

Cash equivalent transfer values

Webinar: Cash equivalent transfer values

The Actuarial Profession

Hugh Gittins, Eversheds LLP
3 September 2008



Cash equivalent transfer values

What am I going to cover?

- Background
- The new regime
- Calculation of cash equivalent transfer values (CETV)



Cash equivalent transfer values

Background

- Most members of occupational pension schemes have a right to a CETV
- Right must be exercised before the later of:
 - one year before normal pension age,
 - six months after termination of pensionable service
- Right to CETV lost when scheme is wound up





EVERSHEDS

www.eversheds.com

This information pack is intended as a guide only. Whilst the information it contains is believed to be correct, it is not a substitute for appropriate legal advice. Eversheds LLP can take no responsibility for actions taken based on the information contained in this pack. © EVERSLEDLS LLP 2008. Eversheds LLP is a limited liability partnership.

Edit library\docno in footer of Notes and Handouts tab - View, Header and Footer

Cash equivalent transfer values

Cash equivalent transfer values

Background

- CETV can be:
 - paid to the trustees of another registered pension scheme, or
 - used to purchase an annuity
- At present scheme's rules determines who is responsible for CETV calculation
- Actuarial approval and GN11



Cash equivalent transfer values

The new regime

- From 1 October 2008, trustees will be responsible (after taking actuarial advice) for deciding basis for calculating CETV
- No need for actuarial approval
- GN11 will no longer apply



Cash equivalent transfer values

The new regime

- CETV represents the expected cost of providing member's benefits within the scheme
- Two methods for calculating CETV under new regime:
 - "best estimate" method
 - alternative method





EVERSHEDS

www.eversheds.com

This information pack is intended as a guide only. Whilst the information it contains is believed to be correct, it is not a substitute for appropriate legal advice. Eversheds LLP can take no responsibility for actions taken based on the information contained in this pack. © EVERSLEDs LLP 2008. Eversheds LLP is a limited liability partnership.

Edit library\docno in footer of Notes and Handouts tab - View, Header and Footer

Cash equivalent transfer values

Cash equivalent transfer values

"Best estimate" calculation

- (Broadly) the same as GN11
- Trustees to:
 - set economic, financial and demographic assumptions,
 - identify options and discretions
- Assumptions should lead to "best estimate" of the expected cost of providing the member's benefits under the scheme



Cash equivalent transfer values

Member options

- Trustees responsible for identifying options, which will increase member's benefits
- No offsetting
- Value of option can be adjusted to reflect chances of member exercising it



Cash equivalent transfer values

Discretionary benefits

- Trustees to decide extent to which discretionary benefits should be taken into account, having regard to:
 - established custom and practice
 - any consent requirements
- Regulator's draft guidance





EVERSHEDS

www.eversheds.com

This information pack is intended as a guide only. Whilst the information it contains is believed to be correct, it is not a substitute for appropriate legal advice. Eversheds LLP can take no responsibility for actions taken based on the information contained in this pack. © EVERSLEDs LLP 2008. Eversheds LLP is a limited liability partnership.

Edit library\docno in footer of Notes and Handouts tab - View, Header and Footer

Cash equivalent transfer values

Cash equivalent transfer values

Alternative method

- Trustees can adopt alternative to "best estimate" calculation method
- Alternative method must produce higher result
- Trustees need to consider whether this is appropriate



Cash equivalent transfer values

Reducing cash equivalents

- "Insufficiency reports"
- Content and timing
- Trustees not obliged to reduce CETV



Cash equivalent transfer values

Reducing cash equivalents

- Using GN11 reports
- Administration costs



Cash equivalent transfer values

Cash equivalent transfer values

Other factors for trustees to consider

- Risk of "selection against the scheme"
- More difficult to make assumptions worse in future
- Cash flow



Cash equivalent transfer values

Other issues

- Statutory time limits
- Schemes in wind-up
- Schemes in PPF assessment period
- Disclosure
- Transitional arrangements





EVERSHEDS

www.eversheds.com

© EVERSLEDS LLP 2008. Eversheds LLP is a limited liability partnership.



EVERSHEDS

www.eversheds.com

This information pack is intended as a guide only. Whilst the information it contains is believed to be correct, it is not a substitute for appropriate legal advice. Eversheds LLP can take no responsibility for actions taken based on the information contained in this pack. © EVERSLEDS LLP 2008. Eversheds LLP is a limited liability partnership.

Edit library\docno in footer of Notes and Handouts tab - View, Header and Footer