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## TRANSFER NEWS: TRUSTEES TO TAKE CHARGE

### 1 INTRODUCTION

With just over 10 days remaining in the January transfer window (and perhaps in an attempt to knock David Beckham off the front page) the Government has made the most significant “move” of 2007 so far. At least in occupational pension scheme (if not footballing) terms.

Following consultation in June 2006 on “Approaches to the Calculation of Pensions Transfer Values”, the Government published its response on 18 January (the Response).

A copy of the Response is available from the Department for Work and Pensions website (link below):

<http://www.dwp.gov.uk/publications/dwp/2006/response-calc-ptv.pdf>

### 2 KEY POINTS

- The approach to the calculation of pension transfer values which the Government has decided to adopt is based on the expected cost to the scheme of providing the alternative deferred pension benefits.
- The trustees of the scheme will be responsible for determining the actuarial assumptions used, but will be required to seek the advice of an actuary.
- Trustees will need to determine the assumptions on a “best estimate” basis.
- Trustees will have to provide more information to members considering a transfer.

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### 3 THE NEW APPROACH

Having considered alternatives such as prescribed assumptions, FRS17 and full buy-out, the Government<sup>1</sup> has decided that transfers should be looked at from a scheme specific (or “cost to the scheme”) basis. This is because it considers that fairness as between remaining members and those transferring is best achieved by transfer values which reflect the expected cost to the scheme of the transferring member remaining in the scheme until retirement.

Pension scheme trustees will be responsible for determining the assumptions to be used in calculating their scheme’s transfer values by reference to a “best estimate” assessment of the cost to the scheme of providing the alternative deferred benefit. They will also be required to use a discount rate in the calculation of transfer values which reflects a “best estimate” of future returns, having regard to their scheme’s existing asset mix.

In other respects the new approach will be the same as the current regime. For example, trustees will still be able to reduce transfer values where their scheme is underfunded and to deduct any reasonable administrative costs incurred in relation to the transfer. In the Government’s view, schemes will need to make very few changes to accommodate the new arrangements.

#### *More Information*

Announcing the changes to Parliament, the Minister of State for Pensions Reform, James Purnell, stated that the regulations will require trustees to provide “more information” to members considering whether to transfer. Unfortunately, the Response does not give any indication as to what this additional information might be, except to say that “any new arrangements should not overburden schemes with new disclosure requirements”. But, the Government “will look carefully at the suggestion that generic information, produced by regulators, should be provided to members considering whether to transfer”.

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<sup>1</sup> in line with the views of the majority of respondents to the consultation

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### **4 GENERAL FEATURES OF THE NEW ARRANGEMENTS**

Respondents to the consultation suggested that any new arrangements should:

- Be simple and easy to understand, communicate and implement;
- Be suitable for small schemes; and
- Remain appropriate through changing market conditions and regardless of whether pension schemes are in surplus or deficit.

In addition, they stated that “regulatory oversight” should be kept to a minimum.

The Government has indicated that it will aim to make the new arrangements consistent with these proposals.

### **5 PENSION SHARING ON DIVORCE**

Many respondents to the consultation said that the existing rules on the calculation of cash equivalent transfer values were unsuitable for use in pension sharing. They argued that the resulting cash equivalent transfer values did not reflect the value of the promised benefits to the member and that the position was compounded by the fact that former spouses are often required to transfer their pension rights to another, usually defined contribution, pension arrangement.

The Government’s view seems to be that such issues fall outside the primary purpose of the consultation. However, it notes the concerns expressed and states that they will be given separate consideration.

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### 6 TIMING

The June 2006 consultation originally envisaged the transfer value regulations kicking off in April 2007. But implementation has now been delayed by a year to 6 April 2008, to allow pension schemes “time to prepare” for the new arrangements. We are likely to see draft amending regulations for consultation in the early part of this year, with final regulations laid towards the middle of 2007.

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