

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE: 10/08

Transfer Values - New Regime from October 2008

Draft guidance has been issued, by the Regulator, on the changes being made to the calculation of individual transfer values from October 2008. An outline of the main changes was included in our 07/08 legislation update. This guidance aims to help trustees understand their new responsibilities.

The Regulator has provided clarification on some of the changes that will be made, as well as restating some of the points already covered by the amending regulations:

- The trustees do retain the option to reduce transfer values from under-funded schemes, but no reduction can be applied without first obtaining an 'insufficiency report' from the Scheme Actuary. This report will provide an actuarial assessment of the funding of the Scheme using the transfer value assumptions. Reductions to transfer values to take account of scheme funding must not exceed the maximum reduction identified in the insufficiency report.
- The assumptions used to calculate a transfer value must produce a 'best estimate' of the amount of money needed to provide the benefits. The trustees must seek advice from their actuary before reaching a decision.
- Trustees must consider their investment strategy when choosing the financial assumptions for a transfer value calculation. This means that the discount rate used should be based on the expected returns of the various asset classes held by the scheme.

FSA Transfer Announcement

The draft transfer value guidance includes reference to Enhanced Transfer Value (ETV) exercises, on which the Regulator has previously provided guidance to Trustees and employers. These are exercises whereby members are offered an enhancement on the usual Cash Equivalent Transfer Value to make it more likely that it will be in their best interests to transfer out of a scheme.

The Financial Services Authority (FSA) has recently issued a Statement regarding the transfer of benefits from defined benefit (DB) schemes. The Statement, which is addressed primarily to IFA's working with companies considering ETV exercises reads:

"In our [November 2007 Financial Adviser newsletter](#), we highlighted the complexity of conducting DB pension transfer business on a direct offer basis. We have recently become aware of a number of firms that are either involved in conducting transfers, or considering transfers in this way.

We wish to stress to firms our belief that it is very difficult to make a direct offer financial promotion for a DB pension transfer that is fair, clear and not misleading and meets the FSA's other rules (including COBS 4.5.2). Such a decision is likely to be too complex for a consumer without specialist knowledge to make and it will be very difficult for a financial promotion to fully explain the risks. The FSA reminds firms that in reviewing such financial promotions, the FSA will start from the presumption that such transfers are not suitable. The FSA will enhance its supervisory scrutiny of these activities and enforcement action will be considered where appropriate."

Ref: http://www.fsa.gov.uk/Pages/Doing/small_firms/advisers/library/transfers.shtml

The IFA community is considering how to react to the announcement but it is clear that there will be additional requirements for detailed advice to members. This will add to the cost of ETV exercises. Whether these changes have an effect on the number of ETV exercises undertaken or on the take-up rate remains to be seen.

In our view the increased focus on providing members with the information that they need to make an informed decision is to be welcomed. However, we would be concerned if the Statement resulted in IFAs becoming overly conservative about such transfers. A well designed and well financed ETV exercise can be in the interests of a significant number of members whilst also delivering significant benefits to the sponsoring employer. Overall ETV exercises should be strengthened by the Statement.

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This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email:

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