GN31D (ROI): PERSONAL RETIREMENT SAVINGS ACCOUNTS AND TRANSFERS FROM OCCUPATIONAL SCHEMES

Classification

Practice Standard

Legislation or Authority

Pensions Act, 1990 as amended ("The Pensions Act").

Personal Retirement Savings Accounts (Disclosure) Regulations, 2002 as amended ("The PRSA Disclosure Regulations").

Personal Retirement Savings Accounts (Operational Requirements) Regulations, 2002 as amended ("The PRSA Operational Regulations").

Application

Any actuary called upon to prepare or advise on the preparation of a certificate or statement as required under section 113(1) of the Pensions Act; or any actuary advising the trustees of a defined benefit pension scheme on providing a statement of benefit as required under section 113(2).

This Guidance Note does not apply where an occupational pension scheme is in the process of winding-up and the benefits are to be transferred to a PRSA.

Version	Effective from
1.0	6 November, 2003

1 INTRODUCTION

1.1 Section 113(1) of the Pensions Act requires that, before a transfer from an occupational scheme can be accepted by a PRSA provider, the provider must ensure that the scheme member making the transfer ("The Member") has had furnished to him or her a certificate setting out a comparison of the scheme and PRSA benefits ("The Certificate") and a written statement of the reasons why the transfer might or might not be in the Member's interest ("The Statement"). Section 113(3) exempts certain transfers from the requirements of section 113(1).

1.2 Section 113(2) obliges the trustees of the scheme providing the transfer to furnish a statement of the benefits that may accrue to the Member from the scheme ("The Benefits Statement").

1.3 Article 5(3) of the PRSA Disclosure Regulations stipulates that:

"A Certificate of Comparison prepared shall be prepared in accordance with

(a) the advice of the PRSA Actuary, and

(b) any guidance notes issued by the Society of Actuaries in Ireland for that purpose."

1.4 Article 6(1) of the PRSA Disclosure Regulations stipulates that:

"A written statement required under section 113(1)(b) of the Act shall be prepared

(a) *on the basis of the rules set out in Schedule E,*

(b) *in accordance with the advice of the PRSA Actuary, and*

(c) *in accordance with any guidance notes issued by the Society of Actuaries in Ireland for that purpose."*

1.5 Article 6(2) of the PRSA Disclosure Regulations stipulates that:

"A statement of benefits required under section 113(2) of the Act shall be prepared in accordance with

(a) *the advice of the scheme actuary in the case of a defined benefit scheme, and*

(b) *any guidance notes issued by the Society of Actuaries in Ireland for that purpose."*

1.6 Article 9 of the PRSA Operational Regulations requires that a determination made by the PRSA Actuary pursuant to Section 119(1) of the Pensions Act and a declaration furnished by the PRSA provider to the PRSA Actuary shall both be submitted to the Pensions Board within two months of the end of each financial year.

The PRSA Actuary's determination is required to state *"if such be the case, that the advice given by the PRSA actuary and any guidance notes issued by the Society of Actuaries in Ireland pursuant to the provisions of the Act and regulations made under the Act have been complied with by the PRSA provider subject to any qualifications, amplifications or explanations in relation to that advice as the PRSA actuary considers appropriate"*.

The PRSA provider's declaration is required to state *"if such be the case, that all information requested by the PRSA actuary for the purpose of making his determination in accordance with sub-article (1) has been provided to the PRSA actuary and is accurate"* and the PRSA provider is required to include in the declaration *"such qualifications, amplifications or explanations as the PRSA provider considers appropriate"*.

1.7 While the information contained in Certificates and Statements issued pursuant to Section 113(1) of the Pensions Act is ultimately the responsibility of the PRSA provider or an intermediary acting on the provider's behalf, the PRSA Disclosure Regulations require a PRSA provider or the intermediary acting on the provider's behalf to have regard to any guidance notes issued by the Society of Actuaries in Ireland, and the advice of the PRSA Actuary.

This Guidance Note constitutes the guidance relating to Certificates and Statements issued pursuant to Section 113(1) of the Pensions Act issued by the Society of Actuaries in Ireland referred to in the PRSA Disclosure Regulations.

1.8 While the information contained in Benefit Statements issued pursuant to Section 113(2) of the Pensions Act is ultimately the responsibility of the trustees of the scheme providing the transfer, the PRSA Disclosure Regulations require the trustees of the scheme providing the transfer to have regard to any guidance notes issued by the Society of Actuaries in Ireland, as well as the advice of the Scheme Actuary in the case of a defined benefit scheme.

This Guidance Note constitutes the guidance relating to Benefit Statements issued pursuant to Section 113(2) of the Pensions Act issued by the Society of Actuaries in Ireland referred to in the PRSA Disclosure Regulations.

1.9 The Pensions Board, under the aegis of the Minister for Social and Family Affairs, has responsibility in law for the operation of the Pensions Act. An actuary must therefore, subject to the request or consent of the PRSA provider, intermediary, or the trustees of the scheme providing the transfer, as appropriate, be prepared to explain and justify to the Pensions Board the advice given which underlies Certificates and Statements issued pursuant to Section 113(1) of the Pensions Act or Benefit Statements issued pursuant to Section 113(2) of the Pensions Act.

1.10 Throughout this Guidance Note, the scheme from which the Member is considering making a transfer will be called the Scheme, and the PRSA contract into which the transfer is being considered will be referred to as the PRSA.

2. PURPOSE OF THE GUIDANCE

The Guidance Note has regard to the objective of the Certificate and Statement, which is to provide the Member with a comparison of the potential benefits from the Scheme and the PRSA which is fair, clear and not misleading. Nothing in this Guidance Note is intended to limit the information that can be provided to the Member.

3. BASIS OF CALCULATIONS

3.1 The assumptions underlying the projection of benefits in the Benefits Statement and the Certificate must be consistent with each other.

3.2 Where it is necessary to make assumptions about the rate of change in consumer prices or the rate of change in future earnings, the rates specified in the most recent version of Guidance Note 31A(ROI) must be used.

3.3 Where it is necessary to make assumptions about the rate of future investment return, the following assumptions must be made:

3.3.1 The projected retirement benefits must be calculated allowing for the monthly timing of contribution receipts, investment growth, deductions to cover expenses and charges and deductions for the cost of protection benefits.

3.3.2 The rate of investment return (before deduction of all anticipated charges) used in the Certificate and, where necessary, in the Benefits Statement must be as specified in the most recent version of Guidance Note 31A(ROI).

3.3.3 It can be assumed that investment return is achieved after:

- meeting the costs of buying and selling investments, including stamp duty, to the extent that these are the arm's length costs actually disbursed;

- meeting the arm's length cost of routine property maintenance, including property valuation fees and rent collection.

3.3.4 The following costs must not be regarded as implicit in the investment return:

- costs of buying and selling investments or maintaining properties which are in excess of what could be negotiated on an arm's length basis;

- bulk discounts on stockbroker commissions which are retained for the company's own account;

- the costs of investment management; or

- any other costs defined as charges in section 91 of the Pensions Act.

This list must not be regarded as exhaustive.

3.3.5 The pre-retirement rate of investment return assumed in projecting the PRSA retirement benefits (before deduction of all anticipated charges) must equal that used in the projection of defined contribution benefits unless there is specific evidence that the asset mix will be changed. Appropriate allowance must be made for the effect of any differences in the deduction of charges from the investment return between the Scheme and the PRSA.

3.4 Projections of retirement benefits in the Benefits Statement or the Certificate, whether in cash or annuity form, must show the equivalent figures in present day values by deflating the illustrated figures at the rate specified in the most recent version of Guidance Note 31A(ROI).

3.4.1 Where contribution increases are provided in the Scheme, the effect of these must be reflected in Benefits Statement on the basis of best estimates of the determinant of the increases which are consistent with the assumed investment return.

3.4.2 The Benefits Statement must reflect the current charging basis for expenses, unless there is reason to believe that this will increase in the course of the policy. In particular, any anticipated systematic adjustment in charges to reflect inflation of expenses must be allowed for, using, where necessary, assumptions about the rate of change in consumer prices or the rate of change in general earnings determined in accordance with the provisions of Paragraph 3.2. Reduction in charges must not be anticipated, unless these are contractually guaranteed.

3.4.3 Where the Scheme or PRSA invests in life assurance or other financial products it will be necessary to 'look through' to ensure that all charges and expenses, both implicit and explicit, which the Member will bear are included.

3.4.4 The retirement benefits contribution for some defined contribution schemes is calculated as a gross contribution less the cost of specified risk benefits. In calculating the net retirement contribution, the current charging basis for risk benefits must be used, unless there is reason to believe that the actual charging basis until the Member's Normal Retirement Age will be higher than that currently applicable.

3.5 In projecting the retirement benefits on with profits contracts, the assumed split between future annual bonuses and terminal bonuses may affect projections. This split must be reasonable and justifiable, taking into account the current split and the assumed future investment return. In particular, if a terminal bonus is added, it would not normally be appropriate to assume that there would be no terminal bonus in the future at any of the assumed rates of investment return.

3.6 In all cases, it is a requirement to illustrate an initial annual pension amount in the Benefits Statement and Certificate. Where it is necessary to make assumptions about the amount of pension that can be purchased at retirement, the assumptions for the post-retirement rate of investment return, the initial rate of mortality and the provision for improving mortality must be as specified in the most recent version of Guidance Note 31A(ROI).

4. BENEFITS STATEMENT

4.1 The Benefits Statement provided by the trustees of the scheme must be in the form set out in Appendix A.

4.2 The purpose of the Benefits Statement is to provide sufficient information to enable a clear and fair comparison to be made between the benefits provided by the Scheme and the PRSA. If the trustees believe that providing the statement in this form may be misleading, they must provide such additional information as they consider necessary to illustrate the Scheme benefits adequately. If they believe that there is further information that may be relevant to the comparison, they must provide this information in addition to the Benefits Statement.

4.3 Where the administration of the Scheme is not under the day to day control of the trustees, but has been delegated by the trustees to a third party administration or insurance provider, it will normally be the practice for administrator to prepare the Benefits Statement. In these circumstances, the trustees must get written confirmation that the statement has been prepared in accordance with this Guidance Note.

4.4 The Benefits Statement must be prepared on the basis of the most likely future membership status of the Member, which will not always be the same as the current status. If the Member is currently a contributing member but is likely to become a deferred member irrespective of whether contributions will be made to a PRSA, the Benefits Statement must be prepared assuming paid-up status.

4.4 In completing the Benefits Statement, the following assumptions must be made:

4.4.1 The Normal Retirement Date is the earliest date at which the member can retire without the employers' consent and, in the case of a defined benefit scheme, without any actuarial reduction. Except in the case of an occupation for which earlier normal retirement is permitted, the Normal Retirement Age has a minimum of 60 years.

4.4.2 Where a defined contribution scheme does not oblige a member to provide a reversionary spouse's or dependants' pension in retirement, a single life retirement pension must be calculated. Where the scheme does provide spouse's or dependant's pension, the projected retirement benefits must include the cost of such benefits. If the marital status and/or number of dependants of the Member is not reliably known by the trustees, they must assume that the Member is married with two dependent children.

4.4.3 Where a lump sum commutation of some or all of the Member's pension is calculated, the current basis of such commutations must be used. Where the rules of the scheme provide for a lump sum at retirement which can be converted into an equivalent pension, the pension must be calculated assuming the current basis of conversion. Where such commutation or conversion is not permitted under the rules of the Scheme, the reduced or full pensions must be left blank as appropriate, and a note included to this effect.

4.4.4 Where the Member is currently making additional voluntary contributions to the Scheme, those contributions must be assumed to continue as a constant proportion of gross earnings.

4.4.5 For a defined contribution scheme, unless the rules of the scheme specify the pension to be provided, the projected pension must assume a five year guarantee period and an annual rate of increase of 3%.

4.4.6 Where the scheme benefits are partially defined benefit and partially defined contribution (for instance in the case of a defined benefit scheme with a defined contribution additional voluntary contribution benefit), the defined benefit and defined contribution benefit projections must both be calculated. Where a scheme benefits are calculated as the greater of two benefits (for example a defined benefit scheme with a defined contribution underpin), the greater projected benefit must be illustrated, and a note of the alternative benefit included.

5. CERTIFICATE OF COMPARISON

5.1 The Certificate must include the information and be in the form set out in Schedule D of the PRSA Disclosure Regulations.

5.2 The table of benefits required under section 1(c) of part 1 of Schedule E must include the information provided by the Scheme in the Benefits Statement.

5.3 The PRSA benefits information required under section 1(c) of part 1 of Schedule E must be in the form set out in Appendix B. If the PRSA provider believes that providing the statement in this form may be misleading, the PRSA provider must provide such additional information as it considers necessary to illustrate the Scheme benefits adequately.

5.4 In preparing the Certificate, the PRSA provider must assume the following:

5.4.1 The transfer value paid into the PRSA at the start of the projection must be equal to the Member's transfer value from the Scheme at that date.

5.4.2 Where the Benefits Statement is prepared on the basis that the Member is a deferred member of the Scheme, the Certificate must assume no contributions to the PRSA other than the transfer value.

5.4.3 The contribution rate on the PRSA will not necessarily be equivalent to the contribution rate on the Scheme. The contribution rate assumed on the PRSA must be a best estimate of the contributions expected under the PRSA.

5.5 The PRSA provider must illustrate the pension that can be purchased with the Member's retirement account on the PRSA. The PRSA provider must make the following assumptions in the calculation of the annuity rate:

5.5.1 The annuity rates must replicate the spouse's and dependants' pension assumed in the Benefits Statement. The rates must also replicate, where reasonable, the features of the annuity available under the Scheme (e.g. guaranteed period, etc.). Where the pension benefits provided under the Scheme are unlikely to be easily replicated in practice (e.g. a pension increasing at the rate of inflation or in accordance with an employer salary scale) the pension projected in the Certificate must be based on a best estimate of the economic value of the benefit, and must not take account of any additional cost arising from the difficulty of matching such a benefit.

5.5.2 The annuity rate must reflect the Member's details as far as they are known. Where spouse's and dependants' pensions are to be provided, the annuity rate must be based on the Member's current marital status, which must be recorded in the Certificate of Comparison.

5.6 In the case where the Scheme is a Defined Benefit Scheme that makes discretionary increases on pensions in payment, the Certificate must show two pension amounts:

(i) The pension that could be purchased with the retirement account, if the pension is level, and

(ii) The pension that could be purchased with the retirement account, if the pension is escalating at 3% per annum.

5.7 If benefits are assumed to commence in less than one year, then the pensions that could be purchased under the Scheme and the PRSA must be included in the Certificate of Comparison. For a Defined Contribution Scheme and a PRSA, the annuity rate must be based on current rates available in the market, instead of the assumptions outlined in Paragraph 3.6. The source of the annuity rate must be recorded in the Certificate of Comparison.

6. STATEMENT OF REASONS

6.1 The purpose of the Statement is to draw the attention of the Member to significant issues which he or she must consider before deciding whether to transfer from the Scheme to a PRSA. It is not a requirement to recommend a particular course of action.

6.2 The Statement must give due weight to the factors which, in the opinion of the Actuary, must be considered. The Statement must not favour one or other course of action by the overemphasis, minimising or exclusion of any issue.

6.3 The Member must not be assumed to be financially knowledgeable unless there are clear reasons to assume otherwise. Taking account of the background of the Member, the statement must be clear, unambiguous, and free of inappropriate jargon.

6.4 The Statement must include all issues which the Member must reasonably consider before making a decision.

6.5 The Statement is not required to refer to all differences between the Scheme and the PRSA if they are not material.

6.6 The Statement must include reference to all factors listed in part 3 of Schedule E of the PRSA Disclosure Regulations unless there is no material difference in this respect between the Scheme and the PRSA or the provision does not apply to either the Scheme or the PRSA.

APPENDIX A – Benefits Statement

Trustees of occupational pension schemes must supply the following information to the person(s) preparing certificates under Section 113.

General Information

Date of calculation

Full name of the scheme

Normal Retirement Date Assumed

Member Information

Name

Sex

Marital/dependants' status

Date of birth

Salary

Defined Benefit Pension Schemes

Projected Benefits at Normal Retirement Age

Member's pension

Spouse's/dependants' pension

Lump sum option and reduced member's pension

Member contribution rate:

- Current member contribution rate (excluding additional voluntary contributions)
- Member contribution rate under the Scheme rules
- Current member's additional voluntary contribution rate

Benefits upon Early Retirement

The trustees must provide details on the early retirement available to the member. Where such retirement is not subject to a reduction for early payment, the trustees must show the projected benefit at the earliest age at which no such reduction applies and indicate whether such retirement is subject to the consent of the trustees, the company or both. Alternatively, the trustees must provide information on the benefits available to the member at the earliest age before Normal Retirement Age at which they may retire of their own accord. In all other circumstances, the trustees must assume the member would retire 5 years before Normal Retirement Age. In particular, the trustees must provide the following:

Age at early retirement

Is trustee and/or company consent required for retirement?

Member’s pension

Spouse’s/dependants’ pension

Lump sum option and reduced member’s pension

The trustees must also provide this information assuming the member left service due to permanent ill-health the day after the date of calculation.

Pension payment information

Pension guarantee period.

Rate of increase in pensions (if guaranteed)

Rate of discretionary increase for each of the last five years.

Benefits on death

The trustees must provide the following information on the benefits available under the Scheme were the member to die on the day after the date of calculation and assuming no change to current membership status:

Refund of any contributions

Lump sum benefit payable

Spouse’s and/or dependants’ pensions payable

Children’s pensions payable

Benefits on leaving service

The trustees must provide the following information assuming the member left service on the day after the date of calculation:

Deferred member’s pension at Normal Retirement Date

Deferred spouse’s/dependants’ pension

Transfer value payable in lieu of deferred pension

Any reductions in the transfer value applied under the Pensions Act 1990 or the Social Welfare Act 2003

Defined Contribution Pension Schemes

Rate of investment return assumed

Projected Benefits at Normal Retirement Age

Member's pension

Spouse's/dependants' pension

Lump sum option and reduced member's pension

Member contribution rate:

- Current member contribution rate (excluding additional voluntary contributions)
- Current employer contribution rate
- Current member's additional voluntary contribution rate
- Details of any increases in employer and/or employee contribution rates under the rules of the Scheme

Benefits upon Early Retirement

The trustees must show the projected benefit available to the member at the earliest age before Normal Retirement Age at which they may retire of their own accord without requiring employer or trustee consent. If consent is always required, the trustees must assume the member would retire 5 years before Normal Retirement Age.

Age at early retirement

Is trustee and/or company consent required for retirement?

Member's pension

Spouse's/dependants' pension

Lump sum option and reduced member's pension

The trustees must also provide this information assuming the member left service due to permanent ill-health the day after the date of calculation.

Pension payment information

Pension guarantee period.

Rate of increase in pension

The trustees must also provide this information assuming the member left service due to permanent ill-health the day after the date of calculation.

Benefits on death

The trustees must provide the following information on the benefits available under the Scheme were the member to die on the day after the date of calculation and assuming no change to current membership status:

Refund of any contributions

Lump sum benefit payable

Spouse's and/or dependants' pensions payable

Children's pensions payable

Benefits on leaving service

The trustees must provide the following information assuming the member left service on the day after the date of calculation:

Transfer value payable

General information

Any investment choices available to the member

Any guarantees or bonuses attaching to investment choices

APPENDIX B – PRSA Projected Benefits

PRSA providers must provide the following information:

General Information

Date of calculation

Normal Retirement Date

Member Information

Name

Sex

Marital/dependant's status

Date of birth

Salary

Projected Benefits at Normal Retirement Age

The value of the member's retirement account

Maximum amount available as a tax-free lump sum.

Member's pension

Spouse's/dependant's pension

Lump sum option and reduced member's pension

Assumed contribution rate:

- Member contribution rate
- Employer contribution rate
- Details of any assumed increases in employer and/or employee contribution rates

Benefits upon Early Retirement

The following information must be provided assuming retirement on the date assumed for early retirement in the Benefits Statement:

Age at early retirement

The value of the member's retirement account

Maximum amount available as a tax-free lump sum.

Member's pension

Spouse's/dependants' pension

Lump sum option and reduced member's pension

The provider must also provide this information assuming the member left service due to permanent ill-health the day after the date of calculation.

Benefits on death

The provider must provide information on the benefits available were the member to die on the day after the date of calculation, and in particular the following:

Lump sum benefit payable

Spouse's and/or dependants' pensions payable

Benefits on leaving service

The provider must provide the following information assuming the Member transferred the PRSA on the day after the date of calculation:

Transfer value payable

General information

Any investment choices available to the member

Any guarantees or bonuses attaching to investment choices