

# GN11(ROI): RETIREMENT BENEFIT SCHEMES TRANSFER VALUES

## *Classification*

Practice Standard

**MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS, AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES**

## *Legislation or Authority*

The Pensions Acts 1990 to 2002 and Regulations issued from time to time in relation to those Acts. Hereafter in this document the Pensions Act as amended together with regulations issued under that Act are collectively referred to as "the Pensions Act" or "the Act".

## *Application*

Any member of the Society responsible for the calculation of individual transfer values including "transfer payments" under the Pensions Act, the assessment of benefits to be granted in respect of incoming transfer values, or giving advice concerning the calculation of individual transfer values.

<i>Version</i>	<i>Effective from</i>
1.0	01.09.93
2.0	07.01.98
3.0	01.03.01
4.0	15.07.03
5.0	01.09.05
5.1	01.05.06

## **1 Introduction**

- 1.1 This guidance note sets out a standard basis for calculating individual transfer values. It also provides guidance in relation to the matters which the actuary must consider in calculating or giving advice concerning the benefits to be provided in such schemes in respect of incoming transfer values.
- 1.2 The objective of this guidance note is to ensure that transfer values are not less than the actuarial value of the alternative accrued or preserved benefits under the transferring scheme calculated on a standard basis specified by the Society of Actuaries in Ireland from time to time.
- 1.3 The standard basis allows for investment in equities until ten years before normal retirement age and, thereafter, a mix of equity and fixed interest investments, with the proportion of fixed interest investments gradually increasing to 100% by

normal retirement age. For members with ten or more years to normal retirement age, the standard basis reflects an assumed long-term interest rate; for members within ten years of normal retirement age, the standard basis tends towards a reflection of current interest rates.

- 1.3 This guidance note relates to Republic of Ireland requirements and conditions.
- 1.4 This guidance note applies to all transfer values. A transfer value may include a transfer payment as defined under the Pensions Act.

## **2 Calculation basis**

- 2.1 Transfer values must reflect the rules of the pension scheme from which they originate and the overriding requirements of the Pensions Act. Every actuary has a duty to familiarise himself with both the provisions of the scheme and of the Pensions Act before recommending a transfer value.
- 2.2 (a) Except as provided for in paragraph 2.4, a transfer value must not be less than the standard transfer value calculated in accordance with these guidelines.
  - (b) The standard transfer value is the actuarial value of the contractual accrued, deferred or preserved benefits (as appropriate) payable to or in respect of the member, including statutory revaluation of such benefits in deferment and contingent benefits payable on death. The actuarial value must be calculated based on the standard assumptions set out in Appendix 1.
  - (c) Certain schemes provide, as an option, for the exchange of part or all of the member's pension for a lump sum payment. A standard transfer value must not make any allowance for this option where its inclusion would act to reduce the value.
  - (d) The standard transfer value applies primarily to the contractual benefits payable at the member's normal retirement age. However, where a member has an absolute right to receive these benefits at an earlier date, without reduction for early payment and without the consent of the trustees or employer, then the standard transfer value must be calculated on the assumption that the accrued benefit commences on:
    - 1. in the case of benefits other than preserved benefits, the earliest date at which unreduced benefits are available as a right to the member and,
    - 2. in the case of preserved benefits, the earliest date at which preserved benefits become payable under the Pensions Act.
- 2.3 Where the actuary considers it appropriate, he may recommend or calculate transfer values on a more generous basis. Such a basis could, amongst other things, reflect alternative assumptions which the actuary considers are appropriate to the circumstances. Alternatively, it could take account of additional benefits

which a member has a reasonable expectation of receiving from the scheme on a discretionary basis. The actuary must establish with the appropriate authority (i.e. the trustees or the employer) the extent, if any, to which the transfer value calculation should make allowance for discretionary benefits and must advise the trustees of the financial implications of any such allowance.. In considering the appropriateness of calculating transfer values on a more generous basis, the actuary must consider the funding position of the scheme.

- 2.4 If the actuary is reasonably satisfied that the scheme does not satisfy the funding standard, then the actuary must advise the trustees that the amount of the transfer value may be reduced. In such circumstances, the actuary must advise the trustees as to the extent of the reduction in the transfer value which would be appropriate having regard to the scheme's funding position and the winding up priorities contained in Section 48 of the Act.
- 2.6 (a) In respect of incoming transfer values, subject to the provisions of the rules of the scheme, the actuary may recommend that benefits be provided on a defined benefit or on a money purchase basis.
- (b) Where benefits are provided on a defined benefit basis, the actuary must employ methods and assumptions designed to provide the member with fair value for the incoming transfer. The actuary may consider that this is achieved by employing methods and assumptions which are consistent with those set out herein for the calculation of standard transfer values.
- (c) If the benefits provided include discretionary elements which are only payable with the consent of an independent authority, then, in providing the quotation, the actuary must confirm the extent of the discretion and upon whom the discretionary power is conferred.
- 2.7 It is recognised that this guidance does not cover every conceivable circumstance that may arise. In such circumstances the actuary must as far as practicable apply the principles set out herein.

### **3 Review of standard transfer assumptions**

- 3.1 The assumptions outlined in Appendix 1 will be reviewed not less frequently than every six months.

#### **4 Departures from the foregoing calculation basis**

- 4.1(a) Except as outlined in 4.2, if benefits related to pensionable salary at or around retirement have been credited in respect of an incoming transfer value, then the corresponding outgoing transfer value on subsequent withdrawal must represent the then actuarial value of the added years. This value must be calculated based on the then pensionable salary and other assumptions (including an allowance for future pensionable salary increases) as considered appropriate at the time of withdrawal.
- 4.2 Special considerations apply in cases where the circumstances of a previous transfer had been such that the assets transferred bore no direct relationship to the leaving service benefits under the previous scheme. The transfer value in respect of the amount transferred from the previous scheme must be at least equal to the actuarial value of the rights granted on leaving service under the new scheme in respect of the period of service under the previous scheme (including preserved benefit, if any).

#### **5 Defined contribution schemes**

- 5.1 In the case of a defined contribution scheme (as defined in Part III of the Act), where all or part of a member's benefits depend directly on the proceeds of an earmarked investment, the corresponding transfer value will be the value of that investment. Similarly, an incoming transfer value to a defined contribution scheme will generally be applied to an earmarked investment, and the benefit to be granted will depend on the proceeds of the investment.

#### **6 Presentation**

- 6.1 The actuary responsible for advising the trustees of a scheme on the basis for calculating transfer values must hold a current Scheme Actuary Certificate.
- 6.2 The actuary must inform the trustees of the basis used in calculating transfer values i.e. whether he or she recommends the provision of standard transfer values calculated in accordance with these guidance note or higher amounts.
- 6.3 It is not necessary for each transfer value to be authorised separately by the actuary. The actuary may supply tables or an electronic programme, for use by the trustees and administrators, for calculating the amount of any transfer value payable and the pensionable service or other benefits to be credited for an incoming payment. The actuary must specify the circumstances in which adjustments to the tables or revised rates would apply.

**APPENDIX 1 : CURRENT BASIS FOR USE IN STANDARD TRANSFER VALUE CALCULATIONS**

**(A) FINANCIAL ASSUMPTIONS**

	% per annum
Discount rate – pre-retirement	7.25%
Long-term discount rate – post retirement	4.50%
Rate of price inflation – pre retirement	2.25%
Long-term rate of price inflation – post retirement	2.00%

For schemes providing either before or after retirement index-linked increases subject to an annual cap, the rate of increase assumed must be based on the following table. Other rates of increase must be calculated on a basis consistent with that underlying this table.

Annual Cap	Assumed Increase Pre Retirement	Assumed Increase Post Retirement
Under 1.5%	Actual Cap	Actual Cap
2%	1.50%	1.50%
3%	1.75%	1.50%
4%	2.00%	1.75%
5% or over	2.25%	2.00%

For schemes providing a fixed rate of revaluation either before or after retirement the relevant fixed rates must be used.

For schemes providing either before or after retirement increases on a parity pay basis the assumed rate of increase must be the relevant rate of price inflation plus 1.5% per annum.

If necessary, the standard transfer value must be restricted to comply with Revenue Limits (e.g. for schemes providing fixed rate revaluation or escalation in payment greater than the assumed rate of inflation).

**(B) NON-FINANCIAL ASSUMPTIONS**

Pre-retirement mortality	Males: AM92 Females: AF92
Post-retirement mortality	Males: 90% of PMA92 (c = 2004) Females: 90% of PFA92 (c = 2004) with an increase to the annuity value of: <ul style="list-style-type: none"><li>● 0.225% (male with no spouse's pension)</li><li>● 0.175% (female with no spouse's pension)</li><li>● 0.125% (male or female with spouse's pension)</li></ul> (per annum compound) for each year between 2004 and the year in which normal pension date falls.
Marital Status	Marital status at date of leaving service. Where entitlement is based on spouse at retirement or earlier death a proportion married may be assumed.
Age difference	Males three years older than females. In circumstances where a spouse's pension would be payable only to a member's current spouse that spouse's age may be used.

**(C) MARKET VALUE ADJUSTMENT (MVA)**

The value calculated in accordance with the assumptions in A and B above is to be adjusted by multiplying it by a Market Value Adjustment (MVA), as set out below. The MVA used must be that applicable on the last working day of the month immediately before the effective date of the calculation.

The MVA adjusts for two factors:

- (1) It allows for a reduction in the pre-retirement discount rate to the long-term post-retirement discount rate on a uniform basis over the 10 years immediately prior to normal retirement age (the "pre retirement MVA")  
  
and
- (2) It allows for the difference between the yield on the benchmark stock (index-linked or conventional as appropriate) and the long-term post-retirement discount rate at the calculation date in the case of members who are within 10 years of normal retirement age (the "post retirement MVA").

### C.1 Pre-Retirement MVA

The pre-retirement MVA must be calculated as:

$$\left[ 1.0725 / ( 1.045 + T/20 \times ( .0725 - 0.045 )) \right]^T$$

where T is the number of whole years to normal pension date subject to a maximum of 10 years

### C.2 Post-Retirement MVA

Where the member has more than 10 years to go to normal pension age, the post-retirement MVA is 1.

At normal pension age, the post-retirement MVA reflects the characteristics of the rate(s) of revaluation of the post-retirement benefits. In the case of retirement lump sums, therefore, the post-retirement MVA is 1.

The adjustment for fixed benefits (and/or benefits with fixed rate escalation in payment) in the case of a member at normal retirement age is calculated as:

$$0.045 \times a_{15} + v^{15} \text{ at } i\% \quad \text{where } i \text{ is the annualised gross redemption yield on the France Trésor OAT 5.75\% 25 Octobre 2032 stock, to 2 decimal places}$$

The adjustment for index-linked benefits in payment in the case of a member at normal retirement age is calculated as:

$$(1.045/1.02 - 1) \times a_{15} + v^{15} \text{ at } j\% \quad \text{where } j \text{ is the annualised real yield on the France Trésor OAT€i 3.15\% 25 Juillet 2032 stock, to 2 decimal places}$$

Where the member has 10 years or less to go to normal retirement age the MVA is adjusted proportionately i.e. where N = the number of complete years to go to normal pension date, the MVA used is calculated as:

$$\text{MVA at normal retirement age} \times (10 - N) / 10 + N/10$$

A table of post-retirement MVA factors applicable within various yield bands is shown in Appendix 2.

### C.3 Overall MVA

The overall MVA is the product of the pre-retirement MVA and the post-retirement MVA.

## Appendix 2 – Post-retirement MVAs

	<b>Fixed Benefits MVA</b>		<b>Index Linked Benefits MVA</b>
2.88% - 3.12%	1.179	0.88% - 1.12%	1.201
3.13% - 3.37%	1.147	1.13% - 1.37%	1.163
3.38% - 3.62%	1.115	1.38% - 1.62%	1.127
3.63% - 3.87%	1.085	1.63% - 1.87%	1.092
3.88% - 4.12%	1.056	1.88% - 2.12%	1.058
4.13% - 4.37%	1.027	2.13% - 2.37%	1.025
4.38% - 4.62%	1.000	2.38% - 2.62%	0.994
4.63% - 4.87%	0.974	2.63% - 2.87%	0.964
4.88% - 5.12%	0.948	2.88% - 3.12%	0.934
5.13% - 5.37%	0.923	3.13% - 3.37%	0.906
5.38% - 5.62%	0.900	3.38% - 3.62%	0.879
5.63% - 5.87%	0.877	3.63% - 3.87%	0.853
5.88% - 6.12%	0.854	3.88% - 4.12%	0.828
6.13% - 6.37%	0.833	4.13% - 4.37%	0.803
6.38% - 6.62%	0.812	4.38% - 4.62%	0.780