MT Financial Management

Chartered Financial Planners

FACTSHEET -

CASH EQUIVALENT VALUES

As a firm who advises on the transfer of final salary pensions, one of the questions we get asked frequently is how a final salary or CARE scheme comes up with the cash equivalent value (CEV or CETV).

This is the amount of money the pension will transfer away if you wish to invest that money in a personal pension.

We advise on whether to transfer or not.

Our advice is not merely based on the maths, but on what goals and aspirations you have. For instance:

- Do you want to retire flexibly?
- Do you want to ensure that your children get some of your pension?
- Are you comfortable with investment risk?

The maths are very important too!

'Calculate pension at date of leaving'

The scheme administrators will calculate how much pension income you were entitled to when you 'left' the scheme.

This could be when you left the employer or it could be when the scheme was closed.

Revalue Benefits.

The administrators use an assumed inflation rate to revalue your benefits to their potential value at retirement

Pension at NPA

NPA stands for normal pension age. This is normally 60, 65 or aligned with the state pension age.

Capitalise Benefits

Using an assumed annuity rate your income is converted to a lump sum. This is based on your life expectancy

Future Lump Sum

This is the assumed lump sum required at your retirement age to provide the income that you are entitled to.

Discount to today

Using an assumed growth rate the future lump sum is discounted to provide a lump sum at today's rate.

CEV

There are three assmptions used in the calculation.

If growth assumptions are reduced then CEVs increase

If life expectancies reduce then CEVs reduce

If inflation is low then CEVs increase

They are based on a snapshot in time.

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