Cash equivalent transfer values

What am I going to cover?
- Background
- The new regime
- Calculation of cash equivalent transfer values (CETV)

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
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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

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

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
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“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

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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

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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• Regulator’s draft guidance
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<td><strong>Alternative method</strong></td>
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<tr>
<td>• Trustees can adopt alternative to “best estimate” calculation method</td>
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<td>• Alternative method must produce higher result</td>
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<td>• Trustees need to consider whether this is appropriate</td>
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<td>• “Insufficiency reports”</td>
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<td>• Content and timing</td>
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<td>• Trustees not obliged to reduce CETV</td>
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Other factors for trustees to consider
- Risk of “selection against the scheme”
- More difficult to make assumptions worse in future
- Cash flow

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