PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

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Department of Work and Pensions
Decumulation and Transfers Team
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Dear Sirs,

RE: CONSULTATION ON VALUING PENSIONS FOR THE ADVICE REQUIREMENT AND INTRODUCING THE NEW CONSUMER PROTECTIONS

We are the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels. We also represent public service pension schemes and have 71 LGPS funds in membership.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

We have read the consultation with interest and believe that it makes sense that valuation for the purpose of the advice requirement and for transfer should be the same. However, the consultation seems to rest on the notion that pension pots to which guaranteed annuity rates ("GARs") attach are all valued in the same way for the purpose of the transfer. This is not the case. As a result, although the proposed approach relieves some of the anomalies surrounding GARs in personal pension schemes, it does not address the problems that have existed in occupational schemes regarding transfer values, and now the advice requirement, since the change to the definition of "money purchase benefits".

Transfers from personal pension schemes are governed by The Personal Pension Schemes (Transfer Values) Regulations 1987, which require that the cash equivalent be based on the "realisable value" of the benefit at the date of calculation (regulation 3). In contrast, transfers from occupational schemes are governed by The Occupational Pension Schemes (Transfer Values) Regulations 1996 ("Occupational Transfer Regulations").

Under the Occupational Transfer Regulations, benefits other than money purchase benefits are considered "salary related benefits" and governed by regulations 7A and 7B, which require that the cash equivalent be calculated on an "actuarial basis". (See Regulation 7(1)(a)(i), 7A(1)(a) and 7B.) The only exception is for cash balance benefits not calculated by reference to final salary. Therefore, valuing GARs using the cash equivalent method for these benefits does not produce the desired result.

It is true that for most of the larger occupational pension schemes, GARs attach through insurance policies held by the trustees, and the benefits continue to be considered money purchase benefits to which neither the advice requirement nor the proposed risk warning regime apply. However, there are a number of very small schemes – documented through section 32 buyout policies and executive plan policies – that contain GARs that are not considered money purchase benefits. These schemes are administered by insurance companies in much the same way that personal pension schemes are administered. (For example, often executive plans have only one member who is also the trustee.) It does not make sense that they are subject to different provisions regarding transfer and advice. There may also be some larger schemes that self-insure their GARs or that have independently promised GARs. However, we have not been able to locate any such schemes. They will similarly be subject to a different regime from personal pension schemes.

We believe that the Department may wish to revisit its approach to GARs for the purposes of the advice requirement, the risk warnings and the calculation of transfer values inasmuch as the approach outlined only applies to those GARs held in personal pension schemes, and most GARs will be held elsewhere. It is true that most large occupational schemes will be outside of the regime altogether because of the way that their GARs are held, but some will be caught, and the differential treatment is difficult to justify.

Kind regards

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Penny Pilzer
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