Finalised guidance

FG21/3 Advising on pension transfers

March 2021

Contents

1 Introduction

Background to this guidance

1.1 A well-functioning advice market needs advisers who know how to deliver suitable advice and can help consumers understand what that advice means for them, so that consumers can make informed decisions. Since the pension freedoms were introduced in April 2015, our work on defined benefit (DB) transfer advice shows firms do not always provide the quality of advice that is required.

1.2 We are publishing this guidance to help firms give suitable advice consistently. After reading this guidance, some firms may need to make changes to their processes where their approach falls short of the standards set out in the guidance. These changes are likely to include the way in which firms:

- collect information about their client's circumstances to give suitable advice
- use the information they collect to assess whether a DB transfer is suitable
- communicate their advice effectively to consumers

1.3 Consumers expect that when they take financial advice, it will be suitable for them. The impact of unsuitable DB transfer advice on consumers is significant. Having lost the security of a guaranteed income, consumers bear the risk of how their pension investments will perform and whether these will provide the income they need for the rest of their life. They also become responsible for paying charges that, for many, will be one of their largest monthly expenses. These charges are not obvious to many consumers because they are deducted from their pension investments. We will carry on our work to identify and stop those firms which we consider are causing harm to consumers, including the appropriate removal of poorly performing firms from the market.

1.4 In our ongoing work, we have seen some high quality DB transfer advice that has enabled consumers to make the best use of their funds. But much of the advice we have reviewed shows that too many firms are struggling to give consistent, suitable advice which meets our rules to consumers. This is largely due to poor practices or weak record keeping. As a result, too much of the DB transfer advice we have seen is either unsuitable or we were unable to assess its suitability due to material information gaps (MIGs). MIGs occur where firms have not collected the necessary information, usually about the consumer or the scheme benefits, to assess suitability. Even where the advice is suitable, we have seen too many poor practices in the advice process based on a misunderstanding of the requirements, poorly designed systems, out-dated processes or inadequate disclosures.

1.5 We know that many firms are trying to do the right thing for their clients but do not realise they may not be acting in their clients' best interests. We want to support those firms trying to give suitable DB transfer advice to consumers. This Finalised Guidance (FG) provides non-Handbook guidance that is designed to help advisers understand our expectations when advising on pension transfers and conversions. It focuses particularly on the processes firms need to put in place to give suitable DB transfer advice – and avoid giving unsuitable advice. The aim of the FG is to improve the suitability of DB transfer advice and the outcomes for individual consumers. It also aims to give advisers the confidence to give good advice, so that they and their professional indemnity insurers can see the benefits of fewer instances of unsuitable advice, making the future pension transfer advice market more sustainable.

1.6 Staff at some firms appear to think the problem of unsuitable advice lies elsewhere and not with them. Firms giving DB transfer advice should read this FG to help ensure that they are giving suitable advice to consumers.

About this guidance

1.7 Following consultation, we have published this non-Handbook guidance to help firms understand how to apply our Handbook rules and guidance when giving DB transfer advice. The guidance aims to support the development of good practice and processes within firms. We expect firms to use the guidance to identify any weaknesses in their existing processes so they can put into place an appropriate framework for managing and delivering suitable advice on DB to defined contribution (DC) transfers.

1.8 We have provided examples of what we are calling 'good' and 'poor' practice, largely based on advice we have assessed, to illustrate our expectations and how they link to compliance with our rules:

Good Practice

Where the good practice relates to a particular rule, it tends to show the practice complies with the relevant rule.

Poor Practice

Where the poor practice relates to a particular rule, it tends to show the practice does not comply with the relevant rule.

1.9 In the guidance, we refer to 'you', advisers and firms interchangeably although ultimately, firms remain liable for the advice their advisers give. Under the Senior Managers Regime (SM&CR), a senior manager will have individual responsibility for the provision of suitable DB transfer advice and should ensure that they have an appropriate control framework in place.

1.10 In this FG, we use the phrase 'DB transfer advice' to mean 'advising on conversion or transfer of pension benefits' from DB schemes to a DC arrangement.

1.11 This FG is based on the Handbook rules and guidance in effect at 1 October 2020.

1.12 Finalised guidance is not a substitute for reading the relevant Handbook rules and guidance, but we have given cross-references to the key rules in each section. Where relevant, the terms used in this guidance are consistent with those used in the Handbook rules and guidance. Firms do not have to use the same terms in their dealings with clients if they feel it is inappropriate to do so. Firms may also find it helpful to refer to our Defined Benefit Advice Assessment Tool which sets out how we review DB transfer advice. The tool sets out the key factors to consider when checking the suitability of advice and disclosure. We recommend that firms use it as it can help them understand how we assess suitability.

Who does this guidance affect?

1.13 This guidance is primarily aimed at firms providing advice on the conversion or transfer of pension benefits and relevant advice on where any transferred funds may be invested. Chapter 2 contains content which applies to manufacturers and distributors of professional indemnity insurance.

1.14 This guidance will also be of interest to compliance consultants, and any other firms arranging transfers or investments from transfers, which potentially includes providers.

1.15 The guidance may also be of interest to trustees, scheme administrators and operators of schemes offering safeguarded benefits, as well as trade associations, providers receiving transferred funds and consumer groups.

Equality and diversity considerations

1.16 We are required under the Equality Act 2010 to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions.

1.17 We believe this guidance does not raise equality or diversity issues. In general, this guidance explains how firms can meet their existing obligations and does not create any new obligations or set any new expectations. In general, if this guidance results in firms being able to deliver suitable personal recommendations at a lower cost, this will particularly benefit those who are typically less willing or able to pay for advice.

2 Preparing to give defined benefit transfer advice

High level regulatory framework

Overview

2.1 Before firms can give pension transfer advice, including DB transfer advice, they must hold the correct permissions for the type of business they want to transact. They should be aware of relevant legislation. They also need to know the key rules that apply to the regulated advice they plan to give. If firms do not give advice that complies with our rules, we will ensure they are removed from the DB transfer advice market, where appropriate.

Permission regime

2.2 If you want to give advice on a transaction meeting the definition of a pension transfer, a pension conversion or a pension opt-out, you need to understand which permission you need. We have said previously that we can give a limited permission to firms that only advise on giving up guaranteed annuity rates (GARs), or equivalent benefits. Effectively, this means the relevant permission is split into 2 parts:

a. limited permission: advising on transfers from GARs, including retirement annuities, only
b. full permission: all pension transfers, pension conversions and pension opt-outs

2.3 A firm with the full permission must take responsibility for communications about DB transfer advice. This also means that if a Pension Transfer Specialist (PTS) wants to advise any consumer, or even themselves, on a DB transfer, their firm must take responsibility for the advice. Firms must ensure they do not inadvertently give false or misleading impressions or they could be held liable for it.

Good Practice – using permissions

A firm with the full permission sets out in its terms of business that it can give pension transfer advice and includes the charges for DB transfer advice in its charging structure. But it also sets out that ongoing advice services exclude advice on giving up any DB pensions that the client holds. The firm makes clear that during the yearly review, it will assume that the client continues to be a member of this type of scheme and will take the benefits at the normal retirement age. The firm explains that the complexity of DB transfer advice means that they would need to charge an additional fee for advising on whether to give up DB benefits each year. The firm only gives advice on a transfer or conversion if the client specifically asks for advice on whether to give up a specific DB pension.

2.4 The pension transfer definition no longer includes transfers from non-safeguarded benefit schemes. So firms no longer need the limited permission to advise on transfers from DC occupational pension schemes without safeguarded benefits. Further, you do not need the permission at all if you only advise the member on how to structure their DB scheme benefits, ie you are not advising on a potential transfer to flexible benefits.

2.5 A firm also does not need the permission at all for a pension opt-out where there would be no redirection of contributions to an FCA-regulated replacement scheme, eg due to lifetime allowance or annual allowance considerations. But you may require the permission if the opt-out is followed by a transfer which effectively connects the pieces of advice together. For example, if a firm nudges a consumer to opt-out in order to get transfer advice. Where a client is an active member of a scheme, a firm should not imply that an opt-out is required to give DB transfer advice but can explain that they could advise on an estimated transfer value instead (see paragraphs 4.58 and 6.10-6.11).

2.6 You do not need the permission at all if you are advising a client on whether to join a DB scheme. Similarly, you do not need the permission if you advise an ex-spouse whether to use a pension credit awarded from a pension sharing order to acquire rights in a DB scheme. DWP has told us that where the ex-spouse has the option of becoming a member of a DB scheme, the pension credit is not regarded as safeguarded benefits (or money purchase or cash balance benefits) or a transfer payment but as a right in itself. If you advise an ex-spouse on using the pension credit to acquire rights in a DB scheme, this falls outside FCA-regulation. But if you advise them on acquiring rights in an FCA-regulated DC scheme, you must have the relevant investment advice permission.

2.7 A firm must also meet any legislative requirements when advising on a transfer from a safeguarded benefit scheme to a flexible benefits scheme. For example, as set out in PS15/12, the Department for Work and Pensions have previously told us that 'appropriate independent advice' must be provided by an adviser who is independent of the employer or trustees/manager of a scheme. So we think it is unlikely a financial services group that is regulated by us could use advisers within the group to offer advice to members of its own scheme. This applies to all types of safeguarded benefits.

2.8 Independent means different things in different contexts. For example, the 'independent' in 'appropriate independent advice' is different from the 'independent' that firms use to describe whether their advice is 'independent' or restricted. Firms should be aware that the 'independent' in 'independent or restricted' may affect the choices employers make when they appoint advice firms to provide financial advice to members. These introductions fall outside the arranging activity if the introduction is for independent advice from a regulated firm on investments generally. This means if it includes investments which are not insurance products, and the employer is indifferent as to whether members buy an insurance product rather than any other investment. Where an employer wishes to avoid straying into arranging activities when appointing a financial advice firm, they should consider whether a restricted advice firm's range of products would be broad enough to allow that firm to provide advice on investments generally, including non-insurance products.

Definitions and application of Handbook rules

2.9 Our Handbook glossary sets out 2 definitions that are specifically related to DB transfer advice. A pension *conversion* captures the movement of safeguarded benefits to flexible benefits within the same scheme. A pension *transfer* captures:

- the movement of safeguarded benefits in one scheme to flexible benefits in another scheme
- advice on giving up safeguarded benefits in an occupational pension scheme (OPS) for safeguarded benefits in a non-OPS
- advice on giving up safeguarded benefits in an individual pension contract providing fixed or guaranteed benefits that replaced similar safeguarded benefits under a pension scheme, commonly known as a s.32 contract, for safeguarded benefits in either a DC OPS or a non-OPS with safeguarded benefits

2.10 You must comply with the suitability rules in our Handbook when you give advice on a pension transfer or pension conversion. If you give abridged advice, the suitability rules in COBS 9 and COBS 19.1A apply. If you give full DB transfer advice, the suitability rules in COBS 9 and COBS 19.1 apply. In addition, if you give investment advice and provide a personal recommendation on a product that would receive any transferred funds, you need to comply with COBS 9 and COBS 19.2. Firms should also consider the rules on suitability in COBS 9 in light of the starting assumption that a transfer will not be suitable. Firms should also act in the client's best interests. COBS 19.1 does not apply in full to transfers out of a pension with a GAR. For example, there is no requirement to use a PTS, prepare and provide a transfer value comparator (TVC) or carry out appropriate pension transfer analysis (APTA). But our starting assumption still applies to transfers away from GARs. So firms should start from the position that it should only consider a transfer to be suitable if it can clearly demonstrate that, on contemporary evidence, the transfer is in the client's best interests. Some of the provisions of COBS 19.1 also apply to pension opt-outs involving safeguarded benefits.

2.11 Advice on pension switches that do not involve any safeguarded benefits are not subject to the pension transfer rules in COBS 19.1 but are still subject to COBS 9.

2.12 You will not know whether a potential transfer is likely to result in a recommendation to another safeguarded benefits scheme when you start the advice process. So you should treat the advice process as if it might result in a transfer to flexible benefits. Where you arrange a transfer so a client can immediately buy an annuity, it is still likely to count as advice on giving up safeguarded benefits for flexible benefits. This is because the funds would usually go through a personal pension which pays out the pension commencement lump sum (PCLS) before a client buys the annuity. A transfer to an immediate vesting personal pension plan may count as a safeguarded to safeguarded transfer. If that contract was cancelled within the cooling off period and the funds could not be sent back to the ceding scheme, the funds would not be available for investment elsewhere until advice had been given.

The interaction between COBS 9, COBS 19.1, COBS 19.1A and COBS 19.2

2.13 When giving abridged advice on a DB transfer, you are required to give either a personal recommendation not to transfer or a statement that the short form of advice is insufficient to make any decision about whether a transfer is suitable. Abridged advice must meet the suitability rules in COBS 9 and COBS 19.1A.

2.14 When giving full advice on a DB transfer, you will normally give **2 pieces of advice**:

- whether to give up safeguarded benefits
- where to transfer the funds to, should a transfer proceed

2.15 The 2 pieces of advice should **not be treated separately** as they relate to connected transactions. The funds will only be invested in a new pension product if the transfer proceeds. So the adviser giving the DB transfer advice must consider where the funds may be invested. This applies whether the same firm or a different firm gives the investment advice or if a self-investor chooses the destination. Similarly, the adviser giving the investment advice should take into account that the client would no longer have these safeguarded benefits within their portfolio.

2.16 In the scenario above, the rules in COBS 19.1 require you to give a personal recommendation on whether to give up safeguarded benefits. In addition, the regulated activity of giving advice on investments (Article 53(1)) requires you to give a personal recommendation when you advise where the funds may be transferred. Full DB transfer advice must meet the suitability rules in both COBS 19.1 and COBS 9. The investment advice on where the funds are transferred must also meet the suitability rules in COBS 9 and COBS 19.2. This means firms must apply the suitability rules in COBS 9 both to the DB transfer advice and to the investment advice. For example, a firm should assess a client's knowledge and experience both for a pension transfer and for investing.

2.17 A firm may advise on a transfer to a scheme that is usually outside the FCA's regulatory remit, such as a small self-administered scheme (SSAS). When giving DB transfer advice, even though advice on a SSAS is usually unregulated, the adviser may still be responsible for the advice on the SSAS because the 2 pieces of advice are connected. If the investment in the SSAS is a direct consequence of the regulated advice to give up the safeguarded benefits, the 2 pieces of advice will be interconnected.

2.18 Table 1 shows how the firm should apply the suitability rules to the abridged advice, full DB transfer advice and advice on where funds could be transferred, if a transfer proceeds.

Table 1: summary of rules when giving advice on DB transfers

Type of advice	COBS 9 applies	COBS 19.1 applies	COBS 19.1A applies	COBS 19.2 applies
DB transfer advice	√	√		
Abridged advice	√		√	
Investment advice on funds that may be transferred	√			√

Professional indemnity insurance

Overview

2.19 Personal investment firms (PIFs) are required to hold adequate capital, calculated by reference to their income, and need to be able to meet their liabilities as they fall due. These firms (other than exempt CAD firms able to elect) must also hold professional indemnity insurance (PII) to provide cover for claims resulting from the firm's past and future business. These rules in part implemented a requirement of the Insurance Distribution Directive (IDD), which is retained in UK legislation and regulation.

2.20 PII helps to ensure that consumers are protected if they make a claim against a firm for professional negligence. If the excess on the policy is too high or the policy conditions are too restrictive, PII will not meet its purpose of protecting firms and their customers.

2.21 We are concerned some financial advisers do not hold adequate financial resources and/or do not have compliant PII for the business activities they carry out. Without adequate financial resources and compliant PII cover in place, firms risk being unable to put things right where they have caused harm to consumers.

2.22 This guidance is on the rules in IPRU-INV 13.1. These rules do not apply to certain firms which are subject to prudential requirements elsewhere in our Handbook. Some of these firms will have PII requirements under MIPRU 3. Where a firm is subject to MIPRU 3 this guidance will not apply. MIPRU does not permit firms to have exclusions in the PII cover in the same way as IPRU-INV 13.1.

2.23 An exempt CAD firm is also subject to rules in IPRU-INV 13.1A and is not required to hold PII cover under IPRU-INV 13.1 (see IPRU-INV 13.1.6R). If an exempt CAD firm is an IDD insurance intermediary, then it is required to hold PII cover that at least meets the limits in IPRU-INV 13.1.10R and can elect to hold further cover to meet their additional capital requirement under IPRU-INV 13.1A (see IPRU-INV 13.1A.4R). Where an exempt CAD firm is not an IDD insurance intermediary, it can choose whether to hold PII cover or another form of prudential protection (see IPRU-INV 13.1A.3R). Where the firm elects to hold PII cover, this must be at least equal to the requirements of IPRU-INV 13.1.11R and IPRU-INV 13.1.15R to IPRU-INV 13.1.27R. So the guidance below will be relevant for these firms.

Requirements on firms

2.24 Firms must maintain adequate financial resources, including PII for past and current business where there is no break in cover (IPRU-INV 13.1). Where firms cannot secure PII for their DB business then they do not meet this requirement.

2.25 When a firm is offered PII that contains exclusions or limitations then they need to consider if these unreasonably limit the cover. This could include cover that imposes sub-limits in breach of the required minimum levels of indemnity, or exclusions that conflict with how the firm operates. For example, if a firm gives advice on employer-led transfer exercises but the cover excludes some individuals typically included within those exercises, then the cover would be inadequate.

2.26 If a firm does not have the necessary cover, we expect them to stop all relevant regulated business, including DB transfer business. In certain circumstances, for example if a firm will no longer conduct DB transfer business, or will cease business entirely, we expect the firm to apply to us to remove any of the relevant permissions (eg advising on pension transfers and opt-outs). Where a firm does not hold adequate PII cover for past business for which it no longer holds the relevant permission, it will need to show why this is a reasonable limit on its cover.

2.27 Firms will not comply with our rules if they get cover through a single parent captive arrangement without adequate financial resources in place, including appropriate reinsurance, on an ongoing basis. This means the parent entity retains the risk.

2.28 Our rules allow conditions which do not unreasonably limit the cover of the PII policy. In these circumstances, the firm is required to hold additional capital resources in accordance with the tables in IPRU-INV 13.1.23R for exclusions and IPRU-INV 13.1.27R for excesses. A firm will need to consider its potential liabilities to identify whether it is required to hold additional financial resources on top of the amounts in the tables.

2.29 Generally, firms can get cover on terms that are available from providers operating in the PII market. We expect firms to check these terms to see if they comply with the requirements in IPRU-INV 13.1, including whether the policy has any conditions which would unreasonably limit cover. If an adviser firm's own track record leads to an insurer imposing terms that significantly limit cover, this is likely to mean the cover is unreasonably limited and so does not meet the rules. The level of cover these firms hold will be insufficient to undertake their regulated activities.

Excess

2.30 IPRU-INV 13.1.25R specifies that a policy must not provide for the firm to pay an excess on any claim of more than £5,000, unless the firm holds additional capital resources which are specified in IPRU-INV 13.1.27R. These rules set out specific amounts of additional capital resources based on the excess and the firm's annual income. This is intended to allow firms to negotiate how much risk to transfer to an insurer and how much to keep.

2.31 The rules permitting excesses still come under the requirement in IPRU-INV 13.1.20R that a policy must not be subject to terms which unreasonably limit the cover. We expect firms to consider whether the policy they hold or have been offered is subject to any excesses that are so high that the PII policy is materially ineffective. Where this is the case, we consider that the policy would not comply with the wider requirements in IPRU-INV 13.1.

Additional capital resources

2.32 The tables in IPRU-INV 13.1.23R and IPRU-INV 13.1.27R need to be read together with the high-level requirements in IPRU-INV 13.1.4R for firms to be able to meet their liabilities as they fall due and meet threshold conditions on an ongoing basis. IPRU-INV 13.1.24G explains that firms should hold additional capital resources in excess of those minimum amounts set out in IPRU-INV 13.1.23R where the required amounts provide insufficient cover, taking into account the firm's individual circumstances.

2.33 The additional capital resources set out in the rules are minimum requirements so a firm may need to hold much more than this. We expect firms to identify the sources of potential harm to consumers and to markets, and estimate their impact. Firms should assess whether they have adequate financial resources that match the risk of harm and complexity of their business. As there can be a long lag time in financial advice complaints, it is unlikely to be appropriate for a firm to be able to rely upon it having received 'no previous complaints' as justification for holding the minimum amount of additional capital resources.

Expectations of firms which manufacture and/or distribute PII

2.34 We also have requirements that apply to firms which manufacture, effect/carry out and/or distribute PII products. We want to help firms that manufacture and/or distribute PII understand our expectations of them. This may contribute to financial advisers holding PII that meets the requirements in IPRU-INV 13.1.

Our expectations of PII manufacturers

2.35 Any firm that manufactures an insurance product, including PII, is a product manufacturer that is subject to our rules and guidance on product governance, in PROD or the Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD). Manufacturing includes creating, developing, designing or underwriting an insurance product.

2.36 Manufacturers need to have a product governance process in place which includes having to identify and specify a target market for their product. Firms need to make sure that the product is consistent with the needs, characteristics and objectives of customers in that target market or, where the RPPD applies, that the product is likely to be suitable for the type of customer in the target market.

2.37 When launching new products or making significant changes to existing products, firms manufacturing PII products for PIFs should consider if the product is consistent with the requirements in IPRU-INV 13.1, including the expectations set out above. If the product is not, it is unlikely to meet the requirements in PROD.

2.38 We know PIFs are concerned about the cost of obtaining PII cover and whether the cost properly reflects the risks associated with their business. As part of the product design, manufacturers need to consider whether the costs and charges of the PII product are compatible with the needs, objectives and characteristics of the target market. Where distributors' remuneration contributes to overall costs to the customer, firms should take account of our guidance in FG19/5.

2.39 Manufacturers should regularly review the wording of their PII policies to ensure that terminology is up to date and accurate. Where out of date wording is used in PII policies, for example in relation to regulated activities, this risks causing ambiguity about which activities the cover applies to.

2.40 We expect that PII contracts are clear about what business is covered and are not subject to conditions that would unreasonably limit the cover or risk PIFs carrying on regulated activities without the necessary PII cover in place. We expect that any ongoing notification obligations under a PII policy are reasonable and do not create a significant burden that risks the availability of PII cover.

Good Practice – necessary expertise

A PII provider issued contracts that included requirements that their customer, a PIF, send them a sample of DB transfer advice client files for review. This enabled the PII provider to monitor the risk which it was exposed to and assisted in the assessment of the premium it would offer the PIF the following year. The PII provider recognised that it did not hold the necessary expertise to review the sample of files, and so used a specialist compliance firm to assess the suitability. These requirements did not appear to unreasonably limit the cover (in relation to DB transfer advice) as they were explained clearly to the PIF, and cover would be generally available unless the insurer indicated otherwise.

2.41 Manufacturer firms must regularly monitor their products to check that they remain consistent with the needs of the target market. If a PII product does not meet the needs of PIFs because it is inconsistent with the requirements in IPRU-INV 13.1, as set out above, we expect manufacturer firms to take appropriate action. For example, firms could review the cover and update the product terms, especially where the product was sold on the basis that it would meet a PIF's regulatory PII obligations or the manufacturer's information gave firms a reasonable expectation of this.

Our expectations of PII distributors

2.42 In our view, distributors that propose or sell PII policies to a PIF need to consider the requirements in IPRU-INV, given our expectations above. They should also consider the following FCA requirements:

- Principle 6 and the customer's best interests rule (ICOBS 2.5.-1R).
- The requirement to ensure remuneration does not conflict with the customer's best interests rule. In particular, insurance distributors should not have remuneration, sales targets or other arrangements that incentivise the sale of one contract of insurance when another would better meet the customer's needs (SYSC 19F.2.2R).
- Product governance requirements for distributors to obtain all relevant information from manufacturer firms (PROD 4.3.1R) and to take appropriate action if they become aware that an insurance product is not in line with the interests, objectives and characteristics of its identified target market (PROD 4.3.11UK).
- Requirements to propose contracts that are consistent with the customer's demands and needs (ICOBS 5.2.2R) or, where advice is provided, to ensure that the recommended product is suitable (ICOBS 5.3.1R).
- Principle 7 and requirements for appropriate information to be provided to the customer in good time (ICOBS 6.1 and ICOBS 6 Annex 2).

2.43 In particular, firms distributing PII policies should:

- Get enough information from the customer to understand their demands and needs, including whether the policy aims to satisfy the firm's regulatory need for PII, in part or in full.
- Propose contracts that are consistent with these insurance demands and needs, including consideration of whether a contract has any conditions or exclusions which would be inconsistent with the cover the firm wants. For example, where such conditions or exclusions mean the firm is not meeting our expectations of the cover the firm needs for the purposes of IPRU-INV 13, the proposal would not be consistent with the customer's insurance needs.
- When providing advice, take reasonable steps to establish whether the policy is suitable for the customer, including whether it would be consistent with their demands and needs. This should take into account whether the level of cover, relevant exclusions, excesses, limitations, and conditions are consistent with the cover firms are required to hold.
- Pay due regard to the information needs of the customer and communicate all appropriate information in a way that is clear, fair and not misleading. This should consider the clarity and prominence of information being communicated to the customer.

Good Practice – clarity of disclosure

A PII distributor issued a policy schedule that indicated they had given careful consideration to the presentation of the customer information. In particular, the distributor presented the information in a logical order with clear and descriptive headings. Where appropriate, they used cross references and sub-headings to aid navigation. The distributor used plain language and avoided the use of jargon where possible. But when necessary, they provided plain language explanations of jargon, and unfamiliar or technical language. They also wrote in short sentences and avoided duplication and unnecessary disclaimers.

Using multiple providers

2.44 We know that some firms will get cover from more than 1 provider to meet their overall PII requirements. We recognise that this may offer firms a proportionate way to get the required cover and that this is permitted under our rules. We consider that our guidance here would continue to permit this approach. Firms also need to consider how the overall package of cover meets our requirements in IPRU-INV. We expect that:

- manufacturers that design PII products to be part of an overall package should make this clear to distributors and customers
- where more than 1 firm works on the manufacture of a product, they should have an agreement in place setting out their mutual responsibilities, and
- brokers arranging cover should take into account the overall effects of any conditions in part of the cover and if, when put together, the overall cover is consistent with the IPRU- INV 13.1 rules

Systems and controls

2.45 In line with Principle 3, all firms must take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems. SYSC 4.1.1R sets out that firms must have robust governance arrangements. This includes:

- a clear organisational structure with well defined, transparent and consistent lines of responsibility
- effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and
- internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems

2.46 SYSC 9.1.1R requires firms to keep orderly records, including all services and transactions undertaken by the firm.

2.47 Firms' governance procedures should be aligned with the nature and complexity of the business. As pension transfers are complex and high-risk, all firms giving advice on them should have proportionate measures in place for monitoring the risks.

2.48 We expect firms to ensure they have good quality information to undertake the monitoring function. Good records of firm activity are the basis for good management information (MI). MI is information that firms can use to manage risks within their business. While firms report a certain level of MI to us, such as the information required in the Retail Mediation Activities Return, the level of detail they collect for their own purposes should generally be more extensive than this. If a firm puts governance and oversight procedures in place but then takes no action when the procedures suggest they should, the firm is not operating effectively.

Good Practice – pension transfer MI

By keeping records of DB transfer advice given at PTS level, a firm was able to identify key statistics. They identified differences in conversion rates (the proportion of business where a transfer was recommended) and insistent client rates from different PTSs. The firm put in place additional review processes to monitor whether the differences were resulting in unsuitable advice or poor consumer outcomes.

Poor Practice – pension transfer MI

Firm A was undertaking due diligence on Firm B with a view to an acquisition. Firm A noted that Firm B's records indicated that it advised most of its clients to keep their DB pension. When reviewing Firm B's new business record, Firm A questioned the high average investment in DC pensions. Further investigation showed this was due to insistent DB transfer clients. The firm kept no records about the proportion of insistent clients. Firm A discovered that Firm B had a 30% insistent client rate. File reviews indicated clients might not have been made properly aware of the risks of transferring. Firm A's thorough due diligence process identified Firm B's failure to keep adequate records and monitor its business. Consequently, Firm A refused to take on liability for Firm B's DB transfer business but did buy the client book.

Poor Practice – oversight procedures

As well as undertaking an internal audit of its advice processes, a firm paid for an independent review of its DB transfer advice processes from a firm with s.166 experience. The firm implemented some of the recommendations suggested in the resulting report. But despite both reviews consistently suggesting other actions were necessary to reduce the risks of giving unsuitable advice, the firm did not implement these. The firm was unable to explain why it disagreed with the recommendations.

Poor Practice – oversight procedures

Some firms operate a 2-adviser model. In these cases, one firm gives the DB transfer advice and another firm, acting as an introducer, gives the investment advice on the proposed scheme, if a transfer was to proceed.

In some cases, firms giving the DB transfer advice rely entirely on introducers for business and never meet the end-client. They have no control over the volumes of business they receive. They have minimal oversight of how the introducers use the DB transfer advice firm's documents and present the advice to clients. This can result in the introducers having high insistent client rates. The DB transfer advice firms collect limited MI on the outcomes of the advice process. This results in them having no oversight or controls around key parts of their advice process.

Conflicts of interest

2.49 In line with Principle 8 and the client's best interests rule, a firm must manage conflicts of interest fairly, both between itself and its clients and between different clients. When giving DB transfer advice, firms should be particularly aware of, and manage, conflicts of interest where the firm's interest in the outcome of a service provides to the client is separate from the client's interest in that outcome.

Good Practice – conflicts of interest

A firm operated a centralised investment proposition (CIP). The firm would profit from ongoing advice charges and easier administration if they recommended a transfer and their CIP solution.

They wanted to be able to demonstrate that they managed this conflict of interest. If the pre-sale business review function identified that a transfer and investment into the CIP had been recommended when it would not be suitable, the PTS was disqualified from quarterly bonus distribution.

Poor Practice – conflicts of interest

A firm's advice manual states that when advising clients in ill-health to transfer out of a DB scheme, the firm's PTSs should consider recommending the client should go into drawdown and take ongoing advice. By setting out a process that did not adequately recognise the role of lifestyled/impaired life annuities, it seemed the firm was prioritising an approach that would benefit itself more than the client.

Training and competence: continuing professional development

2.50 DB transfer advice is difficult to get right, so it is essential that firms ensure that their PTSs remain competent.

2.51 Firms can only assess a PTS as competent if the PTS has demonstrated the necessary competence to undertake pension transfer specialist activities (activity 11 in TC Appendix 1) and has the relevant appropriate qualifications (see TC 2.1.1R), eg giving DB transfer advice. Firms must also ensure that PTSs assessed as competent (TC 2.1.1R) continue to maintain their professional development to carry on their role as a PTS. Firms must review an employees' competence on a regular basis in accordance to TC 2.1.12R. This includes the employee's technical knowledge and how they apply it in practice, as well as their skills and expertise and changes in the market and to products, legislation and regulation (see TC 2.1.13G). If a PTS is not regularly giving or checking pension DB transfer advice and/or is not keeping up to date with changes, their knowledge and skills may become outdated. In turn, this creates a risk that a PTS causes consumers harm by giving them unsuitable advice.

Good Practice – maintaining knowledge and competence

As part of the firm's training and competence scheme, they created training for their PTSs. This training used examples of previous advice that had been reviewed by compliance consultants, the Financial Ombudsman Service or FCA file reviews and been found unsuitable or non-compliant. The firm required its PTSs to:

- review the entire file
- identify the failings in each file
- where the necessary information was held on the file:
  - prepare a new TVC and APTA
  - prepare a new suitability report

The firm increased the level of supervision of the PTSs who could not complete the task adequately. It also assessed the further training needs and provided appropriate training and support which it reviewed at regular intervals.

Poor Practice – demonstrating competence with professional knowledge and competence

A firm's PTSs were not aware of the Handbook guidance on clients' attitude to transfer risk. So they did not adequately assess whether their clients had the appropriate attitude to giving up safeguarded benefits, such as being prepared to pay for or manage investments for the rest of their life.

2.52 A PTS must undertake 15 hours of specific PTS continuing professional development (CPD) within a 12-month period (TC 2.1.23AR(1)). This is on top of any other CPD they must undertake. A firm may set up their own training and competence arrangements and can use an independent external provider (see TC 2.1.23BG(2)). At least 5 hours of the 15 hours each year must be provided by an external independent provider (TC 2.1.23AR(2)(b)). This is to ensure that a PTS is not just receiving a 'house view'. Firms can decide for themselves how this requirement is met. For example, a firm can arrange external, independent CPD for its PTSs or PTSs can source CPD themselves, or a combination of approaches. An external independent provider is an organisation or person that is not associated with or influenced by the firm's own view. Another firm in the same group is unlikely to meet this expectation.

2.53 Training and development can include various types of facilitated learning opportunities. This can include courses, e-learning and mentoring, of which 9 hours must be structured learning and 6 hours can be unstructured learning (TC 2.1.23AR(2)(a)). Firms must ensure the PTS CPD is specific to the PTS role. If a training session would meet the requirements of another CPD scheme, it is probably not sufficiently tailored to count for PTS CPD (TC 2.1.23AR(4)), as the PTS content must be about activities that only a PTS is allowed to undertake. There is no restriction on the type of organisation that can give CPD. For example, product providers who are not associated with the firm may provide CPD opportunities. Firms are responsible for deciding if the learning their PTSs receive is appropriate for CPD purposes.

Good Practice – CPD

An organisation is designing a programme of training sessions of different lengths to help PTSs meet their CPD requirements. The organisation tries to identify topics that:

a. are specific to activities undertaken by PTSs
b. have been identified by us as areas that firms find difficult to do well
c. are based on current and known changes in the market, including products, legislation and regulation

The list includes topics such as:

- how to assess attitude to transfer risk for pension transfers and pension conversions
- opting out of a DB scheme: key considerations
- factfinding for DB transfer advice
- meaningful objectives for DB transfer advice
- delivering abridged advice
- demonstrating serious financial difficulty for the carve-out
- advising vulnerable clients on DB transfers
- debt management vs a DB pension transfer: assessing short and long-term outcomes
- DB transfer advice: understanding behaviours of clients with debt
- understanding consumer biases relevant to DB transfer advice
- managing ongoing conflicts of interest when advising on DB transfers
- using the TVC effectively
- personalising APTA
- considering alternatives to a DB transfer
- using your Gabriel data on DB transfers to manage your risks
- writing good DB suitability reports

Good Practice – CPD

A firm wants to offer its PTSs CPD that includes all aspects of DB transfer advice. It generates ideas for content for training sessions by reviewing:

- the syllabus for the pension transfer advice exam from a training provider
- ApEx 21: the appropriate examination standard for pension transfer specialists
- applicable requirements in the FCA Handbook of rules and guidance, as well as this Finalised Guidance
- the Defined Benefit Advice Assessment Tool, published by the FCA
- changes in the market and to products
- relevant legislation and regulations
- decisions from the Financial Ombudsman Service

2.54 PTSs fall under the Certification Regime so firms need to check and confirm ('certify'), at least once a year, that PTSs are suitable to do their job.

Financial promotions

2.55 Many firms use websites, social media or sponsor advertisements on internet search engines to attract new clients. While this is acceptable, firms must not use misleading commentary to attract clients.

2.56 Where your website, social media post or advert invites consumers to contact the firm for regulated activities offered by the firm, it needs to comply with the financial promotion requirements. Some firms choose not to state explicitly that they undertake DB transfers. Others make clear that they do, but give no additional information. However, some firms present a commentary on DB transfers. Under the financial promotion rules, firms have a responsibility to ensure that any commentary is clear, fair and not misleading, and make sure it fairly and prominently mentions any relevant risks when mentioning any potential benefits (COBS 4.5.2R(2)).

2.57 Most of the misleading comments we have seen try to convince potential clients that a transfer could be positive for them, presumably because firms think these statements will generate more business. If your website or advert generally refers to the benefits of accessing pension flexibilities and control over your own money, without explaining about the risks, or why it is better than a guaranteed, lifetime income from a DB scheme, then it is likely that you are not meeting our requirements on financial promotions.

Good Practice – including the risks of transferring in financial promotions

A firm reviewed its website content on pension transfers. It made sure that it gave a fair weighting to the potential risks as well as the possible benefits and did not try to present the risks in a way that undermined them. It included points such as:

- giving up the certainty of a guaranteed lifetime income for transferors and their dependants
- losing the inflationary protection offered by the DB Scheme
- having to pay charges to a pension provider and/or platform operator and investment managers which are deducted from the transferred pension pot
- taking on the management of investment risk, or paying someone else to do it
- living with seeing a pension pot fall in value, as well as rise
- accepting that there may be less money in retirement, particularly if the value of the pension pot falls
- the potential to run out of money in their lifetime
- the less favourable tax treatment of DC pensions in relation to:
  - the lifetime allowance, and
  - accessing a DC pension while still making contributions into another scheme

2.58 Misleading comments include those that are factually incorrect, those where only one perspective of a transfer is presented or where suitability is presented as automatic in certain circumstances.

Poor Practice – website information/social media posts

- A website stated: 'We can help you access your funds as we've already helped thousands of others'. But it did not acknowledge that the client may be advised not to transfer and that advice can be equally helpful.
- Although a DB pension is legally held in trust for members, a firm's website claimed that 'the fund is legally yours'.
- Some firms imply that the higher the transfer value, the more likely it is that a transfer will be suitable, eg social media post: 'with rocketing DB transfer values, you should consider a pension transfer today'.
- A search engine advert encouraged consumers to find out why now might be 'the best time ever' to consider a final salary transfer.
- A firm's website stated that: 'Your pension fund will not be used to subsidise someone else's pension' but made no attempt to point out that some members may benefit from the cross-subsidies that are part of DB pensions.
- A firm showed a sample transfer report on its website, including wording which implied that the Pension Protection Fund (PPF) may not be sufficiently funded to be of any use.
- A firm's website implied that factors that increased the employer's cost of providing a DB scheme, such as longer lifespans and lower investment returns, were also unfavourable to a deferred member.
- A firm's website implied it was a government approved guidance provider.

2.59 Our rules on financial promotions also apply to other forms of communication, including client brochures. The use of misleading comments in any of these media may give consumers unrealistic expectations about the potential outcomes from advice, even if they eventually take advice from a different firm. Firms should give clear information about both the advantages and disadvantages of transfers, and explain the outcomes from the advice process. Consumers are then better able to engage with the process and recognise the value of advice to remain in their scheme as well as advice to transfer.

Good Practice – website information

'If you take advice with us, we will give you one of two outcomes:

- We can show that the transfer is clearly in your best interests and suitable for you
- We cannot show that the transfer is in your best interests so we believe that remaining in your current scheme is suitable for you.'

2.60 Financial promotions are not restricted to written communications. So they can apply to firms who approach consumers to promote their services more directly. For example, firms who leave voicemail messages for potential clients or who communicate in real time with potential clients, including unsolicited personal visits or other forms of interactive dialogue.

Poor Practice – real time financial promotions

A firm became aware of large numbers of redundancies at a manufacturing company where the employer sponsored a DB scheme. At the end of a shift, advisers approached older workers as they left the factory and indicated how they could help them transfer their pension so they could access an income if they were made redundant.

Using introducers

2.61 We have previously set out our expectations of the responsibilities of regulated firms who accept business from introducers. An authorised firm that accepts business from an introducer, whether regulated or unregulated, must meet its regulatory requirements for the activities for which it will carry responsibility. You must ensure you maintain full and complete ownership of the advisory process between yourself and your client. Any regulated advice you give must meet the requirements in our Handbook.

2.62 If you are giving both DB transfer advice and recommending where transferred funds could be invested, you should not let an introducer influence the investment choice. If you do, you may be held responsible and subject to regulatory action. While most authorised introducers use mainstream investments, we have specific concerns where the use of introducers involves moving pensions to unregulated, high risk, illiquid products, whether based in the UK or overseas.

2.63 If you accept business from introducers, you must not delegate any of your regulated activities to them. You can rely on another regulated firm to gather information (COBS 2.4.6R) but you may wish to confirm with the client that all the information is correct, or to clear up any uncertainties or inconsistencies.

2.64 If you rely on another firm, you remain responsible for ensuring you hold all the necessary information to give DB transfer advice. You should be aware that an authorised firm without the permission may not know the scope of information needed to give DB transfer advice. For example, a referring firm may provide you with a client fact finding document which does not include enough information for DB transfer advice. You must also ensure that you are able to give advice that is independent from the issuer of the investment, if they are also the introducer, and keep full and complete ownership of the advice process. You are responsible for meeting the requirements set out in the Handbook. This FG is designed to help you do that.

2.65 You must have adequate systems and controls to organise and control your affairs responsibly and effectively. You should have adequate risk management systems, in line with Principle 3, and as set out in the Systems and Controls section above. For example, you should consider the relative level and type of due diligence you perform on unregulated introducers that sell unregulated, high risk, illiquid products compared to the due diligence you perform on regulated or professional firms, such as solicitors, that refer clients to you.

Good Practice – working with unregulated introducers

When an authorised firm receives referrals from unauthorised firms that are not professional services firms such as accountants or solicitors, it decides not to rely on the client information they provide. As part of its due diligence process, the firm always contacts the client to verify the information set out in the fact find and carries out its own risk profiling assessment.

Poor Practice – working with unregulated introducers

The authorised firm did not do adequate due diligence on the unregulated introducers it used. It did not collect information on the introducer's relationship with the introduced clients and any conflicts of interest. The authorised firm failed to have appropriate contact with the introduced clients. For example, it did not follow up on inconsistent customer information provided by the introducer. The authorised firm completed its analysis and sent the client a suitability report. Despite recommending the client remain in the scheme, the authorised firm proceeded to issue a section 48 confirmation of advice letter without any discussion with the client. The authorised firm failed to challenge the introducer that the client did not follow its recommendation. The introducer then transferred the client's pension into a scam investment. The authorised firm continued to accept further introductions from the same introducer.

2.66 If you recommend a transfer into a stakeholder or personal pension, including a self-invested pension, you can only be paid by adviser charges and/or employer/trustee funded pension advice charges. You cannot accept commissions for recommendations to invest in unregulated investments within these pensions.

2.67 When giving DB transfer advice, you may not receive remuneration that varies depending on whether a transfer proceeds. You will not be able to pay introducer payments that depend on the outcome of the advice, as your net remuneration would vary.

3 Initial client interaction

Initial charging disclosures

This section refers to the following rules and guidance: COBS 6.1A.11R, COBS 6.1A.17R, COBS 6.1A.18G, COBS 6.1A.18AR, COBS 6.1A.18BR, COBS 6.1A.19G, COBS 6.1A.20G, COBS 19.1B.3R, COBS 19.1B.4R and COBS 19.1B.9R.

Adviser charging structure disclosure

3.1 Consumers need to know how much advice will cost them. Our rules set out a number of ways in which you should disclose your adviser charges when giving DB transfer advice.

3.2 You must disclose your charging structure to your clients, setting out how you calculate your adviser charges, before you give advice. For full DB transfer advice, the methodology for calculating both any part of, and the total value of, your charges must be the same whether you recommend or effect a transfer or not, ie they cannot be contingent. You can use fixed charges, percentage charges or a mixture of the two as long as the total value of the charge is the same, whether or not a transfer proceeds. If you charge fully or partially as a percentage of the transfer value, you should also give an example in cash terms in your charging structure. We think it would be good practice to disclose upfront whether you will arrange a transfer for an insistent client if you advise against it. If you do not act for insistent clients, you should consider including an explanation that they may incur further charges if they choose another firm to implement a transfer if you advise against a transfer. Consumers can then make an informed decision about whether to proceed to take advice from you and understand the consequences of acting against your advice, if you do not recommend a transfer.

3.3 If you are giving advice on where any transferred funds would be invested and you will carry out related services such as arranging the transfer and new investment, you must include these charges within the overall cost. If you do not undertake these services, you are allowed to charge a lower amount. For example, this may apply if you advise an overseas client on a pension transfer, but an overseas firm advises on where funds could be transferred and makes all the arrangements with the ceding and proposed schemes. Where 2 UK firms are involved in giving advice, the methodology for calculating the total charges, and the value of your total charges, should be the same as if one firm had given the advice, whether or not the transfer proceeds. You should be clear which firm will undertake implementation work if a transfer proceeds. You should not provide some services then decline to advise further and not charge for the work undertaken.

3.4 You should not charge less than you would charge for investment advice on pension funds of the same size, unless an employer or trustee funded advice charge is paying for part of it. Firms must satisfy themselves that an employer or trustee funded advice charge is paying for the firm's activities which are part of the regulatory process for providing a personal recommendation before they can apply this waiver, and not for other activities. This floor for the cost of full DB transfer advice also applies to non-contingent charges for consumers who meet the test for the carve-out if a transfer proceeds. It does not apply when a firm acts entirely pro-bono on humanitarian grounds or is helping a close family friend and the advice is free irrespective of the outcome where the firm can demonstrate that the rules on contingent charging are not being breached.

3.5 If the client is paying in full for the advice themselves, you must charge the same amount as if the pension funds did not come from a transfer. So, for example, if you charge £3,000 for investment advice on £0.5m of DC pensions funds, you must charge at least £3,000 for pension transfer advice on a transfer value of £0.5m. This applies whether or not you advise on the destination or arrange the transfer. There is no limit to what you can charge for DB transfer advice. But you should not charge consumers who meet the carve-out test more than if they had not met the requirement for the carve-out.

3.6 If you offer abridged advice followed by full advice, your charges for full advice should not include charging for work already done when giving abridged advice.

Good Practice – example charging structure disclosure

Our advisory services	Our charges
Full defined benefit transfer advice: we will advise you on whether you should keep your DB scheme or transfer out to a new pension that we will recommend for you. We will liaise with your new and old schemes to make all the necessary arrangements. The minimum transfer value for advice is £200,000.	***Full defined benefit transfer advice:*** £1,250 plus 0.5% of transfer value, payable if you proceed to transfer or not. Illustrative costs: If your DB scheme transfer value is £200,000, advice will cost £2,250. If your DB scheme transfer value is £600,000, advice will cost £4,250.
Abridged defined benefit transfer advice: we will advise you on whether you should keep your DB scheme but without considering a new scheme. If you want to continue to look at a new scheme you will need to take full advice.	***Abridged defined benefit transfer advice:*** £900 (this will be offset against the cost of full advice if you also take full advice).

Personalised charges communication

3.7 Standard charging structures set out indicative charges for the advisory services you offer in generic terms and, if not in cash terms already, give examples in cash terms. For DB transfer advice, you must also give a potential client a 'personalised charges' disclosure, based on the actual transfer value, in cash terms, in writing. If you charge as a percentage of the transfer value, you should give the monetary value as soon as you know the transfer value but in good time before providing advice.

3.8 If you give abridged advice, you should give the charges for abridged advice as well as set out what you would charge for full advice, including the ongoing advice charges, at the start. For full advice, you should make clear that the charge is payable whether a transfer proceeds or not.

3.9 You must provide the personalised charges communication before you start the advice process. Consumers need to be able to consider whether they want to incur the costs of advice before you actively undertake any of the steps described in Chapter 4. The ban on contingent charging requires you to charge for advice that you have started but not completed. So you cannot start work without getting their agreement to the personalised charges first.

3.10 You need to provide both the initial advice charge and the ongoing charge that apply in the first year, if funds remained invested and the client opted for ongoing services. If you have different ongoing servicing levels, you must state the charges and a description for each of the different levels. You should ignore any growth in the funds but you should reduce the transfer value by the amount of the initial charge when providing an estimate of ongoing charges.

3.11 Where advice on the transfer and the destination will be provided by 2 different UK firms, the personalised charges must include both sets of charges. Our rules do not prevent the firm providing the full transfer or conversion advice from presenting the personalised charges disclosure on behalf of the firm providing investment advice, as long as it is labelled in a way that is fair, clear and not misleading. If related advice or services will be provided outside the UK regulatory regime, for example, by an overseas adviser, you do not need to disclose the amounts of remuneration for those elements but it would be helpful to consumers if you can. But there should be a statement that indicates that additional amounts may be payable.

3.12 You may give a client a personalised charges communication based on contingent charging if you have reason to believe that the client is eligible for one of the carve-outs. But you must also state why you think the ban does not apply and that the situation could change if further analysis indicates that the client does not meet the test for the carve-out.

Good Practice – personalised charges disclosure

Dear Mr Brown

Thank you for your email confirming your transfer value of £400,000. I can now confirm that our charges for advice would be:

Initial advice: £4,000 (1% of transfer value)

Ongoing advice (optional): £247.50 each month (0.75% of funds under management)

You would have to pay the initial advice charge whether or not we recommend you transfer or stay in your existing scheme. If you do transfer, we have assumed you will pay the initial advice charge from the transferred funds when we calculated the ongoing advice charge. It may not always be possible to pay the initial advice charge from transferred funds.

If we recommend a transfer, we will explain the benefits of our ongoing advice service to you. You should be aware that other firms also offer similar services. Ongoing advice charges will vary with the size of the fund. You may opt-out of ongoing advice services at any time.

Please let me know if you would like to proceed.

Triage services

This section refers to the following rules and guidance: PERG 12.6, PERG 12 Annex 1, COBS 19.1.11G.

3.13 Triage services are a form of guidance to give the customer enough information about safeguarded benefits and flexible benefits to enable them to make a decision on whether to take abridged or full advice on conversion or transfer of pension benefits. So triage services should not be delivered in a way that steers a consumer towards a specific choice.

3.14 In most cases, a client will be considering giving up a single DB scheme in its entirety. This means the DB transfer advice only has 2 possible outcomes: to retain or transfer an existing safeguarded pension. So if you find out about your client's circumstances and give guidance such as 'you should get DB transfer advice', consumers can easily perceive this as advice to leave a scheme. Your triage service should educate potential clients so they can make an informed decision whether to proceed to abridged or full advice on a potential transfer. The same principles apply if a client may have access to a partial transfer or are considering giving up one or more schemes. Clients who have been through a triage service can have more informed conversations with you if they decide to proceed to advice. Those who choose not to proceed avoid paying advice charges unnecessarily.

3.15 Some firms do not deliver formal triage services. But the information they give may still influence a client. When a firm has an introductory meeting with a potential client who is shopping around for an adviser, it should take care not to overstep the advice boundary whether or not they give formal triage services. This may be particularly relevant if potential clients give you information that suggests they might meet the test for the carve-outs. You are not prevented from finding out more about their circumstances for the purpose of the carve-out but you should take care not to imply their suitability for a transfer.

Poor Practice – informal triage

An active member of a DB scheme approaches a firm for DB transfer advice. The firm tells the potential client that it can't give DB transfer advice unless the member opts-out and stops being an active member of the scheme. The firm does not give any positive advice but communicates in a way that gives the member the impression that it would be acceptable for them to opt-out without highlighting any of the risks to them.

As a direct result of the firm's comments, the member reasonably considers that they should opt-out so they can take DB transfer advice. The client has made the decision to opt-out and give up accrual of future benefits based on the firm's comments and the firm has not taken sufficient reasonable steps to prevent this harm occurring. For example, the firm does not indicate that the DB transfer advice could recommend staying in the scheme and, in that case, the member would have opted out and lost benefits unnecessarily. Where the client acted reasonably in relying on the firm's comments the client could bring a claim against the firm for losses arising from opting-out.

3.16 An appropriate way for you to offer triage is to give standardised triage content to every customer. This ensures their personal circumstances are not influencing the content you provide. This does not prevent you from changing the way you deliver the information, depending on your client's knowledge and experience. This approach is particularly helpful when an existing client asks you about giving up a DB scheme. In these circumstances, you may find it difficult not to let your prior knowledge of the client influence the information you give them.

Good Practice – triage services and existing clients

To prevent their knowledge of a client influencing any initial discussions/triage, a firm directs clients to an unconnected third-party triage service. The firm undertook due diligence on the third party to satisfy themselves that it limits its guidance to helping the consumer understand the different options available to them.

3.17 Triage services should cover the workings and features of both DB and DC schemes and how the risks and benefits compare. So you might want to provide:

- the pros and cons of each type of scheme
- a summary of the sorts of consumers who might typically benefit or not benefit from a transfer but without personalised references to the consumer's own circumstances
- information about the FCA view that most consumers are best advised to stay in a DB scheme, and that the FCA expects you to start advising from a position that a transfer will not be suitable
- circumstances when you will decline to do business
- the difference between abridged advice and full advice
- the initial and ongoing costs involved

Good Practice – declining to do business

A firm's website sets out the circumstances where it will give advice clearly and objectively:

If you meet all the following criteria, we can give you full DB transfer advice:

- transfer value of £300,000 or more
- at least 50 years old
- under 50 years old if your life expectancy is severely limited
- you are resident in the UK

We will not arrange a transfer for you if we recommend that you should remain in your scheme. If you ask another firm to arrange a transfer for you, you may have to pay additional charges.

Poor Practice – declining to do business

A firm assesses the likelihood of a transfer proceeding before deciding to put a client forward for advice. The assessment is based on a set of unpublished criteria that the firm applies subjectively, based on the client's personal circumstances, attitude to risk and need for income or capital.

The firm tells the client that they will not advise them as their personal circumstances don't meet the criteria.

3.18 At the end of the triage service, the consumer decides for themselves whether they want to go through the abridged or full advice process. Triage is not a process for you to use to select consumers you think might be more suited to a transfer.

3.19 You should present information factually, without making judgments, to ensure that triage services do not become regulated advice:

Balanced You should give information on the features of both DB and DC schemes	**Unbiased** You should not put disproportionate focus on any specific aspect of a DB or DC scheme
Factual You should present information factually without commenting on the value of it	**Non-personalised** You should provide information that is generic and not personalise it to the client's circumstances

3.20 We know that many firms want to use triage services to help consumers. They think that many consumers would be spending money needlessly on advice that will show that a transfer is not in the consumer's best interests. Given the limitations of triage services, firms may also want to consider whether they can give abridged advice as a lower cost alternative. We designed abridged advice so that advisers can help consumers and filter out those for whom a transfer is unlikely to be suitable. This could be particularly cost-effective, for example, where firms already hold personal information on existing clients.

3.21 The following, non-exhaustive list of examples indicate the type of triage service that is **unlikely to meet our expectations**:

- giving information on the sort of consumers who might benefit from a transfer, but failing to give information on the sort of consumers who might benefit from remaining in the DB scheme
- suggesting that a death benefit payable as an income stream or as a lump sum is preferable
- exaggerating the risks of a scheme entering the Pension Protection Fund (PPF)
- presenting the reduction in benefits provided by the PPF as a worse outcome than a transfer
- underplaying the benefits of DB pensions by failing to mention lifelong certainty of income, revaluation and indexation, or overplaying the benefits of DC pensions by over-emphasising flexibility and death benefits
- failing to mention the charges that would be incurred in a DC scheme and which would not be incurred in a DB scheme
- indicating that a consumer may be more or less likely to benefit from a pension transfer, based on their personal circumstances
- giving an opinion on the likelihood of a transfer proceeding based on the absolute or relative value of the ceding scheme or proposed scheme benefits, including scheme multiples
- sending a letter to an existing client who you think is unsuited to a transfer but has expressed an interest in one, setting out generic reasons why they should not transfer but not the generic reasons why they might consider a transfer
- providing modelling tools to members of the scheme you are advising, showing illustrative values that compare the outcomes they might get if they keep a safeguarded benefit or transfer/convert it into flexible benefits.

3.22 Firms do not need to give triage services and some firms prefer to outsource triage services. Where firms pay for outsourced triage services that are part of the firm's offering to clients, they should satisfy themselves that the service meets our expectations, as set out above.

3.23 Triage is guidance, and not advice, so firms without the pension transfer permission can provide triage services. But they should satisfy themselves that they have sufficient knowledge and experience to do so and communicate information in a way that is fair, clear and not misleading. These firms and others who choose not to provide triage services themselves should consider signposting consumers to The Pensions Advisory Service (TPAS) within the Money and Pensions Service (MaPS). MaPS has trained staff who can provide guidance to consumers on DB transfers.

Good Practice – triage services

A firm directs potential clients to an online triage presentation where each client has a unique login so the firm can monitor how each individual interacts with the presentation. The presentation is interactive and requires users to answer questions to demonstrate their understanding of the content. The firm also signposts the client to TPAS and only gives advice if the client gets back in touch and has completed the online content. During the advice process, the firm then uses the answers to the questions to understand each client's level of knowledge and manage their misconceptions.

Poor Practice – triage services

A firm has no documented process for triage but spends an hour with potential clients listening to why they are seeking a pension transfer and asking questions about their personal circumstances. During the conversation, the adviser makes statements such as 'I can see why you want to transfer' or 'I think we can make this work for you'.

4 Advice process – information gathering and abridged advice

Starting assumption

This section refers to the following guidance: COBS 19.1.6G(2), COBS 19.1.6G(3) and COBS 19.1A.11G(2).

4.1 We think that keeping safeguarded benefits will be in the best interests of most consumers. So when giving either abridged advice or full advice, we expect you to start by assuming that that a transfer, conversion or opt-out will be unsuitable. For full advice, you should only consider a transfer, conversion or opt-out to be suitable if you can clearly demonstrate, on contemporary evidence, that it is in the retail client's best interests.

4.2 This chapter sets out the information you should collect about your client's circumstances before you start your research and analysis to give suitable advice. It also sets out how you can give abridged advice, based on this information.

Know your client

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.6R, COBS 9.5, COBS 19.1.6G and COBS 19.1A.11G(2).

4.3 Knowing and understanding information about your client's circumstances is the foundation of suitable advice. If you do not get the necessary information, you must not make a personal recommendation. This is because you cannot be sure that your advice will be suitable. Many of the problems we have seen with DB transfer advice are directly linked to poor information gathering which results in material information gaps. **If you do not get the necessary information to assess suitability, you must not make a personal recommendation to the client or take a decision to trade for them.**

4.4 It is likely that you have not collected enough information if:

- there is information that could change the recommendation you make
- the information does not clearly demonstrate that the personal recommendation is suitable.

4.5 If you make a personal recommendation when you have not gathered the necessary information, you will not comply with the suitability requirements. By not complying, you risk giving your clients unsuitable advice. You should make sure that:

- you have the resources to spend enough time with each client to get to know them well enough so that the information you gather is personal to each client
- your information collection processes are good enough, even if this is a once-off piece of advice (transactional) or another firm has introduced the client

Good Practice – know your client

A consumer approached a firm for advice on transferring out of their DB scheme. The new client gave only limited information about their financial circumstances and refused to give information about their other assets. To give suitable DB transfer advice, a firm needs to understand the other financial resources available to their client in retirement. The firm declined to advise.

4.6 You must get the necessary information to give suitable advice and you must keep records to demonstrate that you know your client well enough to:

- give advice on the effect of the potential transfer away from the safeguarded benefits, and
- where relevant, allow you to recommend the scheme and investments that your client's funds would be transferred to, if a transfer proceeds

4.7 If you use the same documents to get client information for a DB transfer case as, for example, for giving advice on an individual savings account (ISA), it is likely that your processes are inadequate. For DB transfer advice, you will need to gather a broader range of information, and in more depth. This is because you are advising on giving up valuable safeguarded benefits on which a client might rely throughout their retirement. Not only do safeguarded benefits have very different features to normal retail investments, they will generally be only one part of a consumer's overall retirement provision. So you need to dig deeper into each consumer's circumstances to ensure you have enough information to give suitable advice.

4.8 The type of information you need to gather covers key areas such as those in the non-exhaustive list below. You need to gather information on the client's:

- personal and family circumstances, including their health
- financial circumstances, including their income and current and future outgoings
- other assets, including pension provision
- knowledge and experience of transferring and of investing
- attitude to transfer risk, to cover their appetite for giving up a guaranteed safeguarded income for a flexible one with no guarantees
- attitude to investment risk, to cover their risk profile and their capacity for loss, to determine a possible destination investment strategy
- objectives and needs, including any relevant dates and amounts needed to achieve these

4.9 While you should be able to find out basic facts easily, much of the detailed information you need will be more personal. If you do not collect the detailed information that you need to give advice, your file is likely to have material information gaps. So the questions you ask and the way you ask them will influence the quality and depth of the information you collect. For example, when discussing needs and objectives you should use different question styles. This will enable you to gather information to make judgements about the importance of these to your client. Open questions such as 'How would you…', 'Why do you want…' and 'What is more important…' can produce more detailed answers and reduce the potential for leading questions.

Good Practice – asking open questions

As well as trying to understand a client's motives for a transfer, an adviser would try to find out the implications for the client if they did not recommend a transfer: 'If, at the end of the process, we consider that a transfer isn't the right thing for you, what would that mean for you?' The adviser considered that as well as letting the client know that their advice may not be a recommendation to transfer, the question helped them better understand how much the client's objectives, such as early retirement, were a 'want' or a 'need'.

The client's personal and family circumstances

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.6R, COBS 19.1.6G and COBS 19.1A.11G.

4.10 The better you know and understand your client, the more suitable the advice you will be able to give them. So you should not only get hard facts such as age and occupation, but also soft facts such as feelings and opinions. For example, you should find out how they or their partner feel about guarantees, managing investments or facing the risk of stock market crashes. These discussions help you to understand your clients' hopes and fears for retirement, how they make decisions and how they got to where they are now.

4.11 As DB and DC pensions can benefit dependants in different ways, you need to find out about the client's family. This will include details of their marital status, children etc and whether finances are being considered jointly with the spouse.

4.12 You should also consider the client's health as this is an essential fact about the client. You should consider both lifestyle factors, such as smoking, drinking and exercise, as well as more serious conditions so you can assess whether the client has a life-limiting condition. This will be based on relevant medical evidence and reports, as well as the client's own comments. You should also find out if health issues could lead to additional expenditure.

4.13 Clients sometimes fear they will die early if their own parents died relatively young. Family health history is relevant, but it's the client's own health and longevity you are looking at – not their parents' experiences. Life expectancy and medical treatments have improved. A client may not necessarily inherit a parent's health condition, where these are not genetic, and may not have the same working conditions. You should manage your client's expectations so that they are better able to understand your advice.

Good Practice – gathering personal information

- Aged 52 and started out as a car mechanic before moving to building cars at the car plant; subsequently progressed to quality controller.
- Marital status: Married for 5 years to Marie, a nurse in the NHS.
- Children: 4 children from former marriage, shared parental responsibility for dependent children:
  - Claire, 26, a teacher, financially independent and engaged to Kwame with a wedding planned for 2 years' time
  - Toby, 21, just graduated and due to start work in a graduate role, but has substantial student debt
  - Oliver, 17, accepted a provisional university place with bursary from the armed forces
  - Sophie, 15, still in school and hoping to go to university
- Health: mostly good but slightly overweight and suffered knee problems in the past; tries to play 5-a-side football once a week and is a summer cyclist.
- Both parents still alive but showing signs of frailty.
- Non-smoker and modest drinker.
- Not paying maintenance to former spouse.

Poor Practice – gathering personal information

- Age: 52
- Occupation: factory floor worker/car industry
- Marital status: remarried
- Children: 4 – 2 financially independent, 2 still at home
- Health: average
- Parents status: alive – possible inheritance

4.14 If you know your client well, you can better assess the relevance of the existing DB scheme benefits and make further enquiries of the scheme, if necessary. For example, some DB schemes only pay a spouse's pension to the spouse at the date the member leaves the scheme. Some DB schemes pay dependants' benefits to children still in education up to the age of 23. If you do not know the relevant detail, you should not advise your client, as there is a risk you may give unsuitable advice. If the detail is not on file, you may not have the evidence you need to demonstrate a transfer is suitable.

The client's financial circumstances

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.6R, COBS 19.1.6G and COBS 19.1A.11G.

4.15 You must gather information about the client's current level of income and expenditure, and anticipated changes to these up until their intended retirement date. This will give you an indication of what they will need in retirement (see paragraphs 4.42-4.44) and help you to assess how much they rely on income from their DB scheme. To help you distinguish between the client's needs and wants, you should consider splitting expenditure into categories. For example, you could split into **essential**, **lifestyle** and **discretionary** expenditure where:

- **essential** expenditure reflects the bills that the client must pay and which they would find very hard or impossible to reduce
- **lifestyle** expenditure supports the client's expected standard of living, such as holidays and eating out that the client may not wish to compromise on
- **discretionary** expenditure covers luxury items and gifts that the client may want to make, or current savings such as to a workplace pension scheme

4.16 You should also consider the client's expected tax position both now and in retirement. This includes income tax and, where relevant, the use of personal allowances, the money purchase annual allowance, the lifetime allowance, inheritance tax and capital gains tax.

Good Practice – understanding expenditure

A firm collected detailed expenditure that showed what a couple was spending on their existing lifestyle and what the survivor would need. The firm showed how the expenditure was expected to change at their selected retirement age, and again as the clients aged. It then collated the detailed information into categories that it used to identify essential, lifestyle and discretionary expenditure. The firm collected information in a form that clearly showed expected changes in the clients' expenditure on retirement. It also collected information on the frequency of ad hoc purchases.

The client's other assets, including other pension provision

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.6R, COBS 19.1.6G and COBS 19.1A.11G.

4.17 You must gather information on the client's other assets (including value, tax wrapper, maturity date, investment profile) including all pension arrangements and other sources of income such as state pension. Where the advice is based on joint finances, this information will need to include the spouse's assets and sources of income. You will need to find out about any other assets they may be able to rely on in retirement such as income from buy-to-let property. You should take care when considering possible inheritances, for example, how these might be affected by long term care needs. Finding out about your client's other assets may also help in assessing their knowledge and experience.

Good Practice – gathering detail of client's other assets

- Mr B: has 2 deferred DB pensions:
  - scheme 1 is currently worth £8,500 a year, with a protected retirement age of 62
  - scheme 2 is currently worth £1,500 a year
- Mr B: scheme 3, a current workplace pension, has a fund value of £185,000, invested in default arrangement, not contributing enough to maximise employer contribution or to reduce tax below upper tax band level, despite spare income.
- Mrs B: a deferred member of scheme 4, currently worth £4,500 a year.
- Mrs B: currently contributing to scheme 5, default arrangement, standard minimum auto-enrolment contributions.
- Joint with-profits mortgage endowment, arranged by mortgage adviser, projected to pay £30,000 pounds in 3 years' time – earmarked for special anniversary holiday.
- Expected state pensions worth a combined £15,000 a year due from their 66th birthday.
- Cash ISAs worth £55,000.
- Other miscellaneous savings in bank accounts of £20,000.
- Mr B: possible inheritance of around £80,000, parents both alive and currently in late-eighties but father may have to go into a care home within the next 12 months.
- Mrs B: no inheritances due.
- Mr B: a handful of shares from a demutualisation.
- No other debts.

Poor Practice – gathering detail of client's other assets

- Client has got several other occupational and personal pensions but details not provided as we are only advising on transfer of this particular DB scheme.
- Wife has modest pensions from her current and previous job.
- Both expect full state pension but there are no estimates on file.
- Small amount of other assets held.

The client's knowledge and experience of transfers and investments

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.5R, COBS 9.2.6R, COBS 19.1.1CR, COBS 19.1.6G and COBS 19.1A.11G.

4.18 Before making your recommendation, you must find out whether your client has the necessary knowledge and experience to understand the risks involved in transferring their DB pension, as well as their knowledge and experience of investments.

4.19 Few consumers will have experience of giving up a DB scheme or fully understand the transfer of risk from the employer to themselves. So you should establish whether they understand the value of what they are giving up and the risks they will have to accept. Many consumers misunderstand the information they are given about their DB scheme and what it is worth. For example, they often interpret the pension income at date of leaving on the statement of entitlement as the amount they will receive at NRA. You should explore your client's knowledge of their DB pension, their knowledge of DC pensions, the risks and benefits of being a member of both and differences between the two. You should also find out how they feel about managing or paying someone to manage investments in a pension scheme. You may be able to do this when assessing the client's attitude to transfer risk (see paragraphs 4.23-4.28) or when finding out about their other assets.

4.20 When advising individuals who have worked in financial services, you should still take reasonable steps to assess their knowledge and experience. For example, for transfers, you should be having effective conversations with your client to understand what they know about DB and DC pensions. And for investments, you should be exploring what they know about managing investments over a long and indefinite future period and when they may not have the capacity to make decisions. You should not assume that a client who is knowledgeable and experienced in investments has relevant knowledge and experience of DB transfers. For example, bank managers are not necessarily experts in DB pensions, so you should not assume they have a clear understanding of the benefits, features and risks of a DB scheme vs the benefits, features and risks of a DC scheme.

4.21 When assessing your client's knowledge and experience, the information you will need to gather is likely to include:

- the types of investments and services with which the client is familiar
- the nature, volume and frequency of the client's investment transactions and the period over which they have been carried out
- the client's level of education, profession or relevant former profession

4.22 Although a client may have held investment products, this does not mean they have appropriate knowledge and experience. For example, many consumers have held with-profits mortgage endowments but they may not have understood the shortfall risks. Consumers also have misunderstandings about workplace pension schemes (WPSs). Many do not realise that the value of their pension can fall as well as rise and do not know the charges they pay. You should ask questions to get enough information to understand if your client passively invests, for example in a default fund in a WPS, or takes a more active interest in their investments. You should also find out how your client has previously responded when investments have not performed as expected. You can add to your client's knowledge, in the same way as when giving triage services.

Good Practice – knowledge and experience

An adviser collected information on their client's experience of other types of financial products, and relevant employment and education. They considered the client's history with pensions and investments and whether the client had previously received advice or self-invested. They asked questions about the client's experience of fluctuating markets. They discussed their analysis with their client and confirmed that the client was happy with their assessment of their knowledge and experience. Where there were gaps in the client's knowledge of their DB scheme, the firm gave an explanation in layman's terms about the benefits, features and risks of DB and DC schemes.

Poor Practice – knowledge and experience

A firm asked about a client's previous experience with investments and found out that the client had experience with building society deposits, bank savings accounts and cash ISAs. There was no evidence on file the client understood or had active experience of investing in assets that could fall in value.

The suitability report stated: 'We established that you have some knowledge of investments, having previously purchased building society deposits, savings accounts and cash ISAs.'

The client's attitude to transfer risk

This section refers to the following rules and guidance: COBS 9.2.2R(2); COBS 19.1.6G(4)(b) and COBS 19.1A.11G(3)(b).

4.23 As set out in Table 1 (in paragraph 2.18), you must apply the suitability rules in COBS 9 to both the transfer advice and the investment advice. For example, this means that when you find out about the client's knowledge and experience (see above) and their preferences for risk taking and their risk profile, you need to do it **specifically in relation to giving up safeguarded benefits**. By doing this, you will create a risk assessment that is specific to the transaction you are recommending: of keeping or giving up safeguarded benefits. Most consumers do not have experience of giving up DB benefits and do not fully understand the transfer of risk from the employer to themselves. You need to find out how the client feels about giving up a certain lifetime income in exchange for flexible benefits.

4.24 When you find out your client's attitude to the transfer risk, you are assessing the **client's behavioural and emotional response** to the risks and benefits of giving up guaranteed benefits in favour of non-safeguarded benefits. You need to ask your client fair, clear and not misleading questions to understand what it means for them personally. You need to assess your client's attitude to the features of safeguarded and flexible benefits and understand their attitude to managing money.

4.25 Standard risk profile questionnaires usually only assess the client's attitude to investment risk. If advisers use these types of questionnaires, it is likely they will not have properly assessed attitude to transfer risk. As well as the specific factors that advisers should consider when assessing attitude to transfer risk, as set out in the Handbook, you should also consider using:

- A range of balanced questions so that you get a spread of responses from different clients. If most of your clients answer each question in the same way, it is likely that you need to review the questions that you ask.
- Language that is not biased so that you do not steer the client towards answering in a certain way. If you ask, 'do you want flexibility and control?' you are unlikely to get enough information to understand whether your client is more suited to safeguarded benefits or flexible benefits.
- Open questions that will provide detail. If you ask, 'how would you feel if your pension pot didn't grow as expected and you had to take less income from it so that it would last?' your client is more likely to explain what is important to them. If you use realistic examples of what might happen to their level of income or

sustainability of income if markets fell, say 10% or 20%, you will get even greater detail about your client's likely behavioural response to transfer risk.

4.26 You should assess whether your client is comfortable managing their own money over a potentially long period of retirement. Some clients may prefer to delegate this responsibility to an adviser. You should include a simple and clear explanation of the types of costs and charges the client would need to pay if they transferred. For example, your client should know the likely total costs each month of a flexible arrangement.

4.27 After reviewing your client's responses, you should be clear about your client's attitude to transfer risk. You should form an opinion whether the client is best suited to a safeguarded benefit scheme or a flexible benefit scheme.

4.28 A client is less likely to have the required attitude to transfer risk where they want certainty of income in retirement and/or do not want to manage their investments or pay for advice on investments. A client is more likely to have the required attitude to transfer risk where they do not want any restrictions on their ability to access funds and/or want to manage their investments or pay for advice on investments.

Good Practice – assessing attitude to transfer risk

A firm has created a number of questions to deal with the 7 points listed in the Handbook guidance on attitude to transfer risk. It asks the client these questions at various points during the fact finding and risk assessment process. For example, when trying to find out if the client would be likely to access funds in an arrangement with flexible benefits in an unplanned way, it asks questions about spending patterns when collecting expenditure information from the client. So the firm might find out how the client and their partner manage their money and plan for major expenditure. If they see large credit card or store card debt, they will ask about the history of the debt and if there is a tendency for impulse purchases.

Poor Practice – assessing attitude to transfer risk

A firm is advising a consumer who meets the test for the serious financial difficulty carve-out from the ban on contingent charging. The client has significant levels of debt. The firm asked the client about the debt and discovered that they had a long history of gambling. The client, now 55 and still working, is seeking a transfer to access the pension commencement lump sum (PCLS) and pay off the debt. The firm fails to ask questions about the client's relationship with gambling, including whether the client has ever tried to give up gambling and their current willingness to give up gambling. If the client was to transfer, there is a risk that the client might be tempted to access and spend the remaining funds on gambling, resulting in long term poverty once they retire.

The client's attitude to investment risk

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.6R, COBS 19.1.6G(4)(c) and 19.1A.11G(3)(e).

4.29 We have previously set out our expectations on assessing your client's attitude to investment risk, focusing on their willingness and ability to take on risk. This section focuses on how you consider the information in the context of DB transfer advice, along with their capacity for loss. Capacity for loss is defined as the customer's ability to absorb falls in the value of their investment. For DB transfer advice, this also involves making a judgement on the client's capacity for loss relative to:

- the certain outcome from the DB scheme, or
- the known loss if the scheme goes into the PPF

4.30 Retirement income paid by a DB scheme will generally not fall in value and, in most cases, will have some inflation-linking. Swapping that certainty of real income for an asset that can fall in value, and the risk of a subsequent real reduction in income, is particularly relevant when considering a transfer to flexible benefits. You should be better able to assess your client's capacity for loss if you gather information to:

- understand their essential income needs in retirement as well as their desired lifestyle and discretionary expenditure
- identify how far the DB pension meets these different expenditure levels compared to the client's other assets
- identify the shortfall or increase in income that a transfer could create and assess the impact on their finances

4.31 It's unlikely that asking your client if they are prepared to take a fall in income of a specific percentage is enough to understand their capacity for loss, but it can inform your assessment of their attitude to investment risk. But by asking the right questions, you can use your assessment of capacity for loss to explain to your client how an unrecoverable fall in asset values may affect the income they can take and the effect on their lifestyle in retirement. They may then be able to take a view on the extent to which they are prepared to give up income.

Good Practice – capacity for loss

As well as assessing each client's financial capacity for loss, a firm considered their client's degree of comfort with accepting loss. Although Ms Singh could manage by withdrawing £200 less each month, she did not want to cut her income by more than £100 each month. So her investment risk profile was based on the lower of the level of loss that she could afford to suffer and the level of loss that she was willing to accept.

4.32 If your client has a low attitude to risk and limited capacity for loss, the DB transfer advice you give them could be quite different to the investment advice you would give them if they were investing a new sum of money. This is because a DB scheme that will meet their income needs is already well suited to a client with a low attitude to risk and limited capacity for loss.

4.33 When giving DB transfer advice, you need to consider the potential for any loss of capital that would have a materially negative impact on the client's standard of living.

You should assess whether a transfer is appropriate at all, especially compared with the relative safety of a DB scheme. A client's DB pension often makes up most of their retirement income other than state pension. The more reliant a client is on their DB benefits, the lower their capacity for loss is likely to be.

The client's objectives and needs

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.6R and COBS 19.1.6G and COBS 19.1A.11G.

Introduction

4.34 Establishing a client's needs and objectives is key to shaping your recommendation. You need to have this information to give a personal recommendation. It is also necessary to help you to demonstrate the suitability of your recommendations and whether the transfer is in the client's best interests. If you only consider the client's objectives, without considering whether what you recommend can also meet the client's needs, then there is a high risk that your advice will be unsuitable. You also will be unable to demonstrate how the transfer is in the client's best interests where you proceed to give full transfer advice.

Client objectives

4.35 The aim of establishing the client's objectives is to understand their priorities, their plans and what motivates them. Objectives should not be generic, but should be personal to every client. They are likely to relate to the client's family and intended lifestyle.

4.36 **Features of the pension freedoms are not client objectives.** If your firm gives advice based on objectives such as 'flexibility' or 'control of my pension', these are unlikely to be sufficiently personalised to enable you to provide a suitable personal recommendation, without further detail. You should challenge vague statements like these and identify the underlying reasons why your client needs or wants these features.

4.37 It is unlikely that a tick box questionnaire will enable you to understand each client's objectives properly. While client circumstances may be similar, their plans, hopes and concerns about the future will always be unique. If you ask a client to choose from a number of generic options that most people would always agree with, this will not allow you to establish appropriately what motivates the client, unless you follow up with further discussion.

4.38 We also expect you to ensure the client's objectives are based on sound knowledge and are factual. You should not shy away from challenging a client's objectives if they are unrealistic or based on false information. For example, you should provide factual information if a client states 'going into the PPF will mean that I will lose most of my pension'.

4.39 Your client may have conflicting objectives. Where there is conflict, you should try to resolve the conflict between those competing objectives when forming your recommendation. You should explain this prioritisation to the client and explain the compromises needed. Sometimes, this will mean giving them a message they do not want to hear. For example, if a client wants to retire early and draw income, the fund will be depleted sooner. This means that another objective, for example, maximising the potential pension legacy they pass to their dependants on death, may not be met.

4.40 You should explain these trade-offs clearly to your client. With your help, they can prioritise what is important to them, which will help you make a suitable recommendation to them. Your role is not to take orders. You need to make sure your client understands what they can realistically achieve.

Good Practice – examples of establishing client objectives

- 'To what extent are you prepared to live on a lower income so that you can leave assets to your children?'
- 'How important is it for you to retire early even if this could mean running out of money later in life?'
- 'Why do you want the higher amount of tax free cash that a flexible arrangement could offer you?'
- 'Why do you want to draw out higher amounts of income in the early years of retirement?'
- 'How comfortable are you with the risk of running out of money in later years, and having to potentially rely on state benefits, if you have drawn higher income from your pensions in early years?'

Poor Practice – establishing client objectives

Objectives questionnaire:

- Would you like to retire early?
- Do you want to maximise your lump sum?
- Do you want to try to increase your pension income?
- Do you want flexibility?
- Do you want to control your own money?

Most people will answer 'yes' to these questions if they are not made aware of the implications of taking this course of action

Advice based on the following objectives:

- Mr D: early retirement, bigger lump sum, increase pension, flexibility, control
- Mrs E: early retirement, bigger lump sum, increase pension, flexibility, control
- Mr F: early retirement, bigger lump sum, increase pension, flexibility, control

4.41 If a client is some way from retirement and has no clear idea of what they want from it, it may not be possible to advise them on a transfer, until they are closer to retirement. You should be asking the question 'why transfer now?' when your client's retirement plans are unclear. Wanting to take advantage of a high transfer value is not generally a good reason on its own to transfer.

Poor practice – challenging client expectations

A client wanted to transfer for higher income as the scheme pension 'represents about 3% of the transfer amount and I think I could get around 6% by investing the funds and adding to their value in the longer term.' The firm made no effort to explain that the 3% figure effectively represented a guaranteed real net yield but that the hoped for, but uncertain, 6% would be a nominal yield, before charges.

The figures provided in the subsequent suitability report showed that the projected value of the transferred funds at the client's selected retirement age would be less than the transfer value, mainly due to excessive charges. The firm failed to draw the client's attention to the significantly lower net real yield likely on transfer and how this did not meet their objective.

Client needs

4.42 You must identify what level of income your client needs in retirement to understand the client's financial situation. While clients may know how they want to spend their time in retirement, they may not appreciate the level of income they need. So you need to work out what their retirement objectives mean for their income needs.

4.43 In the same way as you look at your client's current expenditure, you may want to split this between essential, lifestyle and discretionary spending. Your client may be several years from retirement. You should use realistic and reasonable estimates based on their current expenditure and known changes before retirement. Effectively, you can consider the client's needs, such as having enough money to meet their essential expenditure for their lifetime, as an objective itself. You may need to challenge the client's perception of their retirement if their needs are unlikely to be met in any circumstances.

4.44 You should also explore any specific additional expenditure and its timing. This will include one-off expenditure or temporary regular expenditure. You should consider the needs of your client's spouse, especially if they are financially dependent on the client.

Good Practice – establishing clients' needs in retirement

- 'How do you expect your current level of expenditure to change when you retire?'
- 'What liabilities do you have and how do you plan to pay off any debt?'
- 'How important is the need to make provision for any dependants after your death or when you are still alive?'
- 'What is the likely timing of your expenditure and are there any expected peaks and troughs?'
- 'What are your plans for carrying on working either on a full or part-time basis?'

Balancing needs and objectives

4.45 The process you need to go through broadly falls into the following stages:

1. Identify all client objectives and needs.
2. Identify where needs and objectives are in conflict, or simply cannot be achieved. The compromises will be specific to that client, rather than generic compromises.
3. Work through specific compromises with the client, documenting the reason/rationale for each decision.

4.46 Your client may want to transfer so that they can make significant withdrawals for discretionary expenditure early in retirement. That could result in a lower sustainable income that would not meet their essential needs later in retirement. You should indicate that you need them to prioritise their 'wants' so that their 'needs' can be met. Many clients may wish to treat themselves to luxury expenditure in the early years of retirement such as holidays or home improvements. They might not be so willing to do this if it meant there is a good chance they will have insufficient income later in life.

4.47 It's unlikely you will be able to recommend a solution that meets all the client's needs and objectives. The recommendation you make will be based on an overall consideration of whether the client can bear the risk of transfer to achieve their objectives. So you will need to help the client to prioritise their objectives, based on what you have discussed about their plans for retirement and financial situation. You will need to explain and justify how you reached your conclusion. We also expect you to explain to the client any significant disadvantages from meeting an objective. You will need to give a full and clear explanation of the guarantees they are giving up if they transfer.

Good Practice – balancing needs and objectives

A client knows what they want to do in retirement but they do not understand the level of income they require to meet their essential needs. The firm uses the client's current expenditure to quantify what they need in retirement for essentials and the additional amount they would need to achieve their objectives. The firm uses charts from detailed cashflow modelling to show the client that they will need to make compromises and challenges the client on their plans, before making a recommendation.

Poor Practice – balancing needs and objectives

Firm A gathers the client's needs and objectives, prioritises them, undertakes appropriate pension transfer analysis (APTA) and then forms their recommendation to achieve the priority. Even where the analysis indicates it's not in the client's best interest to transfer, the firm still recommends a transfer because the client wants it. The firm believes it was acceptable for them to follow such a process as that was the objective of the pension freedoms.

Where there are conflicts, the firm ignores the client's identified **needs** and forms a recommendation that simply meets the client's **objectives**. The firm is unable to demonstrate that their recommendation is in the client's best interests.

Ceding scheme data

This section refers to the following rules and guidance: COBS 9.2.1R(1) and (2), COBS 9.2.2R, COBS 9.2.3R, COBS 9.2.6R, COBS 19.1.2B, COBS 19.1.3A, COBS 19.1.3B, COBS 19.1.6G and COBS 19.1A.11G.

4.48 DB schemes are complex, with a wide variation of scheme benefits and rules. You will need to gather information about all the relevant scheme benefits the client would be entitled to if they remained in the scheme (see Annex 1). This information will need to include both your client's individual entitlements and how the general rules of the relevant section of the scheme apply to them. The information you need to collect could vary depending on your client's personal circumstances. However, it should be sufficient for you to understand how the scheme works. For example, if the client does not plan to retire earlier or later than the scheme's normal age, then you have less need for early or late retirement factors. But getting these factors could highlight features which could make a difference to your client, eg if there are no reductions on early retirement. So you need to gather enough information to adapt to different or changing circumstances.

4.49 The volume of information is extensive but necessary. Depending on your client's needs and objectives, you need to understand the variety of different options both within the DB scheme and, if giving full DB transfer advice, any proposed DC scheme. **You must not consider a proposed DC scheme when giving abridged advice.** You may also be advising the client on options within the scheme such as a pension increase exchange.

4.50 As well as looking at the income benefits at normal retirement age (NRA), including dependants' benefits and inflationary increases, your client may have a focus on specific objectives such as early retirement, tax free cash or ill health retirement. This means you need to understand how the ceding scheme provides for these benefits for your client, their spouse and their dependants. You should also understand any limitations on spousal and dependants' benefits.

4.51 You should use your reasonable endeavours to get information on the relevant factors. Where the scheme cannot give you these, you should use your professional judgement to try to make reasonable estimates, where possible. You should draw your client's attention to factors which you have had to estimate or which are subject to change by the trustees. You should explain the degree of uncertainty of any estimates in a way the client can understand. For example, the scheme may not have given you early retirement factors at all ages. You should make it clear that any estimate of early retirement income from the scheme is based on estimated factors which may vary in the future. You will need enough information to make reasonable assumptions on which to base any estimations. Without sufficient information, you will not be able to justify your approach and explain the uncertainty to your client. If you do not have enough information to make reasonable assumptions, you should consider whether you are able to advise at all.

4.52 When giving full DB transfer advice, there may be some client circumstances where it is worth exploring a partial transfer. For example, you may have a client who has the required attitude to transfer risk but does not have the capacity for loss to give up the entire DB scheme. You should find out whether a partial transfer is available from the scheme and, if so, on what terms.

4.53 You should use the information you are given about the ceding scheme in a responsible and measured way. For example, just because a scheme is in deficit or has a long recovery plan to reduce its deficit does not mean that the scheme is at risk of entering the PPF. You may risk misleading consumers if you imply certain outcomes based on the limited information available to you or where you are not suitably qualified in assessing the strength of an employer covenant.

Abridged advice

This section refers to the following rules and guidance: COBS 6.1A.16G, COBS 9.2, COBS 19.1A.

4.54 Abridged advice is a short form of regulated advice that advisers can use when 'advising on conversion or transfer of pension benefits'. As you cannot undertake APTA or prepare a TVC when you give abridged advice, it enables you to offer advice at a lower cost than when you give full advice, making DB transfer advice accessible to more consumers. Taking into account the total charges the client is likely to pay, you should consider whether it would be more appropriate to give them abridged advice rather than full DB transfer advice. This means you will meet your responsibilities under the client's best interests rule and FCA Principle 6. One way you could achieve this, and manage potential conflicts of interest under Principle 8, is to begin with the abridged advice process in all cases. Alternatively, you could suggest to a client who is not seeking to access their benefits immediately that they wait until nearer retirement before seeking advice on a transfer.

4.55 Before you start the advice process you should make clear to potential clients that it can result in only one of 2 outcomes:

- a personal recommendation not to transfer
- a conclusion that the short form of advice is not sufficient for you to make any decision about whether a transfer is suitable

4.56 You should also make clear to potential clients in advance that they would not be able to proceed with a transfer without going through a more comprehensive advice process, at an extra charge. If the outcome is inconclusive, you should not imply that taking full advice is likely to result in a recommendation to transfer. You must check if the client wants to continue to full advice and if they are prepared to accept the charges involved. If the client proceeds to full advice, you should not charge them again for work you have already undertaken that can be re-used.

4.57 In some circumstances, abridged advice is unlikely to be appropriate. For example, when your client wants advice on different options available to them. This could be the case if they are considering a partial or full transfer, or which of multiple DB schemes potentially to give up. In these circumstances, it is more likely that you will need to give full DB transfer advice so that you can compare the outcomes of different transfer options using APTA.

4.58 Your client may want to take abridged advice based on an estimated value. For example, to reduce their risk of running out of time on a guaranteed transfer value if they proceed to full advice. Our rules do not prevent this but you should be able to evidence that the estimated transfer value has come from the scheme, eg a screen shot from an online pension portal. If you subsequently make a personal recommendation to remain in the scheme, you should explain any assumptions and uncertainties about the outcome to the client. If the client gets a guaranteed transfer value and proceeds to full advice, you should review the abridged advice using the guaranteed transfer value to confirm if the outcome is still valid. If it changes, the client then has the opportunity to reconsider their decision to proceed to full advice. You should also indicate any change in the cost of full advice from the value provided previously in the personalised charges communication.

4.59 As with full advice, you should start from the assumption that a transfer will not be suitable when giving abridged advice. Abridged advice includes the stages of the advice process that we described previously in this chapter. If you cannot collect the necessary information required for abridged advice, you must not make a personal recommendation not to transfer.

4.60 You may not need to collect all the information described earlier in this chapter to recommend that your client should remain in their DB scheme. This will vary on the facts of each case. If you conclude that the outcome is unclear, you should have a reasonable basis for your conclusion. Where the client is reliant on the DB scheme income, this is more likely to mean that you will have collected all the information that can be used in abridged advice to rule out a recommendation to remain in the scheme.

Good Practice – giving abridged advice

An employer appoints a firm to give advice to members of the employer's DB scheme who are within 5 years of retirement. The adviser gives abridged advice to a client who will reach NRA in 2 years' time. They have access to an online pension portal showing the projected DB income/lump sum at NRA.

The adviser has collected full information about the client's personal and financial circumstances, including their other assets. They have also completed assessments of their knowledge and experience, their attitude to risk and attitude to transfer risk. The DB pension is the main pension provision for the client and their spouse and, with state pension, will provide the lifestyle they want. The client has little knowledge or experience of investing apart from free shares given during a building society demutualisation which they sold immediately. After a lifetime of earning a regular income, the client has little appetite for potential fluctuation in income. The client has a low risk appetite and does not want to take the risk of a lower standard of living in retirement than the DB scheme could provide.

The firm concludes that they have sufficient information, without getting full scheme information, to recommend that the client stays in the DB scheme.

4.61 You may need to get a Statement of Entitlement from the ceding scheme. You can use the information on accrued rights in the Statement to assess how well the DB scheme meets your client's needs and objectives. So, for example, you can revalue the DB scheme pension to normal retirement age or apply early retirement factors to assess how well it meets the client's needs and objectives, alongside their other retirement provision, ie you can model the benefits from the DB scheme against the client's expenditure needs. You can also consider the generic risks of transferring and losing those benefits, as well as the generic risks and benefits of transferring into an arrangement with DC benefits. But you **cannot** assess how well a proposed arrangement would meet their objectives and needs because abridged advice does not consider how funds might be invested if a transfer proceeded. This includes where a client could use a DC scheme to fund an immediate annuity purchase, or an immediate vesting personal pension plan, if this forms part of the client's objectives. So you may get the transfer value and consider it in the round, where needed to give one of the two outcomes. But you should not make projections based on the transfer value, get annuity illustrations or carry out any comparisons of the ceding scheme benefits with a proposed receiving scheme. This type of modelling would be part of APTA so cannot be used when giving abridged advice.

4.62 Based on this limited analysis you may give your client a **personal recommendation not to transfer** their DB pension if you can demonstrate a transfer is unlikely to be suitable. You must provide a suitability report and, as with any personal recommendation, you are responsible for the advice. If you identify alternative ways your client can meet some of their objectives, for example by buying life insurance, you can offer to give specific advice outside of the abridged advice process.

4.63 You must **not** prepare a transfer value comparator (TVC), consider a receiving scheme or undertake appropriate pension transfer analysis (APTA) when giving abridged advice. If you include any of these, you will not be giving abridged advice and must charge appropriately.

4.64 We consider that if you use cashflow modelling based on the transfer value, you are likely to be undertaking APTA. This includes using the transfer value to project any form of future benefit, including using generic or assumed products and assumptions. This is because you would be able to compare the benefits and options available under the ceding scheme, which you can consider as part of abridged advice, with those available under the proposed scheme.

4.65 You must **not** prepare a confirmation of advice for the trustees of the ceding scheme where you have only provided a consumer with abridged advice. This is because a consumer receiving abridged advice has not been given a full comparison of the benefits and risks of their DB scheme with a DC scheme, and so is not in a fully informed position.

4.66 Firms, including product providers, cannot arrange for a transfer over £30,000 where a consumer has only received abridged advice. It is your decision whether to offer full advice to a client who you had already recommended not to transfer under abridged advice. We would generally not expect the recommendation to change when full advice is given. If you think the advice might change if full advice is given, you should conclude that abridged advice is probably insufficient to make a decision about the suitability of a transfer.

4.67 A client may appear to be insistent after going through abridged advice, eg they may say that they want to transfer even though you recommended they should remain in their scheme. But you cannot treat them as insistent until they have gone through full advice. You need to take them through the full advice process in the normal way so that they can make a fully informed decision whether to become an insistent client and act against your advice. You should only then consider proceeding with the insistent client process.

4.68 Firms are not required to offer abridged advice. But if you decide to do so, a Pension Transfer Specialist (PTS) must carry out or check the advice. You can offer abridged advice free of charge. But firms must take care not to use the abridged advice in a way that appears to circumvent the ban on contingent charging. For example, this might be the case if you recommended that all clients who took only abridged advice should not transfer and advised all clients who took both abridged and full advice to transfer.

Good Practice – describing how abridged advice works

A firm describes a 2-stage DB transfer advice process on their website as follows:

Stage 1: We start by finding out about you and your current financial circumstances. We need to know about your family, your expenditure and financial needs, your plans and retirement goals. We look at what other assets you have to meet those goals and talk to you about financial risks, including asking you to complete a pension transfer risk assessment and investment risk profiling.

At the end of Stage 1, if we can determine that you are best off keeping your DB scheme, we will write a report confirming our recommendation and the reasons for it.

Stage 2: If we cannot determine whether you should keep your DB scheme at the end of Stage 1, with your permission, we will undertake a comprehensive analysis of the benefits of your DB scheme and a DC scheme that might be suitable for your needs. This will include cashflow modelling of possible financial outcomes allowing for all your assets. We will also consider if there are ways of meeting your objectives without giving up your DB scheme.

At the end of Stage 2, we will write a report confirming whether we think you should keep your DB scheme or transfer. This will explain why we think the recommendation is right for you and make sure you are fully aware of all the advantages and disadvantages.

We will agree our charges with you first and won't start either stage of the work until you tell us to proceed.

Identifying clients for the carve-outs

This section refers to the rules, guidance and evidential provisions: in COBS 19.1B.

4.69 Usually, consumers must pay the same amount for full DB transfer advice, whether or not they proceed to a transfer. So you are not allowed to charge in a way that is dependent (contingent) on the outcome. This requirement reduces the risk of firms' charging structures influencing their transfer recommendations.

4.70 Some vulnerable consumers have specific circumstances that are likely to make accessing advice particularly valuable for them. You may use the abridged advice process as a way of identifying these individuals. You are then able to charge these consumers on a contingent basis, also known as the carve-outs from the ban on contingent charging. You can charge contingently if you can satisfy yourself that a client has the type of circumstances set out in the tests in the Handbook for either the serious ill-health carve-out or the serious financial difficulty carve-out.

4.71 Where you identify that the tests for a carve-out are met, and want to apply the carve-out, you should make this clear to the client before you continue the advice process. You should also keep evidence on file indefinitely to support your conclusion. The evidence will be different for the 2 types of carve-outs.

4.72 For the **serious financial difficulty carve-out**, you should be able to evidence that the client has been unable to maintain payments on a mortgage/rent, debt repayment, council tax or utility bills for at least 3 of the past 6 months. It's likely the client has documented debts and your analysis of their current expenditure shows they have cut out all non-essential spending. In most cases, the client should be no younger than 54.5 as a transfer would be unable to meet their needs if it proceeded, as they would not be able to access the funds on transfer. But if a client is eligible to take benefits earlier from the ceding scheme and this would still be the case on transfer, then they would be eligible for the carve-out. For example, this may apply if there is a protected retirement age that could be maintained via a buddy transfer. It would also apply if the member is eligible for ill-health retirement or a serious ill-health lump sum. It is likely you would have gathered this information as part of the know your client process, as your client's current financial situation is relevant to the suitability of advice.

4.73 For the **serious ill-health carve-out**, you need to show the client has a medical condition which is likely to reduce life expectancy below age 75 and they do not have the ability to pay for advice. You do not need to consider future medical advances. It is likely you would have gathered this information as part of the know your client process, as life expectancy and your client's current financial situation is relevant to the suitability of advice. The medical evidence could include the client's medical records which they are entitled to access free of charge. It could also include information they already hold about appointments or prescriptions. You may also take into consideration information generally available from reputable organisations and charities. For more severe conditions, we think it is likely a client will be receiving specialist care and a consultant is more likely to give a diagnosis. Their records and clinical reports should reflect the details and severity of the client's condition. For terminal conditions, a DS1500 form, used to claim benefits when terminally ill, will confirm the diagnosis and life expectancy of a patient.

4.74 For **both carve-outs**, you need to show that the client is unable to pay for full transfer advice. To assess ability to pay for full advice, you should review copies of statements from all of the client's material accounts and investments. We consider consumers who are claiming certain benefits are more likely to have no capacity to pay for advice. These include Universal Credit, Job Seekers Allowance, Employment and Support Allowance, Income Support, Housing Benefit and Pension Credit. Where relevant, consumers should be able to prove they are receiving benefits. You should not use the carve-out if a client has available funds to pay for the advice but would prefer not to use their savings/income for this purpose. For these purposes, the availability of credit does not count as available funds.

4.75 You should consider whether it might be in the client's best interests to refer them to a debt counsellor, or to the Money Advice Service (part of MaPS), before advising them on whether to give up their DB pensions. You should explain that debt management services can be free or paid for so that your client can make an informed decision about how to proceed.

4.76 We expect the carve-outs will be used for a very small minority of consumers.

Good Practice – serious ill-health carve-out

A firm is giving abridged advice to a 50-year-old woman. As part of the abridged advice process, the firm discovers that she has Type 1 diabetes and has run down her savings after losing her job. She does not have enough available funds to pay for full advice. The client has paperwork to verify her medical condition and knows from her GP that her condition is likely to reduce her life expectancy. Additional research from reputable sources, such as Diabetes UK and NICE, refers to a number of studies that make clear that life expectancy for the condition is significantly lower than average, and likely to be less than 75 at the time of giving the advice. The adviser copies the information into the file record to show how the client meets the tests for the carve-out.

Good Practice – managing carve-out policies

A firm has a clearly defined policy on how to apply the carve-outs. The policy sets out:

- That advisers should encourage consumers who think they will be eligible for the carve-out to approach guidance bodies, such as MaPS, first, where practical.
- Where initial discussions with a client indicate there may be a case for applying the carve-out, advisers should offer abridged advice to confirm eligibility. But they should make it clear that abridged advice could result in a personal recommendation not to transfer.
- Guidelines for advisers on gathering and retaining evidence.
- Requirements to record details of eligible clients in a register, including the reasons the client was eligible and the outcome of the advice.

The firm reviews the policy regularly, using the information in the register to inform any changes.

Poor Practice – promoting the carve-outs and not keeping evidence on file in support of using the carve-outs

A firm uses the carve-outs as a way of attracting business. The firm's website offers 'free' transfer advice to entice consumers to use the firm. The firm does not keep copies of the evidence to support its decision to apply the carve-outs.

4.77 A client who is eligible for the carve-outs is not automatically suitable for a transfer. In some cases, you may be able to use abridged advice to recommend keeping the DB scheme. For other cases, you must go through the full DB transfer advice process to establish if a transfer is suitable.

5 Full advice process – research and analysis

Transfer value comparator

This section refers to the following rules and guidance: COBS 19.1.3AR, COBS 19 Annex 4B, COBS 19 Annex 4C and COBS 19 Annex 5R.

5.1 The transfer value comparator (TVC) compares the transfer value offered to the member alongside the estimated cost of buying the DB scheme benefits on a risk-free basis in a DC scheme. The TVC is presented in the form of a bar chart.

5.2 To prepare the TVC, you must project the level of DB pension payable at normal retirement age (NRA), or sooner if the DB scheme offers an unreduced pension sooner, and determine the cost of buying that income as an annuity at the age it becomes payable. This value is then discounted using a risk-free growth rate after charges as, in normal circumstances, a consumer takes on no investment risk in a DB scheme.

5.3 When you give full DB transfer advice, you must prepare a TVC to give to clients.

5.4 If your client has been offered a partial transfer, you should prepare the TVC consistently with the benefits that would be transferred as part of the partial transfer. For example, the TVC chart would show the amount of the partial transfer on offer and the equivalent value of buying the partial benefits that would be transferred. If you are advising on a full or partial transfer, you should prepare a TVC for each option as the split of the transfer value and the benefits may not be consistent.

5.5 You must prepare the TVC using the prescribed basis, set out in the Handbook. The assumptions in the basis vary from month to month so you must use the correct assumptions at the date you prepare the TVC. You do not need to prepare a TVC when giving advice on giving up guaranteed annuity rates.

Explaining the TVC

This section refers to the following rules and guidance: COBS 9.2.2R, COBS 19.1.1CR, COBS 19.1.3AR, COBS 19 Annex 4B, COBS 19 Annex 4C and COBS 19 Annex 5.

5.6 The purpose of the TVC is to give some context to the cash equivalent transfer value (CETV). Many consumers struggle to understand the underlying cost of a guaranteed income and some may even regard the CETV as more like a lottery win. The way you explain the TVC should help them understand the inherent value in their existing DB scheme. You must take reasonable steps to do this, even if they appear not to be interested in a guaranteed income. For example, you can discuss what the TVC shows and the reasons behind the relative values in the chart, tailoring your explanation to the client's knowledge and experience. We consider that the TVC is a good way to start a conversation with your client about the value of their existing benefits and help them understand what they might be giving up.

5.7 We know that many consumers exhibit present bias. This is where they value a lump sum today more than a future stream of income, even where the two are equivalent in value. So emotionally, many of them have already committed to the transfer and have plans for accessing the cash and spending it. Where relevant, the TVC offers you the opportunity to correct their misunderstandings and biases. You should make sure you do not reinforce their misperceptions or undermine the intent of the TVC.

5.8 If you fully understand the TVC you will be in a better position to explain it to your client. Most clients will not understand a technical explanation. For example, that the difference between the TVC calculation and a CETV represents the capitalised cost of the difference between the assumptions used to decide the 2 amounts. But with your help, they should understand key differences. For example the need to pay charges on transfer may mean that it is more effective to use the DB scheme to take lifetime benefits. You should take into account the client's information needs (Principle 7) when considering how best to explain the TVC outcomes to your client.

5.9 If a TVC shows a loss to the client, this does not preclude a transfer. There may be good reasons why it makes sense to take this notional loss, depending on the client's circumstances. Equally, if a TVC shows a notional gain, this does not mean that a transfer is suitable. The TVC is a good starting point for discussion and comparison ahead of an objective analysis based on the client's circumstances. Documenting those discussions can help you demonstrate if a transfer might be in the client's best interests.

Good Practice – firms' explanations of the TVC

- The TVC shows that it would be more expensive to secure the same benefits if you transferred. This is partially due to the charges that you'd have to pay and partially due to the cost of buying guarantees. So your DB scheme is the most cost-effective way to take lifetime guaranteed benefits.
- The difference between what you've been offered and the cost of buying the same benefits if you transferred means you're currently getting those benefits in the most cost-effective way.
- You can think of the difference between the two numbers as the price of flexibility.

Poor Practice – firms' explanations of the TVC

- The TVC is flawed. Firstly, there a number of FCA assumptions on what inflation and interest rates will be in the future and they do not have a trade-off for personal circumstances and needs. Also, it does not take into account current rates, or flexibility.
- The TVC is irrelevant as you don't want an annuity.

Appropriate pension transfer analysis

This section refers to the following rules and guidance: COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.10 Appropriate pension transfer analysis (APTA) is the research and analysis you undertake to determine a suitable course of action for your client, resulting in a personal recommendation. APTA is not just numerical analysis – your research and analysis should be grounded in what you know about your client and what they are trying to achieve. APTA will help you decide how you can help them achieve their objectives. As each client is different, your APTA content should vary for each client.

5.11 You must carry out APTA when giving advice on a pension transfer from safeguarded benefits to flexible benefits, unless the safeguarded benefits are guaranteed annuity rates.

5.12 You do not need to give all the research and analysis that goes into each APTA to each client. You should include relevant APTA information to demonstrate the advantages and disadvantages of your proposed course of action, and why you have concluded your recommendation is in the client's best interests.

5.13 The research and analysis you undertake for each client should be as unique as each client and their circumstances. If you have a pre-determined view about circumstances which are likely to result in a positive recommendation, your analysis may be biased. For example, a scheme may be offering very high transfer values which you interpret could mean that members could take benefits which probably exceed those provided by the scheme. This does not mean that a transfer is suitable for every member you advise, as suitability is not based on higher monetary outcomes alone.

Poor Practice – APTA

A firm advised a number of clients to transfer out of a scheme sponsored by a financial services employer. The scheme was offering high transfer values relative to other schemes. In every case, the firm recommended a transfer on the grounds that:

- a transfer would result in x% higher tax free cash and y% higher monthly income than the DB scheme, even if markets fell 30% immediately after the transfer, and
- the clients had the necessary knowledge and experience, based on working for an employer who operated in the financial services sector

The firm did not demonstrate how their advice took account of:

- the client's knowledge and experience, particularly for individuals with expertise in non-financial services areas, eg human resources or communications
- the client's preferences for risk taking, including attitude to transfer risk
- the client's needs and objectives for tax free cash and income at different points in time
- The client's feelings about managing investments or paying someone to do so over their lifetime

Poor Practice – APTA

A number of firms considered that a transfer would generally be suitable if one or more of the following conditions were met:

- their client could improve the level of income available from their pension to any extent
- transfer values were at least a specific multiple of the revalued DB pension income
- their client had a more aggressive attitude to investment risk than the ceding DB scheme

When combined with too much focus on modelling of outcomes and the potential upside from a transfer, firms sometimes tended to give unsuitable advice due to:

- paying insufficient attention to the client's personal circumstances
- disregarding the client's lack of knowledge and experience and need for further education to understand the risks they were taking
- downplaying the client's attitude to transfer risk
- presupposing that their clients accepted the need to take on investment risk, including managing investments long term and paying for ongoing advice
- giving too little consideration to the client's misgivings about whether their essential and lifestyle needs would always be met due to downside risk

5.14 There are certain things we expect to be included within APTA. In particular, you need to assess the benefits likely to be paid and the options available under the DB scheme and compare these with the benefits and options under the proposed arrangement. We expect you to do this using fair and consistent assumptions, taking account of how benefits might be taken if a transfer proceeded. You should allow for all charges the client might incur and take account of other retirement income.

Poor Practice – APTA

A client received a suitability report with an Annex labelled Appropriate Pension Transfer Analysis. It was made up of:

- a pre-APTA transfer value analysis report, with multiple critical yields, including how the fund could be drawn down at 3 different growth rates, at early and normal retirement
- a TVC on the last page

No allowance was made for other pension provision, including the state pension. There was no consideration of alternative ways of meeting the client's objectives.

5.15 You should also show in APTA that you have considered whether there are alternative ways of meeting the client's objectives without transferring.

Good Practice – considering alternatives in APTA

- APTA showed that the client could meet their needs and objectives without transferring, even if a transfer would equally be suitable.
- APTA contained a summary of all the alternatives that might meet the client's needs and objectives, with an indication of the pros and cons that supported the final recommendation.
- APTA showed annuity quotes for a client who may be eligible for an enhanced annuity, comparisons with drawdown and how well the options linked to the client's needs and objectives.
- For clients interested in a DC scheme with enhanced death benefits, APTA contained decreasing term insurance quotes, comparisons between the pay-outs from term insurance and the value of a drawdown fund at different points in time, and a handwritten note summarising the financial impact.

5.16 It's unlikely that there is one software package that will enable you to complete APTA for every client. As well as using software packages, it is likely you will need to pull together information from several other sources. APTA should show how you use this information to rule out some courses of actions. It should show how you reached your recommended course of action for your client, given their specific circumstances.

Poor Practice – approach to APTA

An employer appointed a firm to advise members on an enhanced transfer value (ETV) exercise on a recently closed DB scheme. The firm advised a client in their mid-30s who had 12 years' membership of the DB scheme. The firm undertook cashflow modelling as part of APTA to compare the income that could be provided by the DB scheme at NRA with the income that could be provided at the same age by drawdown. The firm considered that the income likely to be generated by the drawdown made the transfer suitable, given that the ETV offer was a once-off opportunity.

The file showed the client hadn't really considered what they wanted from retirement. It contained conflicting information on when the client might retire. There was no information on the client's retirement income needs. The firm had made no effort to estimate these based on the client's current income and expenditure. Neither APTA or the suitability report indicated how well either the DB scheme or a transfer would meet his needs and objectives.

5.17 Some firms have processes in place which set out how they will apply different elements of APTA for different clients, based on their individual circumstances or needs and objectives. If you do this you must be satisfied that your approach will take into account a client's individual circumstances, needs and preferences.

APTA and cashflow modelling

This section refers to the following rules and guidance: COBS 4.2, COBS 4.6.7R, COBS 4.6.8G, COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.18 Cashflow models project possible future cashflows using assumptions. The assumptions can be largely fixed or based on statistical models. We do not specify that firms must use cashflow modelling in APTA but we do have requirements for those who use them.

5.19 You may want to use cashflow modelling to demonstrate to the client the extent to which they are able to meet their needs and objectives throughout retirement whether they transfer or remain in the scheme. A cashflow model can factor in the client's other retirement provision. It can also demonstrate the investment risk clients would be taking and when they might run out of money. Firms who use a cashflow model should carry out projections that go beyond average life expectancy as clients may live well beyond the average.

Poor Practice – cashflow modelling

A firm prepared cashflow modelling for a client which assumed the client would transfer and draw income at the same rate as the DB scheme to identify how long the funds would last. The firm did not take account of the level of income that the client would need to withdraw throughout retirement or consider alternative ways to structure the arrangement. So the firm was not able to draw conclusions on whether a transfer and the use of drawdown was sustainable throughout the client's retirement so was not able to give suitable advice.

Poor Practice – cashflow modelling

A firm undertook cashflow modelling for their clients as part of APTA. Where clients wanted an index-linked income for life, they assumed the same rate of withdrawal of 4% for every client irrespective of their age, the potential returns from the proposed destination or the charges that would apply. The firm also failed to stress test the model.

This meant that the firm failed to consider what the client actually needed or wanted as a starting income, and the extent to which income needs could be met over time as a result of market downturns. The cashflow model was too generic to be useful to clients and increased the risk that they think that the rate of return was guaranteed. The firm also created a risk of unsuitable recommendations more generally where:

- older clients were advised to withdraw less income than they could have taken and younger clients were advised to take too much and were at risk of running out of income
- clients who were advised to invest in more conservative portfolios or in high charging portfolios would exhaust their funds sooner than expected

5.20 Firms may develop their own spreadsheet models instead of buying cashflow modelling software if the model is flexible enough to meet our requirements. But you should make sure you have proper systems and controls in place such as testing, security protections and version control. All cash flow models must show figures in real, not nominal, terms. This makes it clear to clients how much future income amounts are worth in today's money terms, ie after inflation has been taken into account. Using real terms should also help you adjust tax bands and other tax limits more easily. You should stress-test the outcomes shown by the cashflow model. For example, you could illustrate the effect of a significant fall in the markets soon after a client starts taking withdrawals from a fund.

5.21 Some firms use the output prepared by a 3rd party software provider which contains a TVC and other numerical analysis. If you use this numerical analysis to help you meet APTA requirements, you should satisfy yourself that it is fit for purpose. For example, if it provides projected values of future benefits for either the ceding or proposed arrangement, these are likely to be considered cashflow modelling. This means the values should be in real terms and include stress-tested outcomes if you want to consider the figures as part of APTA and present them to your client.

Poor Practice – cashflow modelling

A firm prepared cashflow modelling for a client using both nominal and real terms. It used a mixture of real and nominal figures in the suitability report. As well as potentially confusing the client, it used the figures in a misleading way to support its recommendation that the client should transfer. For example, it did not highlight that the projected real value of the transferred fund at the selected retirement age would be less than the transfer value, due to excessive charges.

5.22 Our rules set out the assumptions you can use, including where you can decide your own assumptions. You may use different assumptions and methodologies to those used in other documents you'll give the client, such as a Key Features Illustration (KFI). But if you do, you should justify this and explain any differences in the outcomes shown to your client to prevent confusion.

5.23 Cashflow modelling of future benefits, whether DB or DC, is dependent on assumptions. The member would carry more risk in DC. If the modelling risks are not properly explained, a client may perceive a degree of certainty that does not exist. You should communicate that the outcomes are uncertain, particularly in relation to the new risks that the member would take on if they transferred. Your client should be aware that any figures you present will not be borne out in practice.

Good Practice – cashflow modelling

A firm used cashflow modelling to show how income from the client's different assets would start at different ages and meet their essential and lifestyle needs up to 100 years old. The firm included relevant charts in its suitability reports to show how discretionary spend might need to reduce over time, particularly if there was a market crash. The firm used the same growth rates in its cashflow modelling as those used in the KFI, so the client could see consistent outcomes for the proposed transferred monies.

Poor Practice – cashflow modelling

A firm undertook cashflow modelling but did not assume that tax bands would increase with inflation each year. This meant the firm gave the client misleading information about net income from both the DB scheme and the proposed DC arrangement. The firm used growth rates that were 2% higher than those used in the KFI but provided no justification or explanation for these. They gave the client several pages of modelling output containing tables of numbers that were not explained.

Poor Practice – cashflow modelling

A firm advised a client who was very likely to exceed the lifetime allowance (LTA) by the time he started accessing income from his pension. The firm used cashflow modelling and showed the following comparisons in the suitability report:

- The value of the projected scheme pension at retirement against the current LTA with no allowance for inflation, making the DB scheme appear a worse option than it really was.
- The current transfer value against the current LTA ignoring projected investment growth on the transfer value to retirement and the lower expected inflationary increases on the LTA. This made the DC scheme appear a better option than it really was.

APTA and scheme solvency

This segment refers to the following rules and guidance: COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.24 We agree with the Pension Protection Fund (PPF) that scheme deficits should generally not be used as a reason to take a transfer. The PPF expects that most schemes will pay their benefits in full. As the appropriate examination standards for a Pension Transfer Specialist (PTS) do not include how to analyse employer covenants, we think it's unlikely that PTSs are able to draw conclusions about possible PPF entry in the future. Employer covenant assessment is complex, and even experts find it difficult to predict the financial future of an employer. You should also make it clear to your client that a scheme deficit does not mean the scheme is about to enter the PPF.

5.25 You may have some clients who are nervous about the future of their scheme if their employer is in financial difficulties. In these circumstances, you may wish to model PPF benefits in the APTA to show clients how much they might receive in the worst-case scenario of their employer becoming insolvent if their scheme is eligible for PPF protection. If you comment on these benefits, you must ensure that your comments are balanced and objective, in line with Principle 7 – clear, fair and not misleading. You must not misrepresent the benefits of the PPF, as this could potentially create unnecessary fear of the consequences of entering the PPF. You should also highlight that entering the PPF is not the only option in the event of employer insolvency.

Good Practice – PPF

A firm advised a client on a DB transfer after he left his former employer following a takeover. The client did not believe the new backer was financially strong and wanted to transfer his benefits away from them before 'it all went wrong' and the scheme was forced into the PPF. The client wanted to retire before his scheme retirement age and, for this reason, did not want to enter PPF.

The firm researched the current funding position and explained the scheme was currently fully funded. The firm also corrected the client's misperceptions about retiring early within the PPF. Using cashflow modelling within APTA, the firm demonstrated the possible outcomes within the DB scheme, in the PPF and on transfer before making a recommendation.

Good Practice – PPF

A firm advised a client on a DB transfer where the scheme had a significant deficit. The national press had reported on the employer's precarious financial position and the risk of the company going into liquidation, due to a lack of potential purchasers.

The firm used cashflow modelling within APTA to show the client the income they might receive if the scheme entered the PPF. They considered how the client felt about the extent to which their benefits might drop in the PPF, compared to their required income needs. This helped to inform the firm about the level of risk the client was willing to take.

5.26 In most cases, the PPF will still provide a substantial proportion of a member's guaranteed lifetime income. In some cases, the PPF will apply a cap to the benefits that are payable. You should give balanced views on the benefits the PPF provides, whether or not a scheme is in surplus or deficit. You should give a fair assessment of whether the PPF may meet your client's retirement income needs, compared to transferring and incurring the costs of transferring and managing a DC pension.

Poor Practice – PPF

A client was considering retiring early, 3 years before normal retirement age. The client was concerned that his DB scheme would enter the PPF although was unable to point to specific evidence.

The firm told the client there were serious downsides to entering the PPF and that their benefits would be reduced if the scheme entered the PPF. It advised the client that they would be better off transferring out before this happened.

The client was not given a fair, clear explanation of the benefits of the PPF. The firm did not:

- reassure them that not all corporate activity and rumours result in PPF entry
- assess the specific impact on their benefits on PPF entry
- show that the fees payable on a flexible DC scheme would exceed the reductions in the PPF
- explain that there is no reduction to pensions that have entered payment from NRA when the scheme enters the PPF, or on ill-health grounds if before NRA
- explain that early retirement is still possible within the PPF

APTA and death benefits

This section refers to the following rules and guidance: COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.27 Unsuitable advice commonly overemphasises the value of death benefits available on a transfer. When considering a client's objective for death benefits, APTA should show:

- the need for death benefits
- the priority given to death benefits compared to the client's other objectives

- how you have compared the death benefits available from the DB scheme and the proposed DC scheme
- how you have considered trade-offs between death benefits and other outcomes, given the client's other needs and objectives, particularly income needs
- how the beneficiaries of death benefits might prefer to receive them
- what alternative ways you have considered of meeting their objective, for example by using excess income to buy life insurance

Poor Practice – death benefits and trade-offs

From a suitability report: 'The biggest advantage with the transfer is that in the event of your death, unlike the main scheme, your wife would have access to the full fund value and a range of options from which to choose, availing yourself of a significant level of flexibility that just does not exist within the Defined Benefit pension regime.'

The suitability report did not explain that cashflow modelling showed that the fund would run out by age 74 based on the client's preferred level of income drawdown.

5.28 In most cases, it is highly unlikely that the client will die straight after transferring. By the time they do die, it is likely that the fund will have been reduced by a 25% pension commencement lump sum payment (PCLS) and several years of income payments. This is likely to significantly reduce any value to a surviving partner. In addition, the tax advantages on death before age 75 are unlikely to benefit most consumers so you should not overplay these.

5.29 You should not automatically assume that your client needs as much life cover as the transfer value offers. So you should check what existing life insurance they have in place, including any death in service benefits, as well considering the status of other assets and pensions on death.

5.30 Where your client does have a need for death benefits, you should consider life insurance as an alternative to a transfer. Level or decreasing term insurance would be cheaper than whole of life insurance, where the client would be charged for benefits they might not need such as surrender values or longer term life cover. Decreasing term insurance may more closely match the shape of a decreasing fund value, once accessed.

5.31 DB schemes generally provide death benefits as income for spouses and, in many cases, for unmarried partners. You should check the benefits available, including any eligibility criteria. You should also find out whether their spouse may prefer the secure income from a DB scheme. Where your client has children still in education, you should also check for dependants' death benefits.

5.32 You must consider how both the DB scheme and the proposed DC scheme would provide death benefits by making comparisons on a fair and consistent basis at different points in time. So you should consider how you can compare a stream of income benefits payable on death from the DB scheme with the lump sum death benefits from the proposed DC scheme. For example, you could consider the income that could be generated from a lump sum if death occurred at different times or the discounted value of the income stream. The death benefits available from the DC pension will vary over time, due to investment returns, and the level and frequency of charges and withdrawals taken prior to death.

5.33 You must also consider what trade-offs will be made by prioritising different client objectives. For example, by prioritising income needs throughout retirement over the provision of death benefits and vice-versa. If your client appears to have normal life expectancy and is likely to use all their pension savings in their lifetime, it is more likely that the transfer would be unsuitable.

5.34 Where a client is in ill-health, you should check the ill-health provisions of the DB scheme. If the scheme is unable to provide this information in time, you should ensure that the client knows that your advice does not factor in a possible ill health benefit. Where your client is expected to live for less than 12 months, or may be in that position before they could take other benefits from the scheme, you should check the serious ill-health lump sum provisions and the lifetime allowance position. You also need to be aware of inheritance tax issues if death occurs within 2 years of a transfer.

Good Practice – ill-health death benefits

A single client with a terminal illness and only weeks to live wanted to transfer his pension so his adult children could benefit. There was no partner to consider for a widow's pension. The APTA showed that the ill-health lump sum value offered by the scheme was significantly less than the transfer value. The APTA also confirmed that the total value of the client's assets, including the transfer value, would be below the inheritance tax threshold so there would be no inheritance tax liability on death following the transfer.

Poor Practice – ill-health death benefits

A client with a terminal illness and very limited life expectancy wanted to transfer his pension so that his wife could benefit. They had a young child and wanted to ensure the funds were available fully even if the wife died prematurely. The firm relied on a fact find from the regulated firm that introduced the client but the file showed no further interaction with the client. There was no indication of dependants' benefits on the file or whether a serious ill-health lump sum was available. A non-contemporary file note, added some years after the advice was given, noted that the client had died fairly shortly following the advice.

APTA and early retirement

This section refers to the following rules and guidance: COBS 4.2.1R, COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.35 Consumers seeking DB transfer advice often state that they want to retire early. Without further information about the underlying reasons, and when and how they intend to retire, the advice may fall short of our expectations. For example, some clients may want to phase their retirement so that they work part time for a period, then gradually reduce hours until their intended retirement date. In some cases, early retirement might be a necessity, for example, due to ill-health or financial reasons such as redundancy. But in many cases, it's an aspiration and not always realistic. **Advisers are not order-takers.** You should be prepared, if needed, to tell clients that retiring early is not financially viable.

Poor Practice – early retirement

A divorced man wanted to transfer his only pension from DB to DC to retire early. The client was in good health and had no other pensions. The adviser undertook cashflow modelling in APTA that showed the funds would run out by the time the client was around 80 years old. The firm attached a copy of the cashflow modelling to the suitability report. But the suitability report itself made no reference to the funds running out so early or that the state pension would not cover his essential spending needs. The adviser recommended a transfer as 'that was what the client wanted'.

5.36 When advising on early retirement, you should look at the options available within the ceding scheme and the proposed scheme. You should also consider any alternative ways of achieving early retirement, such as using other assets to bridge the gap until the scheme's NRA. Your analysis should help you understand your client's income needs throughout retirement. You should assess if meeting the objective of early retirement would come at the expense of a sustainable future income.

Good Practice – early retirement

A client in his early 50s wanted to transfer so that he could retire early and move overseas to undertake voluntary work for a few years. The scheme's NRA was 65 but the early retirement factors meant that the income generated from his chosen retirement age would not meet his income needs.

But the client was also a member of a workplace pension scheme and had spare income available each month. So instead of transferring the DB pension, the firm recommended that the client should make additional contributions to his workplace pension. The additional contributions also resulted in a greater matched employer contribution.

The cashflow modelling in APTA demonstrated that, even in the event of a market fall, it was likely that making higher contributions to his workplace pension scheme would enable the client to take early retirement. The workplace pension would fund his income needs until his DB pension started and provide a top up until his State Pension started. Although his State Pension could be paid to him overseas, it would not increase so the remaining workplace pension pot would also help to maintain his standard of living after state pension age.

5.37 You should always check for features in the DB scheme that may be particularly beneficial for those retiring early. For example, there may be a protected retirement age or unreduced benefits before the scheme's NRA. If early retirement is due to ill-health, then you should explore the availability of an ill-health early retirement pension.

5.38 Usually, income available from a DB scheme would be reduced if taken early as it will need to be paid for longer. You should not present this as a penalty. It is similar to using a lower safe withdrawal rate if DC funds are accessed early. Accessing funds early depletes the pot sooner so firms should be able to show that they have considered the sustainability of the pot throughout retirement, and certainly beyond average life expectancy.

5.39 You may find cash flow modelling helps you to compare early retirement options, especially if your client has multiple income streams available at different ages. For example, you can show:

- the effect of taking early retirement income from the ceding scheme
- the effect of using another DC pot until your client reaches the ceding scheme's normal retirement age
- the effect of topping up contributions to a workplace scheme until the selected or a viable early retirement age
- how reduced earnings from part-time work might fit in to the model
- the effect of state pensions, or delaying state pensions
- the effect of reshaping the DB income if a transfer proceeds
- how other assets, such as rental income, could be used to meet income needs

Good Practice – early retirement

A married couple approached a firm for advice on transferring the wife's deferred DB pension which was due to come into payment soon, at age 60. The couple were already living comfortably on the husband's DB pension and saw no need for an additional guaranteed lifetime income. They were very risk averse and did not want to be invested in funds and exposed to uncertain returns. But they did want to use the transfer value to generate an additional income until state pensions kicked in.

The APTA showed the firm considered a number of options, such as a lifetime annuity or drawdown invested in low risk funds, but ruled out most of them due to the couple's specific circumstances.

They were advised to transfer and buy a 7-year fixed term annuity, written within a drawdown policy, with no guarantee value at the end of the term. The annuity income was more than twice that available from the DB scheme, albeit only for 7 years, but their joint state pensions would kick in towards the end of the term to replace the annuity income.

5.40 You need to carry out enough analysis to understand if your client's objective to take early retirement is consistent with their, sometimes unstated, need to have enough income throughout retirement. For example, many consumers retiring early anticipate spending more in the early years of retirement while they are still relatively fit and healthy. You will need to consider the consequences of a high early spending pattern combined with a longer period in retirement and the client's potential later life needs. You must be prepared to advise them not to transfer if their income would not meet their needs for a reasonable lifetime. You cannot recommend a transfer if doing so would not be in the client's best interests.

APTA and PCLS

This section refers to the following rules and guidance: COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.41 Some clients want to transfer primarily to access a cash sum to pay off a mortgage or debt. You should first consider whether paying off these debts in full is the right thing to do. For the mortgage in particular, it may be better to continue to make repayments out of income. For non-mortgage debt, you should consider the amount and type of debt and its effect on the client's overall financial capability.

Poor Practice – accessing PCLS

A firm advised a client who wanted to transfer their DB scheme so they could immediately access the tax free cash to pay for their daughter's wedding.

The firm failed to consider alternatives such as using the tax free cash available from a DC pension, or whether the client could take a loan or extend their mortgage borrowing at low cost.

Poor Practice – accessing PCLS

A firm advised a client who was in receipt of means-tested state benefits. The firm failed to advise the client of the implications of taking the PCLS on those benefits.

5.42 Where you consider full or partial repayment may be appropriate, you should consider whether early retirement from the DB scheme can provide the cash/income required. The DB scheme PCLS may meet the client's needs even though it is lower. You should consider whether it is in your client's best interests to take the full 25% from the DC scheme, resulting in a reduced income throughout retirement.

Good Practice – accessing PCLS

A firm advised several clients who were not retiring but wanted immediate access to their PCLS, without taking an income yet. The firm carried out a full know your client process, ensuring that they identified the likely period the residual funds would be invested for, before an income was drawn. The firm discussed with each client whether they were likely to make ad hoc withdrawals and explained the impact of this on the Money Purchase Annual Allowance for contributions into their DC scheme. The firm only made a recommendation to transfer to access the PCLS where they could demonstrate this did not compromise the client's long-term future.

5.43 You should also consider alternative ways to achieve the cash objective. Your client may be able to use the small pots lump sum rules to encash a small DC pot or take a partial transfer from the DB scheme (see also paragraphs 5.50-5.52).

Good Practice – accessing PCLS

A consumer wanted to transfer out of her DB scheme so she could give her daughter some cash to help buy a house. The client did not intend to retire and take income for another 10 years, although she thought she may access ad hoc sums for holidays if she transferred. As part of APTA, the firm looked at all the other assets the client had and whether these were earmarked for other objectives, and whether borrowing or acting as a guarantor was a possibility. The firm made a recommendation which took all the client's options and her longer-term future into consideration.

Poor Practice – accessing PCLS

A firm's documentation appeared to place a high value on the tax free status of the PCLS and the ability to access a larger PCLS as reasons to recommend a transfer.

The firm seemed to assume that all clients would take the maximum PCLS without assessing the client's need for a lump sum or assessing the impact on their ability to meet their income needs throughout retirement.

APTA and workplace pension schemes

This section refers to the following rules and guidance: COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.44 Workplace pension schemes that meet the requirements to be a qualifying scheme (WPS) offer a number of specific benefits to members that will often make them a suitable destination for a transfer:

- charges are capped in the default arrangement
- default arrangements are designed to be appropriate for all members, without members needing to take further advice on investments
- members benefit from the protections afforded by Independent Governance Committees or trustee boards

5.45 So, except in certain circumstances, you need to demonstrate why the scheme you are recommending is more suitable than the default arrangement in a WPS available to the client. This may be in a scheme where the client is a deferred member. This requirement also applies whether you operate on an independent or restricted advice basis. So independent firms which use panels of product providers must be prepared to recommend a workplace pension that is off-panel. In the same way, restricted firms must be prepared to make a recommendation that is outside their usual restrictions.

5.46 You can consider only the client's most recent WPS default arrangement if it is available. But you may want to consider any previous available WPS as well, if relevant, eg if you know that a previous WPS offers a better value. If the most recent WPS is not available, for example, because it does not accept transfers in, you should start by considering the next most recent WPS that is available to the client from previous employment.

5.47 In your APTA for each member, you should compare the advantages and disadvantages of the proposed scheme and the relevant WPS default arrangement. This requirement applies even if there are circumstances where there may be consideration for not using a WPS, eg the client wishes to access the funds within 12 months and the WPS does not offer a decumulation option. We would expect to see, among other things, consideration of:

- whether your client needs a broad range of complex funds that require ongoing rebalancing, given their risk profile, and knowledge and experience of investing
- the proposed product charges, including those for the underlying investments, with the actual charges in the WPS default arrangement, and how the level of charges could affect the income your client will ultimately receive
- whether ongoing advice is necessary, given these points, or whether the client is likely to be better off taking ad hoc advice when needed

You do not need to consider a WPS in APTA if there is no available WPS. You need to undertake the comparison in all other cases.

Good Practice – considering a workplace pension scheme

A new client, who had recently changed employer, approached a firm for advice on streamlining and simplifying his pension provision, including transferring his prior employer's DB pension. He expected to stay with his new employer until retirement in 20 years' time. The firm completed a full know your client process, including the client's current DC WPS.

The firm considered the client's previous investment experience and his need for ongoing advice. They checked that the investment strategy of the default fund was aligned with the client's objectives to use this fund for drawdown. The firm used APTA to compare the impact of investing in its own centralised investment proposition together with a 1% ongoing charge, and the WPS with no ongoing advice. The firm made a recommendation to transfer the benefits to the default arrangement in the client's WPS. This recommendation met the client's objectives and did not subject him to undue costs.

5.48 If you offer a restricted range of products or you are independent and use a panel, our rules do not prevent you from recommending a WPS or establishing agency agreements with WPS providers. If you take a commercial decision not to do so, you must not advise clients in cases where a WPS might be the more suitable recommendation. You could focus instead on giving advice to clients who have circumstances where you do not have to consider a WPS.

Poor Practice – considering a workplace pension scheme

A firm that offered a restricted range of products used a standard disclaimer in all its suitability reports to dismiss a workplace pension scheme as a possible destination for a transfer. The firm told us that, as it was unable to provide investment advice on workplace pension schemes more broadly, it did not consider them when giving advice on a transfer.

5.49 A WPS scheme should still be considered as available where it does not facilitate advice charges, including ongoing advice charges. If you propose to recommend a transfer where you will suggest that the client requires your ongoing advice to achieve their objectives to reduce the risks associated with a transfer, you should consider the impact of paying for ongoing advice outside the product. If it is not possible or affordable for the client to pay ongoing adviser charges directly, you should re-consider whether these risks should be addressed in other ways. For example, by using a different retirement income approach such as a blended annuity and drawdown solution, taking a partial transfer or not transferring at all.

Good Practice – considering ongoing advice charges in a WPS

A client had an available WPS with low charges that was suitable for her needs in the event of a transfer. If a transfer proceeded, she wanted to take ongoing advice as she had no prior experience of investing. But the WPS did not facilitate the payment of ongoing advice charges. The client was a 40% tax payer.

In APTA, the firm calculated the lower disposable net income that would be available to the client immediately if she had to pay ongoing advice charges out of net income. They also considered the alternative, ie where she transferred to a non-WPS but paid charges out of the fund resulting in a lower fund and lower disposable income in retirement, taking account of her anticipated marginal tax rate. They then weighed up the outcomes from both options against her needs and objectives both now and in retirement.

Poor Practice – considering ongoing advice charges in a WPS

A firm advised a client who was intending to retire in 18 months' time. The client was an active member of a master trust WPS that offered drawdown. The firm dismissed the WPS on the grounds that it could not pay ongoing adviser charges and the client could not afford to pay ongoing advice charges directly. The firm failed to recognise that paying ongoing advice charges from its recommended destination scheme effectively reduced the drawdown income available to the client over their lifetime when his income would be lower than while working.

APTA and partial transfers/multiple schemes

This section refers to the following rules and guidance: COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.50 In most transfers, the member gives up all their rights in the DB scheme. A transfer is usually an 'all or nothing' decision. But some schemes offer partial transfers with some benefits retained in the DB scheme when the remainder are transferred out. So you should ask the scheme about the availability of a partial transfer.

Good Practice – advising on a partial transfer

When getting scheme data, a firm always enquired about the availability of partial transfers from a scheme, as standard. When available, the firm analysed whether a partial transfer could meet the objectives of the client, as part of APTA.

By asking if a partial transfer could be considered, even when not apparently on offer, they were able to access this as an option for several of their clients. This enabled the firm to help more cautious clients keep some of their guarantees while still having some flexibility.

5.51 DB schemes structure partial transfers in different ways. You should check how the transfer value and benefits have been split. For example, the guaranteed minimum pension (GMP) could be retained fully in the scheme or included in the partial offer. If there is a choice of partial offers, you need to consider which one, if any, is best suited to your client's circumstances.

5.52 Where a partial transfer is not available from a particular DB scheme, but your client has multiple schemes, you may be able to achieve a similar effect by considering a transfer of one of the DB schemes.

5.53 You should also consider a blended annuity and drawdown solution as an alternative to a partial transfer. Many consumers like the concept of a guaranteed lifetime income in retirement just as they appreciate having a regular earned income during their working lifetime. By using an annuity to guarantee enough income to meet lifestyle expenditure, you can improve the client's position to accept capacity for loss with the remaining funds.

Good Practice – advising on multiple schemes

A client with 2 DB schemes asked a firm for advice on transferring out of the scheme with the higher benefit. After gathering information on all of the client's other pensions, the firm recommended keeping the larger pension but transferring out of the scheme with the smaller pension. The suitability report made clear that, by taking this course of action, the client would be better able to meet their needs and objectives in retirement and could achieve the required balance of guaranteed and flexible income.

APTA and self-investors

This section refers to the following rules and guidance: COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.54 When you give DB transfer advice to a self-investing client, you still need to consider the intended investment in APTA. If you do not know the intended investment destination, your APTA will be incomplete as you have not considered the proposed arrangement. So you will be unable to make a recommendation.

5.55 Once you know the intended destination, you should ask your client to provide the information you need to consider in APTA. For example, you need to know the underlying investment choices and charges. If you use cashflow modelling, the assumptions you use for investment returns must be consistent with the investment choices and you should include the full charges that your client will pay. You must not provide a recommendation if this information is missing as your file would have a material information gap.

5.56 As the client is a self-investor, you cannot comment on the intended investment explicitly. You still need to give appropriate risk warnings on giving up safeguarded benefits. If your APTA shows the client's choice of proposed arrangement results in outcomes that are not in their best interests, you must recommend that your client should not transfer.

Good Practice – self-investors

A self-investor wanted to transfer into their WPS. The WPS did not accept transfers from DB schemes but would accept funds from a personal pension. So when giving pension transfer advice, the firm confirmed the client would first transfer to a personal pension then to their WPS, if the transfer was suitable. The firm asked the client for details of the proposed investments within the WPS. The cashflow modelling in APTA took into account the returns and charges on both the personal pension, for a short period, and the subsequent WPS.

Poor Practice – self-investors

A firm advised several experienced investment professionals on a self-investor basis. Each APTA contained cashflow modelling that used the same investment returns and charges for every client, ignoring each client's intended investment choices. The suitability reports included examples of the cashflow modelling and assumptions and a standard disclaimer stating: 'Please note that the actual charges may be higher or lower than this depending your investment choices.'

APTA and the 2-adviser model

This section refers to the following rules and guidance: COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.1.6AG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.57 Sometimes, different advisers give advice on the DB transfer and the proposed destination, whether within the same firm or different firms. This is commonly referred to as the 2-adviser model.

5.58 If you are giving DB transfer advice as part of a 2-adviser model, your APTA for a specific client should be no different than if you were giving the investment advice on the destination. You will still need to use the relevant information about the proposed destination scheme in your APTA. The other adviser may tell you that the funds will be invested in cash initially and invested later. If you do not know the ultimate intended investment destination then you won't be able to determine enough about the proposed arrangement to make the comparison between the ceding scheme and the proposed arrangement in APTA. For example, you would not be able to take a view on the potential charges or the returns the investments might generate.

5.59 As the client has a separate investment adviser, you should not comment on the intended investment explicitly. If you do, you will carry some responsibility for the investment advice as well as the DB transfer advice. Your APTA may show the other adviser's choice of proposed arrangement results in outcomes that are not in the client's best interests. You may consider this is the case when you compare the benefits and options of the proposed arrangement with those available under an available WPS when you prepare the APTA. If you consider that a transfer could be suitable with a different choice of proposed arrangement, you should liaise with the other adviser.

Good Practice – 2-adviser model

A firm giving DB transfer advice worked with introducers who worked for other regulated advice firms. The introducers gave the investment advice. The firms had agreed they would have joint meetings with clients to manage the risks of communications being misinterpreted by either of the firms, or by the client.

Good Practice – 2-adviser model

A firm was giving DB transfer advice to clients referred by other authorised firms who recommended the proposed destination for a transfer. When the PTS prepared the APTA comparing the proposed destination with an available WPS, they could not justify recommending a transfer if it went to the proposed destination based on this comparison. For example, because a transfer to the proposed arrangement recommended by the referring adviser rather than to the available WPS would result in less income in retirement due to higher charges or was not consistent with the client's attitude to risk.

The firm advising on the DB transfer shared a draft suitability report with the referring firm. The firm did not comment explicitly on the specific recommended product and investments. But the suitability report set out the reasons they considered that a transfer was not in the client's best interests, eg the level of income or possible fluctuations in income would not meet their client's needs.

Where the referring firm refused to consider a WPS or another scheme that resulted in outcomes that were more suitable for the client, the firm issued the suitability report, including the reasons for the recommendation not to transfer. The firm set out the reasons why a transfer might be suitable if the proposed destination was the available WPS. This meant the client was fully aware of the risks of proceeding with a transfer to the proposed destination against advice.

5.60 When giving appropriate risk warnings on giving up safeguarded benefits, you should explain the risks to the client of the funds not being invested as intended by the other adviser. The other adviser may not act as you expect and there could be harm to the client. You could warn the client about the risks of remaining in cash or investing in higher risk investments than you assumed when you gave the advice.

Good Practice – 2-adviser model

A firm gave DB transfer advice to clients who were introduced by other regulated firms who did not hold the relevant permission. The introducers gave the investment advice. The firm carried out thorough due diligence on each introducer, had formal agreements about the responsibilities of each party and collected ongoing MI on them. They used the MI to inform their continuing use of the introducer. For example, where an introducer had a high rate of insistent clients that they could not justify, the firm cancelled the introducer agreement.

APTA and overseas transfers

This section refers to the following rules and guidance: COBS 9.2.1R, COBS 19.1.2BR, COBS 19.1.2CR, COBS 19.1.2DG, COBS 19.1.2EG, COBS 19.2.2R, COBS 19 Annex 4A and COBS 19 Annex 4C.

5.61 If you are advising a client who lives overseas and wants to transfer their DB benefits overseas, your APTA needs to consider the issues that make it different to a UK pension transfer. This includes:

- the levels of returns and local inflation rates, relative to fluctuations in exchange rates
- the level of charges on overseas arrangements
- different tax considerations
- different legislative frameworks and local levels of protection, for example, the equivalents to the Financial Services Compensation Scheme

5.62 You must consider the proposed receiving scheme in APTA. This may be a recognised overseas scheme or a UK personal pension marketed as an international SIPP which accepts overseas investments within it. If you provide a Key Features Illustration for a UK based international SIPP, you should make sure it includes all the charges information both for the SIPP itself and the investments which will be placed within it.

Poor Practice – APTA for expats

A UK firm gave DB transfer advice to a client who was resident overseas. The client intended to remain in the overseas country into retirement, although retirement visas were dependent on meeting certain financial criteria. The client took advice on the proposed destination for a transfer from a local firm. The local firm recommended local investments within UK-based international SIPP as the proposed arrangement. The investments included an investment bond with high charges due to the local practice of paying significant initial commissions.

The UK firm took account of the SIPP wrapper charges but did not include the charges for the underlying investments in APTA. Firstly, this meant the APTA was based on incomplete information and significantly overstated the fund that may be available on retirement. In addition, the subsequent suitability report made no acknowledgement of the risk of a transfer to the client's eligibility for a retirement visa.

5.63 Whether you are engaging with an adviser in the overseas territory or dealing solely with your client, you will still be responsible for the DB transfer advice. This means you need to be confident you have a sufficient understanding of the relevant local market, including any applicable legislation and protection before you give advice. If you do not understand the relevant local market well enough, then you should improve your knowledge so that you can give advice, use a third party who has the relevant knowledge or decline to advise at all.

5.64 Where an overseas adviser is advising on the proposed destination, you should be alert to additional risks, including the influence the adviser may exert on your client to act against your advice. When you advise against a transfer but the client chooses to proceed, you can be held liable for the actions of the client if you did not set out the risks of proceeding against advice in a way that was fair, clear and not misleading.

Good Practice – overseas transfers

A firm specialises in providing advice to overseas clients. Its staff understand the tax treatment and rules surrounding pension contributions and withdrawals in the client's country. This means each client's APTA reflects these appropriately. Where the firm lacks knowledge of a certain jurisdiction, it gets sufficient information from the client's local adviser and/or an independent expert before providing its recommendation.

6 Suitability

Demonstrating suitability

This section refers to the following rules and guidance: COBS 9.2.1R, COBS 9.2.2R, COBS 9.2.3R, COBS 9.3.3R, COBS 9.4.4R(2A), COBS 9.5, COBS 19.1.1CR(5), COBS 19.1.1DG, COBS 19.1.3BG, COBS 19.1.6G and COBS 19.1A.9G.

6.1 If you do not collect the necessary information including, for full DB transfer advice, the TVC and APTA, you must not make a personal recommendation. This is because you cannot be sure that your advice will be suitable. If you make a personal recommendation without this information, you will not comply with the suitability requirements. By not complying, there is a higher risk that your advice will be unsuitable.

6.2 If you recommend a transfer to a client, you should clearly demonstrate, based on contemporary evidence, that this is in their best interests. The client's best interests are not restricted to financial best interests. For example, a transfer is not suitable for a client just because you can show that it gives them the same or a higher expected income over time. Along with consideration of the client's financial circumstances, suitability must take into account the client's knowledge and experience, attitude to transfer risk, ability to bear investment risk and their preferences on the management of their finances over time. So you need to show how the recommendation meets the client's needs and objectives as a whole, and why the DB scheme cannot meet them. Similarly, if you advise a client not to transfer, whether after abridged advice or full DB transfer advice, your file should demonstrate why that recommendation was suitable.

6.3 Your recommendation should be consistent with the information on file. Knowing your client and undertaking APTA are not 'box-ticking' processes but an essential part of giving suitable advice. The information you gather and the research you undertake are the contemporary evidence to demonstrate a transfer is in the client's best interests.

6.4 So you should review the information you have gathered and follow up on any inconsistences. This is especially important if you are operating a 2-adviser model. You need to ensure that when you give advice, it can be justified by information on the file.

Good Practice – demonstrating suitability

A firm gathers all the information needed to assess suitability and records it in the client file. Where the client's answers are unclear or inconsistent, the firm follows up with the client. It uses this information when it assesses suitability and makes a record of why it considers the recommendation to be suitable with reference to the analysis in APTA. The firm then uses this information when it drafts a suitability report. Using 2 sides of A4, it sets out the client's reasons for transferring alongside a summary of the client's circumstances and the outcomes from its research and analysis and its recommendation.

For each objective, including the level of income required, the firm compares the outcomes from staying in the scheme with the outcomes from transferring as well as any viable alternatives. For each objective, the firm sets out a brief conclusion of whether a transfer would meet the objective or not. The firm can see that some objectives are met by a transfer and some are not. By bringing together all the information in one place, the firm can consider the trade-offs and rationalise its view on the overall suitability, so that it can justify the personal recommendation in the suitability report.

Poor Practice – demonstrating suitability

A firm advised a client with a low attitude to investment risk. The firm recorded that the client wanted to transfer for 'flexibility' but did not ask any further questions about this objective or what it meant to the client. Information in the fact find indicated that the client was about to retire and had worked for the same employer for 30 years. They were used to a regular income and budgeted on this basis. They would feel more comfortable with a guaranteed, certain income so that they could manage finances on the same basis as when they were employed. They did not want to take any risks with their money and did not want to make choices about investments on a regular basis.

The file contained no evidence that the firm had probed inconsistencies in the client's needs and objectives, eg wanting both certainty and flexibility, or wanting to transfer for flexibility but not wanting to take decisions about investments. The firm recommended a transfer into a personal pension using low risk funds, assuming the client would move into drawdown.

6.5 You also need to demonstrate that your client understands the risks of the advice you are giving them. They should understand the risks to them personally, not just in a generic way. If you propose to recommend a transfer but cannot provide evidence of the client's understanding of what it means for them individually, then it is unlikely the recommendation is suitable. You should keep clear records of the steps you have taken to demonstrate a client's understanding of the risks.

Good Practice – checking understanding of advice

A firm devised a bank of open questions to ask the client to check their understanding of the advice given. It only used questions that were relevant to each client, for example, a question on the client's understanding of how the lifetime allowance affected them was only asked of relevant clients.

The firm also asked the clients to explain what might make them regret their decision, as the firm thought this question was an indicator of the client's degree of comfort with the proposed transaction.

The firm documented each client's answers.

Poor Practice – checking understanding of advice

A firm used a tick box form for a client to complete and sign to confirm that they had read the suitability report and understood the contents.

Suitability reports

This section refers to the following rules and guidance: COBS 9.4.2AR, COBS 9.4.7R, COBS 9.4.11R, COBS 19.1.7CR, COBS 19.1.8G and COBS 19.1.9AG.

6.6 You should only prepare a suitability report after you have obtained the necessary information from the client, prepared a TVC and undertaken APTA. Although you may have discussed your advice with the client in detail, you must provide the client with a suitability report in good time before you undertake a transaction. For example, you could give the report at a time which gives:

- the client enough time review and understand the report
- you enough time to check their understanding of the advice as set out in the report
- the client sufficient opportunity to ask questions about the report before they commit to making a decision

For DB transfer advice where you make a personal recommendation, you must always provide a suitability report even where you are not recommending a transfer. For abridged advice where the outcome is unclear, you do not need to provide a suitability report.

6.7 As well as setting out why you recommend the specific course of action, the report should specify the client's demands/objectives and needs. It should also set out possible disadvantages of the course of action.

6.8 Some firms send a draft suitability report to their clients. This approach can be helpful as it means that:

a. Your client can review your advice in their own time before talking with you about their decision, and
b. You can check their understanding of the advice and the risks of proceeding with a transfer. You need to be able to evidence how you have satisfied yourself whether your client understands your advice.

6.9 You can then finalise your report to address any areas of concern. If you recommend a transfer but cannot demonstrate that your client understands your advice and the risks of proceeding, you should stop. You need to be prepared to change your advice and recommend that your client does not transfer. You should be able to evidence how you have satisfied yourself that your client understands your advice. If firms have properly followed the processes for getting to know their clients, final suitability reports should rarely vary from draft reports, unless the client reveals new information or there was an inconsistency in a later statement by the client.

6.10 If the ceding scheme is being changed or replaced and you are advising on an estimated transfer value, you should only issue a suitability report in draft form. You should explain that the recommendation can only be finalised once the transfer value and changed or replacement arrangements are certain.

6.11 We don't expect firms to advise on estimated or indicative transfer values where a guaranteed transfer value is available. In some circumstances, a guaranteed transfer value is not available or required, eg in the 12 months before NRA or where a client is still an active member of a scheme. In these cases, you may find it helpful to follow some of the processes set out in the estimated transfer value guidance in the Handbook, such as communicating assumptions and uncertainties to the client. You may also find it helpful to use a similar approach where a transfer value has expired and a new transfer value or extension has been requested. This means that the client is aware that advice based on a new transfer value is subject to some uncertainties until the advice can be finalised.

6.12 In your suitability report, you must set out a clear recommendation of the course of action you consider is in the client's best interests. If you give options that leave it to the client to decide what is most important to them, you are demonstrating that you don't know your client well enough.

Poor Practice – unclear recommendations

If you decide you would prefer a guaranteed income, I recommend you stay in your DB scheme. But if you would prefer to have flexibility over how you access your funds, I recommend you should transfer.

6.13 Inside the front cover of your suitability report, you must set out a 1-page summary containing certain key information. You need to include this for recommendations that you give for both abridged advice and full advice. This summary is designed to highlight key information which is available in more detail in the main body of the suitability report.

6.14 As set out in the Handbook, you may omit some of the information in the summary for abridged advice, such as the revalued scheme income. But if that information is included in the body of the suitability report, you should include it in the summary for clarity. For example, if your suitability report for abridged advice discusses the how well the revalued income meets your client's needs, you could confuse clients if you don't include the same revalued scheme income in the summary. You may adjust the column headers in the summary, for example, where you recommend a transfer for reshaping income via an immediate annuity, this could be reflected in the header. You should still show the annuity income as variable as annuity quotes have very limited guarantees, and the ongoing product and advice charges would be zero.

6.15 You should consider the layout of the remainder of your report carefully so there is a logical flow. Using headings can make your report more readable.

Effectiveness of suitability reports

This section refers to the following rules and guidance: COBS 9.4.7R, COBS 9.4.11R, COBS 19.1.7CR, COBS 19.1.8G, COBS 19.1.9G and COBS 19.1.9AG.

6.16 You need to be sure your suitability reports help your client to make an informed decision. Suitability reports are more likely to do this if they are well presented and contain the right information.

6.17 Presentationally, your suitability reports should be:

- concise enough that your clients will want to read them
- carefully laid out, including sections with clear headings
- written in plain language that your clients will understand
- emphasise key information, so your client knows what is important
- include helpful tables or charts from APTA to break up and support the text, rather than attached as an Annex

6.18 From a content perspective, your suitability reports should be personalised so they:

- give plenty of detail about the client's circumstances
- confirm specific, client-focused objectives and needs and the relative importance of these to each client
- provide explanations of why the recommendation meets the client's objectives and needs, given their circumstances

- contain detailed and in-depth information on any compromises and trade-offs for the specific client
- contain only sections and clauses that are relevant to the client
- contain client-specific risk warnings, rather than generic risk warnings

6.19 A good suitability report is a coherent summary of how the client's circumstances, objectives and needs, together with the right analysis and research, are pulled together to become a suitable personal recommendation. Your suitability report should tell the story of your client – who they are, their approach to their financial life and their hopes and ambitions for retirement. Then it should show how your advice demonstrates what can realistically be achieved and the best way to achieve it.

6.20 We have seen good suitability reports that are no longer than 10-12 sides (5-6 sheets) of A4. If your suitability reports are running at 25-50 sides of A4, you should be reviewing them. If you have 3 sides of bullets setting out the risks, the real key risks get lost. If you have a wall of words, it is unlikely to be read.

Good Practice – suitability reports

We try to include enough information in our suitability reports so that an independent reviewer can read it from start to finish and judge whether the advice was suitable, without ever having to go back through any of the other documents. We take the view that if they have to go back through the file documents, we haven't done a good enough job of demonstrating suitability. So we include things like the compromises we talked about with the client and how we helped them reconcile their feelings when they were being pulled in different directions. The report has to be meaningful to the client so they can recognise themselves in it.

Good Practice – suitability reports

If the scheme is in surplus, or a client is not concerned about scheme solvency, we minimise the text on Pension Protection Fund (PPF) and say we can give more information if needed, as it's not so relevant to that client.

6.21 If you are cutting and pasting text from one suitability report to another, this may create a risk that your suitability reports will be insufficiently personalised to each client. Your suitability report may not comply with our requirements if it appears to be a:

- comparison of the ceding scheme benefits with the proposed scheme benefits
- transfer value analysis report
- 50-page document, full of disclaimers, designed for a compliance tick-box approach

6.22 Suitability reports should highlight specific features of the DB scheme that would be lost if a transfer proceeded and should note any discussions about those features. The importance of these features will vary by client. For example, dependant's benefits would typically be more valuable to those with children still in education than to those with non-dependent children. You should also disclose features such as protected retirement ages and unreduced early retirement benefits.

Good Practice – highlighting valuable DB features

You should be aware that if you transfer away from your current scheme without a transfer buddy, you will lose your protected retirement age of 50. This means you won't be able to access the fund until age 55. You have stated that, as you don't plan to access the fund until age 55, you do not see this as a disadvantage.

6.23 You can improve the credibility of a suitability report by using the client's own words to describe their objectives. You undermine the credibility of a suitability report if you attribute comments to the client that they are unlikely to have made.

Poor Practice – credible suitability reports

A firm appeared to use the client's own words to describe their objectives in a suitability report: 'You told me you wanted a higher lump sum so you could paint the town red and break the bank.' The use of the same wording in all the firms' suitability reports made it doubtful all these clients actually said this.

Poor Practice – credible suitability reports

To clients with little or no knowledge of assets and investment markets:

- 'You are considering transferring out of your final salary scheme now as you feel the transfer value is high due to low gilt yields and you don't think this will be the case going forwards.'
- 'You expressed a specific preference for our investment proposition because of the due diligence that goes into choosing fund managers.'
- 'You felt the equity content of the XYZ fund was enough to give the right level of capital growth potential, and that the geographical location of the fund was more appealing than the higher risk ABC fund.'

Insistent clients

This section refers to the following guidance: COBS 9.5A and COBS 19.1.7CR(1B).

6.24 An insistent client is a client who is given a personal recommendation by a firm but decides to enter a transaction that is different from this recommendation, and wants the firm to arrange it. With DB transfer advice, this is most likely to happen when a firm recommends a client keeps their DB scheme but the client wants to transfer anyway.

6.25 A client may want to do this with the same firm that gave the personal recommendation or they may choose to take the confirmation of advice to a different firm. This may be because the original firm chooses not to undertake business with insistent clients or because the client is being advised by 2 advisers. Self-investors may also ask a provider to arrange a transfer. In these cases, although the client does not meet the definition of an insistent client, the firm that arranges the transfer must find out if the client is acting against advice. They must also ask the client if they understand the consequences of acting against advice. If the client does not, the firm must refuse to arrange the transaction and refer them back to the firm that gave the advice.

6.26 You should always give suitable advice which is clear to the client, whether or not they initially seem likely to be an insistent client. When you give suitable advice not to transfer, it must be clear, fair and not misleading. It should give enough information for the client to understand why it is not in their best interests to transfer. You should not tell them, for example, that the FCA has told you to tell them that they should remain but that if you could, you would advise them to transfer. This would not be clear, fair and not misleading.

6.27 If you choose to use the insistent client process, you can be still liable for redress to an insistent client if you are found to have given information in a way that was not in their best interests and is likely to have caused them to disregard your advice and transfer.

Poor Practice – insistent clients

A firm advised a client who wanted to retire at age 60, 5 years before the scheme's NRA. The firm advised the client not to transfer but the client insisted on transferring anyway. The scheme offered unreduced benefits from age 60 but these were just mentioned in passing in the suitability report. The firm did not highlight the role that unreduced benefits from 60 could play in helping to meet the client's objectives in either the suitability report or in the insistent client documents. As the firm did not give the client clear information about the unreduced benefits, the client was not in an informed position to decide whether to proceed as an insistent client.

6.28 Once you have given your advice not to transfer and your client has said they still want to transfer anyway, you should follow the insistent client process. This means you should restate that you do not recommend a transfer and transferring will not be in line with your personal recommendation. You should give reasons why the proposed transfer goes against your recommendation. You should highlight the risks of proceeding and state why you did not recommend that course of action. You need to do this in a way that the client can understand – clients have different information needs and different ways of taking in information.

Good Practice – insistent client information needs

A firm had taken a business decision that it would act for insistent clients. But one client who was insisting on a transfer refused to acknowledge the risks associated with transferring against advice and simply repeated that it was his legal right to transfer. The firm considered that they could not demonstrate that the client was making an informed decision and refused to arrange the transaction.

6.29 You should get an acknowledgment from your client that the transaction is not in line with your personal recommendation and is being carried out at their request. Where possible, this should be in the client's own words. It is unlikely that using a standard form would be sufficient. A letter or an email is more likely to demonstrate your client's intentions to proceed against advice.

6.30 You should keep records of the process you followed. These records should document the discussions with your client about their reasons for transferring, the risks of not following your advice and why they decided to proceed despite those discussions. You need to be able to demonstrate that you gave the client strong warnings about acting against your advice. The warnings should be given in a way that your client can understand. You should record how your client reacted to the warnings.

Poor Practice – insistent client process

A firm recommended not transferring a DB pension to a significant proportion of clients but they virtually all became insistent clients. Several years later, as part of a redress exercise, the firm contacted a number of clients, many of whom recalled their adviser verbally telling them things like: 'I have to say don't transfer but you'll be fine to do so'.

6.31 If the insistent client proceeds to transfer against advice and asks for further advice on the destination for the funds, you should make clear to them that this personal recommendation is distinct from, but does not affect the conclusions of, the initial personal recommendation not to transfer. You should not give information which suggests that the client loses protections by acting as an insistent client.

Poor Practice – insistent client process

A firm acting for an insistent client provided a second suitability report stating that the client had been reclassified as an 'insistent client' rather than a 'retail client' and implying that this might affect their ability to complain to the Financial Ombudsman Service. As insistent client is not a regulatory category of client and does not restrict the right to complain, this information is potentially misleading and the report has not met the requirement to be clear, fair and not misleading.

Record keeping processes

This section refers to the following rules and guidance: COBS 4.11.1R, COBS 9.5.1G, COBS 9.5.2R, COBS 9.5.3R, COBS 9.5A.6G, COBS 9.5A.7G, COBS 19.1.7CR, COBS 19.1A.9G and SYSC 9.1.

6.32 Firms must keep records relating to DB transfer advice indefinitely, whether advice was given or a transfer was arranged on an execution only basis. We have previously said that we believe the General Data Protection Regulation (GDPR) does not impose requirements which make it difficult to comply with the rules in our Handbook. Often, consumers make claims about DB transfers many years after the advice was given. Professional indemnity insurance (PII) providers have said that claims are typically made 7 or more years after the advice was given. As memories fade with time, detailed records will show the steps you took when you gave advice, arranged for them to give up their safeguarded benefits and made arrangements for a new pension scheme.

6.33 The advice may be reviewed after several years, whether by the Financial Ombudsman Service or by us. The file assessor wants to see the entire process that was followed at the time. The file should not only contain obvious documents like know your client information, risk assessments and suitability reports. It should also contain records of all the research and analysis you undertook. As well as any notes or recordings (if relevant) of phone calls and meetings with the client and any office process notes.

Good Practice – managing conflicting client objectives

A firm keeps file notes, recording its individual conversations with clients. The file notes include documenting how the client reacted to conversations about what is most important to them, including how they would feel if they only had their state pension to fall back on, if relevant. The file notes for each client are as unique as the client themselves.

6.34 An assessor wants to build up a picture of the client at the time the advice was given. So they need to see the processes you went through before making an assessment on the outcome. When a file is reviewed by the Financial Ombudsman Service, the case handler will assess whether the advice you gave was suitable, as part of their role to determine what is fair and reasonable in all the circumstances. The ombudsman will take into account relevant legislation, our rules, guidance and standards, codes of practice and what they consider to have been good practice at the time. When we review a file, we assess whether the advice you gave was suitable. We also assess whether your process complied with our rules. Based on discussions with the ombudsman service, we consider that our approaches should result in consistent outcomes as long as all the necessary information is available.

6.35 Sometimes we see files where an adviser has not gathered all the necessary information about the client to give suitable advice. We are likely to consider these files as 'not compliant' as they do not meet our requirements. You can reduce this risk by recording more information, rather than less, to substantiate the conclusions you came to. Keeping good records will put you in the best possible position to defend your advice.

Annex 1
DB transfer ceding scheme information

The Financial Conduct Authority and The Pensions Regulator have collaborated with the Pensions Administration Standards Association to agree a single set of information that defined benefit schemes should provide automatically with a transfer quotation.

Firms should consider collecting this information before giving pension transfer advice. There is no prescribed format. The information can be provided in 1 document, or member information can be provided separately to scheme information, in any order or format.

For multiple periods of service, 1 set of data per period of service may be needed. Not all of the information is relevant to every member, depending on their personal circumstances. The words in italics indicate how to complete the information or the detail required. We encourage schemes to provide additional information that may help firms understand how the scheme rules work in practice.

1. Basic scheme details

Ceding scheme name	
Pension scheme tax reference number	
Scheme section included in this return	

2. Current funding position

Summary funding statement, including any agreed recovery plan	*The recovery plan summary should be provided separately if not included in the summary funding statement.*

3. Member details

Member number	
Member status	
Dates of pensionable service	*Start and end dates*
Pensionable salary used to calculate entitlements at date of leaving	
Member's normal pension age	*This will usually be the age 12 months before which the member loses their statutory right to transfer*
Is there a protected retirement age?	*This should include details of how any protected age is applied*

4. Transfer value and scheme basics

CETV offered	
Calculation date	
CETV guarantee expiry date	
CETV provision	*This should include how often CETVs are available, how much subsequent CETVs cost and whether CETVs are available within 12 months of, or after, normal retirement age*
Has the CETV been enhanced?	*If enhanced, why and how much*
Has the CETV been reduced?	*If reduced, why and how much*
Is a partial transfer available?	*This should include the details of any partial transfers on offer*
Is the public sector transfer club available?	
Additional pension options available within the scheme	*This should include options that are available for members staying in the scheme at the time the information is provided, such as pension increase exchange or different levels of spouse's benefits*
Date from which benefits were equalised for existing members	
Date from which benefits were equalised for new joiners	

5. Early/late retirement factors

Date last reviewed	
Early/late retirement consent	*Is trustee and/or employer consent for early or late retirement required? Are there any established customs or practices in relation to early or late retirement (for example, consent is always granted)?*

As the advice may need to consider early or late retirement, these factors are needed, as well as information on how they are applied in practice.

Schemes should provide a fixed table of factors or calculated factors on an ad-hoc basis, or provide annual factors as a minimum. For example, if the member is age 57 and benefits aren't payable until they reach age 65, this should include early retirement factors from ages 57-64. Late retirement factors should run to the latest retirement age at which factors apply.

How early retirement factors are applied in practice
For example, this should include to what age benefits are revalued before factors are applied. If benefits are revalued to normal retirement age before the reduction is applied, details of the assumed future rate of revaluation applied should be provided.

How late retirement factors are applied in practice
For example, how late retirement factors allow for increases in payment

6. Scheme retirement benefits: income

This includes details of **all** benefits within the scheme, split for **each** tranche and type of benefits. For example, pure DB, DB with DC underpin, or pure DC (including DC AVCs). It should make clear if figures are at **date of leaving** or some other date.

Annual pension at date of leaving scheme (£)	
Earliest age at which payable as of right and without reduction	
Revaluation rate in deferment, including guaranteed minimum pension (GMP) revaluation method if relevant	
Rate of increase in payment	
The current value of revalued pension, if available	*To demonstrate the application of revaluation*
Type of tranche	*For example:* • *Pre-1978* • *1978-1985 (ex GMP)* • *1985-1997 (ex GMP)* • *1997-2005* • *2005-2009* • *Post 2009* • *GMP pre-1988* • *GMP post 1988*
Negative debit amounts	

Detail of the following should be included, if relevant to the scheme and not already covered elsewhere: • *any discretionary pension increases that have been granted and the basis for any such increases* • *the specific inflation index used for price inflation revaluation or pension increases, eg RPI or CPI, and any caps or collars that apply and how these interact with scheme rules* • *any additional bridging pension or state pension deduction* • *any minimum guaranteed periods* • *any tranches with special arrangements due to gender equalisation changes (Barber windows etc).* • *where members have benefits that can be taken unreduced from different ages, the splits of benefit, and whether the late retirement uplifts start from the same age, eg reductions before 60 but increases not until after 65* • *the specific inflation index used for notional GMP benefits increase in deferment and in payment, if the member takes benefits before GMP age* • *how benefits are redistributed at GMP age, if the member takes benefits before GMP age* • *how GMP increases interact with non-GMP benefits* • *how early/late retirement factors apply when the earliest retirement age differs from the normal retirement age* • *any choices the member has over payment of pension, eg frequency of payment, commutation of own benefit for increased spouse pension, rearranging benefits for bridging pension to state pension* • *ill-health pension arrangements* • *whether any permitted franking is applied* • *if applicable, method of equalising GMP benefits, and whether this is reflected in the CETV and the member data* • *whether the scheme plans to make top-up transfer payments, once GMP equalisation is resolved*

7. Scheme retirement benefits: pension commencement lump sum (PCLS)

This should include how the PCLS is calculated for each benefit tranche, including: • *current commutation factors for each age* • *any scheme-specific protections* • *the ability to use DC AVCs to 'fund' the PCLS or requirements to use commutation* • *how benefit tranches are commuted, eg proportionately or in a specific order*

8. Benefits payable on or after death of a member

Details of benefits payable on death **before retirement**	*For example, current value of any lump sums payable and interest rate applied up to death. Further details should be provided if benefits on death before retirement are different once the member has passed normal retirement age.*
Details of benefits payable on death **in retirement**	*For example, any guaranteed income periods, including how income is discounted and/or including future increases*

For **all** potential classes of beneficiaries, including any differences between death before retirement and death in retirement:

The scheme's definition of each potential beneficiary	*For example, spouse on leaving the scheme/any spouse, whether a dependant pension is payable on a discretionary basis or as of right, and whether it is payable only if there is no surviving spouse*
Circumstances under which benefit would/could be paid	*For example, 50% children's benefit only if there is no spouse*
Basis of calculation	*For example, whether it is based on pre-or post-commutation of member pension*
For spouse/civil partner: whether the benefit ceases on remarriage	
Level and detail of any reductions	*For example, based on age of dependant*
For children's pension: level and detail of any minimum benefits	*For example, how this is shared between children or per child, whether this is paid in addition to other benefits, when does it stop being paid*
Any benefit provision not captured above	*For example, the current value of widow's death in service pension, if available*

9. DC benefits

Type of benefit	*For example, are the benefits AVCs or another form of DC benefit*
AVC/DC provider	
AVC/DC fund value	
AVC/DC transfer value if different	
Additional non-guaranteed transfer value for AVC benefits	
AVC guarantees	*For example, do GARs or other guarantees apply to the member's AVCs?*
Scheme rules regarding AVCs	*For example, whether the scheme allows the AVC to partially fund the scheme's tax-free cash, whether the AVC can be transferred independently of the main scheme*
Death benefits	
Nature of DC benefits	*For example, are any DC benefits single life?*

10. Transferred-in benefits

This should include the benefits provided by any previous transfers in, if not included within the main data, ie if they are treated differently from the main scheme benefit. This includes details of how the GMP revaluation basis and reference dates differ from the main scheme benefits. It should confirm whether the transferred-in GMP is included within any fixed pension secured.

11. Other relevant information

This should include details of any other relevant scheme features in each section. It should also include any member specific information, such as any pension sharing or earmarking orders, including if or how they have been accounted for in the details provided elsewhere. Details of any salary link or underpin benefits (for example, redundancy or active deferred) for this member should also be provided.

Annex 2
Abbreviations used in this paper

Abbreviation	Description
APTA	Appropriate Pension Transfer Analysis
AVC	Additional voluntary contribution
CBA	Cost benefit analysis
CETV	Cash equivalent transfer value
CIP	Centralised investment proposition
COBS	Conduct of Business Sourcebook
CPD	Continuing Professional Development
DB	Defined benefit
DC	Defined contribution
DWP	Department for Work and Pensions
EBC	Employee Benefit Consultancy
ETV	Enhanced transfer value
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
GAR	Guaranteed annuity rate
GC	Guidance Consultation
GDPR	General Data Protection Regulation
GMP	Guaranteed Minimum Pension
ICOBS	Insurance: Conduct of Business Sourcebook
IDD	Insurance Distribution Directive
IPRU-INV	Interim Prudential Sourcebook for Investment Businesses

Abbreviation	Description
ISA	Individual Savings Account
KFI	Key Features Illustration
LTA	Lifetime allowance
MaPS	Money and Pensions Service
MI	Management information
NRA	Normal retirement age
OPS	Occupational pension scheme
PASA	Pensions Administration Standards Association
PCLS	Pension commencement lump sum
PERG	Perimeter Guidance
PIF	Personal investment firm
PII	Professional indemnity insurance
PPF	Pension Protection Fund
PROD	Product Intervention and Product Governance Sourcebook
PTS	Pension Transfer Specialist
SM&CR	Senior Managers Regime
SSAS	Small self-administered scheme
SYSC	Senior Management Arrangements, Systems and Controls Sourcebook
TC	Training and Competence
TPAS	The Pensions Advisory Service
TPR	The Pensions Regulator
TVC	Transfer Value Comparator
WPS	Workplace pension scheme

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CONDUCT
AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk