

General Information

Money Purchase cases with GMP and/or Reference Scheme test benefits

Date Logged: 2014

Introduction

Some Money Purchase Schemes will also include GMP and/or Reference Scheme test benefits.

Background

This means there is an underlying guarantee that a minimum level of benefits will be paid.

Resolution

Transvas can be used in these cases, but it should be noted that all it will provide is a Critical Yield to match the minimum benefits, when in reality a higher level of benefits will generally be available, dependent upon the investment return achieved on the money purchase pot.

If only the transfer value relating to the minimum benefits is entered on Transvas then the report will show the level of growth needed in the individual plan (PP or S32) in order for the Final salary element of the TV to match the value of the Final Salary benefits given up in the existing scheme. It will not show the correct cash, death benefits, pension etc in the existing scheme, PP or S32. It should not really be used to support a recommendation to transfer or not. All it does is point out whether the Transfer Value for the Final Salary element is “fair” based on FCA growth and annuity assumptions. Other than that it will be fairly meaningless.

If the entire transfer value is used along with the minimum benefits, the report produced will usually only be useful to back up a recommendation not to transfer. It will show the level of growth needed in the individual plan in order for the whole transfer value to match the value of the Final Salary benefits given up in the existing scheme. Again it will not show the correct cash, death benefits or pension in the existing scheme, but will give the correct result for the PP and S32 in most circumstances. It cannot really be used to support a recommendation to transfer, but it would be useful to indicate where, on investment grounds alone, it would be more advantageous to stay in the existing scheme – i.e. If the yield is high, then the transfer value provided is NOT good value for money, as it can't even cover the minimum benefits. But if the yield is low, which is often the case; it means that the minimum level will be met and that additional benefits are likely to be provided by the existing scheme.

Further Considerations

Some money purchase schemes will operate a full final salary underpin (e.g. with an underlying guarantee that benefits will at least match 60ths accrual rate). In these cases the final salary benefits should be reflected as closely as possible and the critical yield will have some meaning, but should be used in conjunction with the IFA's normal process used for reviewing a money purchase case.