The Actuarial Profession
making financial sense of the future

Report of the

Member Options Working Party

December 2006

Summary

This is the report of the Member Options Working Party set up by the Current Issues committee of the Pensions Board. It is addressed to the Pensions Board of the Actuarial Profession.

The report covers actuarial advice on the options that can be exercised by individual members of occupational defined benefit pension schemes for cash or for different scheme benefits.

Our information sources were

- surveys carried out by the NAPF and the Government Actuary,
- our own survey of actuarial firms (although the response rate has, so far, been low), and
- the working party's combined experience as pensions actuaries, with confirmation of this from colleagues on Pensions Board.

The framework for converting pension to a cash lump sum is, unlike transfer values, determined by scheme rules and varies widely from scheme to scheme. In some cases, the terms may be written into the scheme rules. Even within a single scheme, different member options may be set in radically different ways.

It is important to understand that

- the terms for converting a pension to a cash lump sum are typically not set by actuaries—indeed it is not uncommon for there to be no requirement for trustees or companies to take actuarial advice, and
- on the whole, pensions legal advice is that actuarial equivalence is only one of a number of factors that should be taken into account in setting the terms for member options.

Our findings on how terms are currently set were as follows.

- Cash commutation rates are almost always set at a rate below the cost of securing the pension within the scheme. They are not adjusted in line with market interest rates.
- The notion of actuarial equivalence on an 'ongoing' or 'expected value' basis dominates the methodology used to set terms for member options with the exception of transfer values where the MFR appears to determine behaviour.
- Member options are not generally viewed as sensitive to the terms unless (a) they impact on the affordability of retirement (e.g. early retirement) or (b) the terms were to be changed substantially (e.g. one respondent commented transfers out are insensitive because transfer values are low).
- No allowance is made for the existence of the Pension Protection Fund (e.g. increasing the value of member benefits because it increases the security of those benefits). We suspect that the approach to the sponsor covenant is similar.

There is a risk that some actuaries may not have advised their clients of the need to review the terms for member options given changes in market conditions and longevity expectations.

Although the treatment of cash commutation and transfer values differs in practice (for legal and historic reasons), they are, in principle, similar. Unlike the other member options we reviewed, these options entail giving up the right to a future annuity for a cash sum and therefore represent a substantial change to the form of the benefits. We understand that the Regulator also appears to have made this link. Given that the law covering transfer values is under review and the similarities between the two options, we suggest that the Pensions Board reviews whether the Actuarial Profession should

take a similar stance on member disclosure for cash commutation as it has for transfer values (see recommendation 3 below).

Our recommendations are as follows

1. Issue a note or other communication to pension actuaries pointing out the following.
   - Where an actuary has an explicit or implicit obligation to trustees and sponsor clients to monitor terms for member options, changes in market conditions (i.e. long-dated interest rates and expected longevity) may make it appropriate for the actuary to advise that the terms are or may be out of date and should be reviewed if this has not taken place in the past two or three years.
   - It may help clarify the actuary's ongoing obligation by setting out terms for reviewing member options in his or her terms of engagement and by establishing a policy or trigger for future reviews.
   - In any review, the actuary needs to be careful to justify any financially inconsistent terms.

2. The Pensions Board should note that some actuarial valuation bases assume that current commutation terms will remain unchanged for all time and capitalise this as a reduction in liability value. This has knock-on effects in terms of client pressure on actuaries and potentially distorting trustee and company decisions on setting cash commutation terms. This is not dissimilar to actuaries needing to consider carefully the treatment of non-cost neutral early retirement. This is more general matter of actuarial conduct and we take the view that recommending a course of action is outside the scope of the working party.

3. The Actuarial Profession should support either
   - a requirement for a risk warning and suggestion for members to take financial advice if they are considering commuting a large amount of pension to cash, or
   - meaningful disclosure of cash commutation terms to members consistent with its stance on member disclosure for transfer values (i.e. an indication of the cost to the member of securing an equivalent pension).

Contents

1. Introduction

1.1 This report

In broad terms, our objectives were

(a) to summarise the current state of play on how financial terms for individual member options in pension schemes are being set, and

(b) to make recommendations on

- guidance that might be given to actuaries (which might but does not necessarily include formal guidance), and
- strategic issues for the Profession.

Because we are concerned with options relating to defined benefits, this report relates principally to defined benefit pension schemes. All references to schemes or actuarial advice should therefore be read as referring to defined benefit pension schemes unless otherwise specified.

1.2 Survey

As part of our information gathering, we surveyed actuaries at various firms to check our understanding of current practice. Because they have been very busy, the largest consulting firms have not completed the survey. Given our own experience of the subject, we do not consider that waiting for them to complete the survey to be sufficient justification for delaying our report.

1.3 Involvement of the Association of Pensions Lawyers (APL)

Derek Sloan, chairman of the APL has been involved with the working party in order to provide a legal perspective.

1.4 Typical member options

Typical pension schemes offer members these options

- Commutation of accrued pension for a cash sum paid to the member at retirement (or at any other time when the member is able to draw on the benefits).
- Exchange of a member's deferred pension and other attaching benefits for a transfer value to another scheme. (In most cases, members with more than a year to normal retirement age have a legal right to a transfer value.)
- Early retirement from pensionable service.
- Early retirement from deferred pensioner status.
- Commutation and retirement on grounds of incapacity or ill-health (possibly including differentiation based on severity).
- Commutation on grounds of triviality.
- In scheme purchase of pension using member AVCs.
- Increase in pension to allow for 'late' retirement.
- Exchange of accrued pension for increased dependant's pension

Some schemes also provide for

- Additional defined benefit in exchange for a transfer value paid into the scheme.

- Options to ‘shape’ pension e.g. providing a bridging pension up to State Pension Age in return for a lower pension thereafter.

In broad terms, the options can be divided between those which exchange benefits for cash and those which exchange one set of benefits for another. This division is important because:

- exchanging benefits for cash creates an immediate cash impact to the scheme and an easily measured value whereas when benefits which are exchanged for other benefits the impact is less obvious, and
- the more similar the benefits being exchanged for other benefits are, the less sensitive they are likely to be to the underlying actuarial assumptions.

We note that the Pensions Board has already reviewed guidance in relation to transfer values in some detail and consulted the membership on proposed guidance for setting transfer values (in the form of EXD54). Accordingly, we have considered transfer values only at a high level or in relation to their potential interaction with the terms for other options.

2. The roles of different parties in setting terms for member options

2.1 The parties involved

The roles of different parties in setting terms varies depending on the wording of scheme deeds and rules and, in practice, on how these parties interpret their obligations. The key points are as follows.

(a) *Trustees*. Trustees have a duty to act in the members' interests. This does not necessarily mean using their power to maximise payments to members.

(b) *Sponsor*. The sponsor's duty in relation to powers that it exercises may or may not be fiduciary (i.e. one that it has to exercise taking account of the interests of the beneficiaries). The sponsor will also have duties to its owners which may mean that it has an obligation to exercise powers to constrain the terms for member options to control costs.

(c) *Actuary*. This may or may not mean specifically the Scheme Actuary. We have discussed the role of the actuary in detail below.

(d) *Lawyer*. Given the need for interpretation, lawyers can play a pivotal role in setting the terms for member options. Our impression is that it has become far more common for actuaries to recommend that trustees and sponsors take legal advice before setting the terms.

(e) *The Pensions Regulator*. We met with the Pensions Regulator to determine its point of view. We have summarised the Regulator's stance in 2.3 below.

(f) *HMRC (previously the Inland Revenue)*. Historically, the Inland Revenue has focussed solely on preventing pension schemes from being used to avoid tax and imposed general constraints on benefit amounts. Some of these have related specifically to member options, including cash commutation and late retirement.

(g) *DWP*. The DWP has tended to focus on member protection. For instance, legal requirements under 'preservation' require that pensions on early retirement terms have at least the same 'value' as the accrued deferred pension.

2.2 The actuary

The role of the actuary in setting terms varies substantially between different schemes and, for the same scheme, it may vary substantially depending on the member option. The range includes the following.

- There is no explicit role for the actuary. The actuary may still have an obligation depending on his or her terms of engagement to provide proactive advice e.g. in relation to implications for costs or benefit security or when advising on other issues such as scheme funding.
- The party or parties setting the terms are required to take actuarial advice, but the nature of this advice is not defined.
- The terms must be certified or otherwise approved by an actuary. The wording is, however, typically vague, referring to terms such as 'reasonable' or relating to the impact on scheme funding. It may also not be clear whether the actuary's obligation relates to when terms are changed or at the time the options are exercised.
- The terms are determined by an actuary.
- Terms must be reviewed following the triennial actuarial valuation.

The wording in most scheme deeds and rules was penned in a bygone era when:

- scheme solvency (in a buy-out sense) was taken for granted (not least because many schemes were originally set up by insurance companies),
- funding was a matter of targeting what were ultimately expected to be quasi-with profits arrangements,
- the sponsor would always have an option to walk away, and
- the cost of providing benefits was much lower.

Interpretation in the current era often amounts to re-interpretation and can therefore be challenging.

In summary, actuaries are typically not responsible for setting the terms for member options. When actuaries are responsible for setting the terms, the directions in the deed and rules may not be clear.

2.3 The Pensions Regulator

We met with the Pensions Regulator.

The Regulator is interested in general governance and trustee guidance rather than anything specific to cash commutation.

The Regulator sees cash commutation as potentially tied to the review of cash equivalent transfer values in the sense that there may need to be some consistency in approach between the two.

3. The nature of member options

3.1 Summary

Factors that need to be taken into account when setting terms for member options include financial, legal and practical issues. These are covered separately below.

Given that the considerations for and risks in setting member options in the context of a scheme winding up can be substantially different from where the scheme is ongoing, we have summarised the differences separately in appendix D.

3.2 Financial issues

Financial issues that are relevant to valuing member options include the following.

(a) *Discounting payments*. There are different views amongst UK actuaries on how to place a value on pension scheme liabilities. These can be summarised as follows:

- discount expected payments at the expected rate of return on scheme assets, or
- discount payments at market rates (with or without allowance for credit risk).

In practice, many actuaries adopt pragmatic approaches that fall between these two philosophies.

(b) *Expected frequency of exercise*. Some options are exercised only rarely, e.g. the option to surrender pension in return for higher contingent dependants' pensions. This may be relied on in setting terms on the basis that the risks of setting terms on too generous a basis will still be immaterial in the context of the scheme as a whole. Equally, some options are widely expected to be exercised, e.g. commuting pension for cash sum at retirement. This may be relied on in financing the scheme—some actuarial funding valuations assume that pension will be commuted for cash at rates that are less favourable than are otherwise implied by the actuarial funding basis.

(c) *Risk of adverse selection*. If a scheme provides terms that are inconsistent internally or inconsistent with market terms then there is a risk that members will select against the scheme by choosing the option most favourable to them but which is consequently least favourable to the financial position of the scheme. The risk of adverse selection also exists in relation to member life expectancy if the benefit is not underwritten.

(d) *Rating factors*. Allowing for some of the factors that are potentially relevant for valuation such as the member's sex, the size of the pension or marital status is potentially controversial. For instance, providing higher commutation factors to members with larger pensions could result in the accusation of favouring the better paid, even though experience suggests that individuals with higher pensions live longer and therefore the pension surrendered has a higher value.

(e) *Administration expenses*. Providing pension benefits entails expenses. Given the general focus on scheme funding, actuaries have tended not to consider the allocation of expenses to different member benefits. Doing so could prove controversial as small benefits are not much, if at all, cheaper to administer compared with large benefits.

(f) *Tax effects*. The favourable tax treatment of cash commutation means that members are incentivised to take the cash sum even though the terms are not cost neutral when seen from the scheme's point of view.

(g) *The sponsor covenant and the PPF*. It is currently unusual to take explicit account of the strength of the sponsor covenant or the existence of the PPF in setting terms for member options (other than in the case of a scheme in winding up—see appendix D). These are, however, potentially material factors in valuing a member's benefit.

(h) *Asymmetry in changing terms.* Changing the terms for a member option will tend to meet resistance when the members perceive that the terms are being worsened. This tends to be more of an issue where the options are reviewed infrequently and not linked explicitly and objectively to market conditions. This asymmetry means that trustee and sponsors may hold back from making changes that may only be temporary to avoid the potential pain of having to reverse them. Examples are

- low long-dated interest rates—the concern is that there is a material risk that these are a short-term phenomenon, and
- longevity—instead of adopting the latest expectations (as would be the case in market annuity rates), the tendency is to require substantial evidence of improvement before allowing for it in member options (where this works against the scheme).

3.3 Legal issues

The legal context varies significantly across schemes (and for different options within schemes as a result of different wording in deeds and rules, different previous communications with members and, possibly, different legal or actuarial advice.

Our understanding, informed by Derek Sloan, is as follows:

- There is a general implied duty for trustees to be reasonable in setting the terms for member options. Regardless of whether the rules state that the terms should be e.g. ‘reasonable’, it is appropriate that the financial terms for member options take account of other factors than actuarial equivalence.
- In assessing the degree to which an actuary is expected to be pro-active or to monitor current terms, the first point of call is the actuary’s engagement letter. A court may also infer an obligation depending on the actuary’s relationship with a client. For instance, the actuary’s obligation may be greater if she acts for the client on a frequent basis and is frequently proactive on other issues.
- The Actuarial Profession should be careful to distinguish between the risk of professional negligence to its members, which may be relatively low, and the risk to the general reputation of the Actuarial Profession, which is not purely a legal matter.

3.4 Practical issues

There are natural pressures to provide terms for member options that remain relatively constant over time arising from

- the need for members to be able to plan in advance for retirement,
- the need to communicate benefits to members effectively, and
- the advantages of simplified scheme administration.

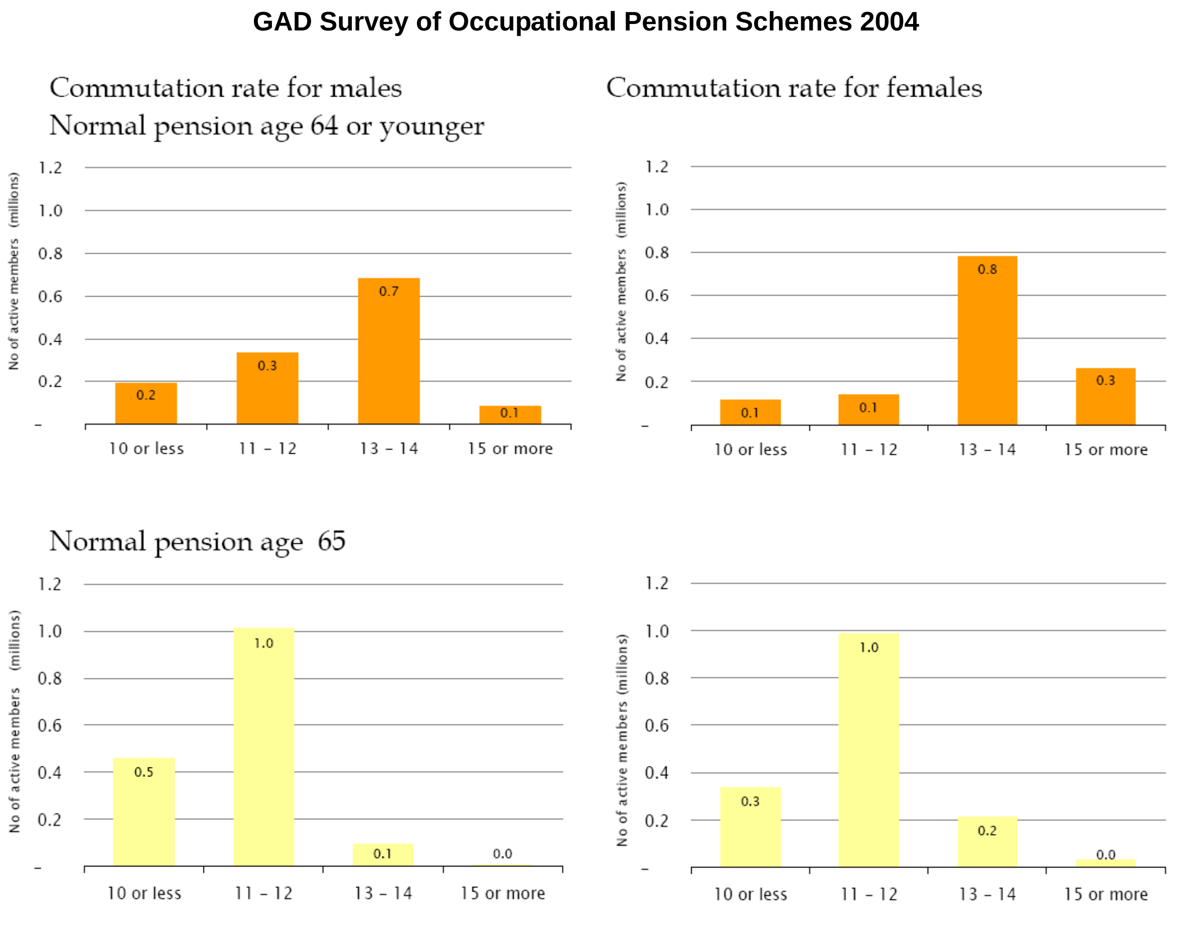
Using relatively constant terms may also be considered consistent with the general philosophy of defined benefit schemes and may become the legal position simply by setting expectations if applied over time.

A more detailed discussion of change issues is set out in appendix C.

4. Data on current practice

4.1 Government Actuary survey

The twelfth survey by the Government Actuary contained results as at April 2004 based on data collected from a sample of schemes. This survey conveniently contained a more detailed question on cash commutation terms than previous surveys. The results are as follows. (Note that the numbers of active members shown represent the total active membership of schemes with the relevant commutation rate, not the male or female active membership to whom the rates would apply.)



Source: Government Actuary's Department ©Crown Copyright 2005 (http://www.gad.gov.uk/Publications/docs/Final%20Report%2016Jun2005.pdf)

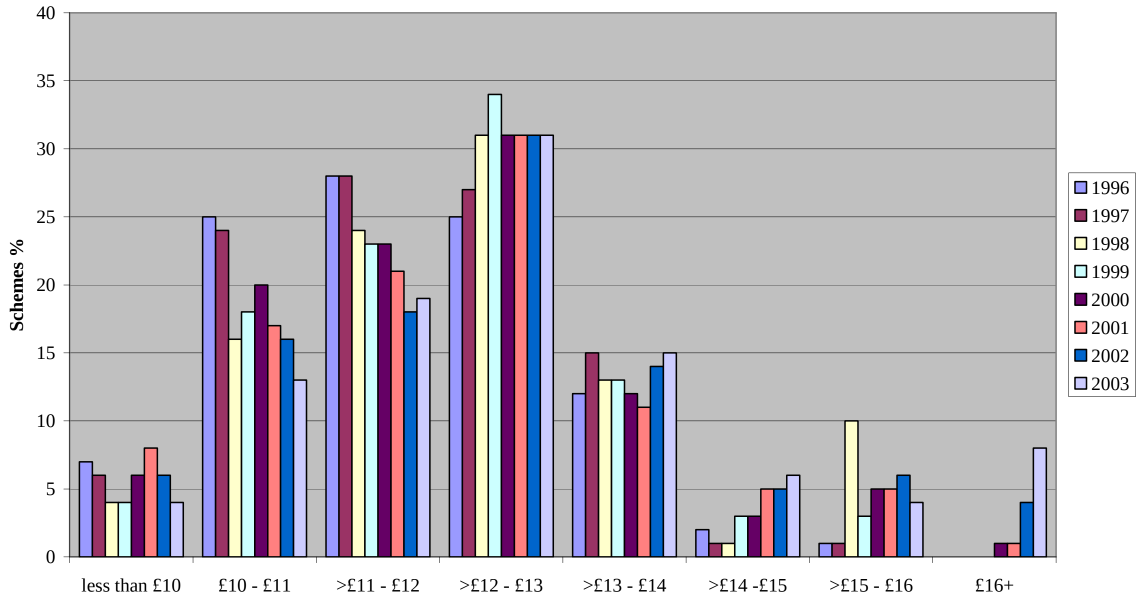
The results show that, at age 65, the terms for males are, for the vast majority of cases, 12 or less, with a substantial proportion being 10 or less. The equivalent cost of purchasing an annuity for a male age 65 would have been at least, say, 13 (no increases) and, say, 16 (LPI increases).

4.2 NAPF surveys

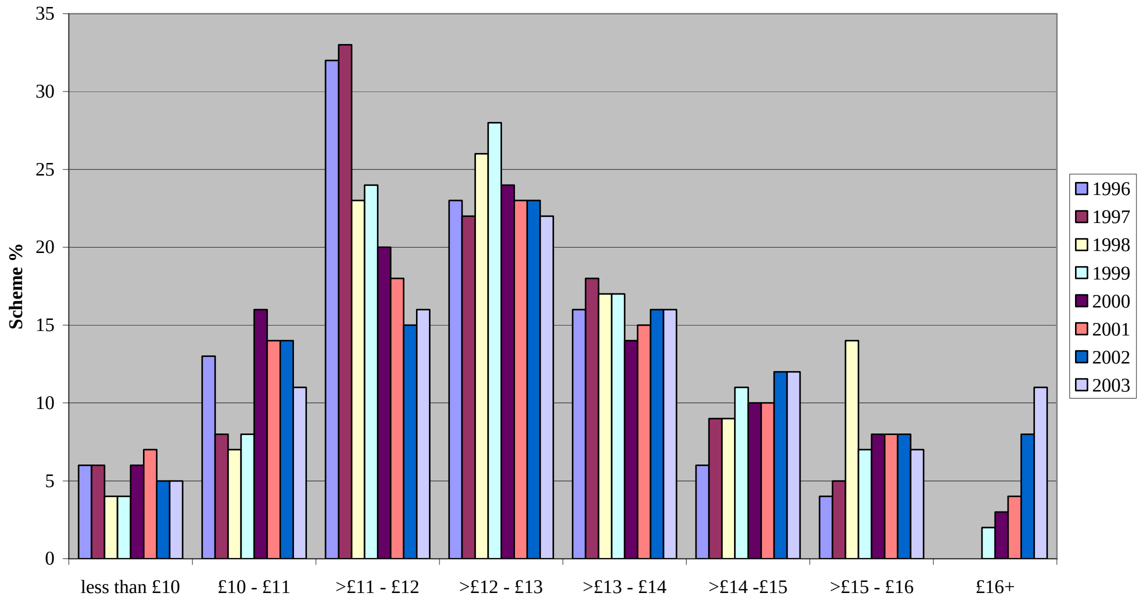
The National Associations of Pension Funds (NAPF) surveys its members annually. We have summarised the results below.

NAPF Annual Survey: commutation terms at age 60

Commuting Pension for lump sum - Males



Commuting Pension for lump sum - Females



Source: National Associations of Pension Funds (NAPF) surveys from 1996 to 2003. The 2004 Annual NAPF survey was prepared on a different basis which is less informative than in previous years.

The results relate to age 60, which is not the most typical retirement age. They show that

- the terms do not appear to have changed substantially with the increasing cost of pensions over the time period, and

- most schemes provide cash commutation terms substantially lower than the cost of purchasing an annuity which, for a male aged 60 might have been at least, say, 15 (no increases) and, say, 19 (LPI increases) at the end of the survey period.

4.3 Our survey of actuaries

We carried out a survey of key contacts at actuarial firms. The response rate from the large firms was low because of the high work load following ‘A day’ and other changes to pension scheme legislation, and therefore the data is not complete. It does, however, accord with the experience of members of large firms who are on the working party and on the Pensions Board and therefore we are confident that it provides a reasonable indication of current practice.

The responses are summarised in appendix F.

The following table is a subjective summary of the survey results for typical terms for key member options.

Option	Actuarial factor X	Value of X		
		Lower value	**Typical value**	**Higher value**
Cash commutation	£X p.a. of cash per £1 p.a. of pension commuted for a male at normal retirement age 65 with no increases in payment	9	9 to 12	12 typical
	£X p.a. of cash per £1 p.a. of pension commuted for a male at normal retirement age 65 with LPI(0,5) increases in payment	Mostly 9	10 to 14	13 to 16, a few at market rates (e.g. 18 or 22)
Early retirement	£X p.a. of immediate pension per £1 p.a. of current accrued pension for an member with 5 years to normal retirement age. Assume that all pensions have LPI(0,5) increases and 50% spouses’ pensions.	0.7	0.8	0.9
Late retirement	£X p.a. of immediate pension on late retirement now per £1 p.a. of pension at normal retirement age for a member retiring 5 years after normal retirement age. Assume that all pensions have LPI(0,5) increases and 50% spouses’ pensions,	1.5 (tight range)		

Again, the data tend to confirm that cash commutation rates are substantially below the market cost of the scheme purchasing an annuity. The factor of 9 for a male at age 65 is the old Inland Revenue standard factor.

Other notable features were:

- The general consensus is that cash commutation tends to be insensitive to the terms. For other options, e.g. early retirement exercise may be sensitive to the terms offered because members are likely to have an income test for whether they can afford to retire early.
- References were made to making allowance net of tax.
- In terms of factors taken into account, cost neutrality on an ongoing basis appeared to be the most common strongest factor (except for transfer values and, possibly AVC pension purchase, where market conditions were most important). Cost neutrality in this case appears to refer to a measure on an ‘ongoing basis’, i.e. a basis capitalising ‘prudent’ future expected return as current value (although we note that some actuaries may mean a weaker basis by referring to expected returns with no adjustment for prudence.)

- No respondent took account of the existence of the PPF.

5. Analysis and recommendations

5.1 Member options in general

While the immediate concern is commutation of pension for cash on retirement, similar issues arise in connection with all member options.

Where these involve converting one cashflow stream into another, the sensitivity to actuarial advice is less and therefore the issues are less serious. Consequently we have made no specific recommendations in relation to these options.

There remains the potential criticism that the terms for member options are inconsistent. Sometimes, this will be wholly spurious because, for instance, the scheme rules for setting different options are completely different.

However, some inconsistencies will look odd to an external observer. For example, it is not uncommon to find that LPI pension at age 65 may be commuted at the rate of say £10 per £1 p.a. of pension but that terms for purchasing the same pension from AVCs (after excluding the spouse's pension) may be 50% higher or more. In addition, some schemes have changed their rules to ensure that members cannot take all their cash from their AVCs, which will highlight this discrepancy.

Accordingly, consistency is a concern, which we have incorporated into our recommendations later in this section.

5.2 Cash commutation

Most scheme members elect to commute pension for a cash sum at retirement. This is no doubt partly because the cash sum is tax free, but there may also be an assumption, possibly implicit, that the financial terms relate closely to the cost of replacing the benefit forgone. However, our data indicate that, for most members of most pension schemes, the cash sum received on commutation is likely to be substantially less than the cost to the member of replacing the pension surrendered.

Cash commutation terms are typically set by the trustees or the sponsor; there may not even be a requirement to take actuarial advice.

The background to setting cash commutation terms has changed over time.

- Over the past five years, long-dated interest rates (real and nominal) have fallen substantially and expected longevity has increased, both of which imply that the cost of pension benefits has increased materially (as evidenced by e.g. the costs of purchasing annuities on the open market). The terms for cash commutation have generally not increased by the same proportion and, we believe, in many cases have not been adjusted at all.
- HMRC changes have brought in a standard 'capitalisation' factor of 20 to compare the value of a member's benefits with the lifetime allowance. The comparison with the not uncommon cash commutation multiple of 9 is stark (and remains so even after adjustment is made for the assumed attaching dependant's benefit included in the HMRC factor).
- The advent of the Pension Protection Fund (PPF) makes pensions more secure. Accordingly, members may now be giving up a more valuable right compared to the situation before the PPF.
- The implementation of 'A-day' changes in some schemes has limited the amount of AVCs that be taken as cash on retirement by reference to the amount of main scheme pension taken as cash. In many such schemes, the terms for purchasing annuities with AVCs (e.g. on the open market) will

inconsistent with the terms for surrendering pension from the scheme (which would have been the motivation for constraining the member's options in this way in the first place).

- The new 'scheme-specific' funding regime is being introduced.

In view of the above, the Actuarial Profession needs to consider the following.

- *The need for actuarial review*. Although it may not be the case that cash commutation terms in a typical scheme are legally required to be based solely on the 'value' of the benefit forgone, it seems likely that this is a factor that should be taken into account, We are concerned that, given the substantial change in the value of pensions arising from falls in long-dated interest rates and increased longevity expectations, some actuaries may not have advised their trustee and scheme sponsor clients that cash commutation terms should be reviewed.
- *Relation to scheme funding*. We are concerned that, possibly as a result of pressure to contain increasing reported pension scheme costs and sponsor contributions, actuaries may be signing off valuations that assume members commute a large proportion of their pension for cash on retirement and that the current cash commutation terms will continue to apply for all time. Because the future terms for commuting pension will typically depend on legal interpretation and the future behaviour of trustees, where it is material, it is important that actuaries have considered the assumption explicitly and disclosed the implications in their valuation advice. For instance, it may be questionable to assume that commutation rates will remain unchanged forever just because they have not yet been adjusted to take account of lower interest rates and higher longevity expectations. We note that, where an actuary has already made this assumption and there is pressure from a client to control reported costs or cash contributions, this pressure is likely also to apply to actuarial advice in relation to cash commutation terms as these are now capitalised in the valuation basis.

We therefore make these recommendations to be considered by the Pensions Board

Rec 1 Issue a note or other communication to pension actuaries pointing out the following.

- **Where an actuary has an explicit or implicit obligation to advise trustees and sponsor clients on terms for member options, changes in market conditions (i.e. long-dated interest rates and expected longevity) may make it appropriate for the actuary to advise that the terms may be out of date and should be reviewed if this has not taken place in the past two or three years.**
- **It may help clarify the actuary's ongoing obligation by setting out terms for reviewing member options in his or her terms of engagement and by establishing a policy or trigger for future reviews.**
- **In any review, the actuary needs to be careful to justify any financially inconsistent terms.**

Rec 2 The Pensions Board should note that some actuarial valuation bases assume that current commutation terms will remain unchanged for all time and capitalise this as a reduction in liability value. This has knock-on effects in terms of client pressure on actuaries and potentially distorting trustee and company decisions on setting cash commutation terms. This is not dissimilar to actuaries needing to consider carefully the treatment of non-cost neutral early retirement. This is more general matter of actuarial conduct and we take the view that recommending a course of action is outside the scope of the working party.

5.3 Cash equivalent transfer values

The option to take a cash equivalent transfer value (which we will refer to simply as a transfer value in this report) is, in principle, very similar to cash commutation because, in both cases, member benefits are converted to a cash sum. In practice, they are treated differently for the following reasons.

- Overriding legislation dictates both the right for members to take a transfer value and the minimum value.
- Cash equivalent transfer values are used elsewhere in legislation as the reference value of a member's accrued benefits (e.g. to measure the value of the benefits in divorce cases).
- There is no directly-associated tax benefit with taking a transfer value.
- Cash commutation has been a one-off decision at retirement compared with the ongoing option to take a transfer value. This means that the cash commutation is less susceptible to selection against the scheme compared with the option to take a transfer value.
- Because transfer values typically involve the whole scheme benefit members taking them tend to take financial advice whereas our understanding is that the decision to commute pension for cash at retirement is usually not based on financial advice.
- There is a perceived difference between paying a cash sum direct to a member and transferring it to another pension arrangement.
- The legacy of experience is very different: transfer values are associated with the personal pension misselling scandal whereas cash commutation has generally been seen as positive because of the tax break.

Despite these differences, the underlying similarity remains and therefore, in our view, the Actuarial Profession should be careful to avoid inconsistency between its position on transfer values and cash commutation. In particular, given that

- transfer values are being reviewed by Government, with initial consultations in Summer 2006 and legislation slated for April 2007,
- transfer values and cash commutation share many features in common, and
- the Actuarial Profession has taken the stance that, while setting transfer values may be a matter of social policy, disclosure is a matter of public interest,

consideration needs to be given to whether the Actuarial Profession should also take the stance that disclosure should also be provided in the case of cash commutation.

In this context, disclosure might be either

- the approximate cost to the scheme of providing the same pension with security (i.e. the purchase of an annuity), or
- the cost to the member of replacing the income.

The latter option is potentially complex if allowance were to be made for the tax exemption on notional return of capital for purchased life annuities because this calculation is non-trivial and because members' tax circumstances are different. We note, however, that where trustees or companies have relied on a broad brush approach to the tax exemption in justifying low rates, it would be asymmetric not to use the same broad brush approach in disclosing the impact on members.

The pros and cons of the Actuarial Profession taking the position that schemes should provide meaningful disclosure in relation to cash commutation are as follows:

Disclosure for cash commutation	
Pros	**Cons**
• Most members take the standard maximum cash sum without considering whether they are receiving value for money. The suspicion is that many members do so unthinkingly. Disclosing the value of the benefit forgone would provide a clear indication of the magnitude of the financial decision the member was making. In other words it is in the public interest. • It is consistent with the stance taken in relation to transfer values.	• Providing additional information represents an additional cost burden. • The disclosure is unlikely to be accurate because market conditions change and because not all members would have the same tax treatment.

An alternative to disclosure would be to require that cash commutation is, in common with other major financial decisions, accompanied by some risk warnings and a suggestion that members should take financial advice.

Rec 3 The Actuarial Profession should support either

- **a requirement for a risk warning and suggestion for members to take financial advice if they are considering commuting a large amount of pension to cash, or**
- **meaningful disclosure of cash commutation terms to members consistent with its stance on member disclosure for transfer values (i.e. an indication of the cost to the member of securing an equivalent pension).**

Appendices

A. Terms of reference

1. For the purpose of these terms of reference, references to ‘options’ mean the options that members of UK occupational pension schemes have

   (a) to exchange an accrued scheme benefit for another scheme benefit or cash, or

   (b) to purchase benefits in the scheme *other than* the accrual of benefits linked to service as an employee,

   where the financial terms are determined by the trustees or the sponsor, or by an actuary or with reference to an actuary appointed by the trustees or the sponsor.

   For clarity, the following are excluded:

   - options relating to terms for future benefit accrual (e.g. to join and pay contributions or to choose between different benefit scales with different associated member contribution rates), and
   - options where the terms are set externally and the financial impact is passed directly through to the member, e.g. annuity purchase in defined contribution schemes where the annuities are provided by insurance companies.

   Transfer values are included, but, given that they have been considered in detail recently by the Pensions Board, the working party should not provide a detailed treatment of transfer values.

2. The working party should summarise the following:

   (a) the principal options found in UK occupational pension schemes,

   (b) the range of legal considerations governing setting terms for these options, and

   (c) the range of legal advice on interpreting these legal considerations.

3. In order to include the legal perspective, the working party should include one or more lawyers.

4. The working party should summarise and assess the current approaches adopted by UK actuaries to advising on or setting terms for the options in 2(a) above, including the extent to which and how allowance is made for the following:

   (a) market conditions, including both
   - the cost of securing the same benefit terms with an insurance company, and
   - market prices for assets that could be used to mitigate the principal financial risks (e.g. long-dated, possibly index-linked, bonds and swaps, and mortality risk mitigation products),

   (b) cost neutrality from the scheme’s point of view (including how this is defined),

   (c) cost neutrality from a members’ points of view (including taxation and time cost of money to the member) and, if such allowance is made, whether or how differing member circumstances are taken into account,

   (d) market experience about the terms currently offered to existing scheme members and the acceptance rate (or otherwise) of these terms

(e) consistency between the terms for different member options,

(f) the characterisation of the financial terms as part of the scheme benefit structure (e.g. on the basis that they have been set out in member communications),

(g) providing members with lower values than market replacement cost on the grounds that the ‘pension promise’ relates to the primary benefit and members do not have to exercise the option,

(h) member communication and planning, e.g. the desire to provide figures for members that are fixed for sufficiently long that members can plan financially, and any consequent the exposure of the scheme to risk arising from this,

(i) risks to the scheme from the large scale exercise of a particular member option,

(j) scheme funding and benefit security, including current under-funding, scheme funding and investment strategy, the sponsor covenant and future exposure of the scheme to risk in general, and

(k) the existence of the Pension Protection Fund.

5. The working party should obtain the views of the Pensions Regulator on setting financial terms for member options.

6. The working party should make recommendations to the Actuarial Profession, reporting through the Pensions Board, on whether there is a need for formal guidance or general guidance and education in relation to actuarial and related advice (e.g. advice to trustees where the sponsor has a veto on setting the terms or on how terms should be communicated to members) for

   (a) actuaries advising or making recommendations to trustees and sponsors on setting financial terms for options, and

   (b) actuaries who are responsible for setting financial terms for options.

7. The working party should report on strategic issues for the Actuarial Profession arising from actuaries advising on or setting financial terms for member options, including the possible consequences of increasing public awareness of a disparity between rates for commutation of pensions at retirement and replacement annuity purchase rates.

8. The working party should deliver a preliminary written report to the Current Issues committee of the Pensions Board by [3 March 2006] and a final written report by [6 May 2006].

B. Members of the working party

The members of the working party are:

- Tim Gordon (chairman), Gordon Consulting LLP
- Richard Jones, Punter Southall
- James Saunders, PricewaterhouseCoopers
- Alan Smith, First Actuarial
- Arthur Zegleman, Watson Wyatt
- Derek Sloan, Chairman of the Association of Pension Lawyers, Allen & Overy

C. Change issues

C.1 Summary

Changing the terms for a member option is likely to have cost implications, as well as creating ‘winners’ and ‘losers’ amongst the membership.

There will also be transitional cases to deal with, i.e. cases where an illustration of benefits has been provided on one basis but where revised terms will, potentially at least, apply at the time that the option will actually be exercised.

From a purely practical view, therefore, there is an argument that option terms should be changed as infrequently as possible.

However, when a change is to be made there typically needs to be a lead in time of a minimum of three months in order to allow administrators to amend their processes and to ensure that terms quoted for forthcoming retirements can be honoured.

A move to a dynamic market linked approach would pose a number of practical problems.

C.2 Scheme administration

From a scheme administrators point of view the main practical considerations in relation to changing option terms are that:

- There is ample time to amend administrative processes, including computer systems, to reflect the change in terms,
- There are clear procedures for dealing with cases in the pipeline at the time of change, ideally so that no members who have made a decision about the exercise of an option will be disadvantaged by the change, and
- Where option terms are set out in scheme booklets or elsewhere there is time to amend these references prior to the change

Trustees, and indeed the sponsoring employer, should also realise that because of these reasons there will be an administrative cost incurred in implementing a change.

C.3 Member considerations

By its very nature, any option available to a member will require a decision to be made by that member over the exercise of that option. For example, should some pension be commuted for a lump sum and, if so, how much should be commuted?

These are important decisions as they stand to affect the member’s financial well being throughout retirement (and beyond in the case of options relating to benefits payable to surviving dependants).

It is appropriate, therefore, that members are not only given sufficient time to make their decision but also all the information necessary to make an informed decision.

The two month ‘reasonable period’ (see below) should, if adhered to by schemes, give members sufficient time to make their decision and in particular should allow members time to seek independent financial advice should they wish to do so.

In order that an informed decision can be made the communication will need to contain details of the terms on which the option will be exercisable.

C.4 Practical lead in times

The draft code of practice (Reasonable periods for the purposes of The Occupational Pension Schemes (Disclosure of Information) Regulations 2006) sets an expectation that members should be provided with information about their benefits at least two months prior to their expected retirement date.

Combining this with the need to provide members with details of the terms on which an option can be exercised would therefore point to a minimum lead in time of three months for any change in option terms.

Such a period will also be required where, as is often the case, option terms are programmed in to administration systems as it may be necessary to re-specify the calculation routines and will in any event always be necessary to test the system even if the change can be handled by adjusting parameters in the system.

Three months should also be sufficient to ensure that general communications, such as booklets, can be updated ahead of, or at least soon after, the change.

C.5 Changing to market-linked terms

Having regard to the points made above, there would be practical difficulties if option terms were to be set on a dynamic market linked basis.

If it is taken as read that members should know the terms on which they can exercise a forthcoming option (for say three months) then the only practical way of adopting a market linked approach would be to set terms at say the start of a month and use these terms for all quotations given in that month for retirements in three months' time.

These terms would be guaranteed if retirement took place on the day originally planned, but such an approach would mean administrators were having to deal with a number of different option terms at any point in time (thus inviting mistakes) and complications would arise if a member decided to defer drawing benefits by a month, say, as a decision would then need to made as to whether to honour the original terms offered or to re-quote on the latest terms.

D. Special considerations relating to winding up

Although members can still apply to exercise options once a scheme has commenced winding up, in practice many trustees will, on the advice of their scheme actuary, effectively restrict the exercise of such options until it is clear what level of benefits can be secured at the end of the wind up.

For example, trustees may withhold consent to any early retirements and hold requests for transfer values in abeyance pending clarification of the final funding position of the scheme. Further, benefits payable on a retirement at NRA may be scaled back (temporarily) in order to make sure that the retiring member is not granted benefits in excess of those that can be secured at the end of the wind up.

Finally, where a scheme commences wind up as a result of the sponsoring employer suffering an insolvency event and the scheme enters the PPF assessment period further restrictions will apply to members’ benefits, including member options.

E. Member options working party—pensions actuary questionnaire

The Actuarial Profession is reviewing the nature of advice given by and the responsibilities resting with actuaries in relation to setting financial terms for member options, in particular, the commutation of pension for cash at retirement. The terms of reference are attached as an appendix.

In order to obtain an informed understanding of current actuarial practices, it would help if you could arrange for your firm to complete and return the attached questionnaire. We suggest (and would prefer) that you provide a combined single response from your firm, although if you do so, please ensure that you have given actuaries within your firm an opportunity to contribute to the response (e.g. by circulating your draft response internally before sending a final version to us).

We stress that the information provided will be treated confidentially and that individual firms or actuaries will not be identified in any reporting.

For further information, please contact Margaret Marchetti (tel 020 7632 2184 or e-mail Margaret.Marchetti@actuaries.org.uk).

Please send responses to this survey to Margaret Marchetti (Margaret.Marchetti@actuaries.org.uk or fax to 020 7632 2131) by 13 April 2006.

1. The principal options found in UK occupational pension schemes are:

(a) Commutation of accrued pension for a cash sum paid to the member at retirement (or at any other time when the member is able to draw on the benefits).

(b) Exchange of accrued deferred pension for transfer value.

(c) Early retirement from pensionable service.

(d) Early retirement from deferred pensioner status.

(e) Commutation and retirement on grounds of incapacity or ill-health (possibly including differentiation based on severity).

(f) Commutation on grounds of triviality.

(g) In scheme purchase of pension using member AVCs.

(h) Increase in pension to allow for ‘late’ retirement.

(i) Exchange of accrued pension for increased dependant’s pension.

Q1. Should any other items be added to this list?

(j) ....

(k) ....

2. The range of provisions in trust deeds and rules for setting terms for these options can be summarised as follows:

(a) Either the trustees or the sponsor sets the terms unilaterally without reference to the other.

(b) Either the trustees or the sponsor sets the terms but is required to consult the other.

(c) The trustees and the sponsor must agree the terms (i.e. both have a veto against change).

(d) There are no explicit terms or constraints.

(e) The party or parties setting the terms takes actuarial advice.

(f) The terms must be certified or otherwise approved by an actuary, either at the time the terms are changed or at the time the option is exercised.

(g) The terms must be determined by an actuary.

(h) A review of the terms is required following the triennial valuation.

(i) The terms must be 'reasonable' (or similar).

(j) There are constraints referring to an external agency (e.g. commutation factors to be no more than approvable by HMRC).

(k) The financial terms for exercising the options are themselves defined in the deed and rules and can only be changed by a deed of amendment.

Q2. Should any other items be added to this list?

(l) ....

(m) ....

(n) ....

(o) ....

3. The range of legal advice on interpreting these legal considerations can be summarised as follows:

(a) The party setting the terms is acting as a fiduciary.

(b) The party setting the terms is not acting as a fiduciary.

(c) The terms are implicitly a part of the scheme benefit design and therefore amending them (to be more or less generous) should be treated similarly to changing benefits.

(d) Where either the trustees or the sponsor can set the terms independently, they must still take account of the views of the other party.

Q3. Should any other items be added to this list?

(e) ....

(f) ....

(g) ....

(h) ....

Q4. For each of the items in 1 above, please summarise briefly how sensitive in your experience or view the exercise of the option is to the terms being offered and what evidence supports this view.

(a) ....

(b) ....

(c) ....

(d) ....

(e) ....

(f) ....

(g) ....

(h) ....

(i) ....

(j) ....

(k) ....

Q5. For each of the items in 1 above, please indicate numerically the degree to which the following factors are taken into account.

In order to provide a brief overview of the range and some indication of the most common factors taken into account for each member option, please complete the following table with a number indicating the importance of each factor with 1 representing the most important factor in each column, 2 the second most important etc, (and n/a if not applicable).

Where necessary, please add an additional note below the table (or on a separate sheet) to provide clarification.

Possible factor taken into account	(a) Cash comm	(b) Trans value	(c) Early ret, active	(d) Early ret, deferred	(e) Comm incap/ill hlth	(f) Comm triv pens	(g) AVC purchase	(h) Late retirement	(i) Exch for dep pen	(j)	(k)
i. Market conditions (meaning either the cost of securing the same benefit terms with an insurance company or market prices for assets that could be used to mitigate the principal financial risks (e.g. long-dated, possibly index-linked, bonds and swaps, and mortality risk mitigation products).											
ii. Cost neutrality from the scheme's point of view (including how this is defined).											
iii. Cost neutrality from a member's point of view (including taxation and time cost of money to the member) and, if such allowance is made, whether or how differing member circumstances are taken into account.											

Possible factor taken into account	(a) Cash comm	(b) Trans value	(c) Early ret, active	(d) Early ret, deferred	(e) Comm incap/ill hlth	(f) Comm triv pens	(g) AVC purchase	(h) Late retirement	(i) Exch for dep pen	(j)	(k)
iv. Market experience about the terms currently offered to existing scheme members and the acceptance rate (or otherwise) of these terms.											
v. Consistency between the terms for different member options.											
vi. The characterisation of the financial terms as part of the scheme benefit structure (e.g. on the basis that they have been set out in member communications).											
vii. Providing members with lower values than market replacement cost on the grounds that the 'pension promise' relates to the primary benefit and members do not have to exercise the option.											
viii. Member communication and planning, e.g. the desire to provide figures for members that are fixed for sufficiently long that members can plan financially, and any consequent exposure of the scheme to risk arising from this.											
ix. The risk of selection against the scheme at an individual member level.											
x. Risks to the scheme from the large scale exercise of a particular member option.											

Possible factor taken into account	(a) Cash comm	(b) Trans value	(c) Early ret, active	(d) Early ret, deferred	(e) Comm incap/ill hlth	(f) Comm triv pens	(g) AVC purchase	(h) Late retirement	(i) Exch for dep pen	(j)	(k)
xi. Concern that it may be harder to make the terms less generous in future (if the change in financial conditions reverses) than it is to improve them now.											
xii. Scheme funding and benefit security, including current under-funding, scheme funding and investment strategy, the sponsor covenant and future exposure of the scheme to risk in general.											
xiii. The difference in scheme expenses arising from exercising the option and/or the expenses of exercising the option.											
xiv. The existence of the Pension Protection Fund.											

Notes

(1)

(2)

(3)

(4)

(5)

(6)

(7)

Q6. For the following items (from 1 above), please indicate a typical range for the terms as requested.

Item	Actuarial factor (X) requested	X		
		Lower value	Typical value	Higher value
(a) Cash commutation	£X p.a. of cash per £1 p.a. of pension commuted for a male at normal retirement age 65 with no increases in payment			
	£X p.a. of cash per £1 p.a. of pension commuted for a male at normal retirement age 65 with LPI(0,5) increases in payment			
(c) Early retirement from service	£X p.a. of immediate pension per £1 p.a. of accrued pension for an active member with 5 years to normal retirement age. Assume that all pensions have LPI(0,5) increases and 50% spouses' pensions.			
(d) Early retirement for deferred pensioner	£X p.a. of immediate pension per £1 p.a. of accrued pension revalued to *date of early retirement* for a member with 5 years to normal retirement age. Assume that all pensions have LPI(0,5) increases and 50% spouses' pensions, and that all pensions in deferment are revalued in line with statutory revaluation.			
(h) Late retirement	£X p.a. of immediate pension on late retirement now per £1 p.a. of pension at normal retirement age for a member retiring 5 years after normal retirement age. Assume that all pensions have LPI(0,5) increases and 50% spouses' pensions,			

Q7. For each of the items in 1 above, please indicate when they are typically likely to have last been reviewed (by ticking the most representative box).

Item	Typically last reviewed		
	Last 12 months	Last 3 years	Longer
(a) Commutation of accrued pension for a cash sum paid to the member at retirement (or at any other time when the member is able to draw on the benefits).			
(b) Exchange of accrued deferred pension for transfer value.			
(c) Early retirement from pensionable service.			
(d) Early retirement from deferred pensioner status.			
(e) Commutation and retirement on grounds of incapacity or ill-health			
(f) Commutation on grounds of triviality.			

Item		Typically last reviewed		
		Last 12 months	Last 3 years	Longer
(g)	In scheme purchase of pension using member AVCs.			
(h)	Increase in pension to allow for 'late' retirement.			
(i)	Exchange of accrued pension for increased dependant's pension.			
(j)				
(k)				

F. Results of member survey

Member options working party-response from survey at 11 May 2006

Responses from AXA Sun Life, Deloitte, GAD, JLT Group, KPMG, Legal & General, PwC, Scottish Equitable, Watson Wyatt and Aon

1. The principal options found in UK occupational pension schemes are:

(a) Cash comm
(b) Transfer value.
(c) Early ret act
(d) Early ret def
(e) Comm/ret incap/ill
(f) Triv comm
(g) AVC purch
(h) Late ret
(i) Dep pen

Q1. Should any other items be added to this list?

Response:	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**
(j)		Bridging pension for GMP underpins		Purchase of added yrs		Transfers in	E ret with/without er consent	Transfers in	Reduction to allow for spouse younger by more than n years	
(k)				Inverse commutation		Surr post SPA pen for pre SPA pen	Unreduced e ret rights (?)	Bridging pens		
				Benefits iro inward TVs				Comm over Lifetime Allowance		

2. The range of provisions in trust deeds and rules for setting terms for these options can be summarised as follows:
(a) Either the trustees or the sponsor sets the terms unilaterally without reference to the other.
(b) Either the trustees or the sponsor sets the terms but is required to consult the other.
(c) The trustees and the sponsor must agree the terms (i.e. both have a veto against change).
(d) There are no explicit terms or constraints.
(e) The party or parties setting the terms takes actuarial advice.
(f) The terms must be certified or otherwise approved by an actuary, either at the time the terms are changed or at the time the option is exercised.

(g) The terms must be determined by an actuary.

(h) A review of the terms is required following the triennial valuation.

(i) The terms must be ‘reasonable’ (or similar).

(j) There are constraints referring to an external agency (e.g. commutation factors to be no more than approvable by HMRC).

(k) The financial terms for exercising the options are themselves defined in the deed and rules and can only be changed by a deed of amendment.

Q2. Should any other items be added to this list?

(l)	Actuarial equivalence	(No HMRC approval of comm facs post FA2004?)			(Note that combinations are common)	Trustee/sponsor set terms and have right but not obligation to take actuarial advice	Lifetime allowance charge factor
(m)							Augmentations

3. The range of legal advice on interpreting these legal considerations can be summarised as follows:

(a) The party setting the terms is acting as a fiduciary.

(b) The party setting the terms is not acting as a fiduciary.

(c) The terms are implicitly a part of the scheme benefit design and therefore amending them (to be more or less generous) should be treated similarly to changing benefits.

(d) Where either the trustees or the sponsor can set the terms independently, they must still take account of the views of the other party.

Q3. Should any other items be added to this list?

(e)	Some are responsibility of the actuary		Legal advice frequently taken on factors to take into account. Range of advice is wide. Advice is sometimes the opposite of (c).	Relevance of tax and equivalence on a 'net' basis	These are member options so don't need to be too concerned if change the terms, esp where TD&R gives explicit power		Restrictions

(f)			More common that lawyers don't give any views at all					Is it appropriate for trustees to use their discretion to give more generous terms to some members when the scheme is in deficit?		
Q4. For each of the items in 1 above, please summarise briefly how sensitive in your experience or view the exercise of the option is to the terms being offered and what evidence supports this view.										
(a) Cash comm	Not	Low	No	Low	No	No	V insensitive—90% take it	Not—evidence: members continue to take on current terms, which undervalue the pension surrendered.	Not	[No info]
(b) Transfer value.	Not unless there is an adviser or terms are reduced for under-funding. Low volumes generally.	Low vol	Very	High	Quite but low vol	[No info]	V insensitive—terms rarely sufficiently attractive	Not (because low take up because only option is to DC and advice likely to be against this)	Very (when advice is sought)	[No info]
(c) Early ret act	Little experience	Std terms	No	High	Quite—members check viability	[No info]	Slightly	Yes	No evidence	[No info]
(d) Early ret def	As (c)	Std terms	No	High	Less	[No info]	Slightly	Yes (affordability)	No evidence	[No info]

(e) Comm/ret incap/ill	Little experience, expect low	Low vol	No	Low	Low	No		Not	Not	[No info]
(f) Triv comm	Not	Low	No	Low	Low	No	V insensitive	Not (and less common post A-day)	Not	[No info]
(g) AVC purch	Low demand, expect not	No alternative except larger funds	Fairly	Completely	High—members compare with market	[No info]	Sensitive because of open mkt option (expect diff post A day)	Diff post A-day	Not	[No info]
(h) Late ret	Low	Std terms	No	Medium	Low vol—expect low	[No info]	Slightly	Not (but more post A-day)	Not	[No info]
(i) Dep pen	V low vol.	Low vol	No	Low	Low	[No info]	No experience	Not	No evidence	[No info]
(j)				(High)						
(k)				(Low)						

Q5. For each of the items in 1 above, please indicate numerically the degree to which the following factors are taken into account.

In order to provide a brief overview of the range and some indication of the most common factors taken into account for each member option, please complete the following table with a number indicating the importance of each factor with 1 representing the most important factor in each column, 2 the second most important etc, (and n/a if not applicable).

(a) Cash comm	ii/vii/viii/iii/i	i/viii/iv	1=none, 2=i/ii/iv/v/viii/ix	vi/ii/viii	i/iii/v/iv/vi	[No info]	iv/xii/vi/vii/iii	ii/i/v/vi/vii	ii/vii/xiii/viii/i	H=i/ii/v/viii, M=vii/ix/xi/xii
(b) Transfer value.	i/iv/v/ii/xii	i/xii/iv	1=i/ii/xii, 2=iv/v/x	ii/i/xiii	ii/i/iv/ix/x	[No info]	i/xii/vi/iii=vii	ii/i/v/vi	i/ii/xii/iv/x	[No info]
(c) Early ret act	ii/viii/iv/v/ix	ii/iv/viii	1=ii, 2=iv/v/vii/ix	ii/viii/v	ii/iii/iv/v	[No info]	xii/vi/ix	ii/i/v/vi/vii	ii/viii/xii/v/iv	[No info]
(d) Early ret def	ii/viii/iv/v/ix	ii	1=ii, 2=iv/v/vii/ix	ii/viii/v	ii/iii/iv/v	[No info]	iii/iv	ii/i/v/vi/vii	ii/i/viii/xii/v	[No info]
(e) Comm/ret incap/ill	ii/ix/v/iv/i	i	1=ii, 2=i/iv/v/vii/ix	vi/ii/viii	i/iii/v/iv/vi	[No info]	xiii/vi/i	ii/i/v/vi	v/viii	[No info]
(f) Triv comm	ii/i/iii/v/xiii	i	1=ii, 2=i/iv/v/vii/ix	ii/i	i/iii/v/iv/vi	[No info]	xiii/vii	ii/i/v/vi	xiii/v	[No info]
(g) AVC purch	ii/ix/iii/v/viii	i	1=ii, 2=i/iv/v/vii/ix	ii/i/xiii	ii/i/iv/v/xii	[No info]	i	ii/i/v/vi	ii/viii/v	[No info]

(h) Late ret	ii/viii/iv/v/vi	ii	1=ii, 2=i/iv/v/vii/ix	ii/viii	ii/iii/iv/v	[No info]	vi/vii	ii/i/v/vi/vii	ii=ix	[No info]
(i) Dep pen	ii/ix/viii/v/iv	ii	1=ii, 2=i/iv/v/vii/ix	ii/viii/xiii/ix	ii/iii/iv/v	[No info]	vi	ii/i/v/vi/ix		[No info]
(j)							ii/iii			
(k)							vi			

Possible factor taken into account

i. Market conditions
ii. Scheme cost neutrality
iii. Member cost neutrality (incl tax?)
iv. Market experience/acceptance rate
v. Consistency between diff options.

vi. Options as benefits
vii. Low value because is a member option
viii. Member comms and planning
ix. Selection against scheme by members
x. Risk of large scale exercise

xi. Difficulty of weakening terms in future
xii. Scheme funding/benefit security
xiii. Expenses from/of exercise
xiv. PPF

Notes		vi-only if rules state	1=important, 2=factor	Cash comm principles often defined in rules			X	Refers to cost neutrality on funding basis taking account of inv strategy	Cost neutrality means 'ongoing'	H=high, M=medium
				Expenses usually favourable to member, i.e. scheme expenses ignored				If expenses are accounted for, this tends to be by fixed amount not in the factor		

Q6. For the following items (from 1 above), please indicate a typical range for the terms as requested.

(a) Cash comm no incs	9/9/12	9/under review because of FA04/15	9/12/12	n/a	10.10	[No info]	9/11.5/14	9/12/15	9/9/12.69	<10/10-12/>12
(a) Cash comm LPI incs	9/9/12	9/under review because of FA04/15	12/14/14	9/10-12/13	13.30	[No info]	9/15/22	9/12/18	9/9/16.07	<12/12-15/>15

(c) Early ret act	0.7/0.8/0.8	0.7/0.8 (unless treated as deferred)/0.9	X	0.69/0.75/0.83	0.672	[No info]	0.8/0.85/1	7%pa/4%pa/0%pa	0.66/0.82/0.85	[No info]
(d) Early ret def	0.7/0.8/0.8	0.76	X	0.67/0.75/0.82	0.672	[No info]	0.7/0.8/0.9	7%pa/5%pa/3%pa	0.66/0.82/0.85	[No info]
(h) Late ret	1.45	1.52	X	1+accrual/1+accrual/1.25	1.525	[No info]	1.3/1.45/1.6	6%pa/8%pa/12%pa	1 .4	[No info]
Notes			Eret act is same as Eret def							

Q7. For each of the items in 1 above, please indicate when they are typically likely to have last been reviewed (by ticking the most representative box).

(a) Cash comm	< 3 yrs	< 12 mths	Monthly	< 3 yrs (> if defined in rules)	*	[No info]	< 12 mths	< 3 yrs	> 3 yrs	<12 mths
(b) Transfer value.	< 3 yrs	< 12 mths	Annually	< 3 yrs	Monthly	[No info]	< 3 yrs	< 3 yrs	< 3 yrs	<12 mths
(c) Early ret act	< 12 mths	> 3 yrs	Annually	< 3 yrs	*	[No info]	> 3 yrs	< 3 yrs	< 3 yrs	<12 mths
(d) Early ret def	< 12 mths	> 3 yrs	Annually	< 3 yrs	*	[No info]	> 3 yrs	< 3 yrs	< 3 yrs	<12 mths
(e) Comm/ret incap/ill	> 3 yrs	< 12 mths	Monthly	> 3 yrs	*	[No info]	< 3 yrs	< 3 yrs	> 3 yrs	<12 mths
(f) Triv comm	> 3 yrs	< 12 mths	Monthly	< 3 yrs		[No info]	< 3 yrs	< 3 yrs	> 3 yrs	<12 mths
(g) AVC purch	> 3 yrs	< 12 mths	Monthly	< 3 yrs		[No info]	> 3 yrs	< 3 yrs	> 3 yrs	<12 mths
(h) Late ret	> 3 yrs	> 3 yrs	Annually	> 3 yrs	*	[No info]	> 3 yrs	< 3 yrs	> 3 yrs	<12 mths
(i) Dep pen	> 3 yrs	> 3 yrs	Monthly	< 3 yrs		[No info]	> 3 yrs	< 3 yrs	> 3 yrs	<12 mths
					*reviewed monthly, changed if diff > 5%					