GN11(ROI): RETIREMENT BENEFIT SCHEMES TRANSFER VALUES

Classification

Practice Standard

Legislation or Authority

The Pensions Acts 1990 to 2002 and Regulations issued from time to time in relation to those Acts. Hereafter in this document the Pensions Act as amended together with regulations issued under that Act are collectively referred to as "the Pensions Act" or "the Act".

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 and to the assessment of benefits in such schemes in respect of incoming transfer values.

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1.0	01.09.93	
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1. INTRODUCTION

1.1 These guidelines apply to all transfer values calculated on or after 1st July 2003.

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.

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, 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). Paragraph 4 may be taken into account as described in 4.6.

(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. STANDARD TRANSFER VALUE

4.1 The transfer value calculated in accordance with paragraph 3 above shall be increased, where necessary, to the amount which would be calculated in accordance with the financial and mortality assumptions specified in Appendix 1, adjusted by a Market Value Adjustment (‘MVA’) to allow for current market conditions as set out in Appendix 1.

4.2 For the purposes of the calculation of the standard transfer value the definition of normal pensionable age as defined in the Pensions Act is to be used in respect of preserved benefits.

4.3 No allowance is required to be made for future pension increases either in deferment or in payment granted on a discretionary basis, nor for other benefits granted on a discretionary basis, for example the amount of pension payable on early retirement granted to members who have left service.

4.4 The MVA to be used is set out in Appendix I, with a table of values applicable at various yields outlined in Appendix II. The MVA is that applicable on the last working day of the month immediately prior to the effective date of the calculation.

4.5 The financial assumptions outlined in Appendix I make an implicit allowance for expenses and no further addition therefore should be made by the actuary.

4.6 For an outgoing transfer value the standard transfer value calculated under paragraph 4 may exceed the transfer value calculated on the normal basis under paragraph 3. Similarly, the transfer credit calculated on the standard basis may be less than the transfer credit in respect of an incoming transfer calculated on the normal basis. In this situation, the lower transfer credit on the standard basis may be granted.

4.7 The assumptions outlined in Appendix I shall be reviewed not less frequently than quarterly by the Council of the Society of Actuaries in Ireland.

5. DEPARTURES FROM THE FOREGOING BASIS OF CALCULATION

5.1 If, at the date of transfer, the actuary is reasonably satisfied that the scheme would not have satisfied the funding standard, then the actuary should advise the Trustees that the amount of the transfer payment may be reduced.
In such circumstances the actuary should advise the Trustees as to the extent of the reduction in the transfer value which would be appropriate having regard to the actuary's best estimate of the scheme's funding position at the date of transfer.
It may also 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.

5.2 (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 5.1, 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 5.2(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 5.1 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.

5.3 (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 5.2 (a), comparison should be made with such higher values.

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

6. DEFINED CONTRIBUTION SCHEMES

6.1 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.

7. PRESENTATION

7.1 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.

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

Appendix I: Current Factors for Use in Standard Transfer Value Calculations

A FINANCIAL ASSUMPTIONS

	%per annum
Long-term discount rate	7%
Rate of Statutory revaluation for deferred benefits	2.5%
Rate of inflation	3%
Rate of parity pay increases	4%

For schemes providing a fixed rate of revaluation in excess of 2.5% p.a. or for schemes providing revaluation linked to parity pay increases the higher rate should be substituted for the assumed statutory revaluation rate outlined above. For schemes providing either prior to or after retirement index-linked or parity pay increases but subject to an annual cap, the rate of increase to be assumed is to be based on the following table. Other rates of increases are to be calculated on a basis consistent with that underlying this table.

Annual Cap	Index Linked Increase	Parity Pay Increase
Under 2%	Actual Cap	Actual Cap
2%	1.75%	2.00%
2.5%	2.00%	2.50%
3%	2.25%	2.75%
4%	2.50%	3.25%
5%	2.75%	3.50%
7.5% or over	3.00%	4.00%

If necessary, the standard transfer value should be restricted to comply with Revenue Limits (e.g. for schemes providing fixed rate revaluation or escalation in payment greater than the assumed rate of inflation).

B NON-FINANCIAL ASSUMPTIONS

Pre-retirement mortality	Males: AM80 Females: AF80
Post-retirement mortality	Males: PA90 rated down 3 years Females: PA90 rated down 3 years
Marital Status	Marital status at date of leaving service. Where entitlement is based on spouse at retirement or earlier death a proportion married may be assumed.
Age difference	Males three years older than females. In circumstances where a spouse's pension would be payable only to a member's current spouse that spouse's age may be used.

C MARKET VALUE ADJUSTMENT (MVA)

The transfer value calculated in accordance with the assumptions in A and B above is to be adjusted by multiplying by a Market Value Adjustment (MVA), as set out below. A table of MVA factors applicable at various yield bands is shown in Appendix II.

C.1 Where the member has more than 10 years to go to normal pensionable age the MVA to be used will reflect the characteristics of the rate(s) of revaluation of the deferred benefits pre-retirement.

Where the member has attained or passed normal pensionable age the MVA to be used will reflect the characteristics of the rate(s) of revaluation of the post-retirement benefits. In the case of retirement lump sums an MVA of 1 is to be taken for this purpose.

Where the member has 10 years or less to go to normal pensionable age the MVA to be used will be determined by linear interpolation of the above rates, as appropriate.

The MVA used should be calculated to 3 decimal places.

C.2 The adjustment for fixed benefits (and/or benefits with fixed rate revaluation or escalation in payment) is MVA1 where MVA1 is calculated as:

$0.07 \times a_{15} + v^{15}$ at $i\%$	where i is the annualised gross redemption yield on the 4.6% Treasury 18/4/2016 stock, to 2 decimal places

C.3 The adjustment for index-linked benefits (and/or benefits with statutory revaluation or escalation in payment) is MVA2 where MVA2 is calculated as:

$(1.07/1.03 - 1) \times a_{15} + v^{15}$ at $j\%$	where j is the annualised real yield on the France Trésor OATi 25 July 2029 stock, to 2 decimal places

Appendix II: MVA Factors for Use in Standard Transfer Value Calculations

i	MVA1	j	MVA2
4.38% - 4.62%	1.268	1.38% - 1.62%	1.318
4.63% - 4.87%	1.238	1.63% - 1.87%	1.279
4.88% - 5.12%	1.208	1.88% - 2.12%	1.242
5.13% - 5.37%	1.179	2.13% - 2.37%	1.206
5.38% - 5.62%	1.151	2.38% - 2.62%	1.171
5.63% - 5.87%	1.123	2.63% - 2.87%	1.138
5.88% - 6.12%	1.097	2.88% - 3.12%	1.105
6.13% - 6.37%	1.072	3.13% - 3.37%	1.074
6.38% - 6.62%	1.047	3.38% - 3.62%	1.044
6.63% - 6.87%	1.023	3.63% - 3.87%	1.015
6.88% - 7.12%	1.000	3.88% - 4.12%	0.987
7.13% - 7.37%	0.978	4.13% - 4.37%	0.960
7.38% - 7.62%	0.956	4.38% - 4.62%	0.934
7.63% - 7.87%	0.935	4.63% - 4.87%	0.909
7.88% - 8.12%	0.914	4.88% - 5.12%	0.884
8.13% - 8.37%	0.895	5.13% - 5.37%	0.861
8.38% - 8.62%	0.875	5.38% - 5.62%	0.838
8.63% - 8.87%	0.857	5.63% - 5.87%	0.816
8.88% - 9.12%	0.839	5.88% - 6.12%	0.794
9.13% - 9.37%	0.821	6.13% - 6.37%	0.774
9.38% - 9.62%	0.804	6.38% - 6.62%	0.754