrFac	+2%
Fixed interest UK investment grade quoted bonds (other than UK Government bonds) of long maturity (over 10 years)	IGUKLStrFac	+5%
Fixed interest overseas investment grade quoted bonds of short or medium maturity (less than 10 years)	IGOSSMStrFac	+1%

Fixed interest overseas investment grade quoted bonds of long maturity (over 10 years)	IGOSLStrFac	+4%
Fixed interest quoted sub-investment grade bonds	SIGStrFac	-6%
Fixed interest private debt	PDStrFac	-9%
Inflation-linked UK Government bonds of short maturity (less than 5 years)	UKILSStrFac	+1%
Inflation-linked UK Government bonds of medium maturity (5 to 15 years)	UKILMStrFac	+6%
Inflation-linked UK Government bonds of long maturity (over 15 years)	UKILLStrFac	+20%
UK quoted equities	QEStrFac	-16%
Overseas developed market quoted equities	QEStrFac	-16%
Overseas emerging market quoted equities	QEStrFac	-16%
Unquoted equities/private equity	PEStrFac	-19%
Property	PrStrFac	-4%
Diversified Growth Funds	DGFStrFac	-10%
Absolute Return Funds	ARFStrFac	-5%
Deferred or immediate fully insured annuities	AnStrFac	+16%
Cash and net current assets	CaStrFac	0%
Other	OtStrFac	-19%

4.3 Transformation of liabilities on the Section 179 basis on assumptions as at the Input Date to the smoothed and stressed Section 179 basis as at the Output Date

**4.3.1. Strip out any expense allowance from liability figures for each class of membership if necessary**

If  $S179InputWUExp + S179InputPayExp > 0$

or  $S179InputAssVNo=V1$  and  
 $S179InputTL > S179InputPL + S179InputDL + S179InputAL$

then the input liabilities should not contain expenses so

$S179InputPLNoExp = S179InputPL$

$S179InputDLNoExp = S179InputDL$

$S179InputALNoExp = S179InputAL$

Otherwise

If S179InputAssVNo = A11

Then

$S179InputPLNoPayExp = \max(S179InputPL - £550 \times PMemNo, 0)$

$S179InputDLNoPayExp = \max(S179InputDL - £750 \times DMemNo, 0)$

$S179InputALNoPayExp = \max(S179InputAL - £750 \times AMemNo, 0)$

If S179InputAssVNo = A10

Then

$S179InputPLNoPayExp = \max(S179InputPL - £600 \times PMemNo, 0)$

$S179InputDLNoPayExp = \max(S179InputDL - £950 \times DMemNo, 0)$

$S179InputALNoPayExp = \max(S179InputAL - £950 \times AMemNo, 0)$

If S179InputAssVNo = A7, A8 or A9

Then

$S179InputPLNoPayExp = \max(S179InputPL - £700 \times PMemNo, 0)$

$S179InputDLNoPayExp = \max(S179InputDL - £1,000 \times DMemNo, 0)$

$S179InputALNoPayExp = \max(S179InputAL - £1,000 \times AMemNo, 0)$

If S179InputAssVNo = V1, V2, A3, A4, A5 or A6

Then

$S179InputPLNoPayExp = \max(S179InputPL - £350 \times PMemNo, 0)$

$S179InputDLNoPayExp = \max(S179InputDL - £500 \times DMemNo, 0)$

$S179InputALNoPayExp = \max(S179InputAL - £500 \times AMemNo, 0)$

and for all S179InputAssVNo,

$S179InputTLNoPayExp = S179InputPLNoPayExp$

$+ S179InputDLNoPayExp + S179InputALNoPayExp$

If S179InputAssVNo = A11

$S179InputPLNoExp = S179InputPLNoPayExp / (1 + S179InputExp\%)$

$S179InputDLNoExp = S179InputDLNoPayExp / (1 + S179InputExp\%)$

$S179InputALNoExp = S179InputALNoPayExp / (1 + S179InputExp\%)$

where

If  $S179InputTLNoPayExp < \text{£}4.2$  million, then

$$(1 + S179InputExp\%) = 1.05$$

If  $\text{£}4.2$  million  $\leq S179InputTLNoPayExp < \text{£}20.44$  million, then

$$(1 + S179InputExp\%) = (1.015 \times S179InputTLNoPayExp) / (S179InputTLNoPayExp - \text{£}0.14 \text{ million})$$

If  $\text{£}20.44$  million  $\leq S179InputTLNoPayExp < \text{£}343$  million, then

$$(1 + S179InputExp\%) = (1.008 \times S179InputTLNoPayExp) / (S179InputTLNoPayExp - \text{£}0.28 \text{ million})$$

If  $S179InputTLNoPayExp \geq \text{£}343$  million, then

$$(1 + S179InputExp\%) = 1 + [\text{£}3 \text{ million} / (S179InputTLNoPayExp - \text{£}3 \text{ million})]$$

If  $S179InputAssVNo = A10$

$$S179InputPLNoExp = S179InputPLNoPayExp / (1 + S179InputExp\%)$$

$$S179InputDLNoExp = S179InputDLNoPayExp / (1 + S179InputExp\%)$$

$$S179InputALNoExp = S179InputALNoPayExp / (1 + S179InputExp\%)$$

where

If  $S179InputTLNoPayExp < \text{£}5.2$  million, then

$$(1 + S179InputExp\%) = 1.04$$

If  $\text{£}5.2$  million  $\leq S179InputTLNoPayExp < \text{£}25.4$  million, then

$$(1 + S179InputExp\%) = (1.01 \times S179InputTLNoPayExp) / (S179InputTLNoPayExp - \text{£}0.15 \text{ million})$$

If  $\text{£}25.4$  million  $\leq S179InputTLNoPayExp < \text{£}548$  million, then

$$(1 + S179InputExp\%) = (1.005 \times S179InputTLNoPayExp) / (S179InputTLNoPayExp - \text{£}0.275 \text{ million})$$

If S179InputTLNoPayExp >= £548million, then

$$(1 + S179InputExp\%) = 1 + [\text{£3 million}/(S179InputTLNoPayExp - \text{£3 million})]$$

If S179InputAssVNo = V1, V2, A3, A4, A5, A6, A7, A8 or A9

$$S179InputPLNoExp = S179InputPLNoPayExp / (1 + S179InputExp\%)$$

$$S179InputDLNoExp = S179InputDLNoPayExp / (1 + S179InputExp\%)$$

$$S179InputALNoExp = S179InputALNoPayExp / (1 + S179InputExp\%)$$

where

If S179InputTLNoPayExp < £51.5 million, then

$$(1 + S179InputExp\%) = 1.03$$

If £51.5 million =< S179InputTLNoPayExp < £102.5 million, then

$$(1 + S179InputExp\%) = (1.02 \times S179InputTLNoPayExp) / (S179InputTLNoPayExp - \text{£0.5 million})$$

If S179InputTLNoPayExp >= £102.5 million, then

$$(1 + S179InputExp\%) = (1.01 \times S179InputTLNoPayExp) / (S179InputTLNoPayExp - \text{£1.5 million})$$

#### **4.3.2 Divide the liabilities between those accrued before April 1997, between April 1997 and April 2009, and after April 2009 (different indexation and revaluation)**

$$S179InputPLPre97 = S179InputPLNoExp \times S179InputPPre97Ppn$$

$$S179InputPLPost97 = S179InputPLNoExp \times (1 - S179InputPPre97Ppn)$$

$$S179InputDLPre97 = S179InputDLNoExp \times S179InputDPre97Ppn$$

$$S179InputDL97_09 = S179InputDLNoExp \times S179InputD97_09Ppn$$

$$S179InputDLPost09 = S179InputDLNoExp \times (1 - S179InputDPre97Ppn - S179InputD97_09Ppn)$$

$$S179InputALPre97 = S179InputALNoExp \times S179InputAPre97Ppn$$

$$S179InputAL97_09 = S179InputALNoExp \times S179InputA97_09Ppn$$

$$S179InputALPost09 = S179InputALNoExp \times (1 - S179InputAPre97Ppn - S179InputA97_09Ppn)$$

Details of the assumptions made where S179InputPPre97Ppn, S179InputDPre97Ppn, S179InputD97\_09Ppn, S179InputAPre97Ppn or S179InputA97\_09Ppn have not been provided (or are not in the form required by the Board) are set out in section 5 of this document.

#### **4.3.3 Convert from Section 179 assumptions as at S179InputDate to smoothed and stressed Section 179 assumptions as at OutputDate**

The financial and demographic assumptions as at OutputDate (31 March 2024) should be based on Section 179 assumptions version A10.

##### **Annuities used for conversion**

###### *General assumptions for annuity factors*

The following section specifies the calculation of mortality, discount rates and other parameters, depending on whether the valuation at S179InputDate was prepared under assumptions guidance V1, V2, A3, A4, A5, A6, A7, A8, A9, A10 or A11. If the valuation at S179InputDate was prepared under assumptions guidance other than V1, V2, A3, A4, A5, A6, A7, A8, A9, A10 or A11 (for example on future versions of guidance), use assumptions that are consistent with the relevant guidance in force at that date.

- At S179InputDate where the valuation was prepared using assumptions guidance version V1, V2 or A3, Mortality: PA92 with medium cohort improvements from 1992. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate.
- At S179InputDate where the valuation was prepared using assumptions guidance version A4, Mortality: PCMA00 (for males) and PCFA00 (for females), as appropriate, in each case with medium cohort improvement rates, and with a 1% floor to the annual improvements, both applying from 2000. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate.
- At S179InputDate where the valuation was prepared using assumptions guidance version A5, Mortality: PCMA00 (for males) and PCFA00 (for females), as appropriate, in each case with medium cohort improvement rates, and with a 1.25% floor (for males) and a 1% floor (for females) to the annual improvements, all applying from the year 2000. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate.
- At S179InputDate where the valuation was prepared using assumptions guidance version A6, Mortality: PCMA00 (for males) and PCFA00 (for females), as appropriate, in each case with medium cohort improvement rates, and with a 1.5% floor (for males) and a 1% floor (for females) to the annual improvements, all applying from the year 2000. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate.
- At S179InputDate where the valuation was prepared using assumptions guidance version A7, Mortality: S1PMA (for males) and S1PFA (for females), as appropriate, in each case adjusted to apply a factor of 0.9 to the  $q_x$ s, with future changes in line with CMI\_2012\_M [1.50 per cent] (for males) and CMI\_2012\_F [1.00 per cent] (for females), all applying from the year 2002. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate.

- At S179InputDate where the valuation was prepared using assumptions guidance version A8, Mortality: S2PMA (for males) and S2PFA (for females), as appropriate, with future changes in line with CMI\_2014\_M [1.50 per cent] (for males) and CMI\_2014\_F [1.25 per cent] (for females), all applying from the year 2007. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate.
- At S179InputDate where the valuation was prepared using assumptions guidance version A9, Mortality: S2PMA (for males) and S2PFA (for females), as appropriate, with future changes in line with CMI\_2016\_M [1.50 per cent] (for males) and CMI\_2016\_F [1.25 per cent] (for females) together with a smoothing parameter of 7.5, all applying from the year 2007. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate.
- At S179InputDate where the valuation was prepared using assumptions guidance version A10 and at Output Date, Mortality: S3PMA (for males) and S3DFA (for females) as appropriate, with future changes in line with CMI\_2019\_M [1.50 per cent] (for males) and CMI\_2019\_F [1.25 per cent] (for females) together with a smoothing parameter of 7.5, all applying from the year 2013. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate (substitute OutputDate for S179InputDate to obtain year of use/retirement applicable to annuities at OutputDate).
- At S179InputDate where the valuation was prepared using assumptions guidance version A11, Mortality: S3PMA (for males) and S3DFA (for females) as appropriate, with future changes in line with CMI\_2021\_M [1.50 per cent] (for males) and CMI\_2021\_F [1.25 per cent] (for females) together with an initial adjustment to improvements of 0.25 per cent per annum and a ten per cent weighting to the 2020 and 2021 mortality experience, all applying from the year 2013. The 'year of use/retirement' to adopt is described in the following table for annuities at S179InputDate).

<b>Annuity</b>	<b>Year of Use<sup>2</sup></b>
annuityfactorpre97	S179InputDate
annuityfactorpost97	S179InputDate

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<sup>2</sup> Past mortality improvements are applied for the number of years obtained by deducting the calendar year corresponding to the effective date of the base mortality table from the calendar year of S179InputDate (or OutputDate as appropriate). For example, if S179InputDate/OutputDate is 31 March 2024 (and so assumptions guidance version A11 applies to the input s179 valuation and assumptions guidance version A10 to the output), the annuity will take account of 11 years (2024 – 2013) of past mortality improvements.

<b>Deferred Annuity</b>	<b>Year of Retirement<sup>2,3</sup></b>
defannuityfactorpre97def	$S179InputDate + NPAPre97 - DAvAge$
defannuityfactor97_09def	$S179InputDate + NPA97_09 - DAvAge$
/defannuityfactorpost09def	$S179InputDate + NPAPost09 - DAvAge$
defannuityfactorpre97act	$S179InputDate + NPAPre97 - AAvAge$
defannuityfactor97_09act	$S179InputDate + NPA97_09 - AAvAge$
defannuityfactorpost09act	$S179InputDate + NPAPost09 - AAvAge$

- Age: PAvAge, DAvAge or AAvAge (as appropriate)<sup>4</sup> - where DAvAge or AAvAge > NPAPre97, NPA97\_09 or NPAPost09 as appropriate, an immediate annuity is used in place of a deferred annuity
- Sex: male
- Spouse's proportion: 50%
- Proportion married<sup>5</sup>:
  - where S179InputAssVNo = V1, V2, A3 or A4, 80%
  - where S179InputAssVNo = A5, A6, A7, A8, A9, A10 or A11 and at Output Date, 75%.
- Wife three years younger than member
- No allowance for pre-retirement mortality
- Normal pension age: NPAPre97, NPA97\_09 or NPAPost09 as appropriate
- No guarantee period for annuities

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<sup>3</sup> Mortality improvements are assumed to apply in deferment from S179InputDate (or OutputDate as appropriate). For example, if DAvAge is 53 and the relevant NPA is 63 and S179InputDate/OutputDate is 31 March 2024 (and so the assumed year of retirement is 2034) the deferred annuity will take account of mortality improvements up to 2034 in deferment, and thereafter take account of mortality improvements from 2034 in payment.

<sup>4</sup> Details of the assumptions made where average ages have not been provided by schemes are set out in section 5 of this document.

<sup>5</sup> For the avoidance of doubt, the specified proportions are assumed to apply at the effective date of each annuity and deferred annuity. By implication, this means that immediate annuities do not incorporate any allowance for spouse's mortality over the period since the member's NPA.



### *Discount rate – pre retirement*

The annuity factors applicable to non-pensioners are those prefixed by 'def'. The pre-retirement discount rate is derived as follows:

- defannuityfactorpre97def, defannuityfactor97\_09def, defannuityfactorpre97act, defannuityfactor97\_09act:
  - Where S179InputAssVNo = V1 or V2, Yield A(i) as at S179InputDate, less 0.5%
  - Where S179InputAssVNo = A3, Yield A(i) as at S179InputDate, less 0.7%
  - Where S179InputAssVNo = A4, Yield A(i) as at S179InputDate, less 0.4%
  - Where S179InputAssVNo = A5, A6 or A7, Yield A(i) as at S179InputDate, less 0.3%
  - Where S179InputAssVNo = A8, Yield A(ii) as at S179InputDate
  - Where S179InputAssVNo = A9, A10 or A11, Yield A(ii) as at S179InputDate, plus 0.2%
  - At OutputDate, Smoothed Yield A(ii) as at OutputDate, plus 0.2% plus IntStrFac, less InflnStrFac.

Yield A(i) should be determined as 50% of the sum of the annualised real yields on the FTSE UK Gilts Index-Linked over 15 years indices assuming 0% and 5% inflation.

Yield A(ii) should be determined as 50% of the sum of the annualised real yields on the FTSE UK Gilts Index-Linked 5 to 15 years indices assuming 0% and 5% inflation.

Smoothed Yield A(ii) should be determined as the five-year average of the daily values of Yield A(ii) in line with subsection 4.1 above.

- defannuityfactorpost09def, defannuityfactorpost09act:
  - Where S179InputAssVNo = V1 or V2, Yield A(i) as at S179InputDate, less 0.5%
  - Where S179InputAssVNo = A3, Yield A(i) as at S179InputDate, less 0.7%
  - Where S179InputAssVNo = A4, Yield A(i) as at S179InputDate, less 0.4%
  - Where S179InputAssVNo = A5 or A6, the maximum of:
    - Yield A(i) as at S179InputDate, less 0.3%: and
    - Yield B(i) as at S179InputDate, less 2.6%.
  - Where S179InputAssVNo = A7, the maximum of:
    - Yield A(i) as at S179InputDate, less 0.3%: and
    - Yield B(i) as at S179InputDate, less 2.2%.
  - Where S179InputAssVNo = A8, the maximum of:
    - Yield A(ii) as at S179InputDate: and
    - Yield B(ii) as at S179InputDate, less 2.5%.
  - Where S179InputAssVNo = A9 or A10, the maximum of:
    - Yield A(ii) as at S179InputDate, plus 0.2%: and
    - Yield B(ii) as at S179InputDate, less 2.5%.

- Where S179InputAssVNo = A11, the maximum of:
  - Yield A(ii) as at S179InputDate, plus 0.2%: and
  - Yield B(iii) as at S179InputDate, less 2.5%.
- At OutputDate, the maximum of:
  - Smoothed Yield A(ii) as at OutputDate, plus 0.2% plus IntStrFac less InfnStrFac: and
  - Smoothed Yield B(ii) as at OutputDate, less 2.5% plus IntStrFac.

Yield B(i) should be determined as the annualised yield on the FTSE UK Gilts 20 years Fixed Interest index.

Yield B(ii) should be determined as the annualised yield on the FTSE UK Gilts 15 years Fixed Interest index.

Yield B(iii) should be determined as the annualised yield on the FTSE UK Gilts 10 years Fixed Interest index.

Smoothed Yield B(ii) should be determined as the five-year average of the daily values of Yield B(ii) in line with subsection 4.1 above.

Since there is no allowance for mortality before retirement, generally  $\text{defannuityfactor}(t) = (1 / (1 + i)^t) \times \text{annuityfactor}(t)$ , where t is the period to retirement (taken as normal pension age less DAvAge or AAvAge as appropriate) and i is the relevant pre retirement discount rate.

#### *Discount rate – post retirement*

The post-retirement discount rate should be derived as follows:

- $\text{defannuityfactorpre97def}$  and  $\text{defannuityfactorpre97act}$ :
  - Where S179InputAssVNo = V1 or V2 or A3, Yield C(i) as at S179InputDate
  - Where S179InputAssVNo = A4, Yield C(i) as at S179InputDate, plus 0.3%
  - Where S179InputAssVNo = A5, Yield C(ii) as at S179InputDate, plus 0.6%
  - Where S179InputAssVNo = A6, Yield C(ii) as at S179InputDate, plus 0.4%
  - Where S179InputAssVNo = A7, Yield C(ii) as at S179InputDate, less 0.1%
  - Where S179InputAssVNo = A8, Yield C(iii) as at S179InputDate, less 0.4%
  - Where S179InputAssVNo = A9 or A10, Yield C(iii) as at S179InputDate, less 0.2% and where S179InputAssVNo = A11, Yield C(iii) as at S179InputDate<sup>6</sup>
  - At OutputDate, Smoothed Yield C(iii) as at OutputDate, less 0.2%, plus IntStrFac
- $\text{annuityfactorpre97}$ :
  - Where S179InputAssVNo = V1 or V2 or A3, Yield C(i) as at S179InputDate
  - Where S179InputAssVNo = A4, Yield C(i) as at S179InputDate, plus 0.3%
  - Where S179InputAssVNo = A5, Yield C(ii) as at S179InputDate, plus 0.6%

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<sup>6</sup> The levy rules published on 14 December 2023 contained an error which has since been corrected.

- Where S179InputAssVNo = A6, Yield C(ii) as at S179InputDate, plus 0.4%
- Where S179InputAssVNo = A7, Yield C(ii) as at S179InputDate, less 0.1%
- Where S179InputAssVNo = A8 or A9 or A10, Yield C(i) as at S179InputDate, plus 0.3%
- Where S179InputAssVNo = A11, Yield C(ii) as at S179InputDate, plus 0.4%.
- At OutputDate, Smoothed Yield C(i) as at OutputDate, plus 0.3%, plus IntStrFac

Yield C(i) should be determined as the annualised yield on the FTSE UK Gilts 10 years Fixed Interest index.

Yield C(ii) should be determined as the annualised yield on the FTSE UK Gilts 15 years Fixed Interest index.

Yield C(iii) should be determined as the annualised yield on the FTSE UK Gilts 20 years Fixed Interest index.

Smoothed Yield C(i) should be determined as the five-year average of the daily values of Yield C(i) in line with subsection 4.1 above.

Smoothed Yield C(iii) should be determined as the five-year average of the daily values of Yield C(iii) in line with subsection 4.1 above.

- defannuityfactor97\_09def, defannuityfactorpost09def, defannuityfactor97\_09act, defannuityfactorpost09act:
  - Where S179InputAssVNo = V1 or V2, Yield D(i) as at S179InputDate, less 0.5%
  - Where S179InputAssVNo = A3, the maximum of:
    - Yield D(i) as at S179InputDate, less 0.5%; and
    - Yield C(i) as at S179InputDate, less 2.5%.
  - Where S179InputAssVNo = A4, the maximum of:
    - Yield D(i) as at S179InputDate, less 0.2%; and
    - Yield C(i) as at S179InputDate, less 2.2%.
  - Where S179InputAssVNo = A5, the maximum of:
    - Yield D(i) as at S179InputDate, plus 0.1%; and
    - Yield C(ii) as at S179InputDate, less 1.9%.
  - Where S179InputAssVNo = A6, the maximum of:
    - Yield D(i) as at S179InputDate, plus 0.1%; and
    - Yield C(ii) as at S179InputDate, less 2.1%.
  - Where S179InputAssVNo = A7, the maximum of:
    - Yield D(i) as at S179InputDate, plus 0.1%; and
    - Yield C(ii) as at S179InputDate, less 2.2%.

- Where S179InputAssVNo = A8, the maximum of:
  - Yield D(i) as at S179InputDate, plus 0.2%; and
  - Yield C(iii) as at S179InputDate, less 2.6%.
- Where S179InputAssVNo = A9, the maximum of:
  - Yield D(i) as at S179InputDate, plus 0.4%; and
  - Yield C(iii) as at S179InputDate, less 2.6%.
- Where S179InputAssVNo = A10, the maximum of:
  - Yield D(i) as at S179InputDate, plus 0.7%; and
  - Yield C(iii) as at S179InputDate, less 2.5%.
- Where S179InputAssVNo = A11, the maximum of:
  - Yield D(i) as at S179InputDate, plus 0.1%; and
  - Yield C(iii) as at S179InputDate, less 2.3%.
- At OutputDate, the maximum of:
  - Smoothed Yield D(i) as at OutputDate, plus 0.7% plus IntStrFac less InflnStrFac; and
  - Smoothed Yield C(iii) as at OutputDate, less 2.5% plus IntStrFac.
- annuityfactorpost97:
  - Where S179InputAssVNo = V1 or V2, Yield D(i) as at S179InputDate, less 0.5%
  - Where S179InputAssVNo = A3, the maximum of:
    - Yield D(i) as at S179InputDate, less 0.5%; and
    - Yield C(i) as at S179InputDate, less 2.5%.
  - Where S179InputAssVNo = A4, the maximum of:
    - Yield D(i) as at S179InputDate, less 0.2%; and
    - Yield C(i) as at S179InputDate, less 2.2%.
  - Where S179InputAssVNo = A5, the maximum of:
    - Yield D(i) as at S179InputDate, plus 0.1%; and
    - Yield C(ii) as at S179InputDate, less 1.9%.
  - Where S179InputAssVNo = A6, the maximum of:
    - Yield D(i) as at S179InputDate, plus 0.1%; and
    - Yield C(ii) as at S179InputDate, less 2.1%.
  - Where S179InputAssVNo = A7, the maximum of:
    - Yield D(i) as at S179InputDate, plus 0.1%; and
    - Yield C(ii) as at S179InputDate, less 2.2%.

- Where S179InputAssVNo = A8, the maximum of:
  - Yield D(ii) as at S179InputDate, plus 0.9%; and
  - Yield C(i) as at S179InputDate, less 1.6%.
- Where S179InputAssVNo = A9, the maximum of:
  - Yield D(ii) as at S179InputDate, plus 1.1%; and
  - Yield C(i) as at S179InputDate, less 1.5%.
- Where S179InputAssVNo = A10, the maximum of:
  - Yield D(ii) as at S179InputDate, plus 1.2%; and
  - Yield C(i) as at S179InputDate, less 1.9%.
- Where S179InputAssVNo = A11, the maximum of:
  - Yield D(ii) as at S179InputDate, plus 0.6%; and
  - Yield C(ii) as at S179InputDate, less 1.8%.
- At OutputDate, the maximum of:
  - Smoothed Yield D(ii) as at OutputDate, plus 1.2% plus IntStrFac less InflnStrFac; and
  - Smoothed Yield C(i) as at OutputDate, less 1.9% plus IntStrFac.

Yield D(i) should be determined as 50% of the sum of the annualised real yields on the FTSE UK Gilts Index-Linked over 5 years indices assuming 0% and 5% inflation.

Yield D(ii) should be determined as 50% of the sum of the annualised real yields on the FTSE UK Gilts Index-Linked 5 to 15 years indices assuming 0% and 5% inflation.

Smoothed Yield D(i) should be determined as the five-year average of the daily values of Yield D(i) in line with subsection 4.1 above.

Smoothed Yield D(ii) should be determined as the five-year average of the daily values of Yield D(ii) in line with subsection 4.1 above.

In the formulae below, S179rate@OutputDate and S179rate@S179InputDate refer respectively to the smoothed and stressed S179 basis applicable at Output Date and the unsmoothed, unstressed S179 basis applicable at S179Input Date, determined in accordance with the subsections above.

### **Pensioner liabilities**

S179PLPre97@S179InputDate

$$= S179InputPLPre97 \times \frac{\text{annuityfactorpre97}(S179rate@OutputDate)}{\text{annuityfactorpre97}(S179rate@S179InputDate)}$$

S179PLPost97@S179InputDate

$$= S179InputPLPost97 \times \frac{\text{annuityfactorpost97}(S179rate@OutputDate)}{\text{annuityfactorpost97}(S179rate@S179InputDate)}$$

## Non-pensioner liabilities

S179DLPre97@S179InputDate

$$= S179InputDLPre97 \times \frac{\text{defannuityfactorpre97def}(S179rate@OutputDate)}{\text{defannuityfactorpre97def}(S179rate@S179InputDate)}$$

S179DL97\_09@S179InputDate

$$= S179InputDL97_09 \times \frac{\text{defannuityfactor97_09def}(S179rate@OutputDate)}{\text{defannuityfactor97_09def}(S179rate@S179InputDate)}$$

S179DLPost09@S179InputDate

$$= S179InputDLPost09 \times \frac{\text{defannuityfactorpost09def}(S179rate@OutputDate)}{\text{defannuityfactorpost09def}(S179rate@S179InputDate)}$$

S179ALPre97@S179InputDate

$$= S179InputALPre97 \times \frac{\text{defannuityfactorpre97act}(S179rate@OutputDate)}{\text{defannuityfactorpre97act}(S179rate@S179InputDate)}$$

S179AL97\_09@S179InputDate

$$= S179InputAL97_09 \times \frac{\text{defannuityfactor97_09act}(S179rate@OutputDate)}{\text{defannuityfactor97_09act}(S179rate@S179InputDate)}$$

S179ALPost09@S179InputDate

$$= S179InputALPost09 \times \frac{\text{defannuityfactorpost09act}(S179rate@OutputDate)}{\text{defannuityfactorpost09act}(S179rate@S179InputDate)}$$

## 4.4 Transforming the smoothed and stressed liabilities and external liabilities from S179InputDate to OutputDate, and transforming the assets from RelAcDate to OutputDate with allowance for smoothing

### 4.4.1 Liabilities

S179PLPre97@OutputDate

$$= S179PLPre97@S179InputDate \times (1 + i)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

S179PLPost97@OutputDate

$$= S179PLPost97@S179InputDate \times (1 + i)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

S179DLPre97@OutputDate

$$= S179DLPre97@S179InputDate \times (1 + j)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

$$S179DL97\_09@OutputDate = S179DL97\_09@S179InputDate \times (1 + j)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

$$S179DLPost09@OutputDate = S179DLPost09@S179InputDate \times (1 + j)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

$$S179ALPre97@OutputDate = S179ALPre97@S179InputDate \times (1 + j)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

$$S179AL97\_09@OutputDate = S179AL97\_09@S179InputDate \times (1 + j)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

$$S179ALPost09@OutputDate = S179ALPost09@S179InputDate \times (1 + j)^{(OutputDate - S179InputDate) - 2.5 \text{ years}}$$

The time period  $OutputDate - S179InputDate$  is measured in years and fractions of years.

$i$  = Smoothed Yield  $C(i)$  as at  $OutputDate$ , plus  $IntStrFac$ .

$j$  = Smoothed Yield  $C(iii)$  as at  $OutputDate$ , plus  $IntStrFac$ .

$$S179PL = S179PLPre97@OutputDate + S179PLPost97@OutputDate$$

$$S179DL = S179DLPre97@OutputDate + S179DL97\_09@OutputDate + S179DLPost09@OutputDate$$

$$S179AL = S179ALPre97@OutputDate + S179AL97\_09@OutputDate + S179ALPost09@OutputDate$$

#### 4.4.2 External liabilities and ABC Arrangements

Prior to the 2010/11 Levy Year it was the case that, depending on the source of the Section 179 Valuation data and the version of the guidance under which the valuation was prepared, external liabilities ( $S179InputExLiab$ ) were either included in the total liabilities ( $S179InputTL$ ) or deducted from the assets ( $S179InputAss$ ). In November 2008 Exchange was upgraded to require all Schemes to enter the information with the external liabilities included in the field  $S179InputTL$  and not to deduct it from the  $S179InputAss$  field. It should therefore be the case that the condition below will always be true.

The calculation below is also designed to exclude any value attributed in the Section 179 Valuation to an ABC Arrangement.

$$\text{If } S179InputTL = S179InputPL + S179InputDL + S179InputAL + S179InputWUExp + S179InputPayExp + S179InputExLiab$$

Then

$$S179ExLiab = S179InputExLiab$$

$$AdjS179InputAss = S179InputAss - s179ABCAmount$$

Otherwise

$$S179ExLiab = S179InputExLiab$$

$$AdjS179InputAss = S179InputAss + S179InputExLiab - s179ABCAmount$$

#### 4.4.3 Assets

##### Tier 1

Where:  $(UKFI\% + IG\% + SIG\% + UKIL\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(UK\% + OS\% + PE\% \neq 100\%)$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(Bo\% + Eq\% + Pr\% + DGF\% + An\% + Ca\% + ABC\% + Ot\% \neq 100\%)$  the values will then be adjusted using the approach set out in section 5 of this document.

##### Tiers 2 and 3

Where:  $(UKFIS\% + UKFIM\% + UKFIL\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(IGUKSM\% + IGUKL\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(IGOSSM\% + IGOSL\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(UKILS\% + UKILM\% + UKILL\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(UKFI\% + IGUK\% + IGOS\% + SIG\% + PD\% + UKIL\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(UK\% + OSDM\% + OSEM\% + PE\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where:  $(Bo\% + Eq\% + Pr\% + DGF\% + ARF\% + An\% + Ca\% + ABC\% + Ot\%) \neq 100\%$  the values will then be adjusted using the approach set out in section 5 of this document.

Where a scheme subject to the requirements of Tier 2 or Tier 3 by virtue of its Supplied Liabilities has provided asset allocation percentages under the requirements of Tier 1, the approach set out in section 5 of this document will apply.

For all Tiers, the asset splits will then be adjusted to exclude any proportion in relation to an ABC Arrangement and the remaining asset classes will then be scaled up to 100% as follows.

$$Bo\%Adj = Bo\% / (1 - ABC\%)$$

$$Eq\%Adj = Eq\% / (1 - ABC\%)$$

$$Pr\%Adj = Pr\% / (1 - ABC\%)$$

$$DGF\%Adj = DGF\% / (1 - ABC\%)$$



$$\text{ARF}\% \text{Adj} = \text{ARF}\% / (1 - \text{ABC}\%)$$

$$\text{An}\% \text{Adj} = \text{An}\% / (1 - \text{ABC}\%)$$

$$\text{Ca}\% \text{Adj} = \text{Ca}\% / (1 - \text{ABC}\%)$$

$$\text{Ot}\% \text{Adj} = \text{Ot}\% / (1 - \text{ABC}\%)$$

Since the value of assets used in the Section 179 Valuation may have been adjusted to include the value of assets held in the form of insurance contracts not included in Scheme accounts, the allocation between the different asset classes may need to be adjusted to take account of this adjustment. This is allowed for, where appropriate, by multiplying each asset class (excluding any value attributed to an ABC Arrangement using the scaling up calculation above) through by  $(100\% - \text{S179InputInsPpnAdj})$  and then adding  $\text{S179InputInsPpnAdj}$  to the resulting proportion for the Annuities class.

For scheme accounting years commencing on or after 1 January 2015, the contracts underlying  $\text{S179InputInsPpn}$  will be included in the accounts and will therefore also be in the asset breakdown at  $\text{AssetDate}$  (typically within  $\text{An}\%$ ). In these cases, if the accounts underlying the Section 179 Valuation relate to a scheme accounting year commencing before 1 January 2015, then the adjustments described in the above paragraph are not appropriate due to the potential for inconsistent treatment of annuity contracts between the asset value in the Section 179 Valuation and the asset breakdown at  $\text{AssetDate}$ .

This potential for inconsistent treatment is addressed by setting  $\text{S179InputInsPpnAdj}$  to zero when the accounting period corresponding to  $\text{AssetDate}$  commenced on or after 1 January 2015 and  $\text{RelAcDate}$  is before 31 December 2015.

If  $\text{AssetDate}$  is on or after 31 December 2015 and  $\text{RelAcDate}$  is before 31 December 2015 and the Board has not received evidence that the accounting period corresponding to  $\text{AssetDate}$  commenced before 1 January 2015:

$$\text{S179InputInsPpnAdj} = 0$$

Else

$$\text{S179InputInsPpnAdj} = \text{S179InputInsPpn} \times \text{S179InputAss} / (\text{S179InputAss} - \text{s179ABCAmount})$$

Then roll forward to the Output Date, reflecting smoothed returns likely to be earned or to have been earned on schemes' actual assets using, as far as possible, published information about returns on assets in different classes.

First work out the asset values at  $\text{RelAcDate}$  for each asset class.

If  $\text{AssetDate} = \text{RelAcDate}$ :

#### Tier 1

$$\text{UKFI@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo}\% \text{Adj} \times \text{UKFI}\% \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{IG@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo}\% \text{Adj} \times \text{IG}\% \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{SIG@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo}\% \text{Adj} \times \text{SIG}\% \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{UKIL@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo}\% \text{Adj} \times \text{UKIL}\% \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{UK@RelAcDate} = \text{AdjS179InputAss} \times \text{Eq}\% \text{Adj} \times \text{UK}\% \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{OS@RelAcDate} = \text{AdjS179InputAss} \times \text{Eq}\% \text{Adj} \times \text{OS}\% \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{PE@RelAcDate} = \text{AdjS179InputAss} \times \text{Eq}\% \text{Adj} \times \text{PE}\% \times (100\% - \text{S179InputInsPpnAdj})$$

$$\begin{aligned} \text{Prop@RelAcDate} &= \text{AdjS179InputAss} \times \text{Pr\%Adj} \times (100\% - \text{S179InputInsPpnAdj}) \\ \text{DGF@RelAcDate} &= \text{AdjS179InputAss} \times \text{DGF\%Adj} \times (100\% - \text{S179InputInsPpnAdj}) \\ \text{Annuities@RelAcDate} &= \text{AdjS179InputAss} \\ &\quad \times (\text{An\%Adj} \times (100\% - \text{S179InputInsPpnAdj}) + \text{S179InputInsPpnAdj}) \\ \text{Cash@RelAcDate} &= \text{AdjS179InputAss} \times \text{Ca\%Adj} \times (100\% - \text{S179InputInsPpnAdj}) \\ \text{Other@RelAcDate} &= \text{AdjS179InputAss} \times \text{Ot\%Adj} \times (100\% - \text{S179InputInsPpnAdj}) \end{aligned}$$

Then roll forward the asset values to OutputDate with allowance for smoothing,

$$\begin{aligned} \text{UKFI@OutputDate} &= \text{UKFI@RelAcDate} \times \text{FIBoRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{IG@OutputDate} &= \text{IG@RelAcDate} \times \text{FIBoRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{SIG@OutputDate} &= \text{SIG@RelAcDate} \times \text{FIBoRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{UKIL@OutputDate} &= \text{UKIL@RelAcDate} \times \text{ILBoRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{UK@OutputDate} &= \text{UK@RelAcDate} \times \text{UKRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{OS@OutputDate} &= \text{OS@RelAcDate} \times \text{WorldexUKRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{PE@OutputDate} &= \text{PE@RelAcDate} \times \text{UKRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{Prop@OutputDate} &= \text{Prop@RelAcDate} \times \text{PrRet}(\text{RelAcDate}, \text{OutputDate}) \end{aligned}$$

$$\begin{aligned} \text{DGF@OutputDate} &= \text{DGF@RelAcDate} \\ &\times (60\% \times \text{WorldRet}(\text{RelAcDate}, \text{OutputDate}) \\ &+ 40\% \times \text{FIBoRet}(\text{RelAcDate}, \text{OutputDate})) \end{aligned}$$

$$\begin{aligned} \text{Annuities@OutputDate} &= \text{Annuities@RelAcDate} \times \text{FIBoRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{Cash@OutputDate} &= \text{Cash@RelAcDate} \times \text{CaRet}(\text{RelAcDate}, \text{OutputDate}) \\ \text{Other@OutputDate} &= \text{Other@RelAcDate} \times \text{CaRet}(\text{RelAcDate}, \text{OutputDate}) \end{aligned}$$

### Tiers 2 and 3

$$\begin{aligned} \text{UKFIS@RelAcDate} &= \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{UKFI\%} \times \text{UKFIS\%} \\ &\quad \times (100\% - \text{S179InputInsPpnAdj}) \\ \text{UKFIM@RelAcDate} &= \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{UKFI\%} \times \text{UKFIM\%} \\ &\quad \times (100\% - \text{S179InputInsPpnAdj}) \\ \text{UKFIL@RelAcDate} &= \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{UKFI\%} \times \text{UKFIL\%} \\ &\quad \times (100\% - \text{S179InputInsPpnAdj}) \\ \text{IGUKSM@RelAcDate} &= \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{IGUK\%} \times \text{IGUKSM\%} \\ &\quad \times (100\% - \text{S179InputInsPpnAdj}) \\ \text{IGUKL@RelAcDate} &= \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{IGUK\%} \times \text{IGUKL\%} \\ &\quad \times (100\% - \text{S179InputInsPpnAdj}) \end{aligned}$$

$$\text{IGOSSM@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{IGOS\%} \times \text{IGOSSM\%} \\ \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{IGOSL@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{IGOS\%} \times \text{IGOSL\%} \\ \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{SIG@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{SIG\%} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{PD@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{PD\%} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{UKILS@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{UKIL\%} \times \text{UKILS\%} \\ \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{UKILM@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{UKIL\%} \times \text{UKILM\%} \\ \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{UKILL@RelAcDate} = \text{AdjS179InputAss} \times \text{Bo\%Adj} \times \text{UKIL\%} \times \text{UKILL\%} \\ \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{UK@RelAcDate} = \text{AdjS179InputAss} \times \text{Eq\%Adj} \times \text{UK\%} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{OSDM@RelAcDate} = \text{AdjS179InputAss} \times \text{Eq\%Adj} \times \text{OSDM\%} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{OSEM@RelAcDate} = \text{AdjS179InputAss} \times \text{Eq\%Adj} \times \text{OSEM\%} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{PE@RelAcDate} = \text{AdjS179InputAss} \times \text{Eq\%Adj} \times \text{PE\%} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{Prop@RelAcDate} = \text{AdjS179InputAss} \times \text{Pr\%Adj} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{DGF@RelAcDate} = \text{AdjS179InputAss} \times \text{DGF\%Adj} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{ARF@RelAcDate} = \text{AdjS179InputAss} \times \text{ARF\%Adj} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{Annuities@RelAcDate} = \text{AdjS179InputAss} \\ \times (\text{An\%Adj} \times (100\% - \text{S179InputInsPpnAdj}) + \text{S179InputInsPpnAdj})$$

$$\text{Cash@RelAcDate} = \text{AdjS179InputAss} \times \text{Ca\%Adj} \times (100\% - \text{S179InputInsPpnAdj})$$

$$\text{Other@RelAcDate} = \text{AdjS179InputAss} \times \text{Ot\%Adj} \times (100\% - \text{S179InputInsPpnAdj})$$

Then roll forward the asset values to OutputDate with allowance for smoothing,

$$\text{UKFIS@OutputDate} = \text{UKFIS@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{UKFIM@OutputDate} = \text{UKFIM@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{UKFIL@OutputDate} = \text{UKFIL@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{IGUKSM@OutputDate} = \text{IGUKSM@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{IGUKL@OutputDate} = \text{IGUKL@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{IGOSSM@OutputDate} = \text{IGOSSM@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{IGOSL@OutputDate} = \text{IGOSL@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{SIG@OutputDate} = \text{SIG@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{PD@OutputDate} = \text{PD@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{UKILS@OutputDate} = \text{UKILS@RelAcDate} \times \text{ILBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{UKILM@OutputDate} = \text{UKILM@RelAcDate} \times \text{ILBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{UKILL@OutputDate} = \text{UKILL@RelAcDate} \times \text{ILBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{UK@OutputDate} = \text{UK@RelAcDate} \times \text{UKRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{OSDM@OutputDate} = \text{OSDM@RelAcDate} \times \text{WorldexUKRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{OSEM@OutputDate} = \text{OSEM@RelAcDate} \times \text{WorldexUKRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{PE@OutputDate} = \text{PE@RelAcDate} \times \text{UKRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{Prop@OutputDate} = \text{Prop@RelAcDate} \times \text{PrRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{DGF@OutputDate} = \text{DGF@RelAcDate}$$

$$\times (60\% \times \text{WorldRet}(\text{RelAcDate}, \text{OutputDate}))$$

$$+ 40\% \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate}))$$

$$\text{ARF@OutputDate} = \text{ARF@RelAcDate} \times \text{Ca+Ret}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{Annuities@OutputDate} = \text{Annuities@RelAcDate} \times \text{FiBoRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{Cash@OutputDate} = \text{Cash@RelAcDate} \times \text{CaRet}(\text{RelAcDate}, \text{OutputDate})$$

$$\text{Other@OutputDate} = \text{Other@RelAcDate} \times \text{CaRet}(\text{RelAcDate}, \text{OutputDate})$$

The asset return roll up factors are defined as follows:

Asset category (AC)	Asset return roll up factor $\text{ACRet}(\text{Date1}, \text{Date2})$
FiBo	$\text{FTSE UK Gilts All stocks TRI@Date2} \div \text{FTSE UK Gilts All stocks TRI@Date1}$
ILBo	$\text{FTSE UK Index-linked Gilts All stocks TRI@Date2} \div \text{FTSE UK Index-linked Gilts All stocks TRI@Date1}$
UK	$\text{FTSE All-Share TRI@Date2} \div \text{FTSE All-Share TRI@Date1}$
WorldexUK	$\text{FTSE All-World ex UK TRI@Date2}^7 \div \text{FTSE All-World ex UK TRI@Date1}$

<sup>7</sup> FTSE All-World ex UK TRI (Sterling denominated) to be used

Pr	When Date2 is not specified as the OutputDate of 31 March 2024, PrRet(Date1, Date2) is defined as follows:	
	$\frac{\text{FTSE All-Share TRI@Date2}}{\text{FTSE All-Share TRI@Date1}}$	If Date1 and Date2 are both on or before 22 June 2006
	$\frac{(\text{FTSE All-Share TRI@Date2} \div \text{FTSE All-Share TRI@22 June 2006}) \times (\text{FTSE All UK Property Gross TRI@22 June 2006} \div \text{FTSE All UK Property Gross TRI@Date1})}{\text{FTSE All UK Property Gross TRI@Date1}}$	If Date1 is after 22 June 2006 and on or before 31 December 2014 and Date2 is on or before 22 June 2006
	$\frac{(\text{FTSE All-Share TRI@Date2} \div \text{FTSE All-Share TRI@22 June 2006}) \times (\text{FTSE All UK Property Gross TRI@22 June 2006} \div \text{FTSE All UK Property Gross TRI@31 December 2014}) \times (\text{MSCI UK Monthly Property TRI@31 December 2014} \div \text{MSCI UK Monthly Property TRI@Date1})}{\text{MSCI UK Monthly Property TRI@Date1}}$	If Date1 is after 31 December 2014 and Date2 is on or before 22 June 2006
	$\frac{(\text{FTSE All-Share TRI@22 June 2006} \div \text{FTSE All-Share TRI@Date1}) \times (\text{FTSE All UK Property Gross TRI@Date2} \div \text{FTSE All UK Property Gross TRI@22 June 2006})}{\text{FTSE All UK Property Gross TRI@Date1}}$	If Date1 is on or before 22 June 2006 and Date2 is after 22 June 2006 and on or before 31 December 2014
	$\frac{\text{FTSE All UK Property Gross TRI@Date2}}{\text{FTSE All UK Property Gross TRI@Date1}}$	If Date1 and Date2 are both after 22 June 2006 and on or before 31 December 2014
	$\frac{(\text{FTSE All UK Property Gross TRI@Date2} \div \text{FTSE All UK Property Gross TRI@31 December 2014}) \times (\text{MSCI UK Monthly Property TRI@31 December 2014} \div \text{MSCI UK Monthly Property TRI@Date1})}{\text{MSCI UK Monthly Property TRI@Date1}}$	If Date1 is after 31 December 2014 and Date2 is after 22 June 2006 and on or before 31 December 2014

$\frac{(FTSE\ All\ -Share\ TRI@22\ June\ 2006 \div FTSE\ All\ -Share\ TRI@Date1) \times (FTSE\ All\ UK\ Property\ Gross\ TRI@31\ December\ 2014 \div FTSE\ All\ UK\ Property\ Gross\ TRI@22\ June\ 2006) \times (MSCI\ UK\ Monthly\ Property\ TRI@Date2 \div MSCI\ UK\ Monthly\ Property\ TRI@31\ December\ 2014)}$	<p>If Date1 is on or before 22 June 2006 and Date2 is after 31 December 2014</p>
$\frac{(FTSE\ All\ UK\ Property\ Gross\ TRI@31\ December\ 2014 \div FTSE\ All\ UK\ Property\ Gross\ TRI@Date1) \times (MSCI\ UK\ Monthly\ Property\ TRI@Date2 \div MSCI\ UK\ Monthly\ Property\ TRI@31\ December\ 2014)}$	<p>If Date1 is after 22 June 2006 and on or before 31 December 2014 and Date2 is after 31 December 2014</p>
$\frac{MSCI\ UK\ Monthly\ Property\ TRI@Date2 \div MSCI\ UK\ Monthly\ Property\ TRI@Date1}$	<p>If Date1 and Date2 are both after 31 December 2014</p>
<p>When Date2 is specified as the OutputDate of 31 March 2024, PrRet(Date1, OutputDate) is defined as follows:</p> <p>The index value at Date2, the OutputDate, is smoothed by constructing the following five year series for dates from 1 April 2019 to 31 March 2024 inclusive:</p> $\frac{FTSE\ All\ UK\ Property\ Gross\ TRI@31\ December\ 2014 \times (MSCI\ UK\ Monthly\ Property\ TRI@DateX \div MSCI\ UK\ Monthly\ Property\ TRI@31\ December\ 2014)}$ <p>This series is then smoothed in line with subsection 4.1 above and divided by the denominator derived from the table below to give the property return roll up factor PrRet(Date1, OutputDate):</p>	
$\frac{(FTSE\ All\ -Share\ TRI@Date1 \div FTSE\ All\ -Share\ TRI@22\ June\ 2006) \times FTSE\ All\ UK\ Property\ Gross\ TRI@22\ June\ 2006}$	<p>If Date1 is on or before 22 June 2006</p>

	<p>FTSE All UK Property Gross TRI@Date1</p> <p>If Date1 is after 22 June 2006 and on or before 31 December 2014</p>
	<p>(MSCI UK Monthly Property TRI@Date1 ÷ MSCI UK Monthly Property TRI@31 December 2014) x FTSE All UK Property Gross TRI@31 December 2014</p> <p>If Date1 is after 31 December 2014</p>
	<p>Where reference is made to the MSCI UK Monthly Property TRI:</p> <ul style="list-style-type: none"> <li>the MSCI UK Monthly Property All Property TRI should be used for dates between 31 December 2014 and 29 June 2016 inclusive.</li> <li>the MSCI UK Monthly Property All Assets TRI should be used for dates on or after 30 June 2016.</li> </ul>
World	<p>FTSE All-World TRI@Date2 ÷ FTSE All-World TRI@Date1<sup>8</sup></p>
Ca	<p>Cash TRI@Date2 ÷ Cash TRI@Date1</p> <p>where Cash TRI@DateX = 1 + Cashreturn%(BaseDate, DateX), Cashreturn% estimated by rolling up the Bank of England base rate from BaseDate to DateX, and</p> <p>BaseDate = 1 November 2004</p>
Ca+	<p>Cash+ TRI@Date2 ÷ Cash+ TRI@Date1</p> <p>where Cash+ TRI@DateX = 1 + Cash+return%(BaseDate, DateX), Cash+return% estimated by rolling up the Bank of England base rate plus 3.5 percentage points from BaseDate to DateX, and</p> <p>BaseDate = 1 November 2004</p>
<p>When Date2 is specified as the OutputDate of 31 March 2024, the index values at Date2 are smoothed in line with subsection 4.1 above unless otherwise stated; otherwise, unsmoothed index values are used.</p>	

<sup>8</sup> FTSE All-World TRI (Sterling denominated) to be used.

If AssetDate is earlier than RelAcDate

Derive the asset distribution for assets included in the accounts at RelAcDate based on the given asset distribution at AssetDate excluding any ABC Arrangement, allowing for differential asset returns for each asset category over the period from AssetDate to RelAcDate. This is done using roll forward formulae consistent with those above. The asset distribution at RelAcDate for assets included in the accounts is then calculated by normalising the total to 100%. The adjustment for the field S179InputInsPpnAdj, to take account of annuities not listed in the relevant accounts, is made after the normalisation process. These normalised allocation percentages are then used in the formulae above to calculate the asset value at OutputDate.

If AssetDate is later than RelAcDate,

Derive the asset distribution for assets included in the accounts at RelAcDate based on the given asset distribution at AssetDate excluding any ABC Arrangement, allowing for differential asset returns for each asset category over the period from RelAcDate to AssetDate. In effect the roll-forward formulae above are used "in reverse" for the period from AssetDate back to RelAcDate and applied to the proportions of assets in each class as at AssetDate. The asset distribution at RelAcDate for assets included in the accounts is then calculated by normalising the total to 100%. The adjustment for the field S179InputInsPpnAdj, to take account of annuities not listed in the relevant accounts, is made after the normalisation process. These normalised allocation percentages are then used in the formulae above to calculate the asset value at OutputDate.

#### 4.5 Application of Section 179 expenses

$$S179PayExp = £600 \times PMemNo + £950 \times (DMemNo + AMemNo)$$

If  $S179PL + S179DL + S179AL < £5$  million, then

$$S179WUExp = (S179PL + S179DL + S179AL) \times 0.04$$

If  $£5$  million  $\leq S179PL + S179DL + S179AL < £25$  million, then

$$S179WUExp = (S179PL + S179DL + S179AL) \times 0.01 + £0.15 \text{ million}$$

If  $£25$  million  $\leq S179PL + S179DL + S179AL < £545$  million, then

$$S179WUExp = (S179PL + S179DL + S179AL) \times 0.005 + £0.275 \text{ million}$$

If  $S179PL + S179DL + S179AL \geq £545$  million, then

$$S179WUExp = £3 \text{ million}$$

$$S179Exp = S179PayExp + S179WUExp$$



#### 4.6 Total liability value on smoothed and stressed Section 179 basis

$$S179TL = S179PL + S179DL + S179AL + S179Exp + S179ExLiab$$

#### 4.7 Total asset value on smoothed and stressed basis

##### Tier 1

S179Ass

$$\begin{aligned} &= UKFI@OutputDate \times (1 + UKFI\text{StrFac}) + IG@OutputDate \times (1 + IG\text{StrFac}) \\ &+ SIG@OutputDate \times (1 + SIG\text{StrFac}) + UKIL@OutputDate \times (1 + UKIL\text{StrFac}) \\ &+ UK@OutputDate \times (1 + QE\text{StrFac}) + OS@OutputDate \times (1 + QE\text{StrFac}) \\ &+ PE@OutputDate \times (1 + PE\text{StrFac}) + Prop@OutputDate \times (1 + Pr\text{StrFac}) \\ &+ DGF@OutputDate \times (1 + DGF\text{StrFac}) + Annuities@OutputDate \times (1 + An\text{StrFac}) \\ &+ Cash@OutputDate \times (1 + Ca\text{StrFac}) + Other@OutputDate \times (1 + Ot\text{StrFac}) \end{aligned}$$

##### Tier 2

S179Ass

$$\begin{aligned} &= UKFIS@OutputDate \times (1 + UKFIS\text{StrFac}) + UKFIM@OutputDate \times (1 + UKFIM\text{StrFac}) \\ &+ UKFIL@OutputDate \times (1 + UKFIL\text{StrFac}) + IGUKSM@OutputDate \times (1 + IGUKSM\text{StrFac}) \\ &+ IGUKL@OutputDate \times (1 + IGUKL\text{StrFac}) + IGOSSM@OutputDate \times (1 + IGOSSM\text{StrFac}) \\ &+ IGOSL@OutputDate \times (1 + IGOSL\text{StrFac}) + SIG@OutputDate \times (1 + SIG\text{StrFac}) \\ &+ PD@OutputDate \times (1 + PD\text{StrFac}) + UKILS@OutputDate \times (1 + UKILS\text{StrFac}) \\ &+ UKILM@OutputDate \times (1 + UKILM\text{StrFac}) + UKILL@OutputDate \times (1 + UKILL\text{StrFac}) \\ &+ UK@OutputDate \times (1 + QE\text{StrFac}) + OSDM@OutputDate \times (1 + QE\text{StrFac}) \\ &+ OSEM@OutputDate \times (1 + QE\text{StrFac}) + PE@OutputDate \times (1 + PE\text{StrFac}) \\ &+ Prop@OutputDate \times (1 + Pr\text{StrFac}) + DGF@OutputDate \times (1 + DGF\text{StrFac}) \\ &+ ARF@OutputDate \times (1 + ARF\text{StrFac}) + Annuities@OutputDate \times (1 + An\text{StrFac}) \\ &+ Cash@OutputDate \times (1 + Ca\text{StrFac}) + Other@OutputDate \times (1 + Ot\text{StrFac}) \end{aligned}$$

##### Tier 3

S179Ass

$$\begin{aligned} &= UKFIS@OutputDate \times (1 + UKFIS\text{StrFac}) + UKFIM@OutputDate \times (1 + UKFIM\text{StrFac}) \\ &+ UKFIL@OutputDate \times (1 + UKFIL\text{StrFac}) + IGUKSM@OutputDate \times (1 + IGUKSM\text{StrFac}) \\ &+ IGUKL@OutputDate \times (1 + IGUKL\text{StrFac}) + IGOSSM@OutputDate \times (1 + IGOSSM\text{StrFac}) \\ &+ IGOSL@OutputDate \times (1 + IGOSL\text{StrFac}) + SIG@OutputDate \times (1 + SIG\text{StrFac}) \\ &+ PD@OutputDate \times (1 + PD\text{StrFac}) + UKILS@OutputDate \times (1 + UKILS\text{StrFac}) \\ &+ UKILM@OutputDate \times (1 + UKILM\text{StrFac}) + UKILL@OutputDate \times (1 + UKILL\text{StrFac}) \\ &+ UK@OutputDate \times (1 + QE\text{StrFac}) + OSDM@OutputDate \times (1 + QE\text{StrFac}) \\ &+ OSEM@OutputDate \times (1 + QE\text{StrFac}) + PE@OutputDate \times (1 + PE\text{StrFac}) \\ &+ Prop@OutputDate \times (1 + Pr\text{StrFac}) + DGF@OutputDate \times (1 + DGF\text{StrFac}) \\ &+ ARF@OutputDate \times (1 + ARF\text{StrFac}) + Annuities@OutputDate \times (1 + An\text{StrFac}) \\ &+ Cash@OutputDate \times (1 + Ca\text{StrFac}) + Other@OutputDate \times (1 + Ot\text{StrFac}) \\ &+ UKRFSI + OSDMRFSI + OSEMRFSI + IRRFSI + InfRFSI + CrRFSI \end{aligned}$$

#### 4.8 Calculation of smoothed but unstressed asset and liability values

The calculation of the smoothed but unstressed asset and liability values follows the same transformation steps as set out above in subsections 4.1 to 4.7, with the application of the stress factors omitted (i.e. the stress factors specified in subsection 4.2 and the risk factor stress impacts noted as inputs for Tier 3 schemes in subsection 3.2 should be treated as if they were zero). In this scenario, the outputs S179Ass and S179TL would respectively represent the smoothed but unstressed asset and liability values.

### 5. Assumptions made where input information has not been provided in full (or not provided in the format required by the Board)

Exchange was upgraded in November 2008 to require Schemes to enter their Section 179 Valuation information consistently with respect to external liabilities (i.e. include the external liabilities in the total liabilities and not reduce the assets). At the same time various data validation rules were tightened. In addition, new data validation rules were added from 2023/24 to reflect the changes to asset categories and the corresponding requirements under the different Tiers. It is therefore expected that the following assumptions will not be necessary other than for schemes whose last submission of data through Exchange was before November 2008. However, they need to be retained in this document in case data needs to be used where the Scheme Return had not been completed (and thus the data validation rules not applied).

- 5.1 If total value of protected liabilities (S179InputTL) is provided, but S179InputPL, S179InputDL and S179InputAL are missing:

• Liabilities for pensions in payment, possibly including expenses	S179InputPL	= 0.44 x S179InputTL
• Liabilities for deferred members, possibly including expenses	S179InputDL	= 0.24 x S179InputTL
• Liabilities for active members, possibly including expenses	S179InputAL	= 0.29 x S179InputTL

Where  $S179InputTL <> S179InputPL + S179InputDL + S179InputAL + S179InputWUExp + S179InputPayExp + S179InputExLiab$

then the PPF will adjust the input values in the way it considers most appropriate so that the total figure equals the sum of the relevant parts.

- 5.2 If the proportions of liabilities relating to service before 6 April 1997 and to service between 6 April 1997 and 5 April 2009 are not provided (or not provided in the format required by the PPF) the following will be assumed:

<ul style="list-style-type: none"> <li>Proportion of pensioner liabilities, excluding expenses, relating to service before 6 April 1997</li> </ul>	S179InputPPre97Ppn	= 0.9
<ul style="list-style-type: none"> <li>Proportion of deferred pensioner liabilities, excluding expenses, relating to service before 6 April 1997</li> </ul>	S179InputDPre97Ppn	= 0.8
<ul style="list-style-type: none"> <li>Proportion of deferred pensioner liabilities, excluding expenses, relating to service between 6 April 1997 and 5 April 2009</li> </ul>	S179InputD97_09Ppn	= 0.2
<ul style="list-style-type: none"> <li>Proportion of active member liabilities, excluding expenses, relating to service before 6 April 1997</li> </ul>	S179InputAPre97Ppn	= 0.6
<ul style="list-style-type: none"> <li>Proportion of active member liabilities, excluding expenses, relating to service between 6 April 1997 and 5 April 2009</li> </ul>	S179InputA97_09Ppn	= 0.4

- 5.3 Where the total of the percentages of the assets in each asset class for schemes in Tier 1 (Bo% + Eq% + Pr% + DGF% + An% + Ca% + ABC% + Ot%) is less than 100% (or no breakdown is provided), Ca% will be increased to give a total of 100%. Where the total of the percentages of the assets in each class is greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.4 Where the total of the percentages of the bonds in each subcategory for schemes in Tier 1 (UKFI% + IG% + SIG% + UKIL%) is zero (or no breakdown is provided), UKFI% will be increased to give a total of 100%. Where the total of the percentages of the bonds in each subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.5 Where the total of the percentages of the equities in each subcategory for schemes in Tier 1 (UK% + OS% + PE%) is zero (or no breakdown is provided), UK% will be increased to give a total of 100%. Where the total of the percentages of the equities in each subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.6 Where the total of the percentages of the assets in each asset class for schemes in Tier 2 or Tier 3 (Bo% + Eq% + Pr% + DGF% + ARF% + An% + Ca% + ABC% + Ot%) is less than 100% (or no breakdown is provided), Ca% will be increased to give a total of 100%. Where the total of the percentages of the assets in each class is greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.7 Where the total of the percentages of the bonds in each subcategory for schemes in Tier 2 or Tier 3 (UKFI% + IGUK% + IGOS% + SIG% + PD% + UKIL%) is zero (or no breakdown is provided), UKFI% will be increased to give a total of 100%. Where the total of the percentages of the bonds in each subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.

- 5.8 Where the total of the percentages of the bonds in the fixed interest UK Government bonds subcategory for schemes in Tier 2 or Tier 3 (UKFIS% + UKFIM% + UKFIL%) is zero (or no breakdown is provided), UKFIM% will be increased to give a total of 100%. Where the total of the percentages of the bonds in this subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.9 Where the total of the percentages of the bonds in the fixed interest UK investment grade quoted bonds (other than UK Government bonds) subcategory for schemes in Tier 2 or Tier 3 (IGUKSM% + IGUKL%) is zero (or no breakdown is provided), IGUKSM% will be increased to give a total of 100%. Where the total of the percentages of the bonds in this subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.10 Where the total of the percentages of the bonds in the fixed interest overseas investment grade quoted bonds subcategory for schemes in Tier 2 or Tier 3 (IGOSSM% + IGOSL%) is zero (or no breakdown is provided), IGOSSM% will be increased to give a total of 100%. Where the total of the percentages of the bonds in this subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.11 Where the total of the percentages of the bonds in the inflation-linked UK Government bonds subcategory for schemes in Tier 2 or Tier 3 (UKILS% + UKILM% + UKILL%) is zero (or no breakdown is provided), UKILM% will be increased to give a total of 100%. Where the total of the percentages of the bonds in each subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.12 Where the total of the percentages of the equities in each subcategory for schemes in Tier 2 or Tier 3 (UK% + OSDM% + OSEM% + PE%) is zero (or no breakdown is provided), UK% will be increased to give a total of 100%. Where the total of the percentages of the equities in each subcategory is less than 100% or greater than 100%, the percentages will be pro-rated so as to give an adjusted total equal to 100%.
- 5.13 Where a scheme subject to the requirements of Tier 2 or Tier 3 by virtue of its Supplied Liabilities has provided asset allocation percentages under the requirements of Tier 1, then UKFIM% will be set equal to the submitted UKFI%, IGUKSM% will be set equal to the submitted IG%, UKILM% will be set equal to the submitted UKIL% and OSDM% will be set equal to the submitted OS%.
- 5.14 If  $PMemNo + DMemNo + AMemNo = 0$  but total membership number, TotMemNo, can be determined from another source then

• Pensioner members	PMemNo	= $0.45 \times TotMemNo$
• Deferred members	DMemNo	= $0.25 \times TotMemNo$
• Active members	AMemNo	= $0.30 \times TotMemNo$

5.15 Where average ages of different classes of members are not provided (or are not provided in the format required by the PPF) the following will be assumed

• Pensioner members	PAvAge	66
• Deferred members	DAvAge	46
• Active members	AAvAge	46

Note also that where average ages have been provided, if they fall outside of particular ranges, they will be subject to the following adjustments

• Pensioner members	PAvAge	PAvAge>120 reduced to 66, PAvAge<25 increased to 25
• Deferred members	DAvAge	DAvAge>75 reduced to 46, DAvAge < 25 increased to 25
• Active members	AAvAge	AAvAge>75 reduced to 46, AAvAge <25 increased to 25

5.16 Where the number of the assumptions guidance has not been provided, guidance number V2 will be assumed.

5.17 Where the date of relevant accounts is not provided, it will be assumed to be equal to the effective date of the Section 179 Valuation.

5.18 Where NPAPre97, NPA97\_09 or NPAPost09 have not been provided, 63 will be used.

5.19 Where S179InputInsPpn has not been provided, 0 will be assumed.

## 6. Transformation of Deficit-Reduction Contributions and Contingent Asset valuations

### 6.1 Deficit-Reduction Contributions

The amount of any certified Deficit-Reduction Contributions used in the calculation of the RBL pursuant to Rule G1 of the Determination and the Deficit-Reduction Contributions Appendix is not subject to smoothing or stressing transformations.

### 6.2 Contingent Assets

The value of any secured assets underlying a Contingent Asset agreement used in the calculation of the RBL (pursuant to Rule G2 of the Determination and the Contingent Asset Appendix) shall be subject to smoothing and/or stressing transformations as set out below.

Only Type B(ii) Contingent Assets (real estate subject to a first priority legal mortgage or fixed charge in favour of the trustees of the Scheme) and Type B(iii) Contingent Assets (securities subject to a first priority legal mortgage or fixed charge in favour of the trustees of the Scheme) are subject to smoothing or stressing transformations with regard to the valuations of the secured assets underlying the agreement.

This section describes how the valuation of the real estate / the valuation of the securities, in each case as shown in the Contingent Asset Certificate, is transformed to reflect smoothing and stressing of market conditions for the purpose of calculating the Levies in respect of the 2024/25 Levy Year. The Contingent Asset Appendix provides detail on how Contingent Assets shall be taken into account for the purposes of calculating RBL under the Rules.

### **Smoothing**

For Type B(ii) Contingent Assets, no smoothing adjustment is made to the valuation of the real estate as shown in the Contingent Asset Certificate.

For Type B(iii) Contingent Assets, the valuation of the securities as shown in the Contingent Asset Certificate is transformed to a smoothed value by multiplying by the following factor:

$$(50\% \times \text{FiBoRet}(\text{OutputDate}, \text{OutputDate}) + 12.5\% \times \text{UKRet}(\text{OutputDate}, \text{OutputDate}) + 12.5\% \times \text{WorldexUKRet}(\text{OutputDate}, \text{OutputDate}) + 25\% \times \text{CaRet}(\text{OutputDate}, \text{OutputDate}))$$

For the avoidance of doubt, the above asset return roll up factors are calculated as the ratio of the smoothed index value relative to the unsmoothed index value.

### **Stressing**

For Type B(ii) Contingent Assets, the valuation of the real estate as shown in the Contingent Asset Certificate is transformed to a stressed value by multiplying by the following factor:

$$(1 + \text{PrStrFac})$$

For Type B(iii) Contingent Assets, the smoothed value of the securities as calculated above is transformed to a stressed value by multiplying by the following factor:

$$(1 + \text{OtStrFac})$$