# DEFINED BENEFIT TRANSFERS: TRANSFER VALUE ANALYSIS SYSTEM REPORTS

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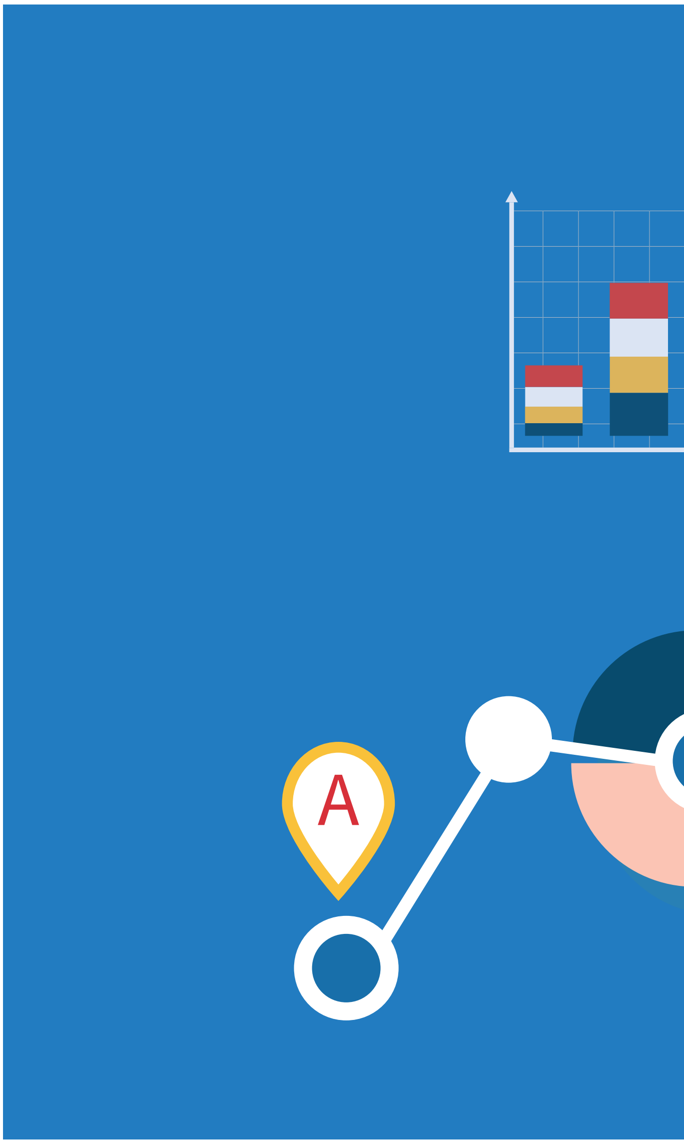
Pension freedoms and higher transfer values have played a major role in increasing demand for advice on defined benefit transfers. As part of the process it is necessary to obtain a Transfer Value Analysis report. Some providers, including Scottish Widows, offer a free Transfer Value Analysis service (TVAS).




A member's entitlement statement from the scheme usually carries a three month guarantee period. Therefore obtaining a Transfer Value Analysis (TVA) report in a timely manner hinges on getting the necessary information from the scheme to the provider as soon as possible. To provide a report that is accurate and relevant it is important the advisor and report provider engage with each other and are clear about the requirements. Based on our experience we have written this article to highlight the key information required to produce a meaningful report, and maximise the potential of the analysis.

## OBTAINING A TVA REPORT

- Each provider will have its own process, but the starting point at Scottish Widows is to get in touch with your usual contact, who will work with our TVAS team on your behalf.
- Provide copies of the member's entitlement statement from the scheme which will contain details of the accrued benefits, scheme details and transfer value. A scheme has a statutory duty, on demand, to supply one free statement every 12 months. It is good practice to use a template to review the scheme benefit statement prior to submitting your request to make sure you have gathered all of the necessary information for the analysis report to be completed. Based on our experience, the TVAS provider can usually supply a template on request.
- It is not uncommon for scheme statements to omit some basic and important information. It will speed the report's production if the requester checks for, e.g. transfer value; normal retirement age; whether benefits are stated at leaving the scheme, calculation of the statement or retirement.

## TOP TIPS: HOW YOU CAN HELP THE TVA TEAM PRODUCE YOUR REPORT

- Make the best use of any guarantee window and get in touch early.
  - Transfer values are typically guaranteed for three months and trustees may not always quickly provide further information. So carry out as much pre-work with your client before submitting the request for the entitlement statement from the scheme to maximise the time you have.
- Assumptions about a member's defined benefits can lead to inaccuracies.
  - Look for a TVAS provider whose priority is producing an accurate report which can support your advice. A quick turnaround at the expense of accuracy can lead to problems later on.
  - While TVA teams are often familiar with certain schemes, certain benefits within the same schemes can still vary depending on a member's age or period of service.
  - Understand the basis on which the TVA team will make assumptions where this becomes necessary.

One approach, where this can be interpreted in different ways, is to be guided by the answer which overstates the position. For example, a tranche of pension revalued by "price inflation" could be read as RPI or CPI, and some providers would assume RPI as this is the higher assumption on a TVA report, generating a higher projected scheme pension at SRA. This guards against the critical yield being understated.

## THE INFORMATION A TVA TEAM WILL LOOK FOR

- Include your client's basic details, the ceding scheme's status and your fees.
  - Fundamentals like date of birth, marital status and any spouse's date of birth are often omitted.
  - Attitude to risk, health status, employment status and number of dependants.
  - If an analysis builds in initial and ongoing advisor charges, but none are specified, none will feature.
  - If you can, supply the scheme funding position and whether it is open or closed. If your request is silent, it's likely that the TVA system will assume the scheme is fully funded and in force.
- Revaluation and escalation is crucial.
  - The rates at which benefits increase before retirement and in payment have a considerable impact on the report's projections and critical yield.
  - Among the most common causes of delay are where insufficient information is supplied on the benefit revaluation rate, increases in payment and benefits on death.
  - More specifically on Guaranteed Minimum Pension (GMP) benefits where the revaluation is by Limited Rate, many schemes will not initially provide the Limited Rate Premium which needs to be included in the transfer value.
- Provide spouse benefits on death even when the member concerned is single.
  - It's very common to be told 'there is a pension' and/or 'a lump sum', whereas a TVA requires the level or percentage of the member's benefit.
  - Reports for unmarried clients include spouse benefits due to them being built in to the transfer value regardless of marital status when leaving the scheme, that status being changeable, and to allow for trustee discretion.
  - Tax free cash commutation factor.
  - To report accurately on the scheme tax free cash it is important to provide the scheme commutation factor. If not, it's likely that a standard 15:1 is used which can either understate or overstate the tax free cash from the scheme.
- If the member is interested in early or late retirement, and this needs to be reflected in the TVA report, provide the percentage by which their deferred benefits are increased or reduced by the scheme.
  - Rather than let the TVA provider assume 4% or 7% respectively, for example, it is far better to supply the factor and specify when the benefit is first revalued to.
- Generally, TVA reports will not include benefits or increases which are at trustee discretion, with the exception of spouse benefits on death.

## THE COMPLETED REPORT

- Beyond critical yield, the report plays an important role in supporting the advice process in other key areas that may be relevant to your client, helping you provide a more personalised experience.
  - Though much of the TVAS process was designed pre-pension freedoms, look for reports that offer more than the historically relied upon critical yield necessary for the receiving arrangement to match equivalent benefits via an annuity.
  - For example, a report can include the hurdle rate at which the former scheme's benefits are matched if they're treated as non-increasing with no benefits on death after retirement, a sustainability age range if flexi-access drawdown were to be used, compares death benefits, and projects a pension commencement lump sum comparison.
- A TVA report can support advisors in meeting FCA expectations around investment selection on transfer.
  - The FCA has asked advising firms to consider the assets in which the client's funds will be invested, as well as the specific receiving scheme. Check whether the TVA report uses a default fund or can accommodate specific funds or discretionary fund management strategies.
- If anything in the report's body is not as expected, the report should include the assumptions used and what was input to the system.
  - An "Existing Scheme Assumptions" section can illustrate why the report's projected pension may not match the scheme's. For example it is not uncommon that both use different assumptions for future inflationary increases, even where the inflationary measure and maximum rate are identical.
  - A "Record of Input Data Section" states in full what has gone into the analysis.

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change.
However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.
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