

September 2007



the final furlong

Adrian Walker gives details of the Government's recently published draft regulations for the future basis of calculating cash equivalent transfer values from defined benefit schemes.

I have been providing updates on the future basis of calculating cash equivalent transfer values (CETV) in *informer* since July 2006. The debate has now hopefully reached the final furlong following the publication of draft regulations alongside a consultation document outlining the Government's policy for the future.

The new legislation is expected to take effect from the beginning of the 2008/09 tax year – the key elements are outlined below.

Finally the decision process appears to be moving forward. It is pleasing that a key part of the proposals are to highlight to scheme members who are

considering transferring such benefits that they need to seek financial advice.

Advisers authorised to give advice in such complex areas will undoubtedly find themselves in greater demand to review such benefit entitlements as part of a client's overall retirement planning process.

Key elements of policy that will be important for advisers with clients considering the merits or otherwise of transferring final salary related benefits are as follows:

scheme specific funding

As was thought likely from the previous consultation documents, the Government has elected for this approach to apply in legislation. The assumptions will be set by the scheme trustees as the body able to balance the interests of all parties involved in the scheme.

The discount rate applied in the calculation of the transfer value must reflect a 'best estimate' of future returns with regard to the underlying investment mix of the scheme assets. For most public sector schemes similar principles will be applied, but using discount rates set out in yet to be published Treasury guidance. These principles will also apply initially to the calculation of CETV for pension sharing issues.

The assumptions used by the trustees do not have to be disclosed to scheme members. However, the Government

has suggested that it would be good practice for schemes to provide the information on request.

underfunded schemes

In future, where the scheme is underfunded, CETVs may be reduced as they are now. However, there must be an 'insufficiency report' in place for a CETV to be reduced. As part of the transitional arrangements that will apply when the new regulations come into effect, GN11 reports can be used to determine the current position until a new insufficiency report is prepared. This is normally when the next scheme actuarial valuation is required.

The new report will require scheme assets to be valued at market value only and will exclude assumptions for winding-up expenses unless the scheme is actually in the course of being wound-up.

disclosure requirements

As part of increased member protection, scheme trustees will have to inform members considering transferring benefits:

- That the FSA and Pension Regulator provide information about transfers which may be of help in the decision process.
- Of the existence of the Pension Protection Fund where the scheme may be eligible for this.
- That they should take financial advice.

There may also be further adjustment to these requirements as part of a separate Government review on disclosure of information to pension scheme members. ■

All of Adrian's articles focusing on the calculation of cash equivalent transfer values from defined benefit schemes are available to view at www.skandia.co.uk/aday/informer/articles.asp

This article is based on Skandia's interpretation of the law and HM Revenue & Customs practice as at 31 August 2007. We believe this interpretation to be correct but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

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