Policy Statement

PS13/2

Financial Services Authority

Personal pensions – inflation-adjusted illustrations

Feedback to Chapters 3 and 4 of CP12/29 and final rules

March 2013

Financial Services Authority

Contents

This Policy Statement reports on the main issues arising from Consultation Paper 12/29 (*Personal pensions – feedback to CP12/5 and final rules on disclosures by SIPP operators, and consultation on inflation-adjusted illustrations*) and publishes final rules in respect of Chapter 3 for inflation-adjusted illustrations and final guidance in respect of Chapter 4 on preparation of product information.

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Copies of this Policy Statement are available to download from our website – www.fsa.gov.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

Abbreviations used in this paper

CBA	Cost benefit analysis
COBS	Conduct of Business sourcebook
CP	Consultation Paper
DWP	Department for Work and Pensions
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act 2000 (as amended)
GAD	Government Actuary's Department
KFI	Key Features Illustration
PRIPs	Packaged Retail Investment Products
RDR	Retail Distribution Review
SIPP	Self-Invested Personal Pension
SMPI	Statutory Money Purchase Illustrations
TVA	Transfer Value Analysis

1 Overview

1.1 In Consultation Paper (CP) 12/29, we consulted on various proposals, including:

- Chapter 3 – introduction of inflation-adjusted illustrations for personal pensions, to match the Statutory Money Purchase Illustrations (SMPIs) required by the Department for Work and Pensions (DWP); and
- Chapter 4 – addition of new guidance on the preparation of product information, to help firms prepare information which is easier for consumers to understand and more useful to them.

1.2 This Policy Statement (PS) provides feedback on the responses we received to those proposals and presents the final rules and guidance we have adopted, which are in Appendix 1.

Background

1.3 We consulted in Chapter 4 of CP11/3[1] on possible future changes to pension illustrations to allow for inflation, but did not propose rule changes at that stage. CP12/29[2] consulted on draft rules requiring a move to inflation-adjusted illustrations. The final rules explained in Chapter 2 of CP12/29, on disclosure requirements for self-invested personal pension schemes (SIPPs), extended the disclosure requirements to all pension scheme operators. So the proposals for inflation-adjusted illustrations we consulted on in Chapter 3 of CP12/29 also applied to SIPP operators.

1 CP11/3 – *Product disclosure: Retail investments – changes to reflect RDR Adviser Charging and to improve pension scheme disclosure* (February 2011): www.fsa.gov.uk/pubs/cp/cp11_03.pdf

2 CP12/29 – *Feedback to CP12/5 and final rules on disclosures by SIPP operators, and consultation on inflation-adjusted illustrations* (November 2012): www.fsa.gov.uk/static/pubs/cp/cp12-29.pdf

Implementation and timetable

1.4 The new rules and guidance will come into force on 6 April 2014. Our rules allow firms to comply with these provisions, as if the amendments were in force, from 6 April 2013 if they so wish.

Equality and diversity

1.5 We said in CP12/29 that we had assessed the equality and diversity impact of the proposed move to inflation-adjusted illustrations and believed that our proposals did not give rise to any issues. Respondents did not comment on this point.

Structure of this PS

1.6 The PS covers:

- Chapter 2 – inflation-adjusted illustrations for personal pensions; and
- Chapter 3 – new guidance for product information.

Who should read this PS?

1.7 This will be of interest to life insurers and other providers of personal pensions, and also to firms that advise on personal pensions.

CONSUMERS

Consumers may be interested in the effect of the new rules and guidance on the product information they receive. Providing point-of-sale pension illustrations which take account of the effect of inflation will enable consumers to plan more effectively for their retirement.

2

Inflation-adjusted illustrations for personal pensions

2.1 In this chapter, we outline the views of respondents to the proposals made in Chapter 3 of CP12/29. We received 21 responses, although not all responded to all the questions. The respondents were from professional services providers, product providers and wealth management firms, as well as software providers and trade and professional bodies. A list of non-confidential respondents is provided in Annex 1.

2.2 We also set out our views on these responses and how we have decided to proceed. The rules in Appendix 1 will come into force on 6 April 2014, but if they wish to firms will be able to comply with them before then, as if the rules were in force.

Our proposals

2.3 Our Key Features Illustration (KFI) rules for personal and stakeholder pensions currently require projections in nominal terms on three growth rates (subject to maximum rates). These indicate the variability of potential retirement benefits. Further, KFIs include a table showing the effect of charges over the lifetime of the plan on the value of the fund, and a summary measure which shows how the charges can reduce the investment growth. This Reduction in Yield (RIY) enables readers to compare the overall cost of investing.

2.4 We announced in 2007[3] that we intended to move to inflation-adjusted illustrations. But we said we would wait until the Department for Work and Pensions (DWP) consulted on a review of the legislation for Statutory Money Purchase Illustrations (SMPIs) that they require to be provided annually. Recent SMPI actuarial consultations have also called for more consistency in illustrations. In CP11/3[4] we sought views on the bases to use for inflation-adjusted point-of-sale illustrations.

3 PS07/18 *Conduct of Business Regime* – October 2007.
4 www.fsa.gov.uk/pubs/cp/cp11_03.pdf

2.5 We proposed that instead of being presented in nominal terms, the information in KFIs should be provided in real terms for these products. This would ensure a greater consistency with the SMPIs that consumers receive each year. Further, our research[5] indicated that consumers believed they should be made aware of the possible effect of inflation on the buying power of their pension, to enable them to plan for their retirement more effectively. Advisers also thought showing the possible impact of inflation was a more helpful approach.

Projections

2.6 For projections, we proposed that the accumulated fund should be presented in real terms alongside the appropriate equivalent real growth rate. The consumers in our research preferred this approach: they found it easier to understand, not least because it resulted in fewer numbers than the alternative of presenting the fund both at a nominal rate and then discounting it with an inflation assumption.

2.7 The current nominal growth rates indicate variability of outcome by having a maximum central growth rate and two flanking rates. In the same way, we proposed that different real growth rates should be determined by using the same rate of inflation with each nominal rate of growth. We recognised that this approach would result in negative real returns at the low flanking rate shown on the KFI. This approach was also supported by advisers.

2.8 To help consumers realise that other savings and investments are affected by inflation in the same way, we also proposed that KFIs should contain a statement saying so.

2.9 We asked:

> **Q1:** Do you agree with our proposals for presenting projections in real terms? If not, please explain what alternative approach you think is more appropriate.

2.10 Most respondents agreed that, in principle, providing pensions illustrations in real terms would increase consistency with SMPIs. This was consistent with the feedback we received to CP11/3[6]. However, some said the FSA basis allows different annuity formats to that used in SMPIs. There was also concern that the FSA applies a maximum growth rate, whereas SMPIs do not. Respondents also noted that the assumption for earnings inflation differs between the two bases.

2.11 There were differing views on the potential levels of consumer understanding. Some respondents believed that consumers would find illustrations in real terms too complex to

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5 Illustrating the effect of inflation on future retirement income: www.fsa.gov.uk/static/pubs/cp/illustrating-the-effect-of-inflation-on-future-retirement-income.pdf and www.fsa.gov.uk/static/pubs/cp/pension-illustrations-sf-detailed.pdf

6 www.fsa.gov.uk/pubs/cp/cp11_03.pdf and www.fsa.gov.uk/pubs/policy/ps11_14.pdf

understand, particularly if there was no adviser to help explain them, as may often be the case with auto-enrolment. Concern was also expressed about an inconsistent customer journey if illustrations for decumulation products were not adjusted for inflation. However, others believed that, over time, it would help to improve consumer understanding of the effect of inflation, although they noted the need to take care over the messaging.

2.12 There were differing views on the proposal that the accumulated real value of the fund should be presented by reference to a net of inflation growth rate rather than by showing the nominal fund and then discounting it. Respondents who disagreed with the approach largely focussed on the potential for the calculation routines being different to those for SMPIs.

2.13 A small number of respondents commented on the need for a review of the economic assumptions that focussed on real returns. A larger number commented on the suitability of the flanking rates, although views on these, and the potential for a negative real rate of return, were polarised. Some respondents believed that carrying across flanking rates of +/- 3% from nominal to real projections was inappropriate, because they did not accurately reflect a more limited range of asset volatility in real terms. On the other hand, some specialists in the field submitted data which indicated that the range may not be wide enough, and in particular, may underestimate the downside risk.

2.14 Several respondents commented on the potential for pension sales to fall if they appeared to be worse value than other products. We proposed to mitigate this by requiring a statement that the effect of inflation applied equally to other savings and investments, and this was largely welcomed. A minority of respondents would prefer to see the same basis for projections extended to other packaged products, as well as Individual Savings Accounts (ISAs).

2.15 A fifth of respondents were strongly against the proposals because of the European proposals for Packaged Retail Investment Products (PRIPs). Others referred to the potentially short shelf-life of these proposals if PRIPS introduced a new disclosure regime for pensions. Several respondents called for a complete review of the projections regime.

Our response

We welcome the acceptance of the principle that point-of-sale illustrations should make an allowance for price inflation, so our rules now require this.

We note respondents' concerns about the lack of a maximum growth rate for SMPIs. However, the requirement of the Financial Reporting Council (FRC) to use returns which are appropriate to the underlying investment strategy is consistent with our own requirements. So we would expect that, in most circumstances, the growth rates on projections produced under our rules would be the same as those used in SMPIs. Given the requirement to use appropriate growth rates, we see no need to review the economic assumptions again, having reviewed them last in 2011-12.

We are grateful to those respondents who submitted data on real returns. We think applying a single inflation rate is consistent with the projection's aim to illustrate to consumers that there is a range of possible outcomes. Our projections regime does not set out to show the probability of each of the three projections being achieved. The final rules make clear that the flanking rates of +/-3% apply in all investment scenarios to both nominal and real illustrations.

The DWP's consultation[7] for changing some aspects of the SMPI legislation is likely to result in firms being given flexibility in the annuity formats they can use. This will remove further inconsistencies between our basis and the basis for SMPIs.

We are not limiting firms to a specific calculation methodology. Firms can roll-up nominal contributions at a gross growth rate and then discount for inflation, or they can roll-up real contributions with a growth rate that is net of inflation. The important thing is to make the presentational changes our research indicated were better understood by consumers; that is, only illustrating benefits in real terms and showing growth rates that are net of inflation.

We have proceeded with the proposed rule requiring a statement about the effect of price inflation on other savings and investments. We do not see a case for mandating inflation-adjusted illustrations for life products. Our rules do not prevent firms from adding examples about the effect of inflation. In any case, there is no requirement to provide illustrations for retail collective investment schemes, whether in an ISA wrapper or not.

We comment on PRIPs in our response to Q11.

Effect of charges information

2.16 We proposed that to maintain consistency, the effect of charges table and reduction in yield information should also be presented in real terms. We also proposed changes to column headings in the table, based on feedback from our research.

2.17 We asked:

> **Q2:** Do you agree with our proposals for changing the text relating to the effect of charges table? If not, please explain what alternative approach you think is more appropriate.

2.18 Many respondents said the use of different growth rates by providers reduced the effectiveness of the effect of charges table as a comparative tool. A few recognised that the reduction in yield (RIY) was less sensitive to changes in growth rate and suggested that the proposed text on comparing providers' charges should relate to the RIY. A small number of

7 http://dwp.gov.uk/consultations/2013/occ-personal-pension-schemes.shtml

respondents said that the messages with the RIY statement should emphasise that it shows the return in excess of the inflation rate.

2.19 Most respondents agreed with the proposed changes to the column headings, although one noted some consumers might think that the payments shown were year on year rather than cumulative. Some respondents thought showing payments into the product in real terms could be confusing. But they acknowledged that having the payments in nominal terms while the rest of the table was in real terms would also not be ideal.

Our response

We agree that the statement on comparability of product charges is better positioned with the reduction in yield, and we have reflected this in the final rules. We have proceeded with the changes to the column headings, but firms should note that they can change these to make them more closely reflect the nature of a particular contract or the terminology they use in the rest of their contract literature. They can also use their own text to explain the effect of charges table and the reduction in yield information.

We have also made a consequential change to make it clear that the effect of charges table and reduction in yield information should be based on the intermediate rate of return.

Drawdown pensions

2.20 One of the reasons for introducing an inflation adjustment into illustrations is to align them with annual SMPIs in real terms that customers receive each year. As there is no requirement to provide an SMPI once a pension is in drawdown, there appeared to be no case for moving drawdown pensions to real terms. However, in response to queries, we did propose a change to the age limit where the pension fund will not be exhausted at the higher rate of return.

2.21 We asked:

Q3: Do you agree that illustrations for drawdown pensions should remain in nominal terms? If not, please explain what alternative approach you think is more appropriate.

Q4: Do you agree that a maximum age of 99 is reasonable for drawdown analyses? If not, what age limit would you suggest and why?

2.22 The question on whether drawdown pensions should remain in nominal terms produced polarised responses. Some respondents called for everything to be in real terms to provide a consistent consumer journey from taking out a pension to entering decumulation, whether by drawdown or annuity. Others thought there might be a mis-selling risk if the face value of nominal illustrations appeared more attractive. Some respondents spoke of increased systems costs if the approach before and after decumulation was different, particularly for plans containing both vested and unvested benefits. There were also concerns about potential confusion for consumers, especially given expectations that the numbers taking a phased approach to retirement will increase.

2.23 On the other hand, a number of respondents, who generally saw no need to express annuities in real terms (see Q9), took the view that drawdown illustrations needed to be comparable in money terms with annuity quotations. Others noted that drawdown benefits are more immediate, so there is less need for inflation-adjusted figures. Some respondents noted that our research had not covered drawdown illustrations, and that the complexities of drawdown required particular consideration in the context of an inflation-adjusted approach, e.g. the treatment of Government Actuary's Department (GAD) limits and of future annuitisation.

2.24 One respondent pointed out that the notes to the effect of charges table in COBS 13 Annex 4 required amending to enable it to continue to be provided in nominal terms for drawdown contracts.

2.25 The age limit for drawdown illustrations saw more consensus, with most respondents being comfortable with a limit of 99 years old. Some respondents would have preferred to see a term-based approach, for example, 10 years (on a rolling basis), which is consistent with the requirement to illustrate an annuity, or 20 years, on the grounds that anything beyond that would become increasingly inaccurate. At the other extreme, there were calls for notice to be taken of increasing longevity, particularly when illustrating for older members.

2.26 One respondent noted it would be better to illustrate to the policy anniversary immediately before or after the 99^{th} birthday.

Our response

We agree that the area of drawdown pensions is complex, when considering inflation-adjusted illustrations. For some consumers, the gradual shift from pension to drawdown increases the need to take account of the future impact of inflation consistently. However, for others, where the drawdown illustration is used for comparison with a conventional annuity or another drawdown contract, the future impact of inflation is less relevant.

Given the various uses made of the illustration, we do not want to mandate inflation-adjusted illustrations without further investigation. However, we have decided to enable illustrations on an inflation-adjusted basis to be provided voluntarily. But firms will need to take particular care when addressing issues such as GAD limits and future annuitisation when providing inflation-adjusted illustrations. Firms are also reminded of the new guidance in COBS 13.2.1A G. We have modified the rules on the effect of charges table to reflect that it can be in either real or nominal terms for drawdown contracts.

This approach will provide more flexibility for firms and, in particular, will enable them to provide illustrations on a consistent basis for vested and non-vested benefits. We accept that this approach will limit the ability to compare one drawdown contract with another or with an annuity. But we think the cost of mandating inflation-adjusted drawdown illustrations at this stage is not justified. Firms may find consumers would like a choice of illustrations in either nominal or real terms, depending on their circumstances.

With increasing longevity, which many consumers continue to underestimate, it is important that the implications of living longer can be demonstrated. So we have proceeded with a slightly modified rule for illustrating drawdown contracts at five yearly intervals with a cut-off at age 99. Firms can continue to project beyond age 99 if they wish, and we realise they may need to do so if any customers approach this age.

We have included a rule which requires firms to make the effect of charges table consistent with the projection, whether the illustration is provided in nominal or real terms. This has enabled us to simplify the amendments required to the Notes to the effect of charges table.

Generic illustrations

2.27 Currently, firms are able to provide generic illustrations in either nominal or real terms. For consistency with personalised illustrations, we proposed that only real terms generic illustrations for personal and stakeholder pensions should be prepared in future.

2.28 We asked:

> **Q5:** Do you agree that we should only permit generic illustrations in real terms? If not, please explain what alternative approach you think is appropriate.

2.29 A clear majority of respondents agreed that generic and personalised illustrations should be consistent. A small number identified a potential risk of consumer confusion, particularly in the context of auto-enrolment, where some consumers may be less sophisticated and not have direct access to an adviser. One respondent suggested that where a generic illustration has been issued at point of sale, in-force illustrations should also be permitted on the same basis.

Our response

We were pleased to see that most respondents agreed that generic illustrations should be presented in a way which is consistent with personalised illustrations, and we have proceeded with this change. We note the concerns regarding less sophisticated consumers; however, stakeholder pension decision trees, which were also aimed at a less sophisticated consumer, have been presented in real terms since outset. We also note that many online tools, such as those on provider websites for direct customers, are presented with real terms projections as the default.

Alternative illustrations

2.30 Currently, firms are able to provide alternative illustrations in addition to those required for the KFI, either as part of the KFI (in which case the standard deterministic projections must be the most prominent) or separately. Some firms provide stochastic projections and model various 'what if' outcomes. However, some firms have used this rule to provide an additional projection at the maximum intermediate growth rate where the main projections use a lower rate, so that the projection can be compared with other providers' projections. Without modification, this rule would also have enabled firms to continue providing nominal projections. So we proposed that only real-terms stochastic projections could be provided in addition to the three standardised deterministic projections, subject to the existing rules on the provision of stochastic projections.

2.31 We asked:

Q6: Do you agree with our proposals for alternative projections?

2.32 Many respondents agreed with the principle of restricting the number of projections within the KFI. However, several said that providers using different growth rates had made comparisons difficult, causing additional projections to be used at the intermediate growth rate. Some respondents were concerned that our proposals would restrict financial planning and the use of 'what if' scenario testing. There was general agreement that stochastic projections within KFIs should only be shown in real terms, although one respondent stressed the need for care when explaining differences between real deterministic projections and real stochastic projections, given the different assumptions used. A small number of respondents were concerned that the proposals could stifle innovative approaches to interactive planning tools. They suggested that additional deterministic projections should still be allowed but firms must justify how they add value to the customer.

Our response

Where standard deterministic growth rates below the maxima are used, the provision of additional projections at the maximum intermediate growth rate is both misleading and unnecessary. Products should not be compared on the basis of projected growth rates. Product charges can be compared by using the reduction in yield information.

We are proceeding with our proposals that only real-terms stochastic projections may be included in KFIs, in addition to the mandated real-terms deterministic projections. We do not consider that this approach limits the use of interactive financial planning tools or restricts scenario testing. All of these can continue to be provided, in both real and nominal terms, outside the context of a KFI.

Projections for in-force business

2.33 Currently, our rules for in-force business projections enable firms to omit a projection at the intermediate rate of return. This means the projection equivalent to the SMPI may be missing.

2.34 We asked:

> **Q7:** Do you agree that we should now remove the exemption allowing the intermediate growth rate to be omitted for in-force projections?

2.35 There was general agreement that the exemption could now be removed. However, some respondents considered that this had not been properly allowed for in the cost benefit analysis (CBA), particularly where a number of legacy systems were affected. One respondent suggested that the requirement should only apply where there was an increase in premium or an increase in adviser charges facilitated through the product. A number of other respondents considered that the divergence of the FSA basis from that used for SMPIs, particularly the cap on growth rates, invalidated the argument for removing the exemption. Further differences in the bases were cited, including the basis for payments made (paid vs. received) and the annuity format.

Our response

As already described, the DWP is consulting on changing the rules for SMPI projections so that most of the differences in projection bases can be removed. So we are proceeding with this change, but only for contracts entered into from 6 April 2014. This will mean that firms will not have to change legacy systems.

We consider that the cost data derived from the PwC report[8] for the CBA was inclusive of systems changes to products currently being marketed.

Other types of projections

2.36 There are other situations in which a consumer may find it helpful to see the possible impact of inflation on the value of their projected benefits, such as transfer value analysis reports and investment-linked annuities. With increasing longevity, inflation can also have a significant impact on the value of level income from a conventional annuity.

2.37 We asked:

Q8: Do you think we should allow for inflation in transfer value analysis reports? Please give your reasons and provide evidence for your views, where possible.

Q9: Do you think we should allow for inflation in annuity quotations? If so, please explain how and give your reasons.

2.38 There was no consensus on whether transfer value analysis (TVA) reports should be in real terms. A number of those against the concept pointed out that the main purpose of TVA reports is to enable scheme members to understand the comparison of benefits and the risks associated with transferring from a defined benefit (final salary) scheme to a money purchase scheme. They said the current reports are confusing enough without adding even more complexity, and that the focus should be on preparing figures that aid understanding, whether in real or nominal terms.

2.39 A number of respondents pointed out the difficulties of expressing final salary scheme benefits in real terms, particularly where these include tranches of different benefits with different types of indexation. Other areas of complexity mentioned included comparing a final salary projection based on salary inflation with a money purchase projection based on price inflation, and the suitability of using a standard rate of inflation to value benefits for pensioners, who typically suffer higher rates of inflation than other sections of the population. One respondent also pointed out that expressing all the figures in real terms will make the differences between the schemes appear smaller, increasing the risk of unsuitable transfers. Another respondent suggested that there may be some merit in considering critical yields on a real basis.

2.40 On the other hand, some respondents considered that a real-terms regime should apply to all types of illustrations, including TVA reports, to provide consistent information for

8 PWC, November 2006: Compliance costs of proposed changes to the investment product disclosure regime (www.fsa.gov.uk/pubs/consumer-research/compliance_costs.pdf)

consumers. One respondent pointed out that TVA reports can be (and are) prepared on the basis of a transfer to a generic money purchase arrangement, in which case they do not constitute investment advice and fall outside the regulatory regime. So changing the regulatory regime could enable arbitrage between reports prepared under regulation and those prepared on a generic basis.

2.41 Most of those responding to the question on annuities saw merit in a statement about the effect of inflation on the value of income over an annuitant's lifetime, although one respondent questioned whether such a statement had been sufficiently effective in pensions illustrations to warrant carrying it over to annuities. Some respondents thought a statement alone would not go far enough and, for consumer consistency, preferred to carry on the concept of inflation-adjusting into quotes for conventional and investment-linked annuities. One respondent saw potential for consumer confusion if inflation-adjusting was applied to index-linked annuities but the projection basis was not consistent with the underlying annuity basis.

2.42 Many respondents suggested the alternative approach of a table showing the purchasing power of, say, £1,000 in 10, 20 and 30 years' time. A suggested variation was to base the table on the level of the annuity at outset. Some respondents were opposed to any intervention. Reasons given included the lack of any need for consistency with SMPIs, the risk that annuities could appear poor value compared to other products, and the introduction of the ABI Code of Conduct on Retirement Choices, which will require providers to promote awareness of the effect of inflation to customers when they choose an annuity.

Our response

We agree that the current TVA reports are complex and long and may not be well understood by scheme members. Firms advising on transfers and software providers of TVA reports need to be sure that TVA reports enable members to make an informed decision, and not merely rely on standard text supporting the numbers. Having considered the feedback, we have decided not to impose new requirements, which, on the basis of the current examples of TVA reports, may increase consumer confusion. Instead, we would urge firms to consider how they could meet their current regulatory obligations in a way that is more helpful to consumers.

We have considered the responses on allowing for inflation in annuity quotes carefully. There is nothing in the current rules to prevent providers from making statements about the effect of inflation or providing examples of the future buying power of an annuity. Given the level of support for these concepts, we look forward to seeing providers introduce these features voluntarily. We will also assess the impact of the ABI Code of Conduct on Retirement Choices.

Rule clarification

2.43 We proposed a minor rule clarification to the wording of COBS 13.6.1R about when to provide information once facilitated adviser or consultancy charges start or change. We suggested that instead of …. *in good time before that information has to be provided* should be changed to … *in good time before the facilitation takes effect*.

2.44 We asked:

> **Q10:** Do you agree that the proposed change to the wording of COBS 13.6.1R will make this rule clearer?

2.45 All but one respondent to this question fully supported the change in the wording, with many saying it was helpful, sensible or clearer. One provider still thought it was open to interpretation, and another provider suggested alternative wording which it thought was more practicable, particularly when acting on instructions for an ISA or unit trust.

Our response

We have changed the rule as proposed.

Cost benefit analysis

2.46 Our proposals would apply to all product providers providing individual or group personal and stakeholder pensions, including SIPP operators and mutual firms. Although the new rules would not become effective until 6 April 2014, we proposed that they could be adopted early, from 6 April 2013; this was to enable SIPP operators producing KFIs for the first time from 6 April 2013 to adopt the new format from outset.

2.47 We identified one-off compliance costs to remaining firms totalling £25.1m. This figure was based on previous industry research[9] and updated to allow for inflation. Feedback suggested that this approach had proved reasonable during our previous consultation on changes to illustrations for the Retail Distribution Review.[10]

2.48 The key benefit we identified was an improvement in consumer understanding of the effect of inflation on their investments, which may result in more realistic contribution levels and more informed risk taking. However, we also identified a risk if consumers perceived pensions to be poor value for money, which could potentially result in lower sales of pension contracts.

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9 Compliance costs of proposed changes to the investment product disclosure regime – www.fsa.gov.uk/pubs/consumer-research/compliance_costs.pdf

10 www.fsa.gov.uk/pubs/cp/cp11_03.pdf and www.fsa.gov.uk/pubs/policy/ps11_14.pdf

2.49 We asked:

> **Q11:** Do you have any comments on the cost benefit analysis for Chapter 3?

2.50 Just over half of respondents made comments on the CBA, with the main issues being:

a) The potentially short shelf-life of the proposals if pensions are included within the proposed PRIPS regime from 2015. In that scenario, a number of respondents considered that the implementation costs would be disproportionate to the consumer benefits, particularly given the current differences in the FSA projection basis and the SMPI basis.

b) Some respondents said that the CBA did not consider all SIPP operators.

c) Implementation costs being higher than anticipated in the CBA for adapting legacy systems to provide in-force projections at the intermediate growth rate.

2.51 Another concern is having only one year to introduce both these changes and the new projection rates[11], particularly as April is already a busy month (with tax and bonus rate changes). One respondent foresaw difficulties in adapting legacy systems for negative real returns.

2.52 Some respondents also considered that the risks of customers being discouraged from investing in pensions had been understated. One respondent thought that consumers would be misled by the new KFIs and that the effect of inflation is better explained to a customer than presented in a KFI, but did not say how.

Our response

While there is a risk that the proposed regulation for a new Key Information Document for retail investment products will require further amendments to the FSA illustration regime, it remains unclear whether pensions will be within its scope. The European Commission's proposal excluded workplace pensions, while the latest European Council text calls for all pensions to be excluded. In contrast, the European Parliament report proposes to extend the scope of the draft regulation to all pensions and also to all retail savings and investment products (including shares and deposit accounts). Should pensions be in scope it should be noted that both the Commission and the European Parliament envisage projections will be required for them.

In addition, in line with Article 185 of the Solvency II Directive, any projection regime will require life companies to provide three projections.

11 PS12/17 *Product projections and transfer value analysis* (November 2012) – www.fsa.gov.uk/library/policy/policy/2012/12-17.shtml

We believe the negotiations on the regulation are now likely to be completed towards the end of 2013. In the meantime we will play a full role in discussions via the European Supervisory Authorities and directly with the EU institutions mentioned above. Given that the timescale for final implementation of legislation by the Commission is unclear, we see no further reason to delay the introduction of inflation-adjusted illustrations in the format supported by our research.

We have reconsidered the number of SIPP operators based on the most recent Product Sales Data and have revised the total compliance costs as follows:

Firm size	No. of firms	Cost per firm £'000	Total £'m
Large	6	2,632	15.8
Medium	13	902	11.7
Small	168	10	1.7
Total	**187**		**29.2**

The methodology for calculating the costs for SIPP operators is the same as for other pension providers moving from providing illustrations in nominal terms to providing them in real terms. Overall, the costs have increased by £4.1m, although the firm figures may be overstated for some of the operators who set up extremely small numbers of SIPPs each year and can calculate figures without using a full illustration program. We do not consider that the magnitude of the change in costs substantially changes the overall cost benefit analysis.

In general, we think one year should be enough to undertake the required changes to illustration systems. April was chosen because these systems already need to be amended for changes to the annuity interest rate and mortality improvements then.

We have considered the feedback on including the intermediate growth rate for in-force pensions business and have modified our proposals so this will only apply to pensions contracts beginning from 6 April 2014. This should avoid disproportionate costs in amending legacy systems no longer used for new contracts.

We have noted the comments on the possible negative impact on consumers; however, in general we believe that our consumer research supports this change. In particular, consumers themselves believed that inflation should be taken into account in these documents. Given the growing numbers of consumers who will be unlikely to have direct contact with an adviser during the auto-enrolment process, we consider that the impact of inflation is too important to omit from the KFI.

Because the case for inflation-adjusted drawdown illustrations is less clear-cut, we believe that the benefits of mandating such a change at this stage will be outweighed by the costs. The final rules will instead enable firms to adopt inflation-adjusted illustrations voluntarily for drawdown pensions. We accept that this may lead to a loss of some comparability (of the illustrated income after the first year). We consider this can be minimised if firms offer both nominal and real illustrations rather than one or the other.

We understand that firms who opt to provide inflation-adjusted drawdown illustrations could incur lower costs, if the same routines can be used for both vested and unvested contracts. Further, we understand that for customers with both vested and unvested benefits, such an approach would lead to benefits, as there would be less consumer confusion.

Compatibility statement

2.53 We continue to consider, as set out in the Compatibility Statement in Annex 5 of CP12/29, that our proposals are compatible with our general duties under Section 1B of FSMA and the regulatory principles set out in Section 3B of FSMA.

3

New guidance for product information

3.1 This chapter outlines the views of respondents to the proposals made in Chapter 4 of CP12/29. We also set out our views on these responses and how we have decided to proceed. The new guidance set out in Appendix 1 comes into force on 6 April 2014, although there is nothing to prevent firms from taking it into account when preparing new product documentation before that date.

Our proposals

3.2 The consumer research that we carried out on inflation-adjusted illustrations confirmed our belief that consumers find current product information, particularly illustrations, to be poorly designed, too technical and too long. The KFIs we tested in our research were typically half the length of many currently produced by providers. Consumers spontaneously remarked that they were better than the versions they had recently received.

3.3 There is a tendency for firms to blame the disclosure regime for poor disclosure documents, but few have taken advantage of the simplified COBS rules introduced in 2007. Some illustrations seem to be written primarily to protect the author rather than inform the reader. While other industries have used improved technology to produce better documents, we have only found a few providers who have done the same. Other firms still rely on old and inflexible systems that are expensive to maintain.

3.4 So to encourage firms to produce better documents, we drafted additional Handbook guidance on good practice. The draft guidance covered the length and layout of documents, including design techniques, and the need to consider the appropriateness of the key information. It also asked firms to consider the language they use, in the light of the target market; the need to write in plain language and to provide explanations of unavoidable jargon and unfamiliar terminology, and the eventual means of printing or display.

3.5 We asked:

> **Q12:** Do you have any comments on our proposals to introduce additional guidance on preparing product information?

3.6 Most respondents agreed with our proposals to introduce the new guidance, with a number welcoming it as helpful.

3.7 Respondents generally welcomed the publication of the consumer research, which supported the development of the rules as well as the new guidance and agreed that the research gave the proposals credence. One firm said it gave them greater confidence that they could simplify and improve documents whilst maintaining regulatory compliance. Others commented that all firms should be doing this anyway, and the Financial Services Consumer Panel expressed disappointment that such basic guidance is necessary[12]. Some respondents said that improved product information should increase consumer engagement and could be helpful in reducing the savings gap. It was also suggested that the guidance could go further, and that information over the product lifetime should link to the customer's original goals, and track progress against those goals.

3.8 A few respondents cautioned against the guidance being applied as a surrogate rule or expressed the hope that we would recognise there is more than one right way to undertake product information. On the other hand, another respondent thought that there should be more active supervision and enforcement of the existing rules. One respondent observed that the new guidance might lead to information that was previously in KFIs being moved out into additional documents. One firm was concerned that we had consulted on new guidance that covered life products as well as pensions in a CP with a main title of Personal Pensions.

Our response

As our guidance merely restates widely accepted good practice we share the disappointment that such guidance is necessary. Many firms are content to keep outdated illustration engines and printer technology that limits their ability to improve their documents to help their customers.

We were pleased that most respondents agreed with the guidance. We urge firms to use the published research and guidance when they change their illustrations and review their product information.

We understand there are many ways to present product information in a way that is meaningful to consumers. By introducing this Handbook text in the form of guidance, we give firms the flexibility to express their product information in a way which is relevant to their target market and also consistent with their own consumer testing brand style.

12 Financial Services Consumer Panel Response to CP12/29: www.fs-cp.org.uk/publications/pdf/CP12_29_personal_pensions_20120117.pdf

We have made minor changes to the wording in the draft to reflect comments made, including the addition of using cross-referencing as a way of avoiding excessive detail in key features documents and key features illustrations.

We are not making changes to require firms to take account of a customer's individual goals, because in many cases providers will not know this information. But our rules do not prevent firms from doing this.

Cost benefit analysis

3.9 We considered that there was no compliance cost to the new Handbook guidance, which is reinforcing Principle 7 of our Principles for Businesses, by showing how firms can make product information 'fair, clear and not misleading'. In particular, we noted that shorter KFIs may produce cost savings in the long run.

3.10 Better presented product information should result in documents which are easier for consumers to understand and improve their engagement. Further, they are more likely to engender trust in the industry and improve consumer confidence.

3.11 We asked:

Q13: Do you have any comments on the cost benefit analysis for the proposed guidance on preparing product information in Chapter 4?

3.12 Most respondents had no comments on this question. One disagreed that there was no compliance cost attached to the proposal, pointing out that any changes to personalised illustrations are costly. A small number of respondents again referred to the introduction of PRIPs and the possible limited lifespan for FSA-mandated product information, particularly as the guidance covers life products as well as pensions. Similarly, the SIPP operators indicated that the costs to them had not been properly considered and that these costs could not just be assumed to be absorbed into the KFI production cost. One respondent pointed out that colour printing costs 8.5 times more than black and white printing.

Our response

We maintain that as firms should already be preparing product information that is 'fair, clear and not misleading', the additional guidance should help firms attain the standard we expect. Our previous comments on PRIPS (Q11) are relevant to the comments made by respondents in this area. We do not consider that the issues for SIPP operators are different to those for other pension providers.

There is no requirement for product information to be printed in colour.

Annex 1

List of non-confidential respondents to Chapters 3 & 4 of CP12/29

Association of British Insurers

Aegon

AJ Bell

Association of Member Directed Pension Schemes

Aviva

Barrie & Hibbert

Bridges UK Actuarial Services

Financial Services Consumer Panel

Friends Life

Hargreaves Lansdowne

Institute and Faculty of Actuaries

LV=

Pensions and Actuarial Services Ltd

Prudential

Scottish Widows

Skandia Life Assurance Co Ltd

Society of Pension Consultants

St James's Place Group

Standard Life

Appendix 1

Made Handbook text

CONDUCT OF BUSINESS SOURCEBOOK (KEY FEATURES ILLUSTRATIONS FOR PERSONAL PENSIONS) (AMENDMENT) INSTRUMENT 2013

WHEREAS:

A. The Authority has, in accordance with Article 5 of the Designation Order, appointed persons to exercise functions referred to in Article 5(1) of the Designation Order, which include the function of the Financial Conduct Authority of making rules, giving guidance and issuing codes.

B. By virtue of Article 5(3)(a) of the Designation Order the persons appointed may discharge the relevant functions as if they were the governing body of the Financial Conduct Authority.

C. By virtue of Article 7(1) of the Designation Order this Instrument shall be treated as if it had been made by the Financial Conduct Authority acting through its governing body.

D. Article 2(1)(c) of the Early Commencement Order commenced certain of the Financial Conduct Authority's rule making and other powers for the purposes specified in Part 3 of the Schedule to that Order.

Interpretation

1 In this Instrument (including the Recitals):

(1) "Designation Order" means the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013 (SI 2013/161);

(2) "Early Commencement Order" means the Financial Services Act 2012 (Commencement No. 1) Order 2013 (SI 2013/113);

(3) "the 2000 Act" means the Financial Services and Markets Act 2000;

(4) "the 2012 Act" means the Financial Services Act 2012;

(5) "the Authority" means the Financial Services Authority; and

(6) "Financial Conduct Authority" means the body corporate referred to in section 1A of the 2000 Act as amended by section 6 of the 2012 Act.

Rules etc. made, given or amended by the Financial Conduct Authority

2 In accordance with Article 2(1) of the Early Commencement Order and in the exercise of the powers and related provisions specified in paragraph 3, the Financial Conduct Authority amends the Conduct of Business sourcebook (COBS) in accordance with the Annex to this instrument.

3 The Financial Conduct Authority makes, amends, issues, gives or imposes the provisions in the Annex to this Instrument in exercise of the following powers and related provisions of the 2000 Act, as amended by the 2012 Act:

(1) Section 137A (The FCA's general rules);

(2) Section 137R (Financial promotion rules);

(3) Section 137T (General supplementary powers); and

(4) Section 139A (Power of the FCA to give guidance).

4 The rule-making powers in paragraph 3 are specified for the purpose of section 138G (Rule-making instruments) of the 2000 Act, as amended by the 2012 Act.

Commencement

5 The Financial Conduct Authority directs that:

(1) Part 1 of the Annex to this Instrument comes into force on 6 April 2014;

(2) Part 2 of the Annex to this Instrument comes into force on 6 April 2013.

Citation

10. This Instrument may be cited as the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013.

By order of the persons appointed under Article 5 of the Designation Order to discharge specified functions of the Financial Conduct Authority as if they were its governing body

19 March 2013

Annex

Amendments to the Conduct of Business sourcebook (COBS)

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

Part 1: Comes into force on 6 April 2014

13.2 Product information: production standards, form and contents

13.2.1 G …

13.2.1A G When a *firm* prepares *documents* or information for a *life policy*, *personal pension* or *stakeholder pension* in accordance with this chapter, the *firm* should:

(1) consider the *rules* on communicating with clients (*COBS* 4). Those *rules* require a *firm* to ensure that a communication is fair, clear and not misleading. In particular, a *firm* should:

(a) take into account its target market's understanding of financial services when preparing *documents* and information;

(b) present information in a logical order;

(c) use clear and descriptive headings, and where appropriate, cross references and sub-headings to aid navigation;

(d) where possible, use plain language and avoid the use of jargon, unfamiliar or technical language;

(e) if it is necessary to use jargon, unfamiliar or technical language, provide accompanying explanations in plain language;

(f) use short sentences;

(g) (if the *key features illustration* is separate from the *key features document*) clearly cross-reference between the two and avoid duplication where possible;

(h) concentrate on key product information, cross reference to background information, detailed explanations and information about how to apply for the product; and

(i) avoid duplication and unnecessary disclaimers;

(2) taking into account the means of printing or display, consider whether the following can be used to improve the *client's*

understanding of the product, in particular:

(a) design devices such as side annotations, shading, colour, bulleted lists, tables and graphics; and

(b) the type size, line width, line spacing, and use of white space.

…

13.4 Contents of a key features illustration

13.4.1 R A *key features illustration* must include *appropriate charges information*, information about any interest that will be paid to *clients* on money held within a *personal pension scheme* bank account and, if it is a *packaged product* which is not a *financial instrument*:

(1) must include a *standardised deterministic projection*;

(2) the projection and charges information must be consistent with each other so that:

(a) the same intermediate growth rate and assumptions about regular contributions are used;

(b) a *projection* in nominal terms is accompanied by an effect of charges table and reduction in yield information in nominal terms; and

(c) a *projection* in real terms is accompanied by an effect of charges table and reduction in yield information in real terms;

(3) it may also include ~~*alternative*~~ *stochastic* *projections* if there are reasonable grounds for believing that a *retail client* will be able to understand the *stochastic projection* except that the most prominent *projection* must be a *standardised deterministic projection*.

…

13.5 Preparing product information: other projections

Projections for in-force products

13.5.1 R A *firm* that communicates a *projection* for an in-force *packaged product* which is not a *financial instrument*:

(1) must include a *standardised deterministic projection*;

(2) may also include ~~an *alternative*~~ a *stochastic* *projection* except that the most prominent *projection* must be a *standardised deterministic projection*; and

must follow the *projection rules* in *COBS* 13 Annex 2.

Projections: other situations

13.5.2 R A *firm* that communicates a *projection* for a *packaged product* which is not a *financial instrument*~~,~~:

(1) for which a *key* ~~*feature*~~ *features illustration* is not required to be provided; and

(2) which is not an in-force *packaged product*;

must ensure that such a *projection* is either a *standardised deterministic projection* or ~~an *alternative*~~ a *stochastic projection* in accordance with *COBS* 13 Annex 2.

…

13.5.4 G The general requirement that communications be fair, clear and not misleading will nevertheless mean that a *firm* that elects to comply with the future performance rule in *COBS* 4.6.7R will need to explain how the combined *projection* differs from other information that has been or could be provided to the client, including a *projection* provided under the *projection rules* in *COBS* 13.4, *COBS* 13.5 and *COBS* 13 Annex 2, and in particular, the *firm* should identify where a *projection* in real terms is required under *COBS* 13.

…

13.6 Preparing product information: changes to adviser and consultancy charges

13.6.1 R A *firm* that agrees to start facilitating the payment of an *adviser charge* or *consultancy charge*, or an increase in such a charge, from an in-force *packaged product*, must prepare sufficient information for the *retail client* to be able to understand the likely effect of that facilitation, in good time before ~~that information has to be provided~~ it takes effect.

…

13 Annex 2 Projections

…

R	
1.2	Calculating projections: additional requirements for a pension scheme
(1)	A *standardised deterministic projection* within a *key features illustration* for a *personal pension scheme* or *stakeholder pension scheme* must ~~include or~~ be in real terms and be accompanied by information explaining ~~the impact of inflation on those benefits~~ why price inflation has been taken into account and that price inflation reduces the worth of all savings and investments.

(2)	~~Where a *firm* chooses to provide that information required in (1) in the form of one or more *projections* of benefits, it must include a~~ A *projection* in real terms~~, so long as it~~ must be ~~either~~ calculated using:		
	~~(a)~~	~~calculated using:~~	
	(a)	~~(i)~~	the appropriate *lower*, *intermediate* and *higher* ~~*rate*~~ *rates of return*;
	(b)	~~(ii)~~	the intermediate rate of price inflation, in accordance with *COBS* 13 Annex 2 2.5R; and
	(c)	~~(iii)~~	an annuity calculated in accordance with *COBS* 13 Annex 2 3.1R~~; or~~.
	~~(b)~~	~~consistent with the *statutory money purchase illustration* assumptions, with any material differences between the assumptions used and those otherwise required for accompanying *standardised deterministic projections* explained.~~	
(3)	A *standardised deterministic projection* for a *personal pension scheme* or *stakeholder pension scheme* must show only the numeric value of the three real rates of return after the appropriate price inflation assumption has been taken into account, that is, the real rate of projected growth which has been applied to the real value of the contributions.		

…

R		
1.3	(1)	…
	(2)	A *projection* prepared on that basis may omit ~~benefits in nominal terms~~ projections at the *lower* and *higher rates of return* and only show a range of ~~figures~~ benefits in real terms at the *intermediate rate of return*~~, of benefits in real terms~~.

…

R	
~~Calculating~~ Providing ~~an alternative~~ a stochastic projection	
1.5	~~An *alternative*~~ A *stochastic projection* ~~must~~ may only be provided if:
(1)	~~(if the *alternative projection* is not a *stochastic projection*) not exceed the *higher rate of return*;~~ [deleted]
(2)	~~(if the *alternative projection* is not a *stochastic projection*), use assumptions consistent with the assumptions which apply to *standardised deterministic projections* in this Annex, unless the reasons for any~~

	~~inconsistency are:~~	
	~~(a)~~	~~reasonable;~~
	~~(b)~~	~~explained to a *retail client*, with enough information for the *retail client* to be able to understand the difference between the *alternative projection* and any *standardised deterministic projection* being provided; and~~ [deleted]
(3)	~~(if the *alternative projection* is a *stochastic projection*) only be used if:~~	
	~~(a)~~	~~there are reasonable grounds for believing that a *retail client* will be able to understand it;~~
	~~(b)~~	~~it is based on a reasonable number of simulations and assumptions which are reasonable and supported by objective data; and~~
	~~(c)~~	~~the *alternative projection* is accompanied by enough information for the *retail client* to be able to understand the difference between the *alternative projection* and any *standardised deterministic projection* being provided.~~ [deleted]
(4)	it is based on a reasonable number of simulations and assumptions which are reasonable and supported by objective data;	
(5)	it is accompanied by enough information for the *retail client* to be able to understand the difference between the *stochastic projection* and the *standardised deterministic projection* being provided; and	
(6)	it is presented in real terms where the accompanying *standardised deterministic projection* is required to be in real terms.	

~~G~~	
1.6	~~An *alternative projection* may be used either as part of a *key features illustration* or separately. However, it must not detract from any *standardised deterministic projection* required by *COBS* 13.4.1R or *COBS* 13.5.1R.~~ [deleted]

…

R	
1.10	A ~~standardised deterministic projection for an existing business~~ *personal pension scheme* or *stakeholder pension scheme* taken out before 6 April 2014 may omit the projection at the *intermediate rate of return*.

R	
2	Assumptions to follow when calculating projections

…

R	
Assumptions: rates of return	
2.3	A *standardised deterministic projection* must be calculated using rates that accurately reflect the investment potential of the product and do not exceed the following maximum rates of return <u>with the lower and higher rates each maintaining a differential of 3% relative to the intermediate rate</u>:
	…

…

R			
Additional requirements: drawdown pensions			
2.9	(1)	…	
	(2)	A *standardised deterministic projection* for a *drawdown pension* must be based on an assumption that the current gilt-index yield will continue to apply throughout the relevant term and include:	
		…	
		(d)	(under ~~the heading~~ 'What the benefits might be' <u>or similar heading</u>), the amount of income and the projected value of the fund at ~~each fifth anniversary~~ <u>five yearly intervals to age 99</u> for the *lower, intermediate* and *higher rate of return* for as long as the fund is projected to exist <u>(</u>at the *higher rate of return*<u>)</u>;
		…	

<u>R</u>	
<u>Drawdown Pension: Exception</u>	
<u>2.10</u>	<u>A *standardised deterministic projection* for a *drawdown pension* can be prepared in nominal terms, rather than real terms.</u>

…

R			
5	~~How to present a projection~~ <u>Projections: accompanying statements and presentation</u>		
5.1	A *standardised deterministic projection* must be accompanied by:		
	(1)	appropriate risk warnings, including warnings about volatility <u>and the impact of inflation and that the product may pay back less than paid in (if that could be the case)</u>, ~~the relationship between figures in real terms and those in nominal terms~~, and the degree to which any figures can be relied upon; and	
	(2)	a statement:	
		(a)	~~that *projection* rates are standardised or an explanation that *projection* rates that are lower than the standard rates have been used and why;~~ <u>[deleted]</u>
			…
		(d)	that increases in contributions have been assumed (if that is the case), together with sufficient information for a *retail client* to be able to understand the nature and magnitude of the assumed increases; ~~and~~
		(e)	of the sum of any actual *premiums* charged for any rider benefits or increased underwriting risks (where these have been charged)<u>; and</u>
		<u>(f)</u>	<u>(for *personal pension schemes* and *stakeholder pension schemes*) of the assumptions used to calculate the regular income and that the *client* may choose when to take this income (if that is the case)</u>.

<u>R</u>		
<u>5.1A</u>	<u>When presenting a *standardised deterministic projection* a *firm* must:</u>	
	<u>(1)</u>	<u>include a short introductory explanation of what the *projection* seeks to illustrate;</u>
	<u>(2)</u>	<u>use a descriptive heading such as ‘What your regular income might be worth in future or ‘What might I get back from my plan?’;</u>
	<u>(3)</u>	<u>place the *projection* and the associated explanation adjacent to each other on the same page; and</u>
	<u>(4)</u>	<u>explain that the *client* will be sent annual statements (if that is the case) which will allow them to keep track of their benefits.</u>

13 Annex 3 Charges information for a packaged product

(except for a personal pension scheme and a stakeholder pension scheme where adviser charges or consultancy charges are to be facilitated by the product)

This annex belongs to *COBS* 13.4.1R (Contents of a key features illustration)

R
Charges

…

Exceptions		
1.3	An effect of charges table and reduction in yield information are not required for:	
	…	
	(4)	a *stakeholder product* or a product that will be held in a *CTF* where the relevant product and the *CTF* levy their *charges* annually, if the following is included instead: "There is an annual charge of y% of the value of the funds you accumulate. If your fund is valued at £250 throughout the year, this means we ~~deduct~~ <u>charge</u> [£250 x y/100] that year. If your fund is valued at £500 throughout the year, this means we ~~deduct~~ <u>charge</u> [£500 x y/100] that year. [After ten years these deductions reduce to [£250 x r/100] and [£500 x r/100] respectively.]" where 'y' is the annual charge and 'r' is the reduced annual charge (if any).

…

R		
2	Effect of charges table	
2.1	Each 'effect of charges' table must be accompanied by, or refer to:	
	(1)	a statement that all relevant guarantees have been taken into account (if there are any);
	(2)	~~a warning that one effect of the *charges* referred to is that a *retail client* could get back less than they invest (if that is the case); and~~ <u>[deleted]</u>

	(3)	the rate of return (for *personal pension schemes* and *stakeholder pension schemes*, this must be net of price inflation, where appropriate) used to calculate the figures in the table; and
	(4)	an explanation of the purpose of the table and what the table shows.

2.2	The effect of charges table:	
…		

(3) must be completed in accordance with the following notes:

…	
Note 6	This column must show the *standardised deterministic projection* of the surrender value, cash-in value or transfer value, calculated in accordance with the *rules* in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return* to the end of each relevant year.

R		
Exception		
2.3	An effect of charges table and its title ~~may~~ can be amended~~, but only if and~~ to the extent that it is necessary:	
	(1)	to properly reflect the nature and effect of, for example, the *adviser charges*, *consultancy charges* or the *charges* inherent in a particular product; or
	(2)	to ensure that the column labels and any explanatory text reflect the product and whether inflation has been taken into account; or
	(3)	to ensure consistency with the terminology used in relation to a particular product.

G			
2.4	~~The effect of 2.3R is that, for example, the column labels and explanatory text may be adjusted to reflect the nature of the contract.~~ [deleted]		

…

R		
3	Reduction in yield	
3.1	Reduction in yield (‘A’) is ‘B’ less ‘C’ where:	
	(1)	'B' is the *intermediate rate of return* (*for personal pension schemes* and *stakeholder pension schemes*, net of price inflation, where appropriate) for the relevant product; and
	…	
3.2	A *firm* must present reduction in yield as 'A%', as part of ~~a statememt~~ statements which ~~explains~~ explain that:	
	(1)	~~‘~~charges ~~and expenses~~ have the effect of reducing ~~your anticipated returns~~ investment growth (after price inflation for personal pension schemes and stakeholder pension schemes) from 'B%' to 'C%', or in some other appropriate way; and
	(2)	the information about the reduction in investment growth can be used to compare the effect of charges with similar products.

…

13 Annex 4 Charges information for a personal pension scheme and a stakeholder pension scheme

(where adviser charges or consultancy charges are facilitated by the product)

This annex belongs to *COBS* 13.4.1R (Contents of a key features illustration)

R
Charges

…

Exception	
1.2	An effect of charges table and reduction in yield information are not required for a *stakeholder pension scheme*, where *adviser charges* or *consultancy charges* are not being facilitated by the scheme, if the following is included instead: "There is an annual charge of y% of the value of the funds you accumulate. If your fund is valued at £500 throughout the year, this means we ~~deduct~~ charge [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will ~~deduct~~ charge [£7500 x y/100] that year."

…

R		
2	Effect of charges table	
2.1	Each effect of charges table must be accompanied by:	
	(1)	an explanation of what the table shows;
	(2)	a statement that all relevant guarantees have been taken into account (if there are any); and
	(3)	~~a warning that one effect of the *charges* referred to is that a *retail client* could get back less than they invest (if that is the case); and~~ [deleted]
	(4)	the rate of return (after price inflation, where appropriate) used to calculate the figures in the table.
2.2	~~Subject to Note 2 below, an~~ An effect of charges table must be in the following form :	

Note 1	Note 2	Note 3	Note 4	Note 5	Note 6
At end of year	~~Total paid in to date~~ The payments into your plan	Withdrawals	~~If there were no~~ Before charges are taken	If only ~~product~~ plan and investment charges are taken	After all charges are taken from this plan
	£	£	£	£	£
…					

Note 1	…
Note 2	This column ~~is optional. If it is retained it~~ must show the cumulative contributions paid to the end of each relevant year.
Note 3	…
Note 4	This column must show a *standardised deterministic projection* of the benefits, calculated in accordance with the rules in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return*~~,~~ to the end of each relevant year, but without taking any *charges* into account.

Note 5	This column must show a *standardised deterministic projection* of the benefits, calculated in accordance with the rules in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return*<u>,</u> to the end of each relevant year, but taking into account only the charges described in *COBS* 13 Annex 4R paragraph 1.1(1)(a).
Note 6	This column must show a *standardised deterministic projection* of the benefits, calculated in accordance with the *rules* in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return*<u>,</u> to the end of each relevant year taking into account all charges described in *COBS* 13 Annex 4R paragraph 1.1(1)(a) and (c). …

R		
Exception		
2.3	An effect of charges table <u>and its title</u> ~~may~~ can be amended, ~~but only if and~~ to the extent that<u> it is necessary:</u>	
	<u>(1)</u>	to properly reflect the nature and effect of, for example, the *adviser charges*, *consultancy charges* or the *charges* inherent in a particular product<u>; or</u>
	<u>(2)</u>	<u>to ensure that the column labels and any explanatory text reflect the nature of the product and to make it clear whether price inflation has been taken into account; or</u>
	<u>(3)</u>	<u>to ensure consistency with the terminology used in relation to a particular product</u>.

G	
2.4	~~The effect of *COBS* 13 Annex 4 paragraph 2.3R is that, for example, the column labels and explanatory text may be adjusted to reflect the nature of the contract or the terminology used.~~ <u>[deleted]</u>
…	

R	
3	Reduction in yield

3.1	Product reduction in yield ('A') is 'B' less 'C' where:		
	(1)	'B' is the *intermediate rate of return* (net of price inflation, where appropriate) for the relevant product; and	
	…		
3.2	Total reduction in yield ('D') is 'B' less 'E' where:		
	(1)	'B' is the *intermediate rate of return* (net of price inflation, where appropriate) for the relevant product; and	
	…		
3.3	(1)	A *firm* must present the product reduction in yield as 'A%', as part of ~~a statement~~ statements which ~~explains~~ explain that:	
		(a)	'product charges reduce ~~your anticipated rate of returns~~ investment growth after price inflation from 'B%' to 'C%'', or in some other appropriate way; and
		(b)	the information about the reduction in investment growth can be used to compare the effect of charges with similar products.
	(2)	If *adviser charges* or *consultancy charges*, or both *adviser charges* and *consultancy charges* are to be facilitated by the product, a *firm* must also present the reduction in yield as 'D%', as part of a statement which explains that 'all charges reduce ~~your anticipated rate of returns~~ the investment growth (after price inflation, where appropriate) from 'B%' to 'E'%'', or in some other appropriate way and explain the difference between the two reduction in yield figures.	
…			

Part 2: Comes into force on 6 April 2013

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 provisions: coming into force
…					
2.5-A	*COBS* 13.4.1R	R	A *firm* may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the *Handbook* set out in that instrument were in force.	From 6 April 2013 to 5 April 2014	6 April 2014
2.5A	…				
2.5AA	*COBS* 13.5.1R	R	A *firm* may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the *Handbook* set out in that instrument were in force.	From 6 April 2013 to 5 April 2014	6 April 2014
2.5AB	*COBS* 13.5.2R	R	A *firm* may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the *Handbook* set out in that instrument were in force.	From 6 April 2013 to 5 April 2014	6 April 2014

2.5-B	*COBS* 13 Annex 2	R	A *firm* may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the *Handbook* set out in that instrument were in force.	From 6 April 2013 to 5 April 2014	6 April 2014
2.5B	…				
2.5C	…				
2.5D	*COBS* 13 Annex 3	R	A *firm* may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the *Handbook* set out in that instrument were in force.	From 6 April 2013 to 5 April 2014	
2.5E	*COBS* 13 Annex 4	R	A *firm* may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the *Handbook* set out in that instrument were in force.	From 6 April 2013 to 5 April 2014	

Appendix 2

Designation of Handbook Provisions

FSA Handbook provisions will be 'designated' to create a FCA Handbook and a PRA Handbook on the date that the regulators exercise their legal powers to do so. Please visit our website[1] for further details about this process.

We plan to designate the Handbook Provisions which we are creating or amending within this Policy Statement as follows. These designations are draft and are subject to change prior to the new regulators exercising their legal powers.

Handbook Provision	Designation
COBS 13 13.2, 13.4, 13.5, 13.6	FCA
COBS 13 Annexes 2, 3, 4 FCA	FCA
TP 2.5A, 2.5D, 2.5E, 2.5F, 2.5G, 2.5H	FCA

1 One-minute guide http://media.fsahandbook.info/latestNews/One-minute%20guide.pdf

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