Pension de-risking

Enhanced Transfer Values (ETV)

Enhanced Transfer Values provide the opportunity for scheme sponsors to remove some liabilities and costs for sections of their scheme membership. Such arrangements can provide members with increased flexibility and can lead to improvements in funding levels.

What is an ETV?
Legislation allows deferred members of a defined benefit scheme to take a transfer value to an alternative pension arrangement. The statutory amount that is paid is known as a Cash Equivalent Transfer Value (CETV). There is some flexibility on the calculation of the CETV and hence the values available may vary from scheme to scheme. In the majority of cases, the terms are relatively unattractive for the member and, as a result, most members choose not to exercise this option.

With an ETV the sponsoring employer offers members an incentive on top of the standard transfer amount (CETV) to transfer their benefits into another scheme, or individual arrangement. Typically, the new pension arrangement scheme will be a type of defined contribution (DC), in which case the transferring member takes on the risks of future investment performance and the future cost of buying an annuity at retirement.

ETV exercises are normally originated by the employer, and seek to find an offer sufficiently attractive for the member to consolidate funds elsewhere.

Why undertake an ETV exercise?
For corporate sponsors:
• Deferred members are the largest component of many pension schemes
• Very few deferred members transfer out normally. Deferred member liabilities are the longest-term liabilities and the largest source of financial volatility
• Insurance of deferred members is very expensive – enhanced transfers are likely to be far cheaper
• Longevity solutions are not generally available to match the longevity risk, and there is a cost involved in matching the future interest rate and inflation risks
• A reduction in overall liabilities and a likely improved funding position

For trustees and members:
• ETVs can lead to an improved funding position and increased security for the remaining members
• ETVs offer more flexibility for members in terms of the benefits offered, the style of pensions, the ability to consolidate different pensions and the desire to invest according to their choice
• There may be specific circumstances that make an enhanced transfer beneficial for the member, such as health or financial circumstances
What are the costs?

- Enhancement costs (higher CETV)
- The cost of providing independent financial advice and communication with members
- Professional advisors and project management costs

The scope for ETVs can be seen in the following chart for an example scheme:

Approximate values of a deferred pension of £10,000 p.a. payable at age 65

It is important to strike a balance between making an appropriate level of offer and the resulting take-up rate by members. We have developed an ‘ETV modeller’ tool which models the financial impact of various offers on different funding measures. The proportion of members accepting the offer and the financial impact are clearly linked to the level of the enhanced offer:

Contact Us

For more information on how we can assist you in implementing an enhanced pensioner buy-in, please contact your usual consultant or:

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