GN11: Retirement Benefit Schemes - Transfer Values

Classification
Practice standard

Legislation or Authority
Pension Schemes Act 1993. (c.48).

Pensions Act 1995. (c.26).

Regulations set out in Appendices 1 (the 'Principal Regulations'), 2 and 3.

Matrimonial Causes Act 1973. (c.18).

Family Law (Scotland) Act 1985. (c.37).

Welfare Reform and Pensions Act 1999. (c.30).

London Stock Exchange. *The listing rules* (as updated).

Northern Ireland has its own body of law relating to pensions and to family law. In relation to Northern Ireland, references to the Great Britain legislation contained in this Guidance Note should be read as including references to the corresponding Northern Ireland legislation. The Northern Ireland Regulations corresponding to the Great Britain Regulations are included in Appendices 1, 2 and 3. Appendix 5 shows the Northern Ireland legislation corresponding to the Great Britain Acts mentioned in this Guidance Note.

Application
Any actuary responsible for the calculation of cash equivalents under the Regulations, other individual transfer values from all types of retirement benefit schemes and the assessment of benefits in such schemes in respect of incoming transfer payments and pension credits.

This Guidance Note may be used for purposes of the Stock Exchange Listing Rules.

Author
Pensions Board

Status
Approved under Due Process (Fast Track)

Version	*Effective from*
1.0	01.12.85
2.0	01.11.87
3.0	01.07.88
4.0	01.03.90
5.0	01.05.91
5.1	31.03.93
6.0	01.07.94
7.0	06.04.97
7.1	01.03.98
7.2	01.04.98
8.0	01.12.00
8.1	06.04.01

1 Introduction

1.1 These guidelines apply to the basis of calculation of cash equivalents under the Regulations (including the treatment of pension debits and credits under pension sharing legislation) and under the listing rules and to the assessment of benefits in retirement benefit schemes in respect of incoming transfer payments.

1.2 The guidelines relate to United Kingdom requirements and conditions.

1.3 The guidelines also apply to other individual transfer values from retirement benefit schemes where no cash equivalent, within the provisions of the Pension Schemes Act 1993, arises and in those cases reference in this Guidance Note to the Regulations should be ignored and references to "cash equivalent" should be read as references to "transfer value".

1.4 This Guidance Note is not intended to inhibit trustees from paying transfer values greater than cash equivalents.

1.5 The guidelines also apply to the calculation of pension costs for the purpose of disclosure in the annual report and accounts of companies in respect of directors of certain UK companies. In such cases it may be necessary to calculate the value of accrued benefits in circumstances in which no entitlement to a transfer value exists. In such cases, the valuation must be consistent with the calculation of transfer values for the scheme concerned subject to paragraph 3.2 below; or (where no transfer values are payable from the scheme) for other schemes of the same employer. For the purposes of this paragraph, no allowance may be made for a reduced cash equivalent (see paragraph 5.2 below) and in particular the guidelines may be used for unfunded schemes. For the avoidance of doubt, Section 4 below would also apply. If benefits are payable from an overseas scheme, the calculation should be consistent with this Guidance Note, taking account of economic conditions in the country concerned.

1.6 The guidelines also apply to the calculation and verification of the value of benefits under a pension scheme for the purposes of divorce proceedings as specified in Regulations (Appendix 4). For the avoidance of doubt, Section 4 below would also apply for the purposes of this paragraph. The calculation of cash equivalents for the purposes of this paragraph must be consistent with the calculation of cash equivalents for the purpose of paying transfer values where an actuarial basis exists for such calculations in the scheme concerned. References to 'deferred pensioners' and 'pensioners' should be taken as including 'pension credit members' and 'pension credit benefit members' respectively, as defined in Section 124(1) of the Pensions Act 1995 and Regulation 2 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 (SI 1996/1536). References to 'members' should be taken as including 'pension credit members' and 'pension credit benefit members'.

2 Purposes of the Guidelines

2.1 The purposes of the guidelines are

(a) to ensure that members of retirement benefit schemes exercising a right to a cash equivalent can be assured that it fairly reflects the benefits otherwise available (subject to the requirements of Section 4 below) ,

(b) to ensure that incoming transfers are dealt with consistently with outgoing cash equivalents.

(c) to facilitate consistency in the calculation of pension costs in respect of directors in companies' accounts and

(d) to ensure that pension debits and credits are calculated in accordance with the pension sharing legislation.

3 Standard Basis of Calculation

3.1 It is a fundamental requirement, stemming from the legislation, that a cash equivalent should represent the actuarial value of the corresponding accrued benefits. Such actuarial value should represent the expected cost within the scheme of providing such benefits and should be assessed having regard to market rates of return on equities, gilts or other assets as appropriate.

3.2 Where a cash equivalent is to be calculated in respect of a member who has reached pension age, but whose benefits are not yet in payment, the benefit entitlement to be valued must be that which would apply if payment were to commence immediately. In such cases, and in respect of pensioners, market rates of return may be based on a different asset class from that used for deferred pensioners if the actuary considers that to be appropriate.

3.3 Where a deferred pensioner has a right to exercise an option on terms which are specified in the scheme documentation and are financially disadvantageous to the scheme, account must be taken of the likely cost of such an option on the basis of the assumed probability of deferred pensioners generally exercising the option.

3.4 Guaranteed or statutory increases, both in deferment and after retirement, must be valued as part of the accrued benefit.

3.5 The actuary has to bear in mind that Regulation 8(2) of the Principal Regulations requires that the discretionary grant of additional benefits must be taken into account in certain circumstances unless the trustees direct otherwise. The actuary must therefore establish with the trustees the extent to which they consider it appropriate to make an addition for future discretionary increases to the accrued benefit or for any other benefits granted on a discretionary basis when calculating its value for transfer.

3.6 In calculating benefits in respect of pension credits or transfer values received by a retirement benefit scheme the actuary must use methods and assumptions which are reasonable and consistent with the methods and assumptions (including any allowance for future discretionary benefits) normally used for outgoing cash equivalents from that scheme. Section 4 below may be taken into account as described in paragraph 4.11. Appropriate adjustment would be required to take account of expected salary increases in cases where 'added years' are to be credited. In cases where the trustees, in accordance with paragraph 3.5, have given a general direction to the actuary that discretionary benefits should *not* be taken into account, then the same principles must be applied to the calculation of the benefits in respect of incoming transfer values and pension credits.

3.7 In the case of both incoming transfers and outgoing cash equivalents, allowance for expenses may be made where appropriate, e.g. to reflect administrative costs incurred, the saving in cost of paying pensions and any relevant costs of sale or purchase of investments.

3.8 A separate value should be quoted of the part of the cash equivalent which represents safeguarded rights or benefits in respect of service after 5 April 1997 (other than those relating to voluntary contributions or to the part of a transfer credit relating to a transfer from a personal pension which does not derive from protected rights). Where the payment is to an Appropriate Personal Pension Scheme or to a Contracted-out Money Purchase Scheme, separate values should be quoted of the part which represents Guaranteed Minimum Pensions (GMPs) under the transferring scheme. These values must be calculated consistently with the calculation of the total cash equivalents, in particular with a consistent assumption as to the expected annual statutory increases in the GMPs.

4 Minimum Cash Equivalent

4.1 In the case of a scheme to which Section 56 of the Pensions Act 1995 applies (the Minimum Funding Requirement (MFR)), the cash equivalent calculated in accordance with Section 3 above shall be increased, where necessary, to the liability which would be calculated in accordance with GN27, as at the effective date of the calculation, in respect of the member (or that part of the member's benefits concerned). A scheme with a 'gilts-matching policy' for deferred pensioners or pensioners must use a gilts-based calculation for the corresponding members in accordance with GN27. The assumptions specified in GN27 may be appropriately modified to take account of individual circumstances, as set out in this section.

4.2 In the case of a scheme to which the 'equity easement' (as described in paragraph 3.14 of GN27v1.4) applies, the equity easement may not be applied to the calculation of minimum cash equivalents for pensioners.

4.3 The minimum cash equivalent is not affected by the existence of a corresponding annuity policy held by the Trustees.

4.4 For the purposes of the calculation of the minimum cash equivalent, the MFR Pension Age must be used for those members who have not yet attained that age.

4.5 The age definition used for the minimum cash equivalent calculations need not be the same as that used for the most recent MFR valuation (if any), but care must be taken to ensure that the calculations are appropriate for the age definition used. In any event the age definition must allow for at least quarter years.

4.6 The mortality assumptions to be used are those set out in GN27. Where scheme-specific mortality might apply, the actuary must use the mortality rates used in the most recent MFR valuation. This does not prevent an actuary using other mortality assumptions, including unisex mortality rates, in the standard basis of calculation.

4.7 Although GN27 sets out a basis for proportions married and age differences between members and their spouses, it is permissible for this purpose to use the actual marital status of the scheme member if this is appropriate. The actuary must have regard to the marital status eligibility requirement for benefit provision under the scheme rules (for example married at date of leaving or married at date of death). Where and only where a spouse’s pension would be payable only to a member’s current spouse, that spouse’s age may be used.

4.8 The same assumptions as those in GN27 must be used for calculating the amount of the scheme member's pension that can be given up for cash at retirement.

4.9 The rates of return to be used are those set out in GN27. For administrative convenience, the rates of return and MVAs used need not be those applicable on the effective date of the calculation. They may be changed on a regular basis, not less frequently than monthly. The rates or MVAs to be applied in a cash equivalent calculation will be those at the last date of change before the relevant effective date of calculation.

4.10 The specific allowance for expenses in GN27 is for the closure or wind-up of a scheme. These expenses are therefore not appropriate for the purpose of calculating minimum cash equivalents. The financial assumptions in GN27 make an implicit allowance for expenses and no further addition therefore should be made by the actuary.

4.11 In most cases the modification of the GN27 assumptions, as set out in this section, to take account of individual circumstances should not produce an aggregate result of the minimum cash equivalents for the whole scheme greatly different from the unmodified MFR cash equivalents. However, if the assumptions used combined with any unusual features of the scheme produce a significant bias, which results in this relationship no longer remaining valid, the actuary must inform the trustees of this and advise them of any implications.

4.12 For an outgoing cash equivalent, the minimum cash equivalent calculated under this Section 4 might exceed the cash equivalent calculated on the standard basis under Section 3. Similarly the benefits in respect of an incoming transfer or pension credit calculated on the standard basis might exceed the transfer credit calculated on the minimum basis. In this situation, the lower benefits , on the minimum basis, may be granted.

5 Departures from the Foregoing Bases of Calculation

5.1 Where an age-related payment by the Board of the Inland Revenue is outstanding, the cash equivalent must first be calculated on the basis of the benefits to which the member would have been entitled had the payment already been made. The cash equivalent must then be reduced by the amount of the age-related payment, where this is payable to the receiving scheme rather than to the transferring scheme.

5.2 If the immediate payment of a full cash equivalent would reduce the security for the benefits of other members, the actuary should advise the trustees as to any reduced cash equivalent which would be appropriate having regard to the provisions of Regulation 8(4) or 8(6) of the Principal Regulations. The actuary should also advise them that the member's interests might be better served by deferring the taking of a cash equivalent until a later date. Where no reduction is applied, the actuary should draw the implications of this to the trustees' attention.

5.3 In cases where an outgoing cash equivalent is under consideration in respect of a member, in respect of whom a transfer value has previously been received, special care may be needed in the choice of the method of calculation - particularly where 'added years' have been credited - to ensure that the outgoing cash equivalent is, subject to paragraph 5.2, both equitable in relation to, and consistent with, the transfer value received. Except as described in paragraph 5.2, the cash equivalent must not be less than the value of the alternative accrued benefits.

5.4 Special considerations apply in cases where the circumstances of a previous transfer had been such that the assets transferred bore no direct relationship to the leaving service benefits under the previous scheme. Where such cases give rise to an entitlement to the member for a cash equivalent under Chapter IV of Part IV of the Pension Schemes Act 1993, then, for the purpose of paragraph 5.3, the cash equivalent must take account of the preserved benefit which would otherwise have been available had the member actually left service at the previous transfer date.

5.5 However, in cases where the former preserved benefit and/or the cash equivalent were augmented in connection with a full or partial dissolution of the former scheme (either in circumstances where the trustees were obliged to augment benefits in terms of the documents governing the scheme or alternatively at the discretion of the trustees or employer with the objective of enhancing the cash equivalents which would otherwise have been available for the purpose of buying out individual annuity contracts), then, for the purpose of paragraph 5.3, comparison must be made with such higher values.

5.6 If in the actuary's opinion an incoming transfer value would be insufficient to provide minimum statutory benefits (e.g. a Guaranteed Minimum Pension), the actuary should advise the trustees accordingly.

5.7 Regulation 8(8) of the Principal Regulations requires cash equivalents to be reduced in certain circumstances to less than those which would otherwise apply under this guidance. Such circumstances would include some ‘Transfer Club’ arrangements.

6 'Partial' Cash Equivalents

6.1 Partial cash equivalents can occur when a transfer is made from a contracted-out to a contracted-in scheme leaving the liability for GMP and post-5 April 1997 Contracted-out Salary Related rights behind. In that circumstance, the whole cash equivalent must be calculated in the normal way and an amount deducted which is calculated consistently in respect of the retained liability.

7 Money Purchase Schemes and Personal Pension Schemes

7.1 Generally the above principles apply to transfers arising out of money purchase schemes and personal pension schemes where the cash equivalents depend on making estimates of the value of benefits. Where all or part of the member's benefits depend directly on the proceeds of an earmarked investment, the corresponding cash equivalents will be the realisable value of that investment, e.g. the amount of a building society deposit or the cash value of a policy of insurance earmarked for the member. Similarly, if all or part of an incoming transfer value is to be applied to an earmarked investment, the benefit to be granted will depend on the proceeds of the investment.

7.2 In respect of personal pension schemes and other money purchase schemes these guidelines do not apply where cash equivalents depend on rights which do not fall to be valued in a manner which involves making estimates of the value of benefits, since the relevant Regulations make specific rules regarding the calculation of such cash equivalents.

8 Presentation

8.1 It is not necessary for each cash equivalent to be authorised separately by the actuary. The actuary may supply tables, for use by the trustees and administrators, for calculating the amount of any cash equivalent payable and the pensionable service or other benefits to be credited for an incoming payment or pension credit. The actuary should specify the circumstances (e.g. changes in investment conditions or cases involving previous receipt of a transfer value) in which adjustments to the tables or revised rates would apply.

8.2 The actuary is required to certify to the trustees that the method and assumptions being used in the calculation of a cash equivalent are consistent with the legislation. A specimen certificate for this purpose is provided in Appendix A. This should be amended as necessary to make it appropriate for the scheme concerned.

Appendix A

To the Trustees of the [ ] Pension Scheme:

I certify that the methods and assumptions underlying the calculation of cash equivalents under the [ ] Pension Scheme as specified in the tables and instructions dated [ ] are consistent with:

(i) the requirements of Chapter IV of Part IV and Chapter II of Part IVA of the Pension Schemes Act 1993;

(ii) *Retirement Benefit Schemes - Transfer values (GN11*) issued by the Institute of Actuaries and the Faculty of Actuaries; and

(iii) the methods currently adopted and assumptions currently made in calculating the benefits to which entitlement arises under the Rules of the Scheme for a person who is acquiring transfer credits under those Rules

and provide as a minimum an amount consistent with those used for the purposes of Section 57 of the Pensions Act 1995, subject only to appropriate adjustments.

[I also certify that the methods and assumptions underlying the calculation of the rights conferred within the scheme on a person entitled to a pension credit are consistent with:

(i) *Retirement Benefit Schemes – Transfer values (GN11)* issued by the Institute of Actuaries and the Faculty of Actuaries; and

(ii) the methods currently adopted and assumptions currently made when transfers of other pension rights are received by the Scheme.]

Signed: ....Date: ....

Fellow of the Institute of Actuaries or
Fellow of the Faculty of Actuaries

Appendix 1: Principal Regulations *	GB Reference	NI Reference
The Occupational Pension Schemes (Transfer Values) Regulations 1996 as amended	SI 1996/1847	SR 1996 No 619

Appendix 2: Other Pensions Regulations *		
The Occupational Pension Schemes (Contracted-Out Protected Rights Premiums) Regulations 1987 as amended	SI 1987/1103	SR 1987 No 281
The Personal Pension Schemes (Personal Pension Protected Rights Premiums) Regulations 1987 as amended	SI 1987/1111	SR 1987 No 289
The Personal Pension Schemes (Transfer Values) Regulations 1987 as amended	SI 1987/1112	SR 1987 No 290
The Protected Rights (Transfer Payment) Regulations 1996 as amended	SI 1996/1461	SR 1996 No 509
The Contracting-out (Transfer and Transfer Payment) Regulations 1996 as amended	SI 1996/1462	SR 1996 No 618
The Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 as amended	SI 1996/1536	SR 1996 No 570
The Personal and Occupational Pension Schemes (Protected Rights) Regulations 1996 as amended	SI 1996/1537	SR 1997 No 56
The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 as amended	SI 1996/1655	SR 1997 No 98

Appendix 3: Family Law Regulations*	GB Reference	NI Reference
The Divorce etc (Pensions) Regulations 1996 as amended	SI 1996/1676	SR 1996 No 296
The Divorce etc (Pensions) (Scotland) Regulations 1996 as amended	SI 996/1901(S.153)	
The Pensions on Divorce etc (Provision of Information) Regulations 2000 as amended	SI 2000 No 1048	SR 2000/142
The Pension Sharing (Valuation) Regulations 2000 as amended	SI 2000 No 1052	SR 2000/144
The Pension Sharing (Implementation and Discharge of Liability) Regulations 2000 as amended	SI 2000 No 1053	SR 2000/145
The Pension Sharing (Pension Credit Benefit) Regulations 2000 as amended	SI 2000 No 1054	SR 2000/146

* The title of the Northern Ireland Regulations are identical to those for Great Britain save for the insertion of '(Northern Ireland)' after the word 'Regulations and in some instances where the year may be different this will be indicated by the NI Reference.

Appendix 4: Stock Exchange Listing Rules

London Stock Exchange. *The listing rules* (as updated).

Appendix 5: Northern Ireland Legislation Corresponding to Great Britain Acts

GB Provision	**NI Provision**
Pension Schemes Act 1993 (c.48)	Pension Schemes (Northern Ireland) Act 1993 (c.49)
Pensions Act 1995 (c.26)	Pensions (Northern Ireland) Order 1995 (SI 1995/3213 (NI 22))
Matrimonial Causes Act 1973 (c.18)	Matrimonial Causes (Northern Ireland) Order 1978 (SI 1978/1045 (NI 15))
Welfare Reform and Pensions Act 1999 (c. 30)	Welfare Reform and Pensions (Northern Ireland) Order 1999 (SI 1999/3147 NI 11))
Section (of Act)	Article (of Order) or Section (of Act)