DRAFT STATUTORY INSTRUMENTS

2022 No.

The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

PART 4

Valuation and benefit adjustment

Calculation of benefits

17.—(1) For the purposes of section 18(4) of the Act (calculation of benefits), the rules of a collective money purchase scheme must contain the provisions set out in paragraphs (2) to (4).

(2) In relation to the determination of the value of the available assets of the scheme, the assets to be taken into account are the available assets of the scheme attributed to the scheme in the relevant accounts, excluding any resources invested in contravention of section 40(1) of the 1995 Act (restriction on employer-related investments).

(3) In relation to the determination of the required amount—

(a) that the trustees must apply the methods set out in the scheme rules;

(b) that the mortality tables used and the demographic assumptions made, having regard to the main characteristics of the members as a group, must be based on a central estimate basis;

(c) that the discount rate must be determined using a central estimate of the estimated future returns on assets held by the scheme or expected to be held in the future;

(d) that the inflation assumptions used must be based on a central estimate basis.

(4) In relation to the adjustment of the rate or amount of benefits provided under the scheme—

(a) that the trustees must apply the methods set out in the scheme rules;

(b) that any such adjustment must be based on the actuarial valuation calculated by reference to the most recent effective date;

(c) that any such adjustment must be applied to all the members of the scheme without variation;

(d) that any such adjustment must be applied on the benefit adjustment date;

(e) that where an increase is required to the rate or amount of benefits provided under the scheme, before that increase can be applied the trustees must determine—

(i) the cost of funding that increase for the remaining lives of—

(aa) the beneficiaries of the scheme on the effective date;

(bb) the expected survivors in relation to the members of the scheme on the effective date;

(ii) that the value of the available assets of the scheme, as determined for the purposes of the actuarial valuation calculated by reference to the most recent effective date, is sufficient to meet the cost of funding that increase for the remaining lives of—

(aa) the beneficiaries of the scheme on the effective date;

(bb) the expected survivors in relation to the members of the scheme on the effective date.

(5) For the purposes of paragraph (4)(e) the cost of funding an increase must—

(a) be calculated on the basis that the increase will be applied each year;

(b) include the projected change in inflation.

(6) Subject to paragraphs (3) and (4), it is for the trustees of a collective money purchase scheme to determine, having obtained advice from the scheme actuary, which assumptions are to be used for the purposes of determining the required amount on which the adjustment to the rate or amount of benefits provided under the scheme is based.

(7) Paragraphs (8) to (13) apply where the scheme rules of a collective money purchase scheme permit the trustees to apply a multi-annual reduction.

(8) The trustees of a collective money purchase scheme may apply a multi-annual reduction to the rate or amount of benefits provided under the scheme provided that—

(a) the multi-annual reduction is to be applied in full on or before the third benefit adjustment date beginning with the benefit adjustment date which relates to the actuarial valuation as a result of which the multi-annual reduction is to be applied;

(b) the reduction applied in any year of the multi-annual reduction must not be greater than the reduction applied in the previous year of the multi-annual reduction.

(9) The trustees of a collective money purchase scheme must not vary any planned adjustments under a multi-annual reduction after the first benefit adjustment date which relates to the actuarial valuation as a result of which the multi-annual reduction is to be applied.

(10) Where there is a multi-annual reduction in effect and a subsequent actuarial valuation results in an increase in the rate or amount of benefits provided under the scheme, that increase is to be applied by the trustees, having obtained the advice of the scheme actuary, in addition to the planned reduction for that year under the multi-annual reduction which is in effect.

(11) Where there is a multi-annual reduction in effect and a subsequent actuarial valuation results in a further reduction in the rate or amount of benefits provided under the scheme, that further reduction is to be applied by the trustees, having obtained the advice of the scheme actuary, in addition to the multi-annual reduction which is in effect.

(12) Where there is a single multi-annual reduction in effect and a subsequent actuarial valuation results in a further reduction in the rate or amount of benefits provided under the scheme which is to be applied as a multi-annual reduction (the "second multi-annual reduction")—

(a) paragraph (8)(b) does not apply to the second multi-annual reduction;

(b) the total reduction applied in any year of the second multi-annual reduction must not be greater than the total reduction applied in the previous year of the second multi-annual reduction.

(13) Where there are two (but not more than two) multi-annual reductions in effect and a subsequent actuarial valuation results in a further reduction in the rate or amount of benefits provided under the scheme which is to be applied as a multi-annual reduction (the "third multi-annual reduction")—

(a) paragraph (8)(b) does not apply to the third multi-annual reduction;

(b) the total reduction applied in any year of the third multi-annual reduction must not be greater than the total reduction applied in the previous year of the third multi-annual reduction.

(14) In this regulation—

"beneficiary" has the meaning given in section 36(8) of the Act (continuity option 1: discharge of liabilities and winding up);

"benefit adjustment date" means the date set out in the scheme rules on which an adjustment to the rate or amount of benefits provided under the scheme following an actuarial valuation must be applied each year;

"relevant accounts", in relation to an actuarial valuation, are the audited accounts for the scheme which are prepared in respect of the period ending with the effective date of the actuarial valuation.