

All Members

February 1998

Dear Member

Amendments to Pensions Guidance Notes: GN11, GN19, GN27 and GN28

I am writing to draw to your attention the issue of four pensions Guidance Notes in this Supplement of the Manual of Actuarial Practice. Members who issue certificates under GN28 are particularly asked to note the final paragraph of the section dealing with GN28.

GN11: Retirement Benefit Schemes - Transfer Values

I enclose Version 7.1 of GN11 which is a Technical Amendment.

Most of the revisions in Version 7.1 are minor drafting improvements or updates to statutory references. However, the following, more substantive changes should be noted:

- following advice from the profession's legal advisers, paragraph 3.7 has been amended to make it clear that the value of a GMP (for the purpose of conversion to protected rights) should be calculated consistently with the calculation of the overall cash equivalent. This may be of particular significance if MFR Pension Age is not equal to state pension age;
- a new paragraph has been inserted as 5.1 to cover the situation where an age-related payment will be paid to the receiving scheme rather than to the transferring COMP scheme;
- an additional sentence has been added to paragraph 5.3 (previously 5.2) for clarification.

GN19: Retirement Benefit Schemes - Winding-up and Scheme Asset Deficiency

I enclose Version 4.1 of GN19 which has been approved under Due Process.

Version 4.0 was issued earlier this year and effective from 6 April 1997 as Fast Track guidance and simultaneously as an Exposure Draft. Version 4.1 replaces Version 4.0 and is effective for certificates signed on or after 1 March 1998. The changes made have been agreed with the DSS.

I would like to draw your attention to the following key changes:

- In the Application section it has been made clear that Version 3.0 of GN19 should still be applicable where a scheme started to wind up before 19 December 1996, or where the deficiency is being calculated as at a date before 6 April 1997. (Version 3.0 is found as Appendix 2 to Version 4.1.)
- In the Introduction, paragraphs 1.6.4 and 1.6.5 give more guidance on the complexity of the calculations and highlight the differences between crystallisation date and applicable time. An example is differences in computation under both sets of regulations where part or all of the liabilities have been secured by insurance contracts.

Under Section 57 Deficiencies, a new point has been added (4.6) clarifying the position regarding CEPs, coinciding with the DSS's understanding.

- References to Northern Ireland in the Application Section and Appendix 1 have been updated for the various legislative cross references.

In a number of these changes and in particularly paragraph 4.6, we have sought advice from the profession's legal advisers.

GN 27: Retirement Benefit Schemes - Minimum Funding Requirement

I enclose Version 1.2 of GN27 which is a Technical Amendment. Please note that these changes are in respect of matters which occurred before the July 1997 Budget.

I would like to draw your attention to the following changes:

- Paragraph 3.5 - clarifies how MFR pension age is set for an individual member.
- Paragraph 3.8 - the wording has been changed to allow for insurance policies and associated liabilities to be ignored, or the value of the insurance policy to be taken as being equal to the associated liability where the insurance policy meets only part, rather than all, of the liability of the scheme to the member. In order to be consistent with the original intention, this change has had the consequence of needing a tightly drawn definition of policies to be treated in this way. This is that it must be a policy which provides a minimum level of benefits and it is only the minimum payments under the policy that can be allowed for under this paragraph.
- Paragraph 3.10 - makes explicit reference to the actuary using his or her judgement to set any assumptions not specified. (These are expected to be minor ones.)
- Northern Ireland legislative references have been completed and updated.

Typographical corrections have been made in paragraph 2.1 (where in Version 1.1, the first part of the sentence was inadvertently omitted) and cross-references in paragraphs 3.11 to 3.15 have been corrected.

GN28: Retirement Benefit Schemes - Adequacy of Benefits for Contracting-out on or after 6 April 1997

I enclose Version 1.2 of GN28 which is a Technical Amendment.

Paragraph 4.1 has been extended at the request of the DSS to confirm that an actuary cannot provide an RST certificate where there are no active members in the scheme (or in the case of a COMBS where there are no active members in the salary-related part) and the actuary is aware of an intention not to admit active members in to the scheme (or the salary-related part of a COMBS). Consequential amendments have been made to paragraphs 4.7 and 5.1.

Paragraph 4.11.2 now states that the widows' or widowers' pension on death in deferment under the reference scheme includes statutory revaluation to date of death - this is consistent with legislation which has now been clarified by the Occupational Pension Schemes (Reference Scheme and Miscellaneous Amendments) Regulations 1997 (SI 1997/819).

IN CONSIDERING THIS CLARIFICATION, MEMBERS ARE ADVISED TO REVIEW ALL CERTIFICATES ISSUED TO DATE AND TO CONSIDER THEIR POSITION

Supplementary Certificate A: Correction

The Contributions Agency have asked us to clarify that Note 2 to Supplementary Certificate A should read "In all other cases, the Supplementary Certificate A should be dated no later than the day after the expiry of the previous actuarial certificate".

Yours sincerely

H W Brown
Chairman, Pensions Board