

# Advising on Pension Transfers

**Consultation Paper**

CP17/16\*\*

June 2017

## How to respond

We are asking for comments on this Consultation Paper by 21 September 2017.

You can send them to us using the form on our website at: [www.fca.org.uk/cp17-16-response-form](http://www.fca.org.uk/cp17-16-response-form).

Or in writing to:  
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David Berenbaum  
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Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

**Email:**  
[cp17-16@fca.org.uk](mailto:cp17-16@fca.org.uk)

### How to navigate this document onscreen



returns you to the contents list



takes you to helpful abbreviations

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# 1 Summary

## Why we are consulting

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- 1.1** Defined Benefit pensions, and other safeguarded benefits involving guaranteed pension income, provide valuable benefits so most consumers will be best advised to keep them. However, we recognise that the economic and legislative environment has changed significantly, so we want to ensure that financial advice considers the customer's circumstances in full and properly considers the various options now available to them. We want to provide advisers with a framework which better enables them to give the right advice so that consumers make better informed decisions.
- 1.2** The FCA has rules which govern advice given to consumers on the conversion or transfer of safeguarded benefits. Transferring from such a pension, to one without any safeguards, is an important decision for consumers to take and historically has been unlikely to be their best interests. Therefore our rules are designed to ensure that consumers receive appropriate advice when looking to give up valuable pension benefits.
- 1.3** The proposals set out in this consultation aim to reflect the current environment and the increased demand for pension transfer advice. Since the introduction of the pension freedoms in April 2015, consumers have more options available to access their pension savings. This has combined with more recent changes to the financial environment leading to historically high levels of transfer values.

## Who this applies to

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- 1.4** This consultation will primarily be of interest to financial advisory firms advising on pension transfers, those acting as pension transfer specialists, pension providers receiving pension transfers and those providing software for pension transfer advice. The consultation may also be of interest to employer sponsors of defined benefit pension schemes and employee benefit consultants. All of this Consultation Paper (CP) will be of interest to these groups.
- 1.5** Our proposals will also affect consumers seeking to transfer or convert safeguarded benefits. This paper may therefore also be of interest to these consumers or to consumer groups representing them.
- 1.6** Providers of qualifications will be interested in reading the section covering Pension Transfer Specialists (Chapter 3).
- 1.7** Providers of professional indemnity insurance will be interested in reading the section on the FCA's expectations for advice in this area (Chapter 4).
- 1.8** The list of groups above is not exhaustive and other industry practitioners and professional bodies may also have an interest in our proposals.



## What we want to change

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**1.9** We are seeking views on the following proposals:

- introducing a rule to require all advice on the conversion or transfer of safeguarded benefits to result in a personal recommendation (Chapter 3)
- updating and adding to Handbook guidance on assessing suitability when giving a personal recommendation to convert or transfer safeguarded benefits (Chapter 3)
- introducing Handbook guidance on the role of a pension transfer specialist, and amending the definition of a pension transfer specialist (Chapter 3)
- replacing the current transfer value analysis requirement (TVA) with a requirement to undertake appropriate analysis of the client's options including a prescribed comparator indicating the value of the benefits being given up (Chapter 4), and
- restricting the application of the additional requirements in respect of pension opt-outs to those cases where there are potential safeguarded benefits (Chapter 5)

**1.10** We also invite discussion (but do not propose any rules at this time) on a number of issues that relate to the transfer and conversion of safeguarded benefits:

- the qualification and experience requirements for a pension transfer specialist (Chapter 3)
- the different models used for meeting the requirement for advice to be given or checked by a pension transfer specialist (Chapter 3)
- the use of models of future outcomes based on ranges of values ("stochastic modelling") in advising on the conversion or transfer of safeguarded benefits (Chapter 4)
- the relationships between advisers and providers where providers make software available for advisers to use (Chapter 4)
- the current assumptions for revaluation and indexation used in analysing DB benefits (Chapter 4)
- the impact of the proposals on overseas transfers (Chapter 5), and
- the application of streamlined advice for the conversion or transfer of safeguarded benefits (Chapter 5)

**1.11** Our proposals are intended to improve consumer outcomes through improving the quality of advice on pension transfers and increasing adviser confidence. The impact will depend on how regulated firms and other organisations involved in pension transfers change their behaviour or approach in response to these proposals. For example, although we expect our proposals to increase the quality of advice and give firms greater clarity around our expectations, there is a risk that some firms decide to stop giving advice in this area. This would add to the existing concerns around the availability of advice and possible frustration from consumers who feel they are being prevented from accessing their money. We welcome feedback from respondents on

this and whether there are other unintended consequences that could result from our proposals and how these might be avoided. Following implementation we will keep track of market trends to monitor these risks.

## Outcomes we are seeking

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- 1.12** Our new approach builds on the rules and guidance which are currently already in place for advice of this nature including our recent pension transfer alert.<sup>1</sup> The clarity provided by this consultation should better equip advisers to give the right advice. This will help consumers make well informed decisions which consider all relevant factors to allow them decide whether or not to transfer. It will also give consumers confidence in the advice that is being provided, whether or not this results in a positive recommendation to transfer.

## Measuring success

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- 1.13** A successful outcome will be measured by a reduction in the number of complaints against advisory firms, fewer interventions by the FCA in this area, fewer customers becoming the victims of pension scams and greater certainty and confidence amongst advisers as to the expectations for this type of advice.

## Next steps

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- 1.14** We want to know what you think of our proposals. Please send us your comments by 21 September 2017.
- 1.15** Use the online response form on our website or write to us at the address on page 2.
- 1.16** We will consider your feedback and publish our rules in a Policy Statement by the early 2018.

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<sup>1</sup> [www.fca.org.uk/news/news-stories/advising-pension-transfers-our-expectations](http://www.fca.org.uk/news/news-stories/advising-pension-transfers-our-expectations)



## 2 The wider context

### The harm we are trying to address

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- 2.1** The existing FCA rules on conversions and transfers of safeguarded benefits are intended to make sure consumers receive advice that considers all relevant factors so they can make informed decisions. We published an alert in January 2017, after seeing a number of advice cases following the introduction of the pension freedoms, some of them cases of poor advice. These cases generated concerns about adviser behaviour, whereby consumers had given up valuable pension benefits which which would probably lead to reduced levels of later life income. The alert reminds firms about our expectations of those advising on pension transfers and remains valid.
- 2.2** Our policy intention in relation to the transfer of safeguarded rights remains unaltered. We aim to ensure that consumers receive good quality advice in order to allow them to make informed decisions. However, in the changed environment, our existing rules might not be the most effective way to achieve that policy intent. The current rules do not explicitly allow for the variety of options available to members under the pension freedoms. In addition, we are aware that advice has become focused on the transfer value analysis (TVA) output rather than making a rounded assessment of suitability. There is also an increased perception that the availability of advice is limited because advisers are cautious about advising on pension transfers.
- 2.3** We are taking this opportunity to re-state the starting assumption when advising on a transfer of safeguarded benefits, and clarifying that the onus is on the adviser to prove that a transfer is in a client's best interests. This does not represent a softening of our approach, but makes it clear that is essential for an adviser to demonstrate that an individual will benefit from giving up a valuable pension.
- 2.4** The pension freedoms introduced in April 2015 changed the context for consumers' decisions about using their pension savings. There have also been changes to the financial environment which have increased demand for pension transfer advice. In particular:
- Previously, pension savings could only be used to provide an income in retirement (through an annuity or drawdown). Pension savings can now be accessed as income or cash. DB pensions must be transferred to a DC scheme to access the savings other than through the scheme pension.
  - 'Appropriate independent advice'<sup>2</sup> is now mandatory for anyone looking to transfer safeguarded benefits worth over £30,000.<sup>3</sup>
  - There are historically high levels of transfer values.

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2 S48 of the Pension Schemes Act 2015 requires trustees and managers of to check that appropriate independent advice has been taken before a transfer or conversion of safeguarded benefits is made. Appropriate independent advice is further defined in The Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015.

3 The DWP consulted on this advice limit in late 2016 [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/555564/consultation-valuating-pensions-for-the-advice-requirement-and-introducing-new-consumer-protections.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/555564/consultation-valuating-pensions-for-the-advice-requirement-and-introducing-new-consumer-protections.pdf)

- There has been deterioration in the funding position of DB schemes in general together with a number of high profile scheme failures.

**2.5** We included a discussion section on pension transfers in CP15/30.<sup>4</sup> We asked about: the starting assumption of unsuitability for pension transfer advice; the methodology for the TVA and its communication; insistent clients and enhanced transfer value (ETV) exercises. We have considered the feedback carefully when making the proposals in this paper. The intention is that outcomes for consumers are improved and that those considering a transfer can access advice that assesses their circumstances and produces a suitable recommendation.

**2.6** Our proposals take into account the information we have from supervisory work in relation to pension transfers including work on enhanced transfer values, discussions with individual firms and the current work looking at pension transfer advice across those firms most active in this market.

**2.7** The proposals in the paper are also made in the context of the outcomes from the Financial Advice Market Review (FAMR). A separate consultation this year will cover the issue of insistent clients. The recommendations from the review are aimed at improving the affordability and accessibility of advice and guidance and addressing industry concerns relating to future liabilities and redress, without watering down levels of consumer protection. We set out in the relevant sections how the proposals in this paper relate to the FAMR recommendations

### How it links to our objectives

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**2.8** We expect our proposals to increase the protection for consumers looking to undertake a transfer or conversion of safeguarded benefits. The overall impact should be that more consumers are likely to receive suitable advice which enables them to make better informed decisions. By ensuring that our rules and guidance provide advisers with more clarity on our expectations, we consider that one effect of our proposals could be to reduce barriers to firms wanting to advise on pension transfers and improve competition for consumers.

### What we are doing

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**2.9** Chapter 3 sets out our proposals on personal recommendations, assessing suitability and the role of the pension transfer specialist. Chapter 4 covers the transfer analysis proposals. Chapter 5 covers the insistent clients and the application of the requirements for opt-outs. We are seeking responses on our main proposals and we also invite discussion (but do not propose any rules at this time) on a number of issues that relate to the transfer and conversion of safeguarded benefits.

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4 [www.fca.org.uk/publication/consultation/cp15-30.pdf](http://www.fca.org.uk/publication/consultation/cp15-30.pdf)



## Equality and diversity considerations

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- 2.10** We have considered the equality and diversity issues that may arise from the proposals in this CP.
- 2.11** Overall, we do not consider that the proposals in this CP adversely impact any of the groups with protected characteristics i.e. age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment. In particular, our proposed new guidance on assessing suitability should provide greater certainty on our expectations to the market which may reduce the barriers to advising on safeguarded benefits.
- 2.12** We will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when publishing the final rules.
- 2.13** In the interim we welcome any input to this consultation on such matters.



## 3 Giving advice and assessing suitability

- 3.1** This chapter sets out our proposals on the advice process for the conversion and transfer of safeguarded benefits. This looks at the role of the individuals' circumstances and characteristics as well as financial analysis of the choices available. The detailed proposals relating to the numerical analysis of this are set out in Chapter 3.
- 3.2** Pension freedoms have increased consumer choice for using pension savings. Decisions on converting or transferring safeguarded benefits are now dependent on a wider range of factors and the level of judgement required of advisers is increasingly tailored to individual circumstances. The proposals in this chapter should make our expectations of firms clear.

### Current requirements

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- 3.3** An adviser giving a personal recommendation on the conversion or transfer of safeguarded benefits must comply with our requirements for providing suitable advice, including gathering information on the client's circumstances and objectives. We also have a number of additional requirements to reflect the additional risks and considerations when advising on the conversion or transfer of safeguarded benefits:
- the advice must be given or checked by a pension transfer specialist
  - the adviser must undertake a comparison between the benefits being given up and the benefits available under the receiving scheme including undertaking a prescribed Transfer Value Analysis (TVA) calculation, and
  - enhanced record keeping requirements
- 3.4** After the widespread mis-selling of pension transfers in the late 80s and early 90s, which led to the pension review, regulators introduced guidance that all advice on pension transfers should start from the assumption that a transfer is unsuitable.<sup>5</sup> This guidance continues to apply to the transfer or conversion of safeguarded benefits.

### Requiring a personal recommendation

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- 3.5** In March 2016, the FCA and Her Majesty's Treasury jointly published the findings of the Financial Advice Market Review (FAMR). This Review aimed to identify ways to make the UK's financial advice market work better for consumers. It assessed the availability of advice and guidance to help people make financial decisions, particularly those who do not have significant wealth or income. The Review made a number of recommendations which are relevant to the proposals set out in this paper.

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5 [www.handbook.fca.org.uk/handbook/COBS/19/1.html](http://www.handbook.fca.org.uk/handbook/COBS/19/1.html)



- 3.6** Following the recommendations of FAMR, the Treasury recently published a consultation on the definition of investment advice. The proposed change will give firms more confidence to help consumers without providing a personal recommendation. The changes proposed by the Treasury are particularly relevant for consumers with relatively simple needs. However, advising on the conversion and transfer of safeguarded benefits is a complex matter and is defined as a separate specified activity in legislation. We have taken the FAMR recommendations and these particular changes into account in developing our policy proposals.
- 3.7** In our view, advice on a transfer or conversion of safeguarded benefits needs to include a personal recommendation; if it does not, it won't provide appropriate protection for consumers. In view of the complexities when considering a conversion or transfer of safeguarded benefits we think that, for advice to be meaningful, it is important it looks at the consumer's individual circumstances and provides a specific recommendation.
- 3.8** The merits of transferring or converting safeguarded benefits are highly dependent on an individual's personal circumstances. To make informed decisions, consumers need to understand the specific details of their safeguarded benefits, make an assessment of their value of this benefit for their specific circumstances and compare this to the value of alternative options. The statutory requirement for individuals to receive financial advice before transferring or converting safeguarded benefits recognises that this is very difficult for consumers to do without help.
- 3.9** Most regulated advice on the transfer and conversion of safeguarded benefits is currently given as a personal recommendation. In the few cases we have seen of advisers claiming they are not giving a personal recommendation we have found the advice did not comply with the existing analysis requirements and in many cases is actually a personal recommendation.
- 3.10** We propose to require all advice on the transfer and conversion of safeguarded benefits to include a personal recommendation. We believe this reflects the majority of current practice and will make the requirements on advisers clearer. This requirement will apply to all advice on the conversion or transfer of safeguarded benefits including where the safeguarded benefit is a guaranteed annuity rate (GAR).

**Q1: Do you agree with our proposal to require all advice on the conversion or transfer of safeguarded benefits to be a personal recommendation? Please provide the reasons for your response.**

### Assessing suitability

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- 3.11** It remains our view that keeping safeguarded benefits will be in the best interests of most consumers. However, the introduction of the pension freedoms has altered the options available and for some consumers a transfer may now be suitable when it wasn't previously. We therefore propose to remove the existing guidance that an adviser should start from the assumption that a transfer will be unsuitable. This will be replaced with a statement in the Handbook that for most people retaining safeguarded benefits will likely be in their best interests and guidance that advisers should have regard to this. This will not require an assumption to be made by an

adviser. An assessment of suitability should focus on whether a transaction is right for the individual and should be assessed on a case by case basis from a neutral starting position. The adviser needs to demonstrate that the transfer is in the best interests of the client.

- 3.12** We also propose additional guidance to help advisers assess suitability and to clarify our expectations, building on the previously published alert. This guidance will make clear that in order to provide a suitable personal recommendation an adviser should consider the following elements:
- the client's income needs and expectations and how these can be achieved, the role safeguarded benefits play in providing this income and the impact and risk if a conversion or transfer is made
  - the specific receiving scheme being recommended following the transfer and the investments being recommended within that scheme to ensure that it is appropriate for the risk profile of the client
  - the way in which the funds will be accessed, either immediately or in the future, including follow-on arrangements
  - alternative ways of achieving the client's objectives. For example, there may be ways for a client to provide death benefits which can be funded from income rather than by a lump sum funded by a pension transfer, and which does not carry so much risk
  - the relevant wider circumstances of the individual

- 3.13** We do not propose to list examples of 'relevant wider circumstances' in the Handbook as the relevance will be dependent on the individual. However, this will include tax issues, death benefits, interaction with means tested benefits, state of health, family situation and other sources of retirement income.

**Q2: Do you agree with our proposals for new guidance on assessing suitability? If not, what guidance do you think would be helpful?**

## Role of the Pension Transfer Specialist

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- 3.14** The transfer of safeguarded benefits is an increasingly complex area and, as part of our overall proposals in this paper, we aim to provide clarity on the role of the pension transfer specialist and our expectations of those performing this role. Those providing Pension Transfer Specialist qualifications will want to consider these proposals. We will update the appropriate exam standards in relation to pension transfer specialists in due course.

### Checking advice

- 3.15** Advice on pension transfers, pension conversions and pension opt-outs must be given or checked by a pension transfer specialist, who must be a fit and proper person with specific qualifications. The existing requirements do not specify what is intended when a pension transfer specialist checks, rather than gives, advice on the transfer or conversion of safeguarded benefits. We have seen cases where a pension transfer



specialist simply runs the Transfer Value Analysis (TVA) calculation or checks the numbers that have been produced rather than looking at the overall assessment and recommendation made as a whole. This is not in line with our expectations.

- 3.16** We propose to add guidance to our Handbook to make clear that checking the advice means assessing the reasonableness of the personal recommendation reached by the adviser. Checking does not require a fundamental repeat of the advice process, but will involve an independent assessment of the soundness of the basis for the advice. It should take into account the client's wider circumstances, including their appetite and capacity for risk and the nature of the scheme being transferred to. In cases where the pension transfer specialist considers that the outcome reached by the adviser is unreasonable, or does not consider that all the relevant factors have been included; we expect the pension transfer specialist to clearly document the reasons for their view and for the adviser to take this into account in their recommendation to the client and the communications that accompany this advice.
- 3.17** We propose to amend the glossary definition of a pension transfer specialist to support this. It currently defines a pension transfer specialist as someone who checks the suitability of the transfer. We do not consider this accurately represents the requirements on a pension transfer specialist or the responsibility of the main adviser for the overall suitability of the advice. We propose to change this definition to refer to checking the reasonableness the outcome of the advice.
- 3.18** The proposals will set out our expectations and will not be used to judge the past activity of pension transfer specialists. The requirements in place at the time and our articulation of those requirements will apply.

**Q3: Do you agree with our proposals to amend the glossary definition and to add guidance to the Handbook to clarify what a pension transfer specialist is expected to do when checking advice on transfers or conversion of safeguarded benefits?**

## Areas for discussion

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### Qualifications

- 3.19** A pension transfer specialist must hold a specific qualification set out in our training and competency requirements. In many cases advisers hold the pension transfer specialist qualification in addition to the Level 4 Retail Distribution Review (RDR) advice qualifications but there is no requirement for a pension transfer specialist to be an investment adviser.
- 3.20** Advice on a conversion or transfer of safeguarded benefits will often also be investment advice. Where the adviser holds both the investment advisor and pension transfer specialist qualifications they can give the advice without any further checking. Where the adviser is not a pension transfer specialist they need to have that advice checked. We have stated that the destination of the funds transferred, including how they are invested is a key element in assessing the suitability of a conversion or transfer of safeguarded benefits. However, a pension transfer specialist checking this advice does not need to be an investment adviser.

**3.21** We want to understand how many pension transfer specialists are not also investment advisers and whether any risks arise in the way the current rules operate.

**3.22** Firms must make sure that their employees are competent to undertake the roles they are performing. Given the complexities of this area it is our view that the pension transfer specialist qualification alone is not enough to demonstrate this competence. Relevant experience is essential, as is maintaining knowledge. For example, we expect firms to make sure that pension transfer specialists have experience on a suitable range of cases – for example, on a supervised basis – and that their experience remains current. It may be challenging for advisers who are not regularly involved in advising on the conversion and transfer of safeguarded benefits to evidence an appropriate level of competence.

**Q4: What are your views on how the current qualification requirements for pension transfer specialists operate in practice?**

#### **Responsibility for advice – outsourcing pension transfer specialist checking**

**3.23** We are aware that in a number of cases, the pension transfer specialist checking role will be outsourced. The outsourcing might be to a pension transfer specialist at another adviser firm in the same network; to a separate adviser in the local area; or to a stand-alone pension transfer specialist.

**3.24** Where outsourcing of this function has taken place, we believe our current rules, together with the proposed additional guidance on checking, provide an appropriate framework. The adviser giving the overall advice remains responsible for the suitability of the advice, including the advice checked by the pension transfer specialist. Although a pension transfer specialist who is checking advice may not have a liability to the client, for example because they do not have a contract with the client, there might be a liability to the referring adviser if the pension transfer specialist were to fail in properly checking the advice.

**Q5: Do you have any comments on our explanation of the responsibilities of advice firms and pension transfer specialists?**

#### **Responsibility for advice – outsourcing pension transfer advice**

**3.25** In some cases the pension transfer advice and liability is outsourced in its entirety to another firm. They take on all aspects of the personal recommendation including levying the charges associated with the personal recommendation. The original firm plays no role in the advice being given.

**3.26** Alternatively, firms without the relevant permission to advise on the transfer or conversion of safeguarded benefits might have clients who are seeking this advice. They can pass the transfer element of advice to an adviser with the appropriate permission but retain a role in advising on the destination of the funds following the transfer, eg the specific personal pension scheme and the investments within it. In practice, the assessment of suitability on the transfer cannot be done without consideration of the destination for the transferred funds and vice versa. Therefore in this scenario, although the firms are responsible for different elements of advice given to the client, they will need to liaise to ensure the overall recommendations are suitable and to avoid any disconnect. Both firms must be able to demonstrate the advice they give is suitable for the client.



**3.27** Advisers should make sure they are familiar with the requirements summarised in our alert on introduced business.<sup>6</sup> Advisers referring clients to other advisers should be familiar with our Handbook guidance in PERG 5.6<sup>7</sup> on making arrangements with a view to transactions in investments.

**Q6: Do you have any comments on our explanation of the responsibilities of advice firms and independent pension transfer firms?**

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6 August 2016, Investment advisers' and authorised firms' responsibilities when accepting business from unauthorised introducers or lead generators

7 See <https://www.handbook.fca.org.uk/handbook/PERG.pdf>

## 4 Analysis to support advice

### Introduction

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- 4.1** When advising on the conversion or transfer of safeguarded benefits, our current rules require advisers to make a comparison, commonly known as a transfer value analysis (TVA), between the benefits being given up and the benefits available under the receiving scheme. The analysis calculates the rate of return – often referred to as the critical yield – that is necessary to reproduce the safeguarded benefits being given up, assuming the purchase of an annuity is based on the same benefits. The output from this analysis should be taken into account in the overall assessment of suitability.
- 4.2** We have considered in detail whether the TVA element of the advice process is working as effectively as it should, taking into account both our supervisory findings and changes in the market place since the process was first introduced.
- 4.3** We have concluded that there is a need for change to ensure that the advice process results in good outcomes.

### Current requirements

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- 4.4** The current form of TVA has essentially stayed unchanged since additional requirements for pension transfers were introduced. However, the environment has changed significantly, particularly with the introduction of the pension freedoms. Annuities are no longer the default option with flexible drawdown becoming increasingly popular.
- 4.5** From our supervisory work on pension transfers and observations of practices in this market, we have identified the following concerns with how the current requirements are applied:
- Advisers often focus – in some cases almost exclusively – on the TVA element rather than making a rounded assessment of suitability based on all relevant factors. In the most concerning scenarios, the TVA is undertaken first without any knowledge of the client and then made to fit the client's circumstances. We have been told that one of the reasons for the focus on critical yield is that it is a factor in professional indemnity (PI) premiums. Firms have told us that PI insurers ask for information on the highest critical yield that an advisory firm will accept for a positive recommendation.
  - Our thematic review on enhanced transfer value (ETV) pension transfers (TR14/12)<sup>8</sup> found a number of specific poor practices relating to methodology and personalisation of TVA including failure to reflect all the scheme benefits, insufficient tailoring to the member's specific circumstances and inconsistencies with other

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8 TR14/12, July 2014: [www.fca.org.uk/publication/thematic-reviews/tr14-12.pdf](http://www.fca.org.uk/publication/thematic-reviews/tr14-12.pdf)



supporting documents such as Key Features Illustrations (KFIs).<sup>9</sup> This results in critical yields which do not reflect the true risks of transferring.

- Even when the critical yield is determined correctly, we have concerns that firms are not properly explaining volatility and the transfer of risk to their clients
- In some firms the TVA is seen as no more than a box-ticking exercise to be completed for compliance reasons

**4.6** Equally, the TVA requirement has a number of limitations which, following the introduction of the pension freedoms, have become increasingly significant:

- It is generally not a helpful tool for clients approaching normal retirement age. Although our rules do not require a TVA for clients at normal retirement age, firms are making their own interpretations of 'at normal retirement age' based on the COBS 13 flexibility.<sup>10</sup> Transfers are now more likely to be made at the point of accessing benefits than they were in the past and a number of pension schemes are making members more aware of the option to transfer, often with indicative transfer value amounts
- As alternative options to annuities have developed, following the introduction of the pension freedoms, the way in which the TVA is presented to consumers has been extended by firms. Frequently, consumers are shown numerous critical yields depending on how and when they might take their benefits. Critical yields are being presented for drawdown although there is no standard methodology for this approach. Without careful explanation it can be difficult for consumers to understand that critical yields for drawdown options are not directly comparable with those relating to annuitisation due to the underlying differences in who is responsible for carrying the mortality and longevity risk
- The concept of a critical yield is not widely understood by consumers, many of whom have no or limited experience of investments. They also might not appreciate how difficult it is to achieve returns which are equivalent to the critical yield and how the volatility of returns can impact on the outcome

**4.7** Taking everything together, we believe that the changes in the pensions environment mean that the current TVA is no longer leading to the best outcomes for consumers, and advisers are often focusing too much on this analysis when advising in this area. We therefore propose to replace TVA with an overarching requirement to undertake appropriate analysis of the client's options. We will refer to this as the 'appropriate pension transfer analysis' or APTA. Part of this process will be the inclusion of a prescribed comparator providing a financial indication of the value of benefits being given up.

<sup>9</sup> See section 13.4 of our COBS <https://www.handbook.fca.org.uk/handbook/COBS/13/4.html>

<sup>10</sup> COBS 13 permits a projection:

- a) for an in-force product that will mature in six months or less may be prepared and presented on any reasonable basis; and
- b) a projection involving a future annuity to be taken in less than one year's time be calculated using annuity rates that are no more favourable than the firm's relevant current immediate annuity rate or (if there is no such rate) the relevant immediate annuity rate available in the market



## Appropriate pension transfer analysis

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- 4.8** Advice on giving up safeguarded benefits should be based on the individual client's circumstances and backed up by robust financial analysis which looks at the differences between the benefits offered by the ceding scheme and the benefits being considered as an alternative to that scheme, irrespective of how those benefits are taken. As each client's needs and objectives are different, we consider that advisers are best placed to consider the detailed approach which is appropriate for each client.
- 4.9** The proposed rules will set out what we expect the appropriate analysis to include, as a minimum:
- an assessment of the client's outgoings and therefore potential income needs throughout retirement
  - the role of the ceding and receiving scheme in meeting those income needs, in addition to any other means available to the client – effectively obtaining an understanding of the client's potential cashflows
  - consideration of death benefits on a fair basis, for example where the death benefit in the receiving scheme will take the form of a lump sum, then the death benefits in the ceding scheme should also be assessed on a capitalised basis, and both should take account of expected differences over time
  - the prescribed comparator (as covered in detail from paragraph 3.14)
- 4.10** While a client's objectives may be the reason they have sought advice, the client's needs should influence the advice process. Firms should challenge the realism of a client's objectives, where appropriate including any objectives which do not immediately appear to be rational or factually correct. A recommendation is unlikely to be suitable if it meets the client's objectives but not their needs. The analysis should therefore include sufficient information for advisers to understand and explain how prioritising any of the client's objectives may result in trade-offs, for example, if the client is prioritising death benefits, then any adverse impact of this on potential income should be illustrated.
- 4.11** The analysis should consider the actual scheme being proposed as a receiving scheme and, where relevant, the underlying investments within that scheme, as well as the way benefits will be accessed eg flexi access drawdown, uncrystallised funds pension lump sum, standard or impaired annuity etc. We are not being prescriptive on the other areas which should be included within the APTA. This enables firms to tailor the APTA appropriately to each client. The analysis undertaken should complement the guidance on assessing suitability proposed in Chapter 2.
- 4.12** However, it is our expectation that firms must consider each client's risk appetite and ability to manage investments when assessing the possible benefits from a potentially suitable receiving scheme. This includes where the plan is to withdraw funds and move them outside the pension environment, whether into another retail investment product or wrapper or as cash. We consider that taxation consequences should be an inherent part of the consideration of crystallising benefits and accessing funds.



**4.13** Other areas firms may consider could include:

- Appropriate mention of the existence of and benefits provided by the Pension Protection Fund. This may be relevant where there were some concerns about the strength of the employer covenant, although detailed advice should not generally be provided in this area unless the adviser is an expert practitioner in assessing company strength.
- Alternative means of meeting each client's objectives, for example by using other investments and savings, or life insurance.
- Limitations on each client's ability to continue to contribute to a pension fund.

**Transfer value comparator**

**4.14** As set out in Chapter 2, we still think that consumers seeking advice on a pension transfer should understand the value of the ceding scheme for their specific circumstances and compare this to the value of alternative options. While we expect advisers to talk through what this means in terms of giving up guarantees and carrying the risk as individuals, it is also important for consumers to have an understanding of the quantitative value and, in particular, to understand the difference between the transfer value offered by the scheme and how much it could cost to purchase comparable benefits in a DC scheme. Without this analysis it will be difficult for many consumers to put the implications of transferring their safeguarded benefits into financial context.

**4.15** We are therefore proposing to require a prescribed transfer value comparator (TVC) as part of the APTA. The TVC will require a calculation involving:

- where relevant, a projection of the ceding scheme benefits to normal retirement age
- the estimated cost of purchasing those benefits using an annuity, and
- for those more than 12 months from their scheme retirement date determining the present value needed today to fund the annuity

**4.16** The first two elements of the process are unchanged from the existing TVA process. However, the final element is different. Instead of determining the required rate of growth, firms must determine an appropriate discount rate to value the amount needed to reproduce the safeguarded benefits, after appropriate charges. This discount rate should be appropriate for each client, based on their attitude to risk, irrespective of whether the proposed receiving scheme will involve flexi-access drawdown or an annuity.

**4.17** For clients within 12 months of normal retirement age or with deferred benefits, it may not be possible to purchase the precise benefits of the safeguarded benefit scheme with an annuity available on the open market. In these circumstances, we are proposing a proportionate approach which ratios the value of benefits on the TVC assumptions to the market price of the closest shape of available annuity, which will typically be an index-linked annuity.

**4.18** We recognise that the TVC, like the current TVA, is based on the cost of an annuity. However, we consider it is important that consumers are able to understand, in value terms, the potential costs of purchasing comparable benefits in a different

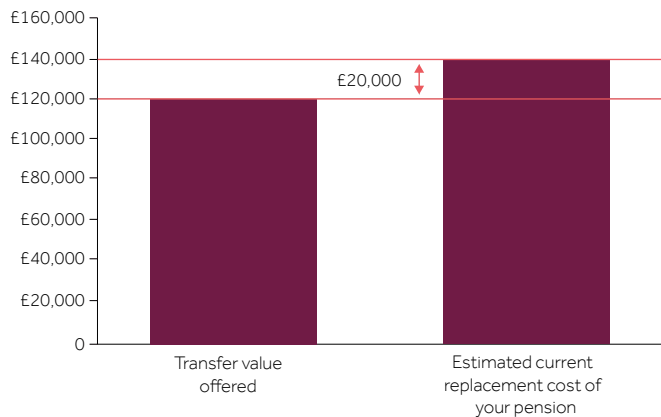
environment, and why this might differ to the Cash Equivalent Transfer Value (CETV) which has been offered. Therefore, the notional annuity purchase is being used as a proxy to determine the value that might be gained or lost by giving up the safeguarded benefits. We consider that this will be easier for consumers to understand than the critical yield concept and will help frame their decision.

- 4.19** While it is at the adviser’s discretion how to incorporate the remainder of the APTA into the suitability report or, additionally, to present the entire analysis alongside the suitability report, we are proposing that the TVC must be presented to the client in a prescribed format, illustrated below:

**Example of transfer value comparison**

The transfer value offered instead of your pension income is: **£120,000**

How does this compare with the amount you need to buy the same income on the open market?



It could cost you **£140,000** to obtain a comparable level of guaranteed income on the open market.

This means the same retirement income could **cost you £20,000 more** by transferring.

- 4.20** The requirement to undertake an APTA, including a TVC, will apply to all pension transfers and conversions of safeguarded benefits except where the only safeguarded benefit is a GAR. Where a partial transfer has been offered, the APTA and TVC should take account of the actual structure of the benefits to be transferred.

- 4.21** We have carefully considered whether there should be any allowance for variations in the TVC to take account of individual characteristics (such as health). However, we think that this should be covered adequately by our proposals for appropriate analysis of the individual’s options. The comparator should allow for the 100% of the benefit to be taken as income. While we recognise that, in practice, the majority of people will take a pension commencement lump sum, it is our understanding that in the majority of cases, the CETV will not allow for options which will reduce it.<sup>11</sup>

- 4.22** Our proposals on the APTA are intended to result in a significant shift in the quality of pension transfer advice: rather than the financial analysis being seen by some firms

<sup>11</sup> As set out in the Pension Regulator’s guidance to trustees [www.thepensionsregulator.gov.uk/guidance/guidance-transfer-values.aspx#s1800](http://www.thepensionsregulator.gov.uk/guidance/guidance-transfer-values.aspx#s1800)



as a box ticking exercise, it should become a holistic part of the suitability assessment which can genuinely add value to the decision on whether to transfer.

**Q7: Do you agree with our proposals on the introduction of an appropriate pension transfer analysis? If not, how could we amend it?**

**Q8: Do you agree with our proposals on preparing and presenting the client with a mandatory transfer value comparator within the appropriate pension analysis? If not, how could we amend it?**

### Assumptions

**4.23** In this section, we lay out our views on the assumptions to be used in preparing an APTA, including the prescribed comparator. In general, it is our view that assumptions are likely to be needed when:

- a. assessing the role that the ceding or receiving schemes could play in meeting the client's income needs
- b. considering the level of death benefits that may be available at different points in time from the ceding and receiving schemes
- c. preparing the TVC

**4.24** For each of these, a form of projection is generally required. Our Conduct of Business (COBS) Handbook already contains assumptions to be used for the existing TVA requirements and, except where indicated below, it is our intent to retain these. We also note that firms can use more cautious assumptions where it is appropriate. The general principles behind the current assumptions are:

- a. consistency with the assumptions in COBS 13, where relevant, so that the financial analysis can be explained in the context of any illustrations the client may also receive
- b. consistency from practitioner to practitioner, when undertaking the financial analysis (currently the TVA)

**4.25** We have considered the current open consultation on Pension Transfer Redress (GC17/01)<sup>12</sup> and whether the assumptions used for calculating redress should be applied to analysis when advising on the conversion or transfer of safeguarded benefits. However, we consider the act of calculating redress when consumers were misadvised is sufficiently different to warrant a different methodology. Additionally, we consider that the general principles remain valid.

### Proposed changes

**4.26** We are proposing to change the rolling annuity interest rate which is averaged over 12 months. The rolling annuity interest rate can lag behind the rates used to calculate CETVs. This can result in periods where it becomes easier or harder to recommend a transfer. We are proposing an annuity interest rate based on a single recent monthly yield.

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12 See <https://www.fca.org.uk/publication/guidance-consultation/gc17-01.pdf>

- 4.27** The current assumption set includes a mortality basis to use when determining an annuity factor for placing a value on regular income payments. This will continue to be relevant for the TVC; it could also be relevant in determining a capitalised value of dependants' guaranteed income benefits for comparison with lump sum benefits within an APTA. There may be other circumstances when firms want to illustrate probabilities of survival or indicate life expectancies where the existing table, which is based on annuitant mortality, will not be appropriate. We are therefore proposing guidance on appropriate published population statistics which allow for future mortality improvements, such as those available from the Office for National Statistics.
- 4.28** We are proposing that any projections of future benefits for the APTA – including the TVC – should be based on a rate of growth – including an allowance for any lifestyling – which is appropriate for the client's personal circumstances, including their attitude to risk. In addition, we are proposing guidance that these rates should be no higher than the intermediate rate of growth shown on a corresponding KFI for the receiving scheme (for overseas transfers, see Chapter 4). In other circumstances, for example where a client is transferring with the intent of immediately withdrawing all of the funds and not reinvesting them, or investing them outside of a retail investment product, a suitable discount rate should be established based on the ultimate destination of the funds.
- 4.29** Although it is our current expectation that when undertaking TVA firms should take account of the charges incurred in the receiving scheme, this is not currently explicit in COBS 19.1. We therefore propose adding explicit requirements on the charges to be included in an APTA, including the TVC, as follows:
- the inclusion of relevant product, platform and adviser charges
  - future annuity charges should be assumed to be 4%, the same as for a KFI projection

**Q9: Do you agree with the proposed changes to the assumptions for the rolling annuity interest rate, non-annuity mortality, the growth rate and the inclusion of charges?**

## Areas for discussion

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### Stochastic modelling<sup>13</sup>

- 4.30** We know that a number of advisers use stochastic financial planning software for future cashflow modelling and to demonstrate the uncertainties of investment and mortality. We have considered carefully whether an appropriate analysis which includes the potential outcomes from the proposed receiving scheme could be undertaken on a stochastic basis and easily communicated to the client.
- 4.31** It is our preference that the role played by the proposed receiving scheme is communicated to the client in the advice as consistently as possible with the KFI which will be provided to the client if a transfer was to proceed. This does not prevent firms

<sup>13</sup> A form of financial modelling of future outcomes based on ranges of values (rather than single estimates) where the value for each unknown variable, such as investment returns and inflation, is based on a statistical likelihood.



from using stochastic software for holistic financial planning but it does require that where the focus is on one receiving scheme, the advice can be justified to the client by reference to a deterministic analysis which is consistent with a KFI, where relevant.

**4.32** We are interested to receive firms' views on reconciling stochastic cashflow modelling and APTAs more broadly with other mandated projections in the transfer advice process. In particular, we welcome robust evidence on consumers' ability to understand the outcomes of stochastic modelling. We also welcome views on whether there is a need to moderate the outcomes from stochastic modelling so that they could be more easily aligned and compared to a deterministic projection undertaken at the intermediate growth rate. For example, immediately prior to the introduction of the current COBS rules, FSA rules<sup>14</sup> required the median result for a stochastic projection not to exceed a deterministic projection allowing for the intermediate rates of return and inflation.

**Q10: What are your views on the use of stochastic tools within appropriate pension transfer analysis? How could the outcomes be presented in a way which results in good consumer understanding, given the format and outcomes presented in other mandated documents?**

#### Software

**4.33** Adviser firms will be responsible for ensuring that APTA, including TVC, is undertaken to a sufficient degree to support a suitable recommendation. Advice firms are liable for the advice even where it is checked by a third party pension transfer specialist. Consequently, advisory firms must make sure that any software used meets their advice needs. This applies irrespective of whether they license the software themselves or submit analysis to a third party, including a pension transfer specialist.

**4.34** Where software is made available to advisers from providers or platforms on non-commercial terms, firms should be aware of our rules on accepting benefits from providers in COBS 2.3.1 (Rule on Inducements) and COBS 6.1B.5R (Requirement not to offer commissions). Firms may also find it helpful to refer to the finalised guidance on 'supervising retail investment advice: inducements and conflicts of interest'.<sup>15</sup> In particular, firms should be able to satisfy themselves that the use of such software is not expected to result in the channelling of business from the advisory firm to the provider or platform and does not need to be relied upon by the advisory firm in the future in order to continue to service its clients.

**Q11: Do you have any comments on our explanation of the responsibilities of advice firms in relation to software?**

#### Revaluation and indexation assumptions

**4.35** DB schemes are required to maintain the value of benefits between the date of the employee leaving and the date benefits commence. This is usually done with reference to a measure of inflation. The current assumptions for revaluation in COBS 19.1 are 2.5% and 2% for limited price indexation linked to the Retail Price Index (RPI) and the Consumer Prices Index (CPI) respectively. The RPI revaluation rate mirrors the RPI assumption rate in COBS 13. However, the gap between the RPI and CPI rates may now be considered to be too narrow, but maintaining the RPI rate in line with COBS 13 and

14 COB 6.6.9 R and COB 6.6.9A E

15 FG14/1: <https://www.fca.org.uk/publication/finalised-guidance/fg14-01.pdf>

increasing the gap to 1% will result in a CPI revaluation rate which could be considered too low in the current environment. We are seeking views on whether we should increase the gap now to 1%, maintaining the RPI rate consistently with COBS 13, or wait until the economic assumptions are all reviewed. Any changes on the relative gap between RPI and CPI will need to be reflected in the annuity interest rate.

**4.36** We are also aware that existing annuity interest rate assumptions for caps and collars can appear inconsistent, particularly for high caps. We are keen to seek views on how this could be amended whilst retaining the underlying policy principle of consistency, irrespective of the practitioner who is undertaking the analysis.

**Q12: Do you have any views on the assumptions for CPI and for benefits with caps and collars?**



## 5 Other issues

- 5.1** This chapter covers insistent clients and the way in which we propose the additional advice requirements should apply to pension opt-outs. We also highlight two areas where we are seeking views: on the issues throughout this consultation that have a particular interaction with the transfer of safeguarded benefits to overseas pensions; and the use of streamlined advice for advice on the transfer or conversion of safeguarded benefits.

### Insistent clients

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- 5.2** Our Handbook does not currently define an insistent client or contain any provision specific to processing a transaction for an insistent client. We use this term to describe an individual who has received a personal recommendation and chooses to do something different than what was recommended with the help of the adviser who gave the personal recommendation. We published a fact sheet on insistent clients in 2015<sup>16</sup> to assist firms in understanding our position. This factsheet used the example of pension transfers as this is an area where insistent clients are particularly relevant. The content of this factsheet continues to apply.
- 5.3** It is for an adviser to decide whether they will process a transaction that goes against a recommendation they have given. Where a client has received a personal recommendation not to proceed with a conversion or transfer of safeguarded benefits our rules do not prevent them from proceeding if they want. However, it is essential that the implications are fully explained so that the client is able to understand the decision they are making. It is important to make sure the original personal recommendation is suitable and that the reasons for the recommendation are clear.
- 5.4** While our fact sheet continues to apply, we recognise that adding guidance to our Handbook will provide greater certainty for firms. We also recognise that the issue of insistent clients applies to a number of areas of advice and not simply in respect of the transfer and conversion of safeguarded benefits. We will therefore consult to introduce Handbook guidance based on the core elements of the factsheet in the coming months.

### Opt-outs

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- 5.5** The package of proposals in this CP relates to some provisions that also apply to all pension opt-outs: the requirement for advice to be given or checked by a pension transfer specialist and record keeping requirements. We consider that, for advice on an opt-out from a scheme without the potential for accruing safeguarded benefits, the loss of the employer contribution is a straightforward concept to consider. There is a high bar to be overcome in establishing basic suitability if an opt-out is considered. We

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16 <https://www.fca.org.uk/firms/pension-reforms-insistent-clients>



propose to restrict the application of the additional rules for opt-outs to cases where potential safeguarded benefits are available.

**5.6** The current TVA rules do not apply to pension opt-outs. We do not propose to apply the appropriate analysis requirements in Chapter 3 to advice on opt-outs. However, in order to comply with existing rules on suitability an adviser is likely to need to undertake analysis of the potential benefits available in these cases.

**Q13:** **Do you agree with our proposal for the application of the additional requirements for pension opt-outs to be restricted to opt-outs where there are potential safeguarded benefits available?**

**Q14:** **Do you agree with our proposal that the new TVC analysis should not be required for any pension opt-outs?**

## Areas for discussion

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### Overseas transfers

- 5.7** We are conscious of the challenges involved in transferring safeguarded benefits overseas. The government's mandatory requirement for advice to be taken for transfers valued at over £30,000 requires the advice to be given by an FCA authorised adviser. This means that individuals who want to transfer their safeguarded benefit abroad may need to consult an adviser in both the UK and the destination country for the transfer.
- 5.8** The Department for Work and Pensions (DWP) issued a call for evidence in September 2016<sup>17</sup> to gather views on easing the challenges while still providing protection for consumers and will be responding in due course. The recent budget announcement on the taxation of transfers to overseas pension schemes makes these types of transfers generally less attractive but there will be people for whom transferring will still be beneficial.
- 5.9** The proposals set out in this paper will have specific effects on the process of transferring safeguarded benefits to an overseas pension. The proposed requirement for all advice to be a personal recommendation may mean that the UK advisor involved in the transfer takes on greater responsibility than they currently do.
- 5.10** Our proposed requirements for an APTA are likely to result in a more complex analysis having to be undertaken for an overseas transfer than for a transfer to a UK DC arrangement. Where a transfer overseas is being considered, firms must ensure that the APTA contains sufficient information in order to be able to compare financial and tax regimes in two countries. For example, a transfer to a Qualifying Recognised Overseas Pension Scheme (QROPS) may incur the QROPS transfer tax charge of 25% or there may be complex tax planning depending on the nature of tax treaties between the UK and the overseas territory where the client is resident.

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<sup>17</sup> See [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/556952/advice-requirement-and-overseas-pension-transfers-call-for-evidence.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/556952/advice-requirement-and-overseas-pension-transfers-call-for-evidence.pdf)



- 5.11** While all APTAs will need to take account of the ultimate destination for the funds, for transfers to non-UK schemes where there might be higher nominal projection rates, advisers must consider that this may be accompanied by higher inflation or that there may be offsetting movements in exchange rates.
- 5.12** In practice, this is likely to require a UK-based adviser to work in conjunction with an overseas adviser to understand where the funds are likely to be transferred. Our supervisory work indicates that firms will need to take particular care to consider appropriate real rates of return, multiple layers of fees which are not always loaded into product charges and taxation considerations.
- 5.13** We are particularly interested in gaining further insight into the current practices for advice on transferring safeguarded benefits overseas, the impact of our proposal to these types of transfers and any thoughts on how these transfers can be facilitated where it is the right thing for the individual while providing sufficient protection for consumers.

**Q15: Do you have any thoughts on the impact of these proposals on overseas transfers?**

***Streamlined advice***

- 5.14** In GC17/4,<sup>18</sup> we consulted on guidance designed to help firms with the provision of streamlined advice<sup>19</sup> following on from the FAMR recommendations. The intent of GC17/4 is to provide greater clarity on the regulatory framework when advising on straightforward consumer needs in a proportionate way where there is a narrow focus of advice.
- 5.15** In the consultation, we said that:
- “although streamlined advice services may be designed to deal with more limited client needs and may not, therefore, involve an analysis of all the client’s circumstances, any personal recommendation which is given to a client through a streamlined advice service must nevertheless be suitable (as is also the case where a firm provides ‘full-scope’ advice to a client). Offering a streamlined advice service, with a narrower scope, does not allow a firm to lower the level of protection to clients.”
- 5.16** We have considered how the proposed guidance applies to advising on safeguarded benefits. This is particularly relevant as streamlined advice (in the form of focused advice) is frequently provided when advising on ETV exercises. It is our view that in most cases where a client is being advised on a transfer or conversion of safeguarded benefits, the advice will not be straightforward. We have indicated elsewhere in this paper that a suitable recommendation will need to consider a client’s wider objectives in retirement and the means available to help them meet those objectives.
- 5.17** In our opinion, this does not prevent focused advice on a pension transfer. It may be possible to focus on the transfer or conversion, but firms should be aware of the additional requirements we are proposing in this paper when designing a framework to provide any form of streamlined advice on the conversion and transfer of safeguarded benefits.

<sup>18</sup> [www.fca.org.uk/publication/guidance-consultation/gc17-04.pdf](http://www.fca.org.uk/publication/guidance-consultation/gc17-04.pdf)

<sup>19</sup> In GC17/4, streamlined advice is used as an umbrella term which covers both simplified and focused advice. Simplified advice involves a firm setting out the boundaries of the service it provides, whereas focused advice involves the client stipulating the boundaries of the service.

- 5.18** We set out our expectations of advice provided in conjunction with ETV exercises in TR14/12. In particular, we noted the need for the information gathering process to be broad enough to support a personal recommendation, ie it should not be limited simply because the advice focus is an ETV offer. We consider that this remains the case for the proposals made in this paper.
- 5.19** We recognise that where advice is streamlined, it allows advisory firms to offer their services more cost efficiently than where full advice is provided. This is a common feature in the ETV advice market where there can be significant economies of scale in advising large numbers of members of the same scheme within a relatively short period. It is the responsibility of firms to price their services for ETV advice (and other streamlined services) in a way which enables them to meet their obligation to provide suitable advice.

**Q16: Do you have any comments on our expectations for the provision of streamlined advice when advising on safeguarded benefits?**



# Annex 1

## List of questions

- Q1:** Do you agree with our proposal to require all advice on the conversion or transfer of safeguarded benefits to be a personal recommendation? Please provide the reasons for your response.
- Q2:** Do you agree with our proposals for new guidance on assessing suitability? If not, what guidance do you think would be helpful?
- Q3:** Do you agree with our proposals to add guidance to the Handbook to clarify what a pension transfer specialist is expected to do when checking advice on transfers or conversion of safeguarded benefits?
- Q4:** What are your views on how the current qualification requirements for pension transfer specialists operate in practice?
- Q5:** Do you have any comments on our explanation of the responsibilities of advice firms and pension transfer specialists?
- Q6:** Do you have any comments on our explanation of the responsibilities of advice firms and independent pension transfer firms?
- Q7:** Do you agree with our proposals on the introduction of an appropriate pension transfer analysis? If not, how could we amend it?
- Q8:** Do you agree with our proposals on preparing and presenting the client with a mandatory transfer value comparator within the appropriate pension analysis? If not, how could we amend it?
- Q9:** Do you agree with the proposed changes to the assumptions for the rolling annuity interest rate, non-annuity mortality, the growth rate and the inclusion of charges?
- Q10:** What are your views on the use of stochastic tools within appropriate pension transfer analysis? How could the outcomes be presented in a way which results in good consumer understanding, given the format and outcomes presented in other mandated documents?

- Q11:** Do you have any comments on our explanation of the responsibilities of advice firms in relation to software?
- Q12:** Do you have any views on the assumptions for CPI and for benefits with caps and collars?
- Q13:** Do you agree with our proposal for the application of the additional requirements for pension opt-outs to be restricted to opt-outs where there are potential safeguarded benefits available?
- Q14:** Do you agree with our proposal that the new TVC analysis should not be required for any pension opt-outs?
- Q15:** Do you have any thoughts on the impact of these proposals on overseas transfers?
- Q16:** Do you have any comments on our expectations for the provision of streamlined advice when advising on safeguarded benefits?
- Q17:** Do you have any comments on our cost benefit analysis?



## Annex 2

# Cost benefit analysis

1. The Financial Services and Markets Act 2000 (FSMA), as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish 'an analysis of the costs together with an analysis of the benefits' if the proposed rules are made. It also requires us to quantify them, unless they cannot reasonably be estimated or it is not reasonably practicable to produce an estimate.

### Market failure analysis

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2. As set out in this paper it is our view that transfers and conversions of safeguarded benefits remain unlikely to be in the best interests of most consumers. Most consumers with private pension savings will need an income to support them when they are no longer working. Where they have safeguarded benefits these are likely to represent a valuable way of providing that income. However, there are instances where an individual's personal circumstances make a transfer or conversion appropriate.
3. This ability to use pension savings differently interacts with behavioural biases and other factors in the following way:
  - Present bias – some people overestimate the benefit of receiving money today, especially in the form of a lump sum. Conversely, they overlook the advantages of receiving a safe income stream in the future. This may lead them to undervalue the benefit from the DB schemes they consider giving up.
  - Under estimating life expectancy – most people underestimate their own longevity and, consequently, how long their money will need to last them and the risk of running out of money.
  - Difficulties assessing risks – media coverage of pension funding problems and failure of particular DB pension schemes may lead consumers to overestimate the risk to their own benefits leading to a desire to transfer out to keep their money in their own control. Consumers may also underestimate the risk running out of money.
  - Incentives on adviser behaviour – advisers are increasingly dealing with clients who are seeking advice only on a transfer (ie there is no preceding or on-going client relationship) and these clients often have a strong desire to access cash from their pensions. Delivering a message that this is not likely to be suitable may be challenging.

### Position under current rules

4. When the pension freedoms were introduced, the government also legislated to require advice to be taken before an individual could transfer or convert safeguarded benefits.<sup>20</sup>

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<sup>20</sup> [www.legislation.gov.uk/ukpga/2015/8/section/48/enacted](http://www.legislation.gov.uk/ukpga/2015/8/section/48/enacted)

5. The Conduct of Business rules that apply to advice on transfers and conversions of safeguarded benefits<sup>21</sup> (as well as to the underlying requirements for giving advice on investments)<sup>22</sup> have developed over time as the market and regulatory landscape has evolved but the intention has remained constant: that individuals being advised on pension transfers receive advice that takes into account all relevant circumstances of the individual, provides advice that is suitable, is given (or checked) by a suitably qualified and experienced adviser and enables the consumer to make an informed decision. The desired result is that consumers make the right decisions: those who should retain their safeguarded benefit do so, and that those who are likely to do better by transferring or converting their benefit do so.
6. The introduction of the pension freedoms requires some changes to our existing rules and guidance in order to continue to meet that intention. We recognise that it is not straightforward for firms giving advice to interpret the requirements in the new pension freedom environment; those interpretations may not be consistent across the market and not in line with our expectations.
7. There are also elements of the current requirements which may be contributing to undesired consequences on access to advice in this market. The current prescribed TVA requirement, and the way this is carried out in practice, is no longer likely to be providing helpful analysis to support the advice process. Advisers have also reported a reluctance to give advice on transfers and conversions of safeguarded benefits due to the presumption of unsuitability within our rules.

#### **Position under proposed rules**

8. The package of proposals consists of clarification and guidance on the application of existing requirements – namely suitability – in the new environment as well as new requirements for consumer protection.
9. The proposals that represent significant changes to the current requirements are:
  - requiring all advice on the transfer and conversion of safeguarded benefits to be a personal recommendation meaning it will need to comply with all the necessary requirements
  - replacing the specified TVA which will change what advisers need to do and impact on the analysis services provided by third parties
10. We believe that these changes should improve consumers' ability to assess their needs and to compare the value of DB schemes with alternative arrangements. In particular, the transfer value comparator is likely to enhance the perception of potential losses arising from transfers. This perception may cause an emotional reaction countering the attraction of receiving a lump sum.
11. The proposals that clarify existing requirements and expectations are:
  - guidance on assessing suitability
  - guidance on the role of a pension transfer specialist

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21 COBS 19.1

22 COBS 9



12. These guidance proposals are intended to help firms comply with the existing requirements within the changed pension landscape. Better compliance will enhance the quality and usefulness of advice to consumers.

### **Assumptions**

13. We set out below the main assumptions we use in calculating the costs and benefits of our proposals and the rationale for these assumptions.

### **Number of 'systems' in the market used to produce TVA reports**

14. We believe there are around 10-12 different 'systems' in use to produce TVA reports. Some are provided by third party software providers and some firms have in-house systems.

### **Number of advice transactions**

15. For the purposes of our analysis we need to estimate the number of advice transactions on the conversion or transfer of safeguarded benefits – whether or not a transfer occurs.

16. We are aware that one software provider produced around 50,000 TVA reports over the last 12 months. We believe this provider is likely to be average, in terms of volumes, amongst software providers. We have assumed that around a third of reports are run without advice being given and of the rest, four reports are produced per advice transaction.

17. Based on 10-12 'systems' running TVA reports (including firms with their own in-house software and third party software providers) this gives an estimate of 80,000 – 100,000 transactions per year.

### **Cost of a personal recommendation**

18. The cost varies widely. Some firms charge a fixed fee; others charge a percentage of the value being transferred.

19. In their guide to the cost of advice unbiased.co.uk<sup>23</sup> (an independent directory of advisers that helps consumers find an adviser) states the following typical costs:

- £5,000 for full at retirement advice where there is a safeguarded benefit and multiple pensions to take into account
- £1,500 for advice on a transfer in the pre-retirement phase

20. We consider that most advice on the conversion or transfer of safeguarded benefits is currently given at the point of decumulation. However, not all of those cases will involve multiple schemes and complicated circumstances. The average cost of a personal recommendation for a pension transfer is therefore likely to be somewhere between these two and we consider that taking the midpoint of £3,250 is a reasonable assumption.

### **Cost of advice that is not a personal recommendation**

21. There is very little information available on what advisers might be charging for advice that is not a personal recommendation. The current requirements in COBS 19.1 apply to advice and personal recommendations so many of the same steps need to

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23 <https://www.unbiased.co.uk/cost-of-financial-advice>



be taken. However, a personal recommendation will typically require more work in terms of gathering and analysing information on the client's other retirement income, outgoings and personal circumstances. There will also be a difference in the liability and risk that the advice firm takes on in giving a personal recommendation.

22. Overall however, this element is not transparent in the market and is affected by a variety of factors such as size of transfer, whether it is overseas and the particular fee bases operated by advisers. For the purposes of this analysis – based on our knowledge of the market and information gathered in our supervision work – we believe that an estimate of half the cost of a personal recommendation is a reasonable assumption. That gives an estimate of £1,625 which we have used as a starting point for assessing the impact of the proposed changes. We welcome any feedback on the nature of this assumption.

### **Costs and benefits to firms**

23. Overall we expect our proposals to help firms who advise on the transfer and conversion of safeguarded benefits. The package of proposals is intended to ensure the requirements are relevant to the advice process for these types of transactions and that the expectations of firms are clear. However, as with most changes to regulatory requirements there are likely to be costs for firms in making the necessary changes.

### **Requiring a personal recommendation**

24. We understand from our supervisory activity and interactions with firms that the vast majority of advice given on the transfer or conversion of safeguarded benefits is already given as personal recommendations. For some firms, however, their business model may be based on only providing advice that is not a personal recommendation. These firms need to either change their business model or exit the market.
25. In order to change to providing personal recommendations there will be no change to the permission needed or the qualifications individuals need to provide the advice. The current requirements set out in COBS 19.1 apply, in most cases, to advice and personal recommendations for the conversion and transfer of safeguarded benefits. Therefore, many elements of what will be required to provide a personal recommendation are also required for advice that is not a personal recommendation.
26. Providing a personal recommendation will require firms to ensure they comply with the suitability requirements for personal recommendations including gathering relevant information, assessing suitability and providing a suitability report. This is likely to require more work than giving advice that is not a personal recommendation as it will include gathering and analysing information on the client's other retirement income, outgoings and personal circumstances.
27. As we have set out in our assumptions, a personal recommendation usually costs more (£3,250) for the consumer than advice that does not result in a personal recommendation (£1,625, see paragraphs 20 and 22). It is our view that the additional costs for firms, including additional hours of work, any opportunity costs and increase in PI insurance rates, will be offset in full by the larger fee they will receive (allowing for a profit margin comparable with that for advice that is not a personal recommendation). We have therefore not calculated the cost here. An analysis of the cost to consumers can be found in paragraph 42.



### **New requirements for analysing transfer values**

- 28.** The most significant cost for firms is likely to come from the replacement of the current TVA requirement. This consists of two elements:
- requiring appropriate analysis to be undertaken and setting parameters for that analysis
  - replacing the current TVA requirement with the TVC set out in Chapter 3
- 29.** Under the suitability requirements in COBS 9 a firm must take reasonable steps to ensure that a personal recommendation is suitable for its client. To assess this for a conversion or transfer of safeguarded benefits a firm will usually need to undertake analysis beyond the current prescribed TVA. The proposed requirement for 'appropriate pension transfer analysis' means there will be an explicit requirement for this analysis with specific parameters on what must be included and the assumptions that must be used. Firms may therefore need to undertake more analysis than they do now and change some of the methodology behind that analysis.
- 30.** While the proposals for the TVC mean that firms will be able to use some of the existing calculation methodology and assumptions in the current TVA, there will be some changes required and the presentation and emphasis may be very different.
- 31.** Most firms use third party software providers to perform the current prescribed TVA either on a pay-as-you-go transactional basis or through an annual licence to use the software to produce their own reports. Some larger firms have their own TVA systems.
- 32.** Many firms and third party software providers already provide analysis that goes beyond the existing TVA calculation. It is likely that this will continue under the proposals with the existing systems being changed and developed; we do not anticipate an increase in the number of firms developing their own systems to produce the required analysis.
- 33.** Information from software providers and firms on the general cost of changing this type of system indicates that the one-off costs might be around £50,000 per system. Based on there being 10-12 systems this will mean an overall one-off cost of £500,000-£600,000. This will be a direct cost for firms with their own system. The cost to third party software providers is likely to be passed on to the regulated firms using the product. For the purpose of this CBA we assume the full cost is passed onto regulated firms. Taking into account the estimated volume of transactions this is not a significant cost if considered per transaction.
- 34.** We expect the ongoing cost of undertaking the analysis to be similar to the costs under the current requirements. In addition, we expect the output from the revised comparison requirement to be significantly shorter than the existing reports produced under the existing requirements, which will reduce the production cost.
- 35.** The proposals will benefit firms by removing a requirement to undertake analysis that firms view as irrelevant. The replacement analysis requirements should mean that the analysis undertaken is helpful in informing the suitability assessment, supporting the recommendation made by the adviser and communicating the reasons for the recommendation to the client.

### Guidance proposals

- 36.** The proposals for guidance are intended to clarify our expectations of firms under the existing suitability requirements in COBS 9 and the additional requirements for advising on conversions and transfers of safeguarded benefits in COBS 19.1. Most firms will already be complying with existing requirements and the impact of the guidance on will therefore be minimal. Non-compliant firms may need to make changes to ensure they are complying with the requirements.
- 37.** The proposed guidance on what checking means for a pension transfer specialist should improve compliance with our existing requirements, and may result in a change in the way arrangements between advisers and pension transfer specialists operate. Bringing this checking up to the required level may cost more for pension transfer specialists who currently fall short of undertaking the level of checking expected under the proposed guidance. As we do not have evidence of current levels of failures to comply, we are not in a position to estimate those incremental costs.
- 38.** The clarification intended through the proposed guidance on assessing suitability means that firms can have more confidence about providing advice in this area. The reframing of the guidance on the starting assumption of unsuitability should also increase the confidence of advisers to give advice in this area.

### Application to opt-outs

- 39.** We do not expect our proposal to reduce the scope of application of COBS 19.1 for advice on pension opt-outs to result in any costs for firms. It will reduce the number of cases where a pension transfer specialist is required and therefore should represent a cost saving.

### Costs and benefits to consumers

- 40.** We expect our proposals to increase the protection for consumers looking to undertake a transfer or conversion of safeguarded benefits. The overall impact should be that more consumers make the right decision.

### Requiring a personal recommendation

- 41.** There is very little information available on advice where there is not a personal recommendation. From these limited data and our supervisory work we believe that the vast majority of consumers are already receiving a personal recommendation. We believe that, at most, 5% of advice transactions are carried out without a personal recommendation. Taking our estimate of 80,000-100,000 advice transactions per year, that means 4,000-5,000 transactions will be affected. We have assumed that getting a personal recommendation will, on average, cost a consumer £1,625 more than receiving advice that is not a personal recommendation (see paragraph 22).
- 42.** The increase in costs to consumers is therefore estimated as £6.5m-£8.125m per year.
- 43.** We believe the benefits significantly outweigh the potential extra cost of getting a personal recommendation. We consider that there is a significant risk that, in the case of pension transfers, advice that is not a personal recommendation results in action that is not in the best interest of the client. The cases we have seen where advice is given without a personal recommendation have often been associated with high risk transactions and scam activity. We have also found these cases do not comply with the existing requirements.



44. We recognise that receiving a personal recommendation will not prevent all unsuitable transfers. Some clients may proceed with a transfer even if they are given a personal recommendation not to (although they may have done so from a better informed position).
45. Overall we believe it is reasonable to assume that 10% of advice transactions where there is no personal recommendation result in the consumer taking action that is not in their best interests, and that would have been avoided had they received a personal recommendation.
46. One indication of the detriment to consumers is the amount that might be paid to them by way of redress when an inappropriate transfer has taken place. We have used this measure as a proxy for the consumer benefits of the proposal. In GC17/01 on how redress is calculated for DB pension transfers we estimated an average redress amount of £40,000-£60,000 per case (although this is based on historic cases and the average redress may be different for future cases).
47. The benefit to consumers is therefore estimated as £16m – £30m per year.

#### **New requirements for analysing transfer values**

48. We do not anticipate any cost for consumers from this proposal.
49. Consumers will benefit from improved analysis of their situation which should support their understanding and in turn lead to better outcomes and a reduction in the number of detrimental transactions. If the number of detrimental cases was reduced by just 50 cases per year the benefit for consumers would be estimated as £2m-£3m per year. As we are not able to accurately estimate the number of detrimental transactions that will be avoided, we are not including an estimate of the benefits in our overall summary below.

#### **Guidance proposals**

50. We do not expect these proposals to lead to an increase in costs for consumers.
51. Consumers will benefit from an improvement in the quality of advice given to consumers and reduce the number of detrimental consumer outcomes.
52. The package of proposals aims to increase clarity for advisers and therefore potentially lead to an increase in access to advice, which may increase competition and act as downward pressure on price.
53. We have not provided an estimate for the benefits to consumers resulting from these guidance proposals.

#### **Costs to the FCA**

54. We do not envisage any impact on costs to the FCA. This area of the market will continue to be an area of focus for our supervisory work.

55. We summarise the costs and benefits that we have listed above. We note that additional impacts discussed at qualitative levels are also important, most notably when they consist of improvements in clarity to firms and confidence to consumers.

	One off	Ongoing
Costs to firms	£500,000 -£600,000	£6.5m-£8.125m
Benefits to firms		£6.5m-£8.125m
Costs to consumers		£6.5m-£8.125m
Benefits to consumers		£16m-£30m

**Q17: Do you have any comments on our cost benefit analysis?**



## Annex 3

# Compatibility statement

### Compliance with legal requirements

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1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

### The FCA's objectives and regulatory principles: Compatibility statement

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7. Our proposals are intended to make sure the market for pension and retirement products and services functions well, and advance our operational objective of

securing an appropriate degree of protection for consumers and promote effective competition in the interests of consumers.

8. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of protecting consumers.
9. In considering what degree of protection for consumers in appropriate we have had regard to the particular risks involved in pension transfers and the differing degrees of experience those undertaking these transactions may have, We have recognised the general principle that consumers should take responsibility for their own decisions but that there is also a need for timely information and advice that is fit for purpose and that this should be provided with a level of care appropriate for the particular risks involved in these transactions..
10. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to ensure that consumers are able to access advice that results in suitable recommendations that enable consumer to make informed decisions. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

#### **The need to use our resources in the most efficient and economic way**

11. We have considered this principle and do not believe that our proposals will have a significant impact on our resources or the way we use them.

#### **The principle that a burden or restriction should be proportionate to the benefits**

12. Where required, in Annex 1 we have set out our analysis of the costs and benefits for relevant proposals. Overall, we believe that our proposals are a proportionate response to our concerns.

#### **The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term**

13. We have considered this principle and do not believe our proposals undermine it.

#### **The general principle that consumers should take responsibility for their decisions**

14. The pension freedoms mean that consumers have more choice when accessing their pension savings. With this increase in choice, consumers need to make more decisions but ultimately it is for consumers to decide what is best for them in their circumstances. Our proposals require advisers to give consumers information and advice to enable them to understand the implications of a decision to transfer out of safeguarded benefits and to enable them to make an informed decision.

#### **The responsibilities of senior management**

15. We have had regard to this principle and do not believe our proposals undermine it.

#### **The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation**



16. We have had regard to this principle and do not believe our proposals undermine it.

**The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information**

17. We have had regard to this principle and do not believe our proposals undermine it.

**The principle that we should exercise of our functions as transparently as possible**

18. We have had regard to this principle and do not believe our proposals undermine it.

19. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). Advice which is not a personal recommendation in this area is often associated with pension scams. By ensuring that all advice needs to be a personal recommendation this will minimise the possibility of transferring to a non-authorised investment.

**Expected effect on mutual societies**

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20. We do not expect the proposals in this paper to have a significantly different impact on mutual societies than other authorised persons or present them with any more or less of a burden than other authorised persons.

**Compatibility with the duty to promote effective competition in the interests of consumers**

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21. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.
22. The proposals in this paper are intended to make sure consumers receive the right advice when they are considering a transfer out of safeguarded benefits. This will give consumers the confidence to understand their retirement options, to ensure they get the right products and services for their needs, and to make a decision on transferring while understanding the implications of that decision. This will drive competition in both the advisory and retirement product markets.

**Equality and diversity**

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23. 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. As part of this, we conduct an equality impact



assessment to ensure that the equality and diversity implications of any new policy proposals are considered.

- 24.** The outcome of the assessment in this case is stated in paragraph 2.9 – 2.12 of the Consultation Paper.

### **Legislative and Regulatory Reform Act 2006 (LRR)**

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- 25.** We have considered the principles in the LRR and the Regulators' Compliance Code for the parts of the proposals that consist of general policies, principles or guidance. We believe the proposals will be effective in helping firms understand and meet regulatory requirements more easily, in a manner that leads to improved outcomes for consumers and addresses the issues identified in the market for transferring safeguarded benefits following the introduction of the pension freedoms. We also believe the proposals are proportionate and will result in an appropriate level of consumer protection when balanced with impacts on firms and competition.
- 26.** We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance but this duty does not apply to regulatory functions exercisable through our rules.

### **Treasury recommendations about economic policy**

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- 27.** We have had regard to the Treasury's recommendations under section 1JA FSMA. Our proposals are consistent with these recommendations as they aim to improve outcomes for consumers with safeguarded benefits whilst supporting competition between firms operating in this market.



## Annex 4

### Abbreviations used in this document

<b>APTA</b>	Appropriate pension transfer analysis
<b>CBA</b>	Cost benefit analysis
<b>CETV</b>	Cash Equivalent Transfer Value
<b>COBS</b>	Conduct of Business Sourcebook
<b>CP</b>	Consultation paper
<b>CPI</b>	Consumer Prices Index
<b>DB</b>	Defined benefit
<b>DC</b>	Defined contribution
<b>DWP</b>	Department for Work and Pensions
<b>ETV</b>	Enhanced transfer value
<b>FAMR</b>	Financial Advice Market Review
<b>FCA</b>	Financial Conduct Authority
<b>FSMA</b>	Financial Services and Markets Act 2000
<b>GAR</b>	Guaranteed annuity rate
<b>KFI</b>	Key Features Illustration
<b>LRRA</b>	Legislative and Regulatory Reform Act 2006
<b>PI</b>	Professional indemnity
<b>QROPS</b>	Qualifying Recognised Overseas Pension Scheme
<b>RDR</b>	Retail Distribution Review
<b>RPI</b>	Retail Price Index
<b>TVA</b>	Transfer value analysis
<b>TVC</b>	Transfer value comparator

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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# Appendix 1

## Draft Handbook text

**CONDUCT OF BUSINESS SOURCEBOOK (PENSION TRANSFERS)  
INSTRUMENT 2017**

**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 137A (The FCA’s general rules);
    - (b) section 137T (General supplementary powers); and
    - (c) section 139A (Power of the FCA to give guidance); and
  - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force as follows: Part 1, [*date*]; Part 2, [*date + 6 months*].

**Amendments to the Handbook**

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

**Citation**

- F. This instrument may be cited as the Conduct of Business Sourcebook (Pension Transfers) Instrument 2017.

By order of the Board  
[*date*]

## Annex A

### Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend the following definitions as shown:

#### Part 1: Comes into force [*date*]

*execution-only transaction* a transaction *executed* by a *firm* upon the specific instructions of a *client* where the *firm* does not give *advice on investments, or advice on conversion or transfer of pension benefits*, relating to the merits of the transaction and in relation to which the *rules* on assessment of appropriateness (*COBS 10*) do not apply.

*pension transfer specialist* ~~an individual appointed by a *firm* to check the suitability of a *pension transfer, pension conversion or pension opt-out* who has passed the required examinations as specified in *TC*.~~

an individual who:

- (1) has passed the required examinations as specified in *TC*; and
- (2) is appointed by a *firm* to *advise on pension transfers and opt-outs* or to check the reasonableness of such advice in accordance with the provisions of *COBS 19.1*.

#### Part 2: Comes into force [*6 months after Part 1*]

*limited price indexation* in relation to ~~transfer value~~ appropriate pension transfer analysis, benefits which increase in line with a recognised index but subject to a minimum and/or maximum rate.

[*Editor's note*: this Annex takes into account the changes made to the Handbook in PS17/12 'Implementing information prompts in the annuity market' (May 2017).]

## Annex B

### Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### Part 1: Comes into force [*date*]

Delete the current provisions of COBS 19.1. In their place, insert the following new section 19.1. The deleted text is not shown and the new text is not shown underlined.

### 19 Pensions supplementary provisions

#### 19.1 Pension transfers, conversions and opt-outs

Application

19.1.1 R This section applies to a *firm* giving *advice on pension transfers and opt-outs* to a *retail client* in relation to:

- (1) a *pension transfer* involving *safeguarded benefits*;
- (2) a *pension conversion*; or
- (3) a *pension opt-out* involving, or potentially involving, *safeguarded benefits*.

Personal recommendation for pension transfers and conversions

19.1.2 R A *firm* must provide a *personal recommendation* whenever it *advises on conversion or transfer of pension benefits*.

Requirement for pension transfer specialist

19.1.3 R (1) A *firm* must ensure that all *advice on pension transfers and opt-outs* is given, or checked, by a *pension transfer specialist*.

- (2) The requirement in (1) does not apply where the only *safeguarded benefit* involved is a *guaranteed annuity rate*.

Role of the pension transfer specialist

19.1.4 G When checking advice, a *pension transfer specialist* should consider:

- (1) the entirety of the advice process that has taken place, and verify that the conclusion reached is reasonable based on all the circumstances,

including those matters set out at *COBS 19.1.9G* and *COBS 19.1.10G*;

- (2) whether a comparison has been done on a reasonable basis, in accordance with the provisions of this section; and
- (3) whether the *pension transfer specialist* disagrees with any aspect of the advice process, and if so, inform the adviser in writing with reasons.

#### Requirement to carry out a comparison

- 19.1.5 R (1) A *firm* advising on conversion or transfer of pension benefits must carry out the comparison in *COBS 19.1.6R* to *COBS 19.1.8BR*.
- (2) The requirement in (1) does not apply if either:
- (a) the only *safeguarded benefit* involved is a *guaranteed annuity rate*; or
  - (b) the *retail client* is at normal retirement age under the rules of the ceding scheme and wishes to crystallise benefits immediately after the *pension transfer* or *pension conversion*.

#### The comparison

- 19.1.6 R A *firm* must:
- (1) compare the benefits likely (on reasonable assumptions) to be paid under a *defined benefits pension scheme* or other pension scheme with *safeguarded benefits* with the benefits afforded by a *personal pension scheme*, *stakeholder pension scheme* or other pension scheme with *flexible benefits*, before it advises a *retail client* to transfer out of a *defined benefits pension scheme* or other pension scheme with *safeguarded benefits*;
  - (2) ensure that that comparison includes enough information for the *retail client* to be able to make an informed decision;
  - (3) give the *retail client* a copy of the comparison, drawing the *client's* attention to the factors that do and do not support the *firm's* advice, in good time, and in any case no later than when the *key features document* is provided; and
  - (4) take reasonable steps to ensure that the *retail client* understands the *firm's* comparison and its advice.
- 19.1.7 G In particular, the comparison should:
- (1) take into account all of the *retail client's* relevant circumstances;
  - (2) have regard to the benefits and options available under the ceding



scheme and the effect of replacing them with the benefits and options under the proposed scheme;

- (3) explain the assumptions on which it is based and the rates of return that would have to be achieved to replicate the benefits being given up;
- (4) be illustrated on rates of return which take into account the likely expected returns of the assets in which the *retail client's* funds will be invested; and
- (5) where an immediate crystallisation of benefits is sought by the *retail client* before the ceding scheme's normal retirement age, compare the benefits available from crystallisation at normal retirement age under that scheme.

19.1.8 R When a *firm* compares the benefits likely to be paid under a *defined benefits pension scheme* or other *pension scheme* with *safeguarded benefits* with the benefits afforded by a *personal pension scheme*, *stakeholder pension scheme* or other *pension scheme* with *flexible benefits* (COBS 19.1.6R (1)), it must:

(1)	assume that:		
	(a)	the annuity interest rate is the intermediate rate of return appropriate for a level or fixed rate of increase annuity in COBS 13 Annex 2 3.1R(6) unless COBS 19.1.8BR applies, or the rate for annuities in payment (if less);	
	(b)	the RPI is:	2.5%
	(c)	the average earnings index and the rate for section 148 orders is:	4.0%
	(d)	for benefits linked to the RPI, the pre-retirement limited price indexation revaluation is:	2.5%
	(e)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the RPI with maximum pension increases less than or equal to 3.5% or with minimum pension increases more than or equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; otherwise it is the rate in (f) below;	
	(f)	the index linked annuity interest rate for pension benefits linked to the RPI is the intermediate rate of return in COBS 13 Annex 2 3.1R (6) for annuities linked to the RPI unless COBS 19.1.8BR applies;	

	(g)	the mortality rate used to determine the annuity is based on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PMA08 and PFA08 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;	
	(h)	for benefits linked to the <i>CPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is:	2.0%
	(i)	the index linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the intermediate rate of return in <i>COBS</i> 13 Annex 2 3.1R(6) for annuities linked to the <i>RPI</i> plus 0.5% unless <i>COBS</i> 19.1.8BR applies in which case it is the annuity rate in <i>COBS</i> 19.1.8BR plus 0.5%; and	
	(j)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0% or with minimum pension increases more than or equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or equal to 3% but less than 3.5% the annuity rate is the rate in (a) above allowing for increases at the minimum rate of pension increase otherwise it is the rate in (i) above;	
		[ <b>Note:</b> section 148 orders are orders made by the Secretary of State under section 148 of the Social Security Administration Act 1992, as amended. Section 148(7) of this Act provides that orders made previously under section 21 of the Social Security Pensions Act 1975 will be treated as orders made under section 148.]	
		or use more cautious assumptions;	
	(2)	calculate the interest rate in deferment; and	
	(3)	have regard to benefits which commence at different times.	

19.1.8A E For any year commencing 6 April, the use of the male and female annual CMI Mortality Projections Models in the series CMI(20YY-2\_M\_[1.25%] and CMI(20YY-2\_F\_[1.25%], where YY-2 is the year of the Model used, will tend to show compliance with *COBS* 19.1.8R(1)(g).

19.1.8B R *Firms* must apply the annual provisions at *COBS* 13 Annex 2 3.1R(6) on a monthly basis in any month where the yields on the 15th of the relevant

month would give a rolling 12 month average annuity rate that varies by at least 0.2% from the previous rate.

#### Advising in relation to safeguarded benefits

- 19.1.9 G When advising a *retail client* who is, or is eligible to be, a member of a pension scheme with *safeguarded benefits*, a *firm* should have regard to the likelihood that it will be in the best interests of the majority of consumers to obtain, or retain, *safeguarded benefits*.

#### Assessing suitability

- 19.1.10 G A *firm* providing a *personal recommendation* should:
- (1) consider:
    - (a) the *retail client's* attitude to risk including in relation to giving up *safeguarded benefits* for *flexible benefits*;
    - (b) the *retail client's* income needs and realistic expectations, how they can be achieved, the role played by *safeguarded benefits* in achieving them and the consequent impact on them, including any trade-offs;
    - (c) the specific receiving scheme and the investments within that scheme;
    - (d) the *retail client's* intentions for accessing pension benefits;
    - (e) alternative ways of achieving the *retail client's* objectives;
    - (f) the relevant wider circumstances of the *retail client*; and
  - (2) clearly inform the *retail client* about the loss of the *safeguarded benefits* and the consequent transfer of risk from the *defined benefits pension scheme* or other scheme with *safeguarded benefits* to the *retail client*.
- 19.1.11 G In considering whether to make a *personal recommendation*, a *firm* should not regard a rate of return which may replicate the benefits being given up from the *defined benefits pension scheme* or other scheme with *safeguarded benefits* as sufficient in itself.

#### Record keeping and suitability reports

- 19.1.12 R If a *firm* arranges a *pension transfer*, *pension conversion* or *pension opt-out* for a *retail client* as an *execution-only transaction*, the *firm* must make, and retain indefinitely, a clear record of the fact that no *personal recommendation* was given to that *client*.
- 19.1.13 G When a *firm* prepares a *suitability report* it should include:

- (1) a summary of the advantages and disadvantages of its *personal recommendation*;
- (2) an analysis of the financial implications; and
- (3) a summary of any other material information.

19.1.14 G If a *firm* proposes to advise a *retail client* not to proceed with a *pension transfer, pension conversion or pension opt-out*, it should give that advice in writing.

The statutory advice requirement

19.1.15 G Where a *firm* has advised a *retail client* in relation to a *pension transfer or pension conversion*, and the *firm* is asked to confirm this for the purposes of section 48 of the Pension Schemes Act 2015, then the *firm* should provide such confirmation as soon as reasonably practicable.

...

**TP 2 Other Transitional Provisions**

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provision: coming into force
...					
<u>2.29</u>	<u>COBS 19.1.6R to COBS 19.1.8BR</u>		<u>A firm will comply with the provisions in column (2) if it chooses to comply with the following amendments made by Part 2 of the Conduct of Business Sourcebook (Pension Transfers) Instrument 2017 as if those amendments were already in force: COBS 19.1.6AR; COBS 19.1.7AG; COBS 19.1.8CG; COBS 19 Annex 4; COBS 19 Annex 5.</u>	[PS publication] to [day before 6 months thereafter]	[PS publication]

**Part 2: Comes into force [6 months after Part 1 of this Annex]**

**19.1 Pension transfers, conversions and opt-outs**

...

- 19.1.5 R (1) *A firm advising on conversion or transfer of pension benefits must carry out the ~~comparison~~ appropriate pension transfer analysis in COBS 19.1.6AR to COBS 19.1.8BRCG.*
- (2) *The requirement in (1) does not apply if ~~either:~~ the only safeguarded benefit involved is a guaranteed annuity rate.*
- (a) *~~the only safeguarded benefit involved is a guaranteed annuity rate; or~~*
- (b) *~~the retail client is at normal retirement age under the rules of the ceding scheme and wishes to crystallise benefits immediately after the pension transfer or pension conversion.~~*

~~The comparison~~ Appropriate pension transfer analysis and transfer value comparator.

- 19.1.6 R *A firm must:*
- (1) *~~compare the benefits likely (on reasonable assumptions) to be paid under a defined benefits pension scheme or other pension scheme with safeguarded benefits with the benefits afforded by a personal pension scheme, stakeholder pension scheme or other pension scheme with flexible benefits, before it advises a retail client to transfer out of a defined benefits pension scheme or other pension scheme with safeguarded benefits;~~*
- (2) *~~ensure that that comparison includes enough information for the retail client to be able to make an informed decision;~~*
- (3) *~~give the retail client a copy of the comparison, drawing the client's attention to the factors that do and do not support the firm's advice, in good time, and in any case no later than when the key features document is provided; and~~*
- (4) *~~take reasonable steps to ensure that the retail client understands the firm's comparison and its advice. [deleted]~~*

- 19.1.6A R *A firm must:*
- (1) *undertake an appropriate pension transfer analysis which contains an assessment of the benefits likely to be paid and options available*

under the pension scheme with *safeguarded benefits* and those available under the pension scheme with *flexible benefits* which is prepared in accordance with COBS 19 Annex 4;

- (2) take into account all of the *retail client's* relevant circumstances, including their ability to accept investment risk and manage investments;
- (3) consider how each of the schemes would play a role in:
  - (a) meeting income needs throughout retirement (relative to other means available to meet those needs);
  - (b) the provision of death benefits, where relevant, including any comparisons on a fair and consistent basis both at present and at various future points in time; and
  - (c) the trade-offs that may occur by prioritising either of (a) or (b) above;
- (4) prepare a transfer value comparator which shows a comparison of the transfer value offered by the pension scheme with *safeguarded benefits* with the estimated value needed to achieve a comparable secure lifetime income from a pension scheme with *flexible benefits*, in accordance with COBS 19 Annex 4 where relevant.
- (5) provide to the *retail client*, in a *durable medium*, the transfer value comparator prepared in accordance with (4) using the format and wording in accordance with COBS 19 Annex 5 as follows:
  - (a) where the *retail client* has more than 12 months before reaching normal retirement age, using the notes set out at COBS 19 Annex 5R 1.2R; or
  - (b) in all other cases, the notes for the second page at COBS 19 Annex 5R 1.3R; and
- (6) take reasonable steps to ensure that the *retail client* understands how the appropriate pension transfer analysis, including the transfer value comparator, contributes towards the *personal recommendation*.

19.1.7 G ~~In particular, the comparison should:~~

- ~~(1) take into account all of the *retail client's* relevant circumstances;~~
- ~~(2) have regard to the benefits and options available under the ceding scheme and the effect of replacing them with the benefits and options under the proposed scheme;~~
- ~~(3) explain the assumptions on which it is based and the rates of return that would have to be achieved to replicate the benefits being given~~

up;

- (4) ~~be illustrated on rates of return which take into account the likely expected returns of the assets in which the *retail client's* funds will be invested; and~~
- (5) ~~where an immediate crystallisation of benefits is sought by the *retail client* before the ceding scheme's normal retirement age, compare the benefits available from crystallisation at normal retirement age under that scheme. [deleted]~~

19.1.7A R Unless the *retail client* has more than 12 months before reaching normal retirement age under the rules of the ceding scheme, the estimated value in *COBS 19.1.6AR(4)* must be determined as the value determined in (a) multiplied by the ratio of the value determined in (b) compared to the value determined in (c):

- (a) the theoretical value of the scheme benefits from the ceding scheme determined in accordance with *COBS 19 Annex 4*;
- (b) the open market cost of purchasing an annuity which offers increases in payment which are the nearest match to those in the scheme;
- (c) the value of the annuity in (b) determined in accordance with the assumptions in *COBS 19 Annex 4*.

19.1.8 R ~~When a *firm* compares the benefits likely to be paid under a *defined benefits pension scheme* or other pension scheme with *safeguarded benefits* with the benefits afforded by a *personal pension scheme*, *stakeholder pension scheme* or other pension scheme with *flexible benefits (COBS 19.1.6R (1))*, it must:~~

(1)	assume that:		
	(a)	the annuity interest rate is the intermediate rate of return appropriate for a level or fixed rate of increase annuity in <i>COBS 13 Annex 2 3.1R(6)</i> unless <i>COBS 19.1.8BR</i> applies or the rate for annuities in payment (if less);	
	(b)	the <i>RPI</i> is:	2.5%
	(c)	the average earnings index and the rate for section 148 orders is:	4.0%
	(d)	for benefits linked to the <i>RPI</i> , the pre-retirement limited price indexation revaluation is:	2.5%
	(e)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>RPI</i> with maximum pension increases less than or equal to 3.5% or with minimum pension increases more than or	

		equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; otherwise it is the rate in (f) below;	
	(f)	the index linked annuity interest rate for pension benefits linked to the <i>RPI</i> is the intermediate rate of return in <i>COBS 13 Annex 2 3.1 R(6)</i> for annuities linked to the <i>RPI</i> unless <i>COBS 19.1.4BR</i> applies;	
	(g)	the mortality rate used to determine the annuity is based on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PMA08 and PFA08 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;	
	(h)	for benefits linked to the <i>CPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is:	2.0%
	(i)	the index linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the intermediate rate of return in <i>COBS 13 Annex 2 3.1R(6)</i> for annuities linked to the <i>RPI</i> plus 0.5% unless <i>COBS 19.1.8BR</i> applies in which case it is the annuity rate in <i>COBS 19.1.8BR</i> plus 0.5%;	
	(j)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0% or with minimum pension increases more than or equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or equal to 3% but less than 3.5% the annuity rate is the rate in (a) above allowing for increases at the minimum rate of pension increase otherwise it is the rate in (i) above;	
		[Note: section 148 orders are orders made by the Secretary of State under section 148 of the Social Security Administration Act 1992, as amended. Section 148(7) of this Act provides that orders made previously under section 21 of the Social Security Pensions Act 1975 will be treated as orders made under section 148.]	
		or use more cautious assumptions;	
	(2)	calculate the interest rate in deferment; and	



(3)	have regard to benefits which commence at different times. [deleted]	
-----	--	--

- 19.1.8A E ~~For any year commencing 6 April, the use of the male and female annual CMI Mortality Projections Models in the series CMI(20YY-2\_M\_[1.25%] and CMI(20YY-2\_F\_[1.25%], where YY-2 is the year of the Model used, will tend to show compliance with COBS 19.1.8R (1)(g). [deleted]~~
- 19.1.8B R ~~Firms must apply the annual provisions at COBS 13 Annex 2 3.1R(6) on a monthly basis in any month where the yields on the 15th of the relevant month would give a rolling 12 month average annuity rate that varies by at least 0.2% from the previous rate. [deleted]~~
- 19.1.8C G
- (1) COBS 19.1.7AR requires firms to adjust the theoretical value of scheme benefits determined in accordance with COBS 19 Annex 4 2R(1) to a market related rate, by allowing for the ratio of current market pricing to the theoretical value of the annuity which is the nearest match.
  - (2) In COBS 19.1.7AR(3), the annuity which is the nearest match for the scheme benefits should usually be taken as an index-linked annuity unless it can be shown that the majority of the benefits are not index-linked, in some way.
  - (3) COBS 19.1.6AR does not preclude other analyses (for example, stochastic cashflow modelling) which are relevant to making a personal recommendation to the retail client.
- ...
- 19.1.11 G ~~In considering whether to make a personal recommendation, a firm should not regard a rate of return which may replicate the benefits being given up from the defined benefits pension scheme or other scheme with safeguarded benefits as sufficient in itself.~~
- When providing advice on pension transfers and opt-outs to a retail client, a firm:
- (1) should consider, alongside a numerical analysis, other relevant factors specifically arising from that retail client's personal circumstances, including trade-offs that may occur; and
  - (2) should not consider a numerical analysis that appears to support a pension transfer, pension conversion or pension opt-out as a sufficient factor in itself.
- ...

After COBS 19 Annex 3 (Format for annuity information), insert new COBS 19 Annex 4. The text is not shown underlined.

## 19 Appropriate pension transfer analysis

### Annex 4

This annex belongs to *COBS* 19.1.6AR (appropriate pension transfer analysis and transfer value comparator).

R		
1	In preparing an appropriate transfer analysis, a <i>firm</i> must:	
	(1)	take into account all of the <i>retail client's</i> relevant circumstances;
	(2)	have regard to benefits in the ceding scheme and the different times they may become available to the <i>retail client</i> ;
	(3)	have regard to the likely pattern of benefits that would be acquired from a scheme with <i>flexible benefits</i> if a <i>pension transfer</i> or <i>pension conversion</i> were to take place;
	(4)	use rates of return which reflect the investment potential of the assets in which the <i>retail client's</i> funds will be invested;
	(5)	undertake any comparisons of benefits and options consistently; and
	(6)	use the assumptions in <i>COBS</i> 19 Annex 4 2R to 4R, or more cautious assumptions where appropriate.
R		
2	(1)	When a <i>firm</i> values future income benefits as an annuity, use the following assumptions:
	(a)	the index linked annuity interest rate for pension benefits linked to the <i>RPI</i> is the intermediate rate of return in <i>COBS</i> 13 Annex 2 3.1R(6) for annuities linked to the <i>RPI</i> but applying the annual provisions on a monthly basis;
	(b)	the index linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the annuity rate in (a) plus 0.5%;
	(c)	the annuity interest rate is the intermediate rate of return appropriate for a level or fixed rate of increase annuity in <i>COBS</i> 13 Annex 2 3.1R (6) for annuities with level or fixed rate of increase applying the annual provisions on a monthly basis;
	(d)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>RPI</i> with maximum pension increases less than or equal to 3.5% or with minimum pension increases more than or equal to 3.5% is the rate in (c) allowing for increases at the maximum rate of pension

			increase; otherwise it is the rate in (a);
		(e)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0% or with minimum pension increases more than or equal to 3.5% is the rate in (c) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or equal to 3% but less than 3.5% the annuity rate is the rate in (c) above allowing for increases at the minimum rate of pension increase, otherwise it is the rate in (b) above;
		(f)	the mortality rate used to determine the annuity is based on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PMA08 and PFA08 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;
		(g)	the annuity expense allowance is: 4.0%
	(2)	When a <i>firm</i> estimates the level of benefits in deferment, use the following assumptions:	
		(a)	the <i>RPI</i> is: 2.5%
		(b)	the average earnings index and the rate for section 148 orders is: 4.0%
		(c)	for benefits linked to the <i>RPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is: 2.5%
		(d)	for benefits linked to the <i>CPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is: 2.0%
		[ <b>Note:</b> section 148 orders are orders made by the Secretary of State under section 148 of the Social Security Administration Act 1992, as amended. Section 148(7) of this Act provides that orders made previously under section 21 of the Social Security Pensions Act 1975 will be treated as orders made under section 148.]	
Charges			
R			
3	An appropriate pension transfer analysis must take account of all charges that may be incurred as a result of a <i>pension transfer</i> or <i>pension conversion</i> and subsequent access to funds following such a transaction.		
G			
4	Such charges include, but are not limited to, any of the following:		

	(1)	product charges, including those on any investments within the product;	
	(2)	<i>platform charges</i> ;	
	(3)	<i>adviser charges</i> in relation to the <i>personal recommendation</i> and subsequently during the pre-retirement period as well as at benefit crystallisation and beyond, where likely to be relevant; and	
	(4)	any other charges that may be incurred if amounts are subsequently withdrawn.	
Rate of return			
R			
5	(1)	For the purposes of the transfer value comparator, the rate of return for valuing benefits prior to the normal retirement age under the ceding scheme should be based on a rate or rates which would be consistent with the investment potential of the assets following the <i>pension transfer</i> or <i>pension conversion</i> under consideration, including if amounts are subsequently withdrawn and invested or saved outside of any <i>retail investment product</i> .	
	(2)	For purposes other than the transfer value comparator, the rate of return should be based on a rate or rates which would be consistent with the investments being considered in the analysis, both pre- and post-retirement, where relevant.	
G			
5		A rate of return which exceeds the maximum <i>intermediate rate of return</i> is unlikely to be appropriate without adjustment to other assumptions, such as inflation.	
E			
6		For any year commencing 6 April, the use of the male and female annual CMI Mortality Projections Models in the series CMI (20YY-2)_M_[1.25%] and CMI (20YY-2)_F_[1.25%], where YY-2 is the year of the Model used, will tend to show compliance with <i>COBS</i> 19 Annex 3 2 R(1)(f).	
G			
7		When providing an indication of life expectancy or mortality which is not linked to an annuity, <i>firms</i> may use appropriate published population statistics which allow for future mortality improvements, such as those published by the Office for National Statistics.	

After COBS 19 Annex 4 (Appropriate pension transfer analysis), insert the new COBS 19 Annex 5. The text is not shown underlined.

**19**            **Format for provision of transfer value comparator**  
**Annex**  
**5R**

This annex belongs to *COBS* 19.1.6AR(5).

1

- 1.1            The first page of the transfer value comparator must follow the format and wording shown in Table 1. Note that the figures in Table 1 are used for illustration only.
- 1.2            Where *COBS* 19.1.6AR(5)(a) applies (where the *retail client* has more than 12 months before reaching normal retirement age), the second page of the transfer value comparator must contain the notes set out at Table 2.
- 1.3            Where *COBS* 19.1.6AR(5)(b) applies (in all other cases), the second page of the transfer value comparator must contain the notes set out at Table 3.

**Table 1**

This table belongs to COBS 19 Annex 5 1.1R.

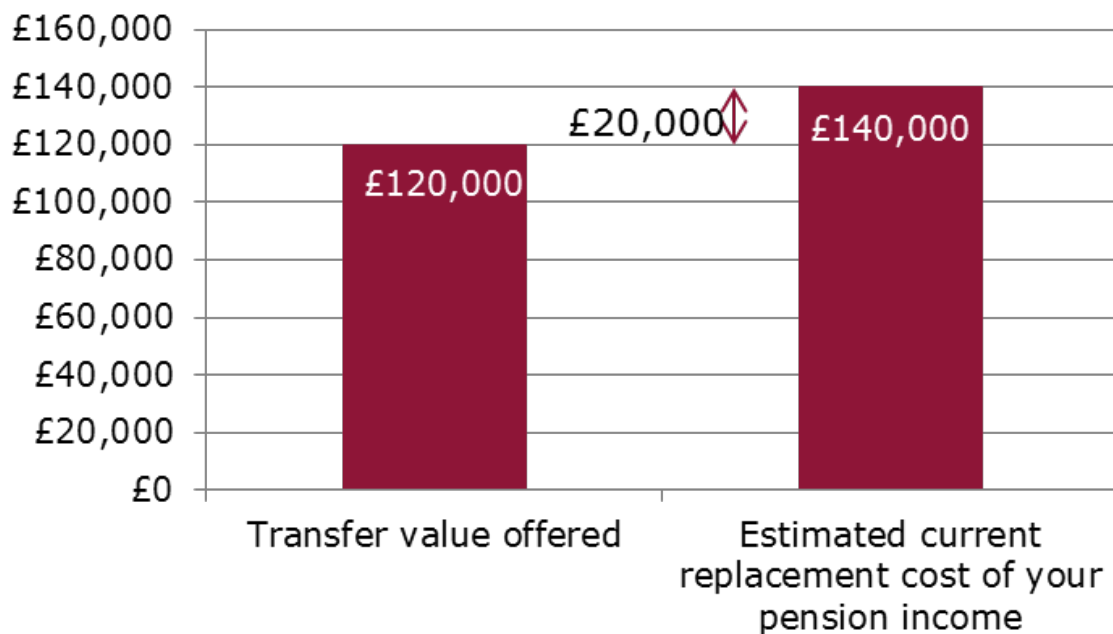
You have been offered a cash equivalent transfer value of £120,000 in exchange for you giving up any future claims to a pension from the scheme.

**Will I be better or worse off by transferring?**

- We are required by the Financial Conduct Authority to provide an indication of what it might cost to replace your scheme benefits.
- We have done this by looking at the amount you might need to buy the same benefits from an insurer.

It could cost you £140,000 to obtain a comparable level of income on the open market.

This means the same retirement income could cost you £20,000 more by transferring.



See 'Notes' on the next page for a detailed explanation of this information.

**Table 2**

This table belongs to COBS 19 Annex 5 1.2R.

*Notes*

1. *The estimated replacement cost of your pension income is based on assumptions about the level of your scheme income at normal retirement age and the cost of replacing that income (including spouse's benefits) for an average healthy person using today's costs.*
2. *The estimated replacement value takes into account the returns that you could receive and any charges you might be expected to pay.*
3. *No allowance has been made for taxation.*

**Table 3**

This table belongs to COBS 19 Annex 5 1.3R.

*Notes*

- 1. The estimated replacement cost of your pension income is based on the current level of your scheme income and the approximate cost of replacing that income (including spouse's benefits) for an average healthy person from an insurer operating in the UK annuity market. The approximation recognises that it may not be possible to find an exact match for your benefits in the form of an annuity income.*
- 2. It may be possible to get a better deal for your particular circumstances by shopping around.*
- 3. The estimated replacement value takes into account any charges you might be expected to pay.*
- 4. No allowance has been made for taxation.*



