

**To all Members**

December 2005

Dear Member

**GN28: Retirement Benefit Schemes – Adequacy of Benefits for Contracting-out**

**Introduction**

This Guidance Note assists actuaries signing the Reference Scheme Test certificate required by HM Revenue and Customs in relation to the adequacy of benefits to contract-out of the State Second Pension.

The Minimum Funding Requirement (MFR) of the Pensions Act 1995 has been removed under the powers of the Pensions Act 2004. As there is a reference to the MFR in GN28, GN28 needs to be updated to replace this reference.

Also, the Civil Partnership Act 2004 together with the Civil Partnership (Contracted-out Occupational and Appropriate Personal Pension Schemes)(Surviving Civil Partners) Order 2005, which comes into force on 5 December 2005, affect GN28.

The purpose of this letter is to inform you that an updated version of GN28 (version 2.0) reflecting the impact of the replacement of the MFR as well as the changes required by the Civil Partnership Act 2004 and the Civil Partnership (Amendment of Provisions relating to Contracted-out Occupational and Appropriate Personal Pension Schemes)(Surviving Civil Partners) Order has now been issued with the approval of the Secretary of State for Work and Pensions. Version 2.0 of GN28 is being issued simultaneously as a Fast Track Guidance Note and an Exposure Draft. It comes into effect on 5 December 2005.

**Detail**

***Removal of the Reference to the MFR***

Where it is necessary for the actuary to compare the values of a scheme's benefits and those under the reference scheme, the current version of GN28 requires the actuary to use the long-term assumptions set out in GN27: the assumptions for the MFR. GN28, therefore, needs to be amended to replace the reference to the MFR when a value test is required under paragraph 4.14 of GN28. The Minimum Funding Requirement (MFR) of the Pensions Act 1995 has been removed under the powers of the Pensions Act 2004.

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Paragraph 4.14 of GN28 has been amended. Where a value test is required, the actuary is now required to use the actuarial assumptions in the relevant scheme's Statement of Funding Principles. Where a Statement of Funding Principles is not yet in place or one is not required for a particular scheme, the actuary is to choose actuarial assumptions which he or she thinks are reasonable and consistent. Whether the actuary uses the assumptions in the Statement of Funding Principles or chooses his or her own assumptions, version 2.0 of GN28 makes it clear that the actuary must use the same assumptions to place a value on the scheme's benefits as are used to place a value on the benefits under the reference scheme.

This change to paragraph 4.14 has been issued for exposure to the profession for consultation (see below for further details).

There is a transitional issue where some actuaries may be part way through the calculations required under section 2 or 5 of GN28. There is no wish to impose additional costs on pension schemes as a result of this change. Version 2.0 of GN28 therefore permits actuaries to substitute paragraph 4.14 of version 1.3 for paragraph 4.14 of version 2.0, if the work required under section 2 or 5 is completed on or before 5 March 2006.

### ***Civil Partnerships***

The requirement relating to spouses' pensions has been extended to civil partnerships. Version 2.0 of GN28 has been amended to reflect this change in the law.

These changes relating to civil partnerships are Technical Amendments to GN28.

Supplements to the Manual of Actuarial practice are only sent to those members who have requested them. If you have requested a hard copy of Guidance Notes, the revised Version 2.0 of GN28 will be attached to this letter.

Covering letters are also only being sent to those members who have requested them. Should you wish to stop receiving these letters in hard copy and receive an e-alert instead, please alter your despatch preferences in the members' only part of the profession's website, or contact the MAP Editor, Sarah Gander ([Sarah.Gander@actuaries.org.uk](mailto:Sarah.Gander@actuaries.org.uk)).

Version 2.0 of GN28 can be found on the profession's website at

<http://www.actuaries.org.uk/files/pdf/map/Contents.pdf>

Or at: [http://www.actuaries.org.uk/link/pensions/pensions\\_gns.xml](http://www.actuaries.org.uk/link/pensions/pensions_gns.xml)

A copy of version 2.0 of GN28 that tracks the changes which have been made since Version 1.3 can be found at: [http://www.actuaries.org.uk/link/pensions/pensions\\_gns\\_track.xml](http://www.actuaries.org.uk/link/pensions/pensions_gns_track.xml)

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## The Actuarial Profession

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As Version 2.0 of GN28 is also an Exposure Draft comments are sought specifically on paragraph 4.14. Please send them by 6 February 2006 to Mervyn Bryn-Jones, Secretary, Guidance Committee of the Pensions Board at Staple Inn ([Mervyn.Bryn-Jones@actuaries.org.uk](mailto:Mervyn.Bryn-Jones@actuaries.org.uk)). It would be helpful if you could co-ordinate comments in the usual manner with colleagues in your organisation.

Yours sincerely

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Chairman, Pensions Board

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