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Erhan Kalyon
The Pensions Regulator
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19 September 2008

Dear Erhan

Guidance on calculation of cash equivalent transfer values

PwC is pleased to provide comments on the Pensions Regulator's proposed guidance on transfer values. We hope these will be useful and that the guidance can be finalised soon to enable trustees, actuaries and administrators alike to move smoothly to the new regime. Even though trustees have up to three months to respond to a member who requests a cash equivalent quote, some schemes may struggle to comply if there is a further delay.

Options

In our view there is no sound reason for any asymmetry between options that would increase transfer values (which the regulations imply must at least be considered) and options that would reduce them (which the guidance states categorically may not be taken into account). Particularly where the scheme is funded on the basis that commutation will continue to be less costly to the scheme than the alternative pension given up, we believe trustees should be permitted to adopt a policy of taking commutation into account in transfer values.

Our preferred approach would be for the Regulator to restrict itself to asking trustees to consider whether allowance is made in the scheme's funding plan when deciding how to treat options such as commutation.

Consistency with scheme funding

We agree that the assumptions used for scheme funding and cash equivalents should be "*capable of rational reconciliation*" and that "*it should be possible, starting with the best estimate assumptions behind the ICE, to demonstrate that the funding assumptions are prudent*". However, whilst it should be possible, we would point out that in practice it could be a far from straightforward process. We assume the Regulator is not asking trustees and actuaries to prepare detailed numerical reconciliations and would welcome reassurance about this.

Transfers in

The guidance asks that transfers-in should not prejudice the security of other members and not require additional funding in the long-term. However, it also suggests *"choosing best estimate* *assumptions*" for determining transfer credits, which in many schemes will not be consistent with these goals. Trustees of schemes where transfers-in may have a material impact would value the flexibility to have regard to their scheme funding assumptions and use more prudent assumptions (on the premise that a subsequent transfer-out would be on a consistent basis).

Please contact me if you would like to discuss this further.

Yours sincerely

Peter Tompkins

Peter Tompkins
Partner