

Relaxation Regarding the Reduction of Transfer Values

1 KEY CHANGES

There are currently limited circumstances in which an individual's cash equivalent transfer value can be reduced under the Occupational Pension Schemes (Transfer Values) Regulations 1996. The long-awaited Occupational Pension Schemes (Transfer Values and Miscellaneous Amendments) Regulations 2003 are set to come into force on 4 August 2003. The 2003 Regulations amend the 1996 Regulations in two key respects:

- Cash equivalents may be reduced if a report by the actuary to the trustees shows that the scheme is not sufficiently well funded to provide cash equivalents in full for all members. The reduction must not be greater than the percentage of "underfunding" identified in respect of each part of the cash equivalent in the actuary's report, and the reduced cash equivalent must not be less than the statutory minimum cash equivalent. Guidance on the "content and methodology" of such reports will be set out in a revised actuarial guidance note, GN 11, produced by the Faculty & Institute of Actuaries.

This change is consistent with the Government's stated intention that transfers be paid "on a basis that is fair to all"¹.

- If the last MFR valuation suggests that a scheme was funded below the MFR minimum, the 1996 Regulations currently allow cash equivalents to be reduced by the exact percentage of underfunding. The 2003 Regulations provide greater flexibility by allowing the cash equivalent in these circumstances to be reduced by a lesser amount, if the Trustees so decide.

NB: The 2003 Regulations do not allow cash equivalents which have already been guaranteed to be reduced.

¹ Simplicity, security and choice: Working and saving for retirement (published on 17 December 2002)

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2 EFFECT ON OPRA'S TEMPORARY RELAXATION OF POLICY

In February 2003, Opra announced a temporary relaxation of its policy on the payment of transfer values under which it said that it would not take action against trustees if they postpone the provision of transfer value quotations in certain circumstances. The intention is that this relaxation will no longer apply once the 2003 Regulations come into force.

3 PENSIONS AND DIVORCE

Finally, it is worth noting that the 2003 Regulations make similar amendments to the provisions governing the calculation of cash equivalents when dealing with pension sharing on divorce.