Transvas System
and Report Update
June 2015
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Overview

As a result of the changes that came into effect from April 2015 to the way benefits can be accessed from Personal Pensions, some new sections have been added to the report to show some cash flow modelling.

We have also taken the opportunity to review the report and make some other improvements to existing areas of the report.

Details of the new report features and updates to existing sections are detailed in this document.

New Feature - Cash Flow Modelling

As a result of the April 2015 changes, far more members of Defined Benefits schemes are looking to investigate a transfer, but without looking to annuitise their benefits.

The critical yield that the report has historically shown is based on the assumption the member transfers and takes an annuity at the selected retirement age. This does not paint the full picture given the new flexibility options available. Therefore, the report now also includes tables which take the benefits that would have been available in the existing scheme, and shows how this would affect the member’s fund value if they transfer and take equivalent benefits via both UFPLS and Drawdown.

In each case, once the member has reached their average life expectancy (based on data from the Office for National Statistics) the scheme pension assumed switches to the amount that would be payable to any spouse. Where a member does not currently qualify for a spouse’s pension under the scheme rules, the spouse’s pension shown will be based on the spouse’s pension that the scheme would pay, should the member marry. In some cases this may still result in no spouse’s pension being payable.

The following scenarios are modelled for each retirement age shown in the report.

Using UFPLS to Fund Benefits Equal to Existing Scheme Pension Only
This assumes the member takes benefits from the Personal Pension that would result in the same pension net of income tax that the member would have received from the Existing Scheme. Under UFPLS, 25% of each amount drawn from the fund would be tax free.

Using Drawdown to Fund Benefits Equal to Existing Scheme Pension Only
This assumes the member takes Full Drawdown in the Personal Pension, therefore would take 25% of the Initial Fund as cash. This would be used to provide income at the same level as the Existing Scheme Pension net of income tax, until it runs out, at which point taxed income would be drawn from the Personal Pension fund.

Using UFPLS to Fund Benefits Equal to Existing Scheme Cash and Reduced Pension
This assumes UFPLS is used to provide benefits equivalent to the Existing Scheme cash and reduced pension. An initial amount would need to be drawn (25% of which would be tax free) to cover the scheme tax free cash, after which funds are withdrawn to match the net Existing Scheme reduced pension. Again 25% of each amount drawn from the fund would be tax free.

Using Drawdown to Fund Benefits Equal to Existing Scheme Cash and Reduced Pension
This assumes the member takes Full Drawdown in the Personal Pension, therefore would take 25% of the Initial Fund as cash. This would be used to provide the initial tax free cash and income at the same level as the Existing Scheme Pension net of income tax, until it runs out, at which point taxed income would be drawn from the Personal Pension fund.
Understanding Cash Flow Modelling Tables

In each of the tables at each 5 year interval from assumed retirement age up to age 105, as well as at the age of the member’s average life expectancy, the following data is shown:

- Probability of the member reaching that age;
- Probability of the member’s partner’s survival when the member reaches that age;
- The Pension net of tax that would have been payable in the Existing Scheme at that age;
- The remaining Personal Pension fund value at that age, assuming growth at the Low, Mid and High rates of return. Where the fund has run out this will be shown as “fund depleted”.
- The growth rate required to fund benefits from the PP equivalent to that from the Existing Scheme pension until that age. I.e. the growth required between now and that age so that the fund is depleted at the end of that year.

This means that, where actual growth achieved is greater than this the fund will be at least sufficient to fund benefits equivalent to those from the Existing Scheme up to that age.

Conversely, if actual growth is lower than this the fund will run out prior to this age, if taking benefits at the same level as the Existing Scheme.

Below the tables, for the Low, Mid and High rates of return, the age at which the fund would be depleted is shown. Where this is less than age 105, the table will show the probability of the member and partner surviving until the member reaches that age.

New Feature - Life Expectancy

In order to provide some level of context to the cash flow modelling tables we have included both the member’s life expectancy, based on average life expectancy from ONS data, and the probability of surviving to the various ages illustrated in the report, for both the member and their partner.

These do not allow for member specific factors, such as lifestyle or existing health issues; however they will provide a basis for the adviser to begin discussions around the level of funding that might be required in later life and whether these are provided for under Drawdown or UFPLS.
Report Update - Critical Yield Page

There have been several changes to the critical yields that are shown in the report.

**Joint Life versus Single Life**
Previously the critical yields in the report would have allowed for a spouse’s pension in the Existing Scheme based on the member’s current marital status. However, where a member did not currently qualify for a spouse’s pension, the report would have assumed that at least the statutory minimum spouse’s pension for a married member was payable.

In the new report, critical yields will be calculated on both a Single Life basis — which assumes no spouse’s benefits would be paid, and on a Joint Life basis — which takes into account the spouse’s pension the scheme would pay.

In addition it is clearly highlighted whether the member currently qualifies for a Single or Joint Life pension under the scheme’s rules.

This allows the member to see the value of the benefits in the Existing Scheme allowing for any possible future changes in their circumstances.

**Critical Yield Breakdown**
Critical Yields are shown for Single and Joint Life Pensions in the Existing Scheme and, if appropriate, for Full Pension and Cash & Reduced Pension.

For the Personal Pension these are further broken down into the following components:

- Yield required to match the starting pension in the existing scheme assuming no further increases in payment and no guaranteed period applies (the Single Life version of this yield is equivalent to the Hurdle Rate yield previously shown in the report);
- The difference between this and the Full Critical Yield. I.e. the effective cost to the Personal Pension of providing for any increases in payment and guaranteed period in the Existing Scheme pension.

**Report Update - Consolidated Charts for Low, Mid and High Growth Rates**
The previous version of the report showed separate pension projections and death before retirement benefit comparisons at the three growth rate assumptions for the Existing Scheme and Personal Pension.

We have updated the report to show the Existing Scheme pension and death before retirement benefits using the FCA assumptions for TVA, compared against the Personal Pension at the Low, Mid and High rates of return, in the same chart. The Existing Scheme benefits will only be projected using the mid-rate assumptions.

**Report Update – Section 32 Comparison**
Transfers to a Section 32 are increasingly rare. Where a Section 32 comparison is included in the report, this will now be shown in an appendix at the back of the report, which will include critical yields, pension and cash projections and death benefit comparisons.
Report Update – Retirement Within 1 Year

On 8th June 2015 the FCA’s published Policy Statement PS15/12 “Proposed changes to our pension transfer rules, feedback on CP15/7 and final rules”, which specifies that a TVAS is not required where the member is looking to crystallise immediately and the member is at Normal Retirement Age. In all other cases, a TVAS will be required.

The FCA Conduct of Business Sourcebook requires that annuity rates used for projections with a term of less than 1 year must be compared against those available in the open market.

The system has been updated to allow projections within 1 year; however an immediate annuity rate will need to be provided to allow the system to project the Personal Pension benefit.

The Existing Scheme pension projection will also be shown; however by default critical yields will not be shown for terms of less than 1 year as appropriate open market annuity rates do not exist for many existing pension scheme slice annuity shapes (for example CPI linked escalation).

Report Update – Scheme Retirement from age 50

The system will now allow retirement to be illustrated at ages 50 to 54 where a scheme has protected Retirement Age prior to age 55.
What This Means for Transvas Bureau Customers

There are two new considerations to enable our Transfer Bureau team to generate the TVAS report:

- For the flexibility cash flow modelling sections, we require the marginal Income Tax Rate the member is expected to experience at retirement. Where no rate is provided we will assume 20% (and show in the data report section that this is an assumption.)
- Where an illustration within 1 year is requested the Transfer Bureau team will source a standard immediate annuity rate on which to base the Personal Pension projections.

What This Means for Transvas Profiler Customers

There are two new data items that may need to be input to enable a case to be run:

- The marginal Income Tax Rate the member is expected to experience at retirement. Where no rate is provided a validation warning will be generated and the system will assume a rate of 20%.
- Where an illustration age is within 1 year you will need to source an immediate annuity rate on which to base the Personal Pension projections. This should be based, as closely as possible, to the annuity shape for the largest slice of existing scheme pension. The data report will show you the annuity shape that is expected to be used. This should be input as a pension amount per £100,000 of fund value. Where no amount, or an invalid amount is input, a validation problem will be generated.