Institute and Faculty of Actuaries

DB to DC transfers and conversions

IFoA response to the Pensions Regulator

17 March 2015

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Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Institute and Faculty of Actuaries

Philip Worsfold
The Pensions Regulator
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17 March 2015

Dear Mr Worsfold

IFoA response to the Pensions Regulator's consultation on DB to DC transfers and conversions

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Pensions Regulator's (tPR) consultation paper on DB to DC transfers. The IFoA's Pensions Board has led the drafting of this response. The IFoA has a number of general comments about the consultation which we have set out separately from the specific comments on the consultation.

General comments

1. The IFoA would encourage tPR to consider publishing updated transfer value guidance as soon as possible, rather than waiting until 2016. The IFoA considers that updated documentation, rather than increased documentation, would be of greater value to trustees and advisers. If experience were to suggest that the guidance would require further updating post publication, the IFoA considers that to be preferable to delaying any initial publication.

2. Having seen the draft regulations published by DWP, we would encourage tPR to ensure that the guidance is updated carefully to ensure it remains consistent with the final regulations.

3. One of the areas in which DB to DC transfers would be significant in the next few months is in relation to non-statutory transfers. The IFoA would encourage tPR to review how its existing guidance to trustees addresses this issue, since the appropriate courses of action, both in administration and calculation, for these types of transfer might be different given the new environment.

4. The IFoA would also encourage tPR to consider further comment on conversions. The consultation focuses almost exclusively on transfers; tPR should make clear whether it considers the same principles apply to both transfers and conversions. If not, then it should be clear where it perceives any differences to exist. Similarly, tPR may wish to consider providing guidance to address the advice requirement relating to the Uncrystallised Funds Pension Lump Sum (UFPLS) payments referred to in s48(1)(c) of the Pension Schemes Act 2015.

Specific comments

5. In paragraph 20, it is unclear how the £30,000 floor will apply. We would welcome further clarification on whether the limit applies to the CETV in respect of all benefits, the CETV in respect of benefits to be transferred (in the case of a partial transfer), or the value of a reduced CETV. We note the draft regulations appear to relate the £30,000 limit to the unreduced (i.e. pre-reduction) CETV of all, not just transferring, safeguarded benefits in the scheme and we trust that the final guidance will be consistent with the regulations.

6. The wording in paragraph 25 is unclear in relation to the periodic checks of the adviser. Given that advice to transfer out of the scheme is a single event and that each member might use a different adviser, it is uncertain what the purpose of further periodic checks on the authorisation of the adviser would be or indeed what should be checked.

7. In addition, the approach outlined for trustees goes further than what is provided for in the transfer regulations. The responsibility to check financial advisers and perform due diligence on receiving schemes could be considered a disproportionate burden on trustees, particularly when a transfer may be in the best interests of a member.

8. The wording of paragraph 31 appears to link two unrelated items, namely scheme underfunding and an insufficiency report. A scheme may be underfunded at a valuation, which would require a recovery plan. However, that does not mean that a scheme would also require an insufficiency report, which would only be required for underfunding on an initial CETV basis and could be carried out at any date.

9. There are some subtle differences concerning the application of the advice requirement. The Act refers to 'making a transfer….with a view to acquiring....flexible benefits', while the draft regulations refer in 6(c) to 'the purpose of any transfer…. is to provide flexible benefits', and paragraph 8 and paragraph 18 of the draft guidance refer to the member 'wishing to acquire flexible benefits'. The IFoA would encourage tPR to avoid introducing further variations in wording, but instead provide specific guidance to trustees on how to address differences in the legislation and on how it expects them to interpret the advice requirement.

10. Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours sincerely

Nick Salter
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