



The Actuarial Profession

making financial sense of the future

James Purnell Esq, MP
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Mr David Norgrove
Chair of the Pensions Regulator Board
The Pensions Regulator
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14 February 2007

Dear Messrs Purnell and Norgrove,

Cash Commutation

This is an open letter to the Pensions Regulator and the Department for Work and Pensions. Last year, the Pensions Board of the Actuarial Profession commissioned a review of members' options in pension schemes, and our Working Party's report has now been produced.

As you will be aware, defined benefit pension scheme benefits have become very valuable as a result of falling long-dated nominal and real interest rates, high longevity and a stronger regulatory environment.

Unlike transfer values where overriding legislation applies, cash commutation rates (i.e. the rate at which member pension is exchanged for a lump sum at retirement) are determined by scheme rules and these rules vary widely from scheme to scheme.

What is clear is that typical cash commutation rates result in a cash sum that is very much less than the cost of replacing the pension surrendered.

We are concerned that many scheme members exchanging pension for a cash sum at retirement are taking this decision without having a clear idea of the value of the benefits they are giving up.

We therefore strongly urge you to consider either

- implementing a requirement for a risk warning and suggestion that members should take financial advice if they are considering commuting a large amount of pension to cash, or

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- introducing disclosure of cash commutation terms to members' retirement benefit statements so that members have an indication of the cost of replacing the benefit forgone on commutation. We recognise that this disclosure of cash commutation terms would have a compliance cost and you will have to make a value-judgement about that in considering this option.

Our report on member options can be found on the Profession's website at www.actuaries.org.uk/files/pdf/pensions/mowp_rep_0612.pdf.

Yours sincerely



Gordon Sharp
Chairman, Pensions Board

Please reply to Staple Inn

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