Association of Consulting Actuaries / Association of Pensions Lawyers

Richard Murphy - 30 April 2015

An update on transfer values and member choices post April 2015

Lane Clark & Peacock LLP Trustee Consulting Investment Consulting
Corporate Consulting Insurance Consulting Business Analytics www.lcp.uk.com

What is this session covering?

Focus on the value being quoted to members

Adapting to the new normal post April 2015

From the trustee / scheme actuary perspective

Toolkit for looking at the questions rather than a list of answers

Transfer values

Understanding the range of potential reasonable answers

- £10,000 pa of pensions with normal LPI increases and 50% attaching spouse's pension
  60 year old 5 years from normal retirement age

Cost of an annuity with an insurer

£320,000

Risk-free with 10% "covenant allowance"

£270,000

"Typical" transfer value basis

£210,000

Full equity-based value

£140,000

- Determined by the trustees
- "Have regard" to the investment strategy
- "Best estimate" of the cost within the scheme
- On 23 April 2015, the 20 year nominal gilt yield was 2.4% pa and the real yield was -0.9% pa

Objective for the actuary: *a* simple robust justifiable basis, which trustees can accept and can be explained to members and their advisors

Toolkit for review

Areas to consider when setting the transfer value basis

Basic simplifications

- Investment strategy: CETV > Technical Provisions at retirement
- Timing of market updates

Selection by the member

- Individual underwriting – non-starter?
- Health selection by the transferring population – material effect?
- Marital status - already included by some, but might now be a real focus

Consistency with other option terms

- Trivial commutation terms look like they should be consistent with CETVs
- Normal commutation terms do not have to be consistent but it depends on the Rules. There should be some rationale available for members

Partial transfers of DB benefits

- The holy grail of a win for members, trustees and employers?
- Practical issues to address what benefits are transferred or retained
- Legal clarity needed, especially around contracted out benefits

Other points

- Cutbacks now more pressing. Still appropriate for most not to cut back?
- Communication to members (Actuaries' Code and Regulation Board letter)

Scope

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