Pension Notes

Windsor Actuarial Consultants Ltd

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Issue 1

DWP steps in over CETV controversy

The DWP announced last week that it would be taking control of the process which will determine what levels of cash transfer value are "fair".

Proposals known as EXD54, which would require transfer values to be calculated using current market interest rates were discussed by the Institute of Actuaries last Autumn, but proved to be controversial, requiring a likely overall increase in Scheme (and , indirectly, company) costs.

Courts also appear to be moving towards a recognition that simply using the Cash Equivalent Transfer Value ("CETV") to value a pension benefit is not the only method, nor necessarily the fairest.

In many cases, the CETV will fall well below the cost of securing the relevant benefits with an insurance company.

The CETV calculation will generally be rooted on the assumptions used in recommending company contribution rates to the pension scheme. This involves the assumption that, over the long term, investment returns will exceed pay increases, and , accordingly, an investment return assumption is used that exceeds the assumptions used for pay increases, and RPI increases.

For example, the recommendation may be based on assuming 5.5% pa investment return, 4.5% salary increases, and 3.0% RPI increases (applied to pensions in payment).

The other underlying assumption is that , if the scheme has a large number of members, there will be an averaging out of experience, across the membership, as well as over time. This would justify lower risk margins, and therefore lower contributions would be appropriate.

However, when a member rate. leaves the scheme, this can involves a short term demand for cash (if the member wants to transfer his benefits to a new arrangement). It is usual for a transfer value to be based primarily on the long term investment assumptions

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Greater Security for Pension Scheme Members

A number of recent government measures have resulted in greater security for members of final salary pension schemes.

First, the 11th June 2003 regulation that if a scheme's assets were insufficient to finance the cost of buying out entitlements earned by members to date, any shortfall on winding the scheme up would automatically become a debt on the sponsoring employer. This means that, unless the employer was insolvent, it would have to guarantee that all members received at least the cost of buying out entitlements with an insurance company.

Members of a scheme which encounters problems after this date will be reassured that the sponsoring company can no longer 'walk away' from its

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Newest Recruit—Nesar Ali

Nesar Ali joined Windsor Actuarial on 3rd January 2006.

Nesar is involved in organizing seminars, and other promotional work for Windsor Actuarial.

This is Nesar's first position in full time employment, and when asked if he enjoyed his new duties, he said "I' m really enjoying my work here, which involves processing seminar applications, organizing venues, and helping things to run smoothly."

Nesar won the Slough Young People's Award last October, and has won the Duke of Edinburgh Award at Bronze level.

Windsor Actuarial goes 'On the Road'

Windsor Actuarial have been carrying out a series of roadshow seminars around the country.

From as far south as Southampton as far north as Newcastle, the response has been fantastic.

Entitled ' Pensions on Divorce', the seminar covers the intricacies of the new forms, how actuaries calculate transfer values, interesting pension schemes to watch out for, the Pension Protection Fund, and the new simplification legislation.

Windsor Actuarial's Peter Crowley said :

"It has really been great meeting family solicitors who have to make decisions regarding pensions for their clients. The pension is often the second most substantial asset, next to the family home, and can sometimes be the first! As the opportunity to be able to revisit the division may be very limited, it is important to get a fair share from the outset.

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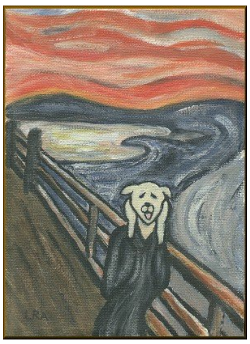
Windsor Actuarial's seminar counts for 1.5 hours of CPD. A list of venues for April/May is on the back cover.

Countdown to Simplification– a Bang or a Whimper?

Much play has been made of the government's simplification proposals, which have just been implemented. (6th April 2006) But how many of your clients will they affect ?



As the headline restriction is a £1.5 million pension fund, or the ability to invest up to £200,000 per annum in your pension, the answer may well be 'not many'!

The minimum retirement age is increasing from 50 to 55 on the April 2010— those who reach 50 after that date will have to wait to age 55, even if it's only one day after.

Restrictions on loans for a scheme to buy (commercial) property have become more restrictive—a maximum loan of only 50% of the fund value is allowed post 6th April..

Above all, schemes established early enough (pre 10th December 2003) will retain their original retirement age, and other advantages, which would not be available. The golden rule is to take expert advice before disturbing a pre April 2006 pension arrangement.

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for the scheme. This means discounting at a relatively high rate, resulting in a relatively low value.

Moreover, if the current market value of the assets of the scheme is depressed, the CETV may be reduced, and the reduction can be substantial.

In these circumstances, the spouse may be being asked to convert pension to cash terms at what is effectively a penal rate.

The other factor to consider is recent improvements in expected mortality. All schemes should be considering this, and some have made allowance for it, but future expectations may not yet have filtered through to the transfer calculation.

To give an example, consider a recent transfer payment from the final salary scheme. The individual left the company and scheme in 1997 after about 12 years service, on a salary of £15,500 pa. Her exit deferred pension amounted to an estimated £10,500 pa at retirement—guaranteed exit pension £5,600pa .

In 2002, following a quotation request, the scheme offered her a REDUCED CETV of £19,300—this had been reduced from a 'full' value of £25,600.

If the scheme bought out her deferred benefits with an insurance company today, the cost would almost certainly be over £80,000, and is likely to be in six figures.

These values represent the 'extremes', and a 'fair' value of the benefit might be deemed to be somewhere between the two—on this basis, we would be looking at a minimum of around £50,000.

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pension responsibilities.

The second bulwark is the Pension Protection Fund, introduced by the 2004 Pensions Act. They aim to raise some £575 million for the 2006/07 year, mainly via risk based levies.

Heath Lambert , Pittards, and Berkeley Berry Birch, are among the company schemes which have applied for "admission" to the PPF, ie, for the PPF to take over the liabilities of their schemes.

The House of Commons Work and Pensions Committee heard evidence in March regarding the PPF's plans. The discussion can be found on the following link:

http://www.publications.parliament.uk/pa/cm200506/cmselect/cmworpen/uc1008-i/uc100802.htm (phew!)

> "the sponsoring company can no longer 'walk away' from its pension responsibilities."

Money Purchase Funds and the Short Marriage

In the case of a short marriage, a straight pro rata division of a Money Purchase-fund can distort the true picture significantly.

For example, if an individual pension plan has been running for 12 years, and the owner has been married for the last four years of that period, a straight 2/3 split allocates too much of the fund to the marriage period. Allocating the growth in respect of each period's contributions to the appropriate contributions results in a split nearer to 80: 20 than

2/1 : 1/3 . (assuming a constant rate of growth).

The calculator on our website, www.windsorac.com, can do these calculations for you, or contact us for a detailed report.

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Making financial sense of the future

Windsor Actuarial Consultants provide consultancy services for solicitors and other professionals. We have a particular expertise in advising on fair divisions of pensions assets, and clear communication of the issues involved.

We have over 25 years of experience in pension scheme, life assurance and related areas involving complex financial matters.

We offer a service where we will express an initial view on your clients pension issues totally free of charge, so you can decide whether additional work and expense are justified for any particular case.

Windsor Actuarial's 'Pensions on Divorce' Seminar Schedule

Windsor Actuarial's Timetable for Pensions on Divorce seminars is as follows:

Monday 24th April

Morning: Salisbury

Afternoon: Bournemouth

Tuesday 25th April

Morning: Reading

Afternoon: Winchester

Wednesday 26th April

Afternoon: Portsmouth

Thursday 27th April

Morning: Reigate

Afternoon: Brighton

Wednesday 3rd May

Afternoon: Croydon

Thursday 4th May

Morning: Canterbury

Afternoon: Maidstone

Monday 8th May

Afternoon: Solihull

Tuesday 9th May

Afternoon: Folkestone

For exact locations and times, contact Nesar Ali on :

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