# Standard transfer value basis amendments

**21 May 2009**

## Standard transfer value basis – Amendment process

- ASP PEN-2 sub-committee meets every 6 months or more frequently where required
- Discussions regarding the transfer value basis are minuted and appear on SAI website
- Decisions then taken to Pensions Committee for discussion and ratification
- Then on to Council for further ratification before the Society writes formally to the Minister of Social and Family Affairs
- Committee is comprised of Keith Burns, Noel Collins, Pramit Ghose and Derek McNamee

# Standard transfer value basis

- Most recent meeting was on 27 March 2009
- Key decisions were:
  - Maintain pre-retirement discount rate at 7.75%
  - Maintain post retirement discount rate at 4.50%
  - Maintain post retirement inflation assumption at 2.0%
  - Reduce pre retirement inflation assumption from 2.5% to 2.0% p.a.
  - Maintain existing guidance regarding maximum permissible assumed investment returns for Funding Proposals (ASP PEN-4)
- Mortality assumption was not under review at this time

# Rationale

- Pre-retirement discount rate
  - Rate of 7.75% was consistent with an equity risk premium of approx. 3.25% at date of review (versus a long government bond French Tresor 2032)
  - At high end of ERP range (0-4%) but deemed not unreasonable in current environment
  - Dividend yield model would have justified significantly higher figure but doubts over credibility of this approach in current economic conditions
  - Rate of 7.75% is consistent with equity return assumption used for accounting disclosures at 31/12/2008
  - Decision was to maintain existing assumption of 7.75% p.a.
- Post-retirement discount rate
  - Long term assumption with MVA over 10 years to retirement
  - Existing assumption was consistent with yield on benchmark stock at date of review (French Tresor was yielding 4.35% at date of review)
  - Decision was to maintain assumption of 4.5% p.a.

# Rationale

- Pre-retirement inflation assumption
  - Implied rate of inflation (based on yield differential on long euro bonds (Tresor 2032 stock) and long index linked stock (the OAT€i 2032) was 2.10% at date of review.
  - ECB target is to keep inflation below 2.0% p.a.
  - Significant fall in Irish CPI over last 6 months
  - Decision was to reduce pre-retirement inflation assumption from 2.5% p.a. to 2.0% p.a.
- Post-retirement inflation rate
  - Decision was to maintain assumption of 2.0% p.a.

# Impact on transfer value & Funding Standard position

- Change will result in following changes in transfer values for active and deferred members versus existing SAI Standard Transfer Value basis
- Comparison assuming recent mortality change is also implemented

| Current Age | % change in TV (no pension increases) | | % change in TV (2% pension increases) | |
|---|---|---|---|---|
| | Male joint life | Female joint life | Male joint life | Female joint life |
| 60 | 103% | 102% | 104% | 102% |
| 50 | 100% | 99% | 102% | 100% |
| 40 | 98% | 97% | 100% | 98% |
| 30 | 96% | 95% | 97% | 96% |
| 20 | 94% | 92% | 95% | 93% |

- Assumptions:
  - Discount rate of 4.5%
  - 50% contingent spouses pension is payable
  - 100% proportion married
  - 5 year guarantee

# Impact on transfer value & Funding Standard position

- Comparison assuming recent mortality change is **not** implemented

| Current Age | % change in TV (no pension increases) | | % change in TV (2% pension increases) | |
|---|---|---|---|---|
| | Male joint life | Female joint life | Male joint life | Female joint life |
| 60 | 98% | 98% | 98% | 98% |
| 50 | 93% | 93% | 93% | 93% |
| 40 | 88% | 88% | 88% | 88% |
| 30 | 84% | 84% | 84% | 84% |
| 20 | 80% | 80% | 80% | 80% |

- Assumptions:
  - Discount rate of 4.5%
  - 50% contingent spouses pension is payable
  - 100% proportion married
  - 5 year guarantee