GN11(ROI): RETIREMENT BENEFIT SCHEMES TRANSFER VALUES

Classification

Practice Standard

Legislation or Authority

The Pensions Act 1990 and Regulations issued from time to time in relation to that Act.

Irish Stock Exchange. *The Listing Rules*.

Application

Any actuary responsible for the calculation of individual transfer values from all types of retirement benefit schemes including "transfer payments" under the Pensions Act, 1990 and to the assessment of benefits in such schemes in respect of incoming transfer values.

Any actuary responsible for the calculation of transfer values of the increase in accrued benefits for directors for the purpose of disclosure in a company's annual report and accounts as required under the Listing Rules.

Version	**Effective from**
1.0	01.09.93
2.0	07.01.98

1. INTRODUCTION

1.1 These guidelines apply to all transfer values calculated on or after 1st September 1993.

1.2 These guidelines apply to the basis of calculation of individual transfer values from all types of retirement benefit schemes and to the assessment of benefits in such schemes in respect of incoming transfer values. A transfer value may include a transfer payment as defined under the Pensions Act, l990.

1.3 The guidelines relate to Republic of Ireland requirements and conditions.

1.4 The guidelines apply to all transfer values irrespective of whether the accrued/deferred benefits to which they apply arose in respect of service before or after 1st January 1991.

2. PURPOSES OF THE GUIDELINES

2.1 The purposes of the guidelines are

(a) to ensure that members of the retirement benefit schemes exercising a right to a transfer value can be assured that it fairly reflects their reasonable expectation of benefits otherwise available on withdrawal and

(b) to ensure that incoming and outgoing transfers are dealt with consistently.

3. NORMAL BASIS OF CALCULATION

3.1 It is a fundamental requirement, under the Pensions Act l990, that a transfer payment should represent the actuarial value of the preserved benefit, to which a member would otherwise have been entitled as of right under the legislation. Similarly a transfer value should represent the actuarial value of the accrued/deferred benefits (including any preserved benefit) which would otherwise have been provided.

3.2 Such an actuarial value should be assessed having regard to market rates of interest. One of the ways in which a market value assessment may be made is on the basis of market redemption yields on Irish Government Stocks of appropriate duration and type at the time of transfer with allowance for investment of future interest/redemption receipts at such rates as the actuary considers reasonable.

3.3 It is important to consider the minimum funding standard implications under the Pensions Act in the calculation of transfer values. In determining whether a scheme satisfies the minimum funding standard under the Act the actuary may assume that the liabilities on wind-up could have been discharged by making payments (to another scheme or to an approved personal insurance policy) and these payments are defined as being equal to the actuarial value of the benefits specified (including preserved benefit). The Act also defines a transfer payment as being equal to the actuarial value of the preserved benefit. There is, therefore, a connection between the values calculated for minimum funding standard purposes and those calculated in respect of an outgoing transfer.

3.4 (a) Guaranteed or statutory increases, both in deferment and after retirement, should be valued as part of the accrued/deferred benefit.

(b) The actuary should (initially) advise and establish with his client, normally the employer or the trustees, whether and to what extent it is considered appropriate to make any addition for future discretionary increases to the accrued/deferred benefit or for any other benefits granted on a discretionary basis, for example a discretionary scale of enhancement to benefits on early retirement granted to members who have left service, when calculating its value for transfer. As a general rule, it would be inappropriate to allow for discretionary benefits unless they were being pre-funded or there was an established practice of providing such benefits.

(c) As pointed out in paragraph 3.3, the minimum funding standard implications should be carefully considered in the calculation of all transfer values. This particularly applies to any allowance for discretionary benefits that might be made. The Pensions Act does not require that discretionary benefits be taken into account for funding standard purposes, but on the other hand does not preclude their inclusion for transfer payment purposes. In general, it would be inappropriate to allow for discretionary benefits in the calculation of transfer values unless the scheme could satisfy the minimum funding standard where allowance for such discretionary benefits was being made for all members.

3.5 Under Section 29 of the Act, a benefit is required to be paid on the death of a member who is entitled to a preserved benefit, even if such a benefit is not specified in the scheme rules. This, and any other death benefits payable, should be taken into account in the calculation of a transfer value.

3.6 (a) In calculating benefits in respect of transfer values received by a retirement benefit scheme, the actuary should use methods and assumptions which are reasonable and consistent with the methods and assumptions (including any allowance for discretionary benefits) used for outgoing transfers from that scheme (subject to appropriate adjustment, in respect of incoming transfers, to take account of expected salary increases in cases where "added years" are to be credited).

(b) Where, in accordance with paragraph 3.4, discretionary benefits are not taken into account for outgoing transfer values, then the same principles should be applied to the calculation of the benefits in respect of incoming transfer values so as to maintain consistency between the basis for incoming and outgoing transfer values.

3.7 In the case of both incoming and outgoing transfers, allowance for expenses may be made where appropriate, e.g. to reflect administration costs, the saving in cost of paying pensions and any relevant costs of sale or purchase of investments.

4. DEPARTURES FROM THE NORMAL BASIS

4.1 If at the date of transfer, the scheme, in the actuary's opinion, would not have satisfied the funding standard based on a specified percentage (as defined in the Act) of 100%, then the funded status of the scheme at the date of transfer should be reflected in the determination of transfer values.

In such circumstances the actuary should advise the Trustees as to the extent of the reduction in the transfer value which would be appropriate subject to the requirement to have a minimum payment equal to the actuarial value of the preserved benefit, as defined in the Act. Alternatively, it may be appropriate for the actuary to advise the Trustees that the member's interests would be better served by deferring the taking of a transfer value until a later date.

4.2 (a) In cases where an outgoing transfer value is under consideration in respect of a withdrawing member for whom a transfer value has already been received, special care may be needed in the choice of the basis of calculation in order to ensure that the outgoing transfer value is, subject to paragraph 4.1, both equitable in relation to, and consistent with, the transfer value received. The general principle for calculating transfer values in such circumstances is that they should be of equal actuarial value to the amount required by the scheme to provide equivalent benefits in respect of a transfer value received at the same date.

(b) If added years have been credited in respect of an incoming transfer value, then the corresponding outgoing transfer value on subsequent withdrawal should represent the then actuarial value of the added years. This value would be determined based on the then pensionable salary and other assumptions (including an allowance for future salary increases) as considered appropriate at the time of withdrawal.

(c) Paragraph 3.4 deals with the question of discretionary benefits on outgoing transfer values and paragraph 4.2(a) emphasises the need for equity and consistency between the basis for incoming and outgoing transfer values in respect of an individual member. It is, nonetheless, possible that the practice of allowing for discretionary benefits may have ceased between the date of receipt of a transfer value and the date of subsequent withdrawal and payment of the corresponding outgoing transfer value. If the general principle outlined above is followed, discretionary benefits would not be taken into account in calculating the outgoing transfer value. Subject to paragraph 4.1 the actuary may consider it appropriate in such circumstances to use an alternative basis for calculating the outgoing transfer value to ensure that the member receives fair value particularly when the withdrawal takes place within a relatively short period of the receipt of the transfer value.

4.3 (a) Special considerations apply in cases where the circumstances of a previous transfer had been such that the assets transferred bore no direct relationship to the leaving service benefits under the previous scheme. These may result from a "bulk" exercise - for example, on a rationalisation of the schemes in a group or a sale of all or part of a business or even a transfer of the whole scheme. Alternatively, there may be a transfer of one or more employees from one scheme of a group to another.

(b) The transfer value in respect of the amount transferred from the previous scheme should be at least equal to the actuarial value of the rights granted on leaving service under the new scheme in respect of the period of service under the previous scheme (including preserved benefit, if any).

(c) In cases where the former accrued/deferred benefit and/or the transfer value were augmented in connection with a full or partial dissolution of the former scheme (either in circumstances where the trustees were obliged to augment benefits in terms of the documents governing the scheme or alternatively at the discretion of the trustees or employer with the objective of enhancing the transfer values which would otherwise have been available for the purpose of buying out individual annuity contracts), then, for the purpose of paragraph 4.2 (a), comparison should be made with such higher values.

4.4 This Guidance Note is not intended to inhibit trustees from paying higher transfer values which may arise under reciprocal arrangements or otherwise.

5. DEFINED CONTRIBUTION SCHEMES

5.1 In the case of a defined contribution scheme (as defined in Part III of the Act), where all or part of a member's benefits depend directly on the proceeds of an earmarked investment, the corresponding transfer value will be the value of that investment. Similarly, if all or part of an incoming transfer value is to be applied to an earmarked investment, the benefit to be granted will depend on the proceeds of the investment.

6. PRESENTATION

6.1 It is not necessary for each transfer value to be authorised separately by the actuary. The actuary may supply tables, for use by the trustees and administrators, for calculating the amount of any transfer value payable and the pensionable service or other benefits to be credited for an incoming payment. The actuary should specify the circumstances (e.g. changes in investment conditions or cases involving previous receipt of transfer value) in which adjustments to the tables or revised rates would apply.

6.2 The actuary should inform the trustees of the basis on which benefits have been brought into account in assessing transfer values.

7. DISCLOSURE OF DIRECTORS' PENSION COSTS

7.1. The Irish Stock Exchange's listing rules include requirements in respect of pension disclosures for directors arising from the Greenbury Report which are effective for accounting periods ending on or after 31 December 1997.

7.2. The listing rules require disclosure of the amount of the increase during the period under review (excluding inflation) and of the accumulated total amount at the end of the period in respect of the accrued benefit to which each director would be entitled on leaving service or is entitled having left service during the period under review. The information is required for all directors in aggregate analysed into executive and non-executive sections.

7.3 The listing rules also require disclosure of the transfer value of the relevant increase in accrued benefit. The listing rule requires the transfer value of the relevant increase in accrued benefit to be calculated in accordance with GN11(ROI).

7.4. Although the actuary has no formal role in calculating the amount of the accrued benefit, it is likely that he or she will be involved in the determination of these amounts. The amount of the increase in accrued benefit is calculated as the difference between the accrued benefit at the end of the period and the accrued benefit at the beginning of the period adjusted for such increases in deferment as would have applied to deferred benefits on leaving service at the beginning of the period. Any changes in normal retirement age, spouse's pension, post retirement increase policy etc., will not affect the calculated amounts

Where the director leaves service or retires the calculated amount should be the accrued benefit payable from normal retirement age. Where the director has retired during the period the actuary should indicate any difference between the accrued amounts and the immediate amounts. For directors who are appointed during the period, the increase in accrued amount is from the date of appointment to the end of the accounting period. Thus any increase in accrued benefit arising on appointment is excluded.

7.5. For the purpose of the listing rules, when calculating the transfer value of the relevant increase in accrued benefit the approach to be followed is:

(a) Base the calculations on the financial conditions that are relevant at the end of the period.

(b) Calculate the value at the end of the period of the accrued benefit at the beginning of the period (adjusted for such increases in deferment as would have applied to deferred benefits on leaving service at the beginning of the period) by reference to the benefit terms and conditions that existed at the beginning of the period.

(c) Calculate the value at the end of the period of the accrued benefit at the end of the period by reference to the benefit terms and conditions that exist at the end of the period.

The difference between the values calculated in (c) and (b) represents the value of the relevant increase in accrued benefit. The amount of the director's own contributions during the year should be deducted from this value.

Where the benefit terms and conditions have changed during the period it may be appropriate for the purpose of providing meaningful disclosures to identify the part of the transfer value which arises from this change.

7.6 In calculating the transfer value account should only be taken of early retirement options and discretionary benefits to the extent that they are included in transfer values for members who leave service. The allowance included for dependants' benefits should be the same as is included in the calculation of transfer values for members who leave service.

7.7 The transfer value calculated should not take any underfunding in the scheme into account (see paragraph 4.1). Where no transfer values are payable from the scheme, the valuation should be consistent with the calculation of transfer values for other schemes of the same employer. If benefits are payable from an overseas scheme, the calculation should be consistent with this Guidance Note, taking account of economic conditions in the country concerned.

7.8. For directors who retire during the year, the valuation of benefits at the point of retirement should be carried out on a consistent basis to the calculation of transfer values. All values for directors who retire or leave service should be calculated at the point of exit and no adjustment is required to the amount for the end of year figures. If a director has retired on an ill-health early retirement pension the pension should be valued using mortality rates considered appropriate for retirements due to ill-health.

7.9. In cases where no benefit entitlement arises until a specified minimum period of service or scheme membership has been completed, there is a nil pension cost for the initial specified period. In the first year after the specified period the cost is then correspondingly larger to reflect the extra vesting of benefits. Similarly, in cases where there is no entitlement to pre 1991 accrued benefits on leaving service before normal retirement, there can be a significant increase in accrued benefits in the year of retirement.

7.10 Where there is a negative increase in benefit or a negative value, this should be reported by the actuary to the Company leaving it to decide whether to disclose a negative or nil item.

7.11. Where a director remains in service after normal retirement age there would be no relevant increase in benefit if the benefit increase is equal to the actuarial increase for late retirement.

7.12 The cost of death in service or disability benefits provided during the accounting period may also be required for disclosure purposes. In communicating the transfer values for disclosure, it should be made clear that these costs are not included.

7.13 The Companies Act 1963 requires the disclosure of the aggregate amount of directors emoluments. For the purpose of the Act emoluments include contributions paid in respect of directors to any pension scheme. The listing requirements of the Irish Stock Exchange are additional to the requirements of the Companies Act.