

WELFARE REFORM AND PENSIONS ACT 1999

EXPLANATORY NOTES

COMMENTARY

Part IV – Pension Sharing

Chapter I – Sharing of Rights under Pension Arrangements

Section 30: Calculation of cash equivalents

There is already a well-established method for valuing the pension rights of early leavers from occupational pension schemes or members of personal pension schemes who wish to transfer their accrued rights to another pension scheme or arrangement. The regulations for the calculation of the cash equivalent in pension sharing cases will broadly reflect the principles set out for calculating cash equivalents for early leavers.

These provisions are in regulation 7 of the Occupational Pension Schemes (Transfer Values) Regulations 1996, and regulation 3 of the Personal Pension Schemes (Transfer Values) Regulations 1987.

In particular, in the case of salary related schemes we intend that cash equivalents for pension sharing, including cash equivalents of pensions in payment, will have to be calculated in a manner approved by a qualified actuary (for example, a Fellow of the Institute of Actuaries or a Fellow of the Faculty of Actuaries). In cases where members have accrued rights in public service schemes, the manner of calculation will be approved by the Government Actuary. The actuary will be bound by professional guidance (see subsection (2)).

Where a salary related occupational scheme is subject to the “minimum funding requirement (MFR)” introduced by the Pensions Act 1995, there will also be a requirement that the cash equivalent must be of at least a minimum amount, consistent with the methods and assumptions used for calculating the MFR, adjusted, where appropriate, to take account of the fact that a cash equivalent calculation for pension sharing is made on an individual, and not a collective basis. The requirements in relation to discretionary benefits will be the same as for ordinary transfer values (see regulation 8(2) and (3) of The Occupational Pension Schemes (Transfer Values) Regulations 1996).

Subsection (2). We intend to use this subsection to prescribe that where the cash equivalent relates to salary-related benefits, then it should normally be calculated and verified in a manner approved by the scheme actuary; and in accordance with guidance published by the Institute of Actuaries and the Faculty of Actuaries.

The Department of Social Security will be in discussion with the Institute of Actuaries and the Faculty of Actuaries about whether the material needed to accommodate the introduction of pension sharing should be in a new stand alone note or an amendment to the actuarial profession’s guidance note on Transfer Values (GN11).