

## **EXD54: Retirement Benefit Schemes - Transfer values (GN11)**

### *Classification*

Practice Standard

**MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES**

### *Purpose*

The main purpose of GN11 is to provide a framework for actuaries to certify, or otherwise advise, on cash equivalents. As a minimum, cash equivalents must fairly reflect the benefits of the member or members benefiting from them. Advice in relation to the calculation of other individual transfer values must be consistent with that for cash equivalents. The Guidance Note also provides details of the report required by the legislation to enable trustees to reduce cash equivalents so as to reflect the state of funding of their scheme.

### *Application*

Any actuary responsible for the calculation of cash equivalents under the Regulations, the assessment of benefits in such schemes in respect of incoming transfer payments and pension credits or giving advice concerning the calculation of individual transfer values.

This Guidance Note may be used for purposes of the UK Listing Authority Rules, the Companies Act 1985 (see Appendix 4) and the Proceeds of Crime Act (Recovery from Pension Schemes) Regulations 2003.

### *Legislation or Authority*

Pension Schemes Act 1993. (c.48).

Pensions Act 1995. (c.26).

Matrimonial Causes Act 1973. (c.18).

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

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

Financial Services Authority (the UK Listing Authority). The Listing Rules (as updated).

Companies Act 1985 (c.6).

Proceeds of Crime Act 2002 (c.29).

Regulations set out in Appendices 1 (the ‘Principal Regulations’), 2, 3 and 4.

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.

***Author***

Pensions Board

***Status***

Approved under Due Process

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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
9.0	04.08.03
9.1	01.03.04
10.0	xxxxxxx

**1 Definitions**

For the purposes of this Guidance Note:

- 1.1 “trustees” means trustees or managers of the pension scheme concerned
- 1.2 “default risk” means the likelihood of the accrued benefits not being paid in full and is analogous to the assessment of debt for credit rating purposes
- 1.3 “marked-to-market basis” means discounting using appropriately derived bond discount rates (real rates and/or fixed rates as appropriate) which reflect the default risk of the relevant benefits. If considered appropriate, different discount rates must be applied to different tranches of benefits where the default risk differs.

## **2 Introduction**

- 2.1 For a number of different purposes legislation refers to the determination of cash equivalents in accordance with actuarial guidance. This is the guidance that applies in these circumstances. This guidance also applies to the determination of the value of directors' pension benefits under the Listing Rules.
- 2.2 This guidance also applies to advice given to trustees in relation to individual transfer values calculated in circumstances where a cash equivalent calculation is not required and references to 'cash equivalent' should be interpreted appropriately.

## **3 General Principle**

- 3.1 The general principle is that cash equivalents must be no less than the value of the relevant benefits calculated on a marked-to-market basis.

## **4 Basis of Calculation**

### **Discount rates**

- 4.1 In determining the appropriate discount rates in 1.3 above, the actuary must use professional judgement in allowing for factors which affect default risk.
- 4.2 In assessing default risk for the purposes of arriving at an appropriate discount rate, the actuary must consider:
  - the funding level in the pension scheme and its winding-up priorities,
  - the financial strength of the employer(s) (The actuary must take instructions from the trustees on the default risk associated with the employer for this purpose),
  - the covenants which may exist which affect the default risk (including the Pension Protection Fund),
  - the pension scheme's investment strategy,
  - the pension scheme's funding target/policy, and
  - other contingent risks, such as otherwise unanticipated changes in mortality rates.
- If the trustees instruct the actuary that they do not wish the actuary to take account of the default risk associated with the employer, the actuary must use a discount rate equal to the market redemption yield on appropriate fixed and index-linked Government bonds, in valuing benefits other than discretionary benefits under 4.4 below.
- 4.3 As an upper limit, the discount rates must not exceed the market redemption yield of any actively traded, uncollateralised bonds or other debt instrument of appropriate duration of the sponsoring employer, which rank equally with unsecured creditors on insolvency.





- 8.2 Since the certificate must reflect the actuary's opinion at the time each cash equivalent is quoted, the actuary must specify the circumstances in which he or she anticipates that the certificate may cease to be valid. Where appropriate, the actuary must request the trustees to advise him or her of events which may give rise to such circumstances.

**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 Pensions 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.

[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

<b>Appendix 1: Principal Regulations *</b>	<b>GB Reference</b>	<b>NI Reference</b>
The Occupational Pension Schemes (Transfer Values) Regulations 1996 as amended	SI 1996/1847	SR 1996/619
<b>Appendix 2: Other Pensions Regulations *</b>		
The Occupational Pension Schemes (Contracted-Out Protected Rights Premiums) Regulations 1987 as amended	SI 1987/1103	SR 1987/281
The Personal Pension Schemes (Personal Pension Protected Rights Premiums) Regulations 1987 as amended	SI 1987/1111	SR 1987/289
The Personal Pension Schemes (Transfer Values) Regulations 1987 as amended	SI 1987/1112	SR 1987/290
The Protected Rights (Transfer Payment) Regulations 1996 as amended	SI 1996/1461	SR 1996/509
The Contracting-out (Transfer and Transfer Payment) Regulations 1996 as amended	SI 1996/1462	SR 1996/618
The Personal and Occupational Pension Schemes (Protected Rights) Regulations 1996 as amended	SI 1996/1537	SR 1997/56
The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 as amended	SI 1996/1655	SR 1997/98

\* 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.

<b>Appendix 3: Family Law Regulations*</b>	GB Reference	NI Reference
The Divorce etc (Pensions) Regulations 2000 as amended	SI 2000/1123	
The Divorce etc (Notification and Treatment of Pensions) (Scotland) Regulations 2000 as amended	SI 2000/1050	
The Pensions on Divorce etc (Provision of Information) Regulations 2000 as amended	SI 2000/1048	SR 2000/142
The Pension Sharing (Valuation) Regulations 2000 as amended	SI 2000/1052	SR 2000/144
The Pension Sharing (Implementation and Discharge of Liability) Regulations 2000 as amended	SI 2000/1053	SR 2000/145
The Pension Sharing (Pension Credit Benefit) Regulations 2000 as amended	SI 2000/1054	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: The Listing Rules and DTI and Home Office Regulations**

Financial Services Authority (the UK Listing Authority). The Listing Rules (as updated).

The Directors' Remuneration Report Regulations 2002.**		S.I. 2002/1986
The Proceeds of Crime Act (Recovery from Pension Schemes) Regulations 2003		S.I. 2003/291

\*\* At the time of publishing this Guidance Note, the Regulations refer to GN11 Version 8.1.

## **Appendix 5: Northern Ireland Legislation Corresponding to Great Britain Acts**

<b>GB Provision</b>	<b>NI Provision</b>
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))
Companies Act 1985	Companies (Northern Ireland) Order 1986 (SI 1986/1032 NI6)
Section (of Act)	Article (of Order) or Section (of Act)