



Consulting Actuaries respond to consultation paper on pension transfer values...

ACA CALLS FOR SCHEME-SPECIFIC APPROACH TO THE CALCULATION OF STATUTORY MINIMUM PENSIONS TRANSFER VALUES

16 August 2006 - If a statutory right to a pension transfer remains in legislation, Government policy should be based on the expected cost of benefits to the scheme and a scheme-specific approach should be adopted for the calculation of statutory minimum transfer values. These are two of the key points made by the Association of Consulting Actuaries (ACA), the representative body for consulting actuaries, in its response to the consultation paper on *Approaches to the Calculation of Pensions Transfer Values* produced by the DWP in June 2006.

The ACA's key comments on the consultation paper are as follows:

- The ACA is pleased that the Government has recognised that what a transfer value is supposed to represent is a matter for public policy.
- The ACA has obtained the opinions of ACA members through a survey about the approach that should be taken in relation to the calculation of statutory transfer values, assuming the statutory right remains. A significant majority of the ACA members participating in the survey (77%) believe Government policy should be based on the expected cost of benefits to the scheme.
- The ACA survey also found a clear majority of the participating members in favour of a scheme-specific approach to the calculation of statutory minimum transfer values (70%), with most advocating best estimate assumptions (59%) without additions for prudence as required in technical provisions. The ACA response shows that whilst there is a sizeable minority of ACA members who were split in favour of various other approaches, none of these commanded more than 10% of first preference votes.
- The ACA says reductions in transfer values for under funding should be permitted whichever approach is selected.
- The information regime to members should be strengthened. Alongside a number of specific recommendations, the ACA suggests that the Pensions Regulator should issue a leaflet for individuals setting out the issues a member should consider.
- Legislation should set out the principles clearly. Technical guidance can then build on this.

- Given all the protections now available to members, the ACA response adds that it does not believe that members of defined benefit schemes need to have a statutory right to a transfer value - schemes should be free to offer transfers if they so wish. The ACA is yet to be convinced of the arguments set out in the consultation paper in relation to the *Human Rights Act 1998*, and the Government may be able to ensure that the prospective EU Portability Directive does not inhibit its options in this area.
- However, the ACA says that the statutory right to transfer should continue for defined contribution schemes to prevent members from being locked in to investment vehicles they feel are inappropriate, perhaps because of changed circumstances. Individuals in mixed defined benefit/defined contribution arrangements should also be able to take a partial transfer in respect of the defined contribution element.
- The regime for divorce calculations should be reviewed separately.

The ACA says that the approach to the calculation of transfer values should be exposed to wide consultation, particular among employers and consumer and trustee representatives before adoption.

The ACA's response is available at www.aca.org.uk (Policy statements page).

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Notes for Editors

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1500 members working in around 80 firms. Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial.

The ACA forms the largest national grouping of consulting actuaries in Europe.