

July, 2003

To All Members

Dear Member

GN11: Retirement Benefits – Transfer Values

Introduction

Legislation allows members of occupational pension schemes to obtain a transfer payment (a 'cash equivalent' payment) from their existing scheme to transfer either to another scheme or to a personal pension. This Guidance Note describes the calculation of these payments. The Guidance Note also applies to the calculation of pension values for divorce proceedings and to the disclosure of directors' pensions in company accounts. The Guidance Note has been revised to take account of the Occupational Pension Schemes (Transfer Values and Miscellaneous Amendments) Regulations 2003, SI 2003/1727 which amend the procedure for adjusting cash equivalents to take account of underfunding.

Detail

Version 9.0 *GN11: Retirement Benefits – Transfer Values*, is being issued simultaneously as a Fast Track Guidance Note and an Exposure Draft. It comes into effect on 4 August 2003. The Regulations to which it relates also come into effect on the same day.

The Guidance Note has been amended to:

- give guidance on the preparation of a new report which would allow pension scheme trustees to adjust the cash equivalent by reference to funding levels based on the aggregate of the full cash equivalents for members of the scheme.
- indicate areas in relation to this new report in which it may be appropriate to seek information from the trustees and where prior discussion might be helpful.
- refer to the Professional Conduct Standards. This is a reminder to members that they must always comply with the Professional Conduct Standards, and that Guidance Notes impose additional requirements under specific circumstances.
- clarify that the Guidance Note applies to calculations of recoveries of the proceeds of crime from pension schemes.

Section 5.3 of the Guidance Note explains how the calculations for the new report described in the first bullet point above are to be carried out and the circumstances in which these calculations must be made. In particular:

- the calculation will, in broad terms, compare the sum of the full cash equivalents in respect of members not yet in receipt of pension and below normal pension age with the assets of the scheme. An allowance for the expenses of winding-up and the liability in respect of all other members should be first deducted and, where appropriate, the liabilities of the scheme should be sub-divided into the elements receiving different orders of priority on a winding-up.
- the expense allowance should be the same as that used for the MFR calculations, unless the actuary considers another figure to be more appropriate.
- the calculation of the liability in respect of the "other members" (generally current pensioners) must be consistent with that used for divorce purposes.
- the actuary will report to the trustees or managers of the scheme on the reduction in cash equivalents which they may determine. Such a report may be provided at any time and, in particular, need not have an effective date which coincides with the formal actuarial valuation of the scheme. It may, therefore, be based on an approximate valuation of the assets and liabilities. If cash equivalents are reduced, then a new report must be provided as at the date of the next formal actuarial valuation based on full data.

For a scheme which had an MFR deficit at the last formal MFR valuation, and whose MFR funding level has since deteriorated, the effect of the new regulations will generally be to allow cash equivalents to be adjusted to the MFR liabilities, reduced in line with the 'Regulation 14 statement' at the last formal MFR valuation.

Whilst the opportunity has been taken to update the legislative references, GN11 has not been comprehensively reviewed. This will take place later in the year. Members should note, however, that the legislative reference to the Directors' Remuneration Report Regulations 2002 is not strictly correct since those regulations refer to version 8.1 of the Guidance Note. In addition members should be aware that the necessary pension disclosures for Directors are described separately and differently in those Regulations and in the listing rules issued by the Financial Services Authority. Members need to have regard to both these sources when preparing Directors' pension costs for the purpose of disclosure.

Supplements to the Manual of Actuarial Practice are now only being sent to those members who have previously requested them in writing. If therefore you have requested a posted copy of Guidance Notes, the revised version 9.0 of GN11 will be attached to this letter as an A4 document. From the effective date it can be found on the profession's website at http://www.actuaries.org.uk/Display_Page.cgi?url=/map/index.xml

Before then, it can be found at http://www.actuaries.org.uk/Display_Page.cgi?url=/board_area/pensions.html

A copy of version 9.0 of GN11 that tracks the changes which have been made since Version 8.1 can be found at

http://www.actuaries.org.uk/Display_Page.cgi?url=/pensions/pensions_gns_track.xml

As GN11 version 9.0 is also an Exposure Draft comments are sought. Please send them by 6 October 2003 to Mervyn Bryn-Jones, Secretary, Guidance Committee of the Pensions Board at Staple Inn. It would be helpful if you could co-ordinate comments in the usual manner with colleagues in your organisation. We do not expect to hold a consultation meeting on these amendments unless specifically requested by sufficient members.

Members will be aware that the Government's recent announcement *Simplicity, security and choice: Working and saving for retirement - Action on occupational pensions* indicates that changes to the priority order on wind-up will be consulted on during the summer of 2003 and will be in force by the autumn of 2003. Reports prepared in accordance with version 9.0 of GN11 as a consequence of the current amendments to the transfer value regulations, and changes to calculations systems, may therefore have limited applicability. We have informed the Government of the implications of this.

The Board is also conscious that aspects of the Government's announcement, other than that on priority order on wind-up, may affect GN11. At this stage, the detail is not sufficient to be able to come to any conclusions. The Board will, however, be revisiting GN11 to see if the wording continues to be appropriate.

Yours sincerely

Ronald Bowie
Chairman
Pensions Board

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