

The Actuarial Profession
making financial sense of the future


The 2004 Pensions Convention

7-8 June 2004, Sheraton Skyline Hotel, Heathrow

Cash Equivalent Transfer Values

The story continues


Roger Key



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Cash Equivalent Transfer Values

- Where are we now?
- Where should we be going?



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Where are we now?

- GN11
 - 'expected cost to the scheme'
 - MFR underpin
- Wide range of bases/answers
- Doesn't reflect increased value of benefit (June 11)
- Reduction to allow for underfunding

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Expected cost to scheme

- GN11
 - 'expected cost to the scheme'
 - MFR underpin
- Expected return on assets
- What assets?
- Changing investment policy
- Equities and bonds – or equities then bonds?
- Wide range of bases/answers

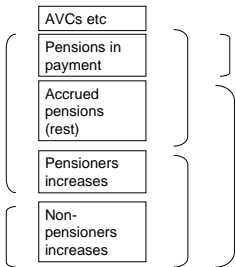
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Reduction

- Compare assets with sum of CETVs
- Allow for priority order
- Aggregate priority classes

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Aggregate priority classes



Reduction

- Compare assets with sum of CETVs
- Allow for priority order
- Aggregate priority classes
- New priority order
- PPF?

Where should we be going?

- Who needs transfer values?
- Waste of money?
- How many are paid anyway?
- How should we calculate them?
- Do we need GN11 – or should it cover commutation?

'Value' of the benefit – mark to market

- What market?
- Proxy – financial instruments of similar risk
- Different risks for different parts of benefits
- How do you measure the risk?
- What do you take into account?
- Can you even get close?

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Gilt yields

- Over-values benefit
- Does it matter?
- Duration – swaps and strips

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Share of fund

- What is it?
- Status quo?
- Surplus

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What should the Profession be doing?

- Nothing
- Leave it to Government/Regulator
- Prescribe in detail
- Impose principles only

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