Improving the quality of pension transfer advice – feedback on CP18/7 and final rules and guidance

Policy Statement
PS18/20

October 2018

This relates to

Consultation Paper 18/07 which is available on our website at www.fca.org.uk/publications

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1 Summary

Introduction

1.1 Defined Benefit (DB) pensions, and other safeguarded benefits involving guaranteed income, provide valuable benefits. Most consumers will be best advised to keep them. There is potential for significant consumer harm if consumers who are considering giving up these benefits are given unsuitable advice. Our aim is to improve the quality of advice that consumers in this situation receive.

1.2 Since the introduction of pension freedoms in 2015, there has been a considerable increase in the demand for pension transfer advice and in the volume of actual transfers. As well as proposing and making changes to our Handbook requirements on pension transfer advice, we have also carried out extensive supervisory work in this area. Our supervisory findings have informed our policy work.

1.3 In June 2017, we published CP17/16 – Advising on pension transfers. This proposed changes to our rules and guidance on the advice given to consumers about converting or transferring their safeguarded benefits. We confirmed most of our proposals in PS18/6, which we published in March 2018.

1.4 In CP17/16 we asked several discussion questions on topics including qualification requirements for advisers and the relative responsibilities where more than one adviser is involved in a transfer (eg an investment adviser working with a pension transfer specialist). Following the responses, and new issues raised within them, in March 2018 we published a second consultation paper, CP18/7 – Improving the quality of pension transfer advice. This Policy Statement (PS) sets out our response to the feedback we received to CP18/7.

1.5 We consulted on the following proposals:

- amending the Pension Transfer Specialist (PTS) qualification and the exam qualification standards
- amending the definition of a pension transfer
- introducing guidance on how a PTS should work with another adviser in a two-adviser model
- introducing guidance for firms on the advice boundary when providing triage services to prospective clients
- introducing guidance on assessing clients' attitude to transfer risk
- introducing rules requiring firms to provide suitability reports when recommending that a transfer should not be made

- amending the assumptions for valuing limited inflationary pension increases within a DB scheme

1.6 We also sought views - but did not propose rule changes - on charging structures for advising on pension transfers. We give a summary of the comments received to these questions in Chapter 5. Further to the comments received, we are undertaking more work in this area. If, as a result, we consider changes to our rules are appropriate, we will consult on any new proposals in the first half of 2019. As noted in this Policy Statement, there are a few other areas where we are doing further work following responses received, which may also lead to further consultation proposals.

1.7 We received 88 responses to the consultation. This gave us a wide range of views from across the pensions industry and consumer groups, particularly on the discussion questions. This PS summarises the feedback we received on the proposed Handbook changes and discussion questions. It also sets out, in the Appendix, the final Handbook rules that we are making following the consultation.

Who this applies to

1.8 This PS will primarily be of interest to firms advising on pension transfers, those acting as pension transfer specialists, software providers and pension providers, particularly those receiving pension transfer business. It may also be of interest to employer sponsors of DB schemes and employee benefit consultants. Organisations that provide related services, such as professional indemnity (PI) insurers and qualification providers, may also have an interest.

1.9 The new rules are intended to improve the quality of advice given to retail customers who want to transfer or convert safeguarded benefits. So this PS may also be of interest to these consumers or groups representing them.

The wider context of this policy statement

Our consultation

1.10 While most consumers will be best advised to keep their DB pensions and other safeguarded benefits, we recognise that the pensions environment has changed. This is particularly the case since the pension freedoms gave consumers with Defined Contribution (DC) pensions more options to access their pension savings. As a result, there has been an increased demand for pension transfer advice, as advice is mandatory under government legislation for potential transfers valued at more than £30,000.

1.11 Over 6 million people are eligible to transfer deferred benefits out of DB schemes. Transfer values have been at record high levels since 2016, with employee benefit consultancies reporting the average size of transfer at over £250,000. In the Cost Benefit Analysis (CBA) in CP18/7, we estimated that 100,000 members are transferring out of their DB scheme each year. These estimates have been borne out by recent figures published by The Pensions Regulator (TPR). This means around £20-30bn per annum is moving out of DB schemes each year. Consumer interest in pension transfers, and therefore the demand for advice, remains high.

1.12 Our recent policy work also reflects the findings from our ongoing supervisory work on DB pension transfers. In October 2017, we published findings which showed that only 47% of advice we had reviewed on DB to DC transfers could be shown to be suitable based on the information in the file. We subsequently carried out file reviews on advice given to members of the British Steel Pension Scheme in which only 51% of advice could be shown to be suitable. Following our intervention, at the date of this PS, 18 firms had voluntarily varied their permissions so that they can no longer provide pension transfer advice, although some firms have subsequently changed their processes and regained that permission.

1.13 Since the publication of CP18/7, public, political and media focus on DB transfers remains high and demand for transfers does not appear to be reducing. A wider issue is that PI insurers are increasingly concerned about the levels of suitable advice in this area. As a result, some advice firms are withdrawing from this advice market due to difficulties in getting PI cover.

How it links to our objectives

1.14 The Financial Conduct Authority's (FCA) strategic objective is to ensure that the relevant markets work well. Our work on pension transfers has focused on two of our operational objectives - securing an appropriate level of protection for consumers and promoting effective competition to benefit consumers. On the consumer protection side, we are giving advisers a framework to better enable them to give suitable advice so that consumers can make informed decisions about whether to give up safeguarded pension benefits. On the competition side, difficulties for adviser firms in obtaining PI cover may weaken competition in this advice market. However, by clarifying our expectations of advisers, both advice firms and PI insurers should better understand how firms can deliver suitable advice. We expect this to improve the way the market works for consumers.

Outcome we are seeking

1.15 If the interventions set out in this PS and in PS18/6 are successful, consumers should be more likely to receive suitable advice about whether or not to transfer based on their personal circumstances. This will help them to make informed decisions and give them confidence in the advice that is being provided.

1.16 The final rules and guidance set out in this PS build on those set out in PS18/6 earlier this year.

Measuring success

1.17 In CP18/7, we said we will be able to assess whether our interventions are effective through our supervisory work on pension transfers. We will measure a successful outcome by our assessments of more pension transfer advice being suitable. We also hope to see firms improve their record keeping so that more of them can demonstrate suitability.

1.18 We expect fewer complaints against advisory firms and fewer customers becoming the victims of pension scams. We have continued our work on preventing pension scams, including scams involving pension transfer advice, and we recently updated our ScamSmart website pages. Advisers should also be more certain and confident about our expectations when they provide pension transfer advice.

Summary of feedback and our response

1.19 Overall, respondents largely supported our proposals in CP18/7. So we are proceeding on the basis on which we consulted, except for our proposal to amend the pension transfer definition. We set out more detail on the rationale for not currently proceeding with this proposal in Chapter 2.

1.20 This PS includes a summary of the feedback we received and the final rules and guidance we are making in Appendix 1. We would like to thank all respondents for their feedback.

Equality and diversity considerations

1.21 We have considered the equality and diversity issues that may arise from the final rules and guidance in this PS. Overall, we do not consider that they adversely impact any of the groups with protected characteristics ie age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment.

Next steps

1.22 We set out the final rules and guidance in Appendix 1. The guidance on two advisers working together and assessing attitude to transfer risk, as well as the requirement to prepare a suitability report in all circumstances come into force immediately. The perimeter guidance on triage comes into force on 1 January 2019. The changes to the pension increase assumptions come into force on 6 April 2019. The remaining changes, which cover the pension transfer specialist qualifications and appropriate exam standards will come into force on 1 October 2020. Firms affected by these changes will need to ensure that they comply by these dates.

2 Standards to meet before giving advice

2.1 In CP18/7, we set out proposed changes to the standards advisers need to meet before they advise on pension transfers, conversions or opt-outs. We proposed changes to:

- the qualifications required to advise on or check pension transfers
- the standards that apply to the Pension Transfer Specialist (PTS) qualification
- the definition of a pension transfer

Pension transfer specialist qualification

Our proposals

2.2 In CP18/7, we proposed that all PTSs must hold the Level 4 qualification for providing advice on investments as defined in the Retail Distribution Review (RDR), before they can advise on or check pension transfer advice. While a PTS may not always be giving the investment advice, they do need to be able to identify whether, in the context of overall suitable pension transfer advice, a proposed scheme and investment is consistent with a client's needs and objectives for a proposed transfer. We proposed that PTSs should acquire the additional qualification by October 2020. We also proposed that there would be no automatic transition. This means that, to continue practising after that date, a PTS must have achieved the investment qualification. We acknowledged a degree of overlap between different qualifications and expected that PTSs would be able to 'gap-fill' their existing qualifications to achieve this date.

Feedback received

2.3 Most respondents agreed with our proposals. They agreed that many PTSs already hold the investment qualification and that it is necessary to understand the choice of receiving scheme and the investments within it for transferred pension funds.

2.4 Some respondents suggested that there should be a new specific qualification for advising on pension transfers. This should bring together requirements covering all the elements of advice that need to be considered. Others suggested that chartered status should be a requirement for a PTS. One respondent thought no change was needed.

2.5 A number of respondents commented on the importance of relevant experience, continuing professional development (CPD) and qualifications in equipping advisers to provide suitable pension transfer advice. Some respondents had also raised the lack of specific pension transfer CPD requirements in the discussion questions about qualifications in CP17/16.

2.6 One respondent suggested that advisers without a PTS qualification should not be allowed to discuss pension transfers with clients at all. However, another respondent said that the first interaction with a client should not require PTS qualification. Similar feedback was received in response to our question on two-adviser models.

2.7 There was broad agreement with our proposed transition period, although some preferred a shorter period and one respondent felt it should be longer.

2.8 Most respondents also agreed that there should be no automatic transition. Some expressed concerns about allowing 'gap-filling', as considerable time may have elapsed since some advisers' passed their original qualifications.

Our response

We are proceeding with our proposals.

The requirement for a PTS to hold qualifications for both a PTS and for advising on investments will ensure advisers have sufficient knowledge to assess the suitability of a transfer, including the risk, returns and charges of the proposed scheme and underlying investments. Many PTSs already have both qualifications.

We do not believe it is necessary to have a specific single qualification for investment advice given along with a pension transfer. We also consider it is unnecessary to only restrict advice to chartered financial planners. This is because the qualification framework should be sufficient and further restrictions may limit the supply of advice.

We agree that it is very important for PTSs to supplement their knowledge by keeping up to date with current thinking and market trends. As set out in our Training & Competence (TC) Sourcebook, firms are responsible for reviewing the competence of their employees on a regular and frequent basis. They are also responsible for taking appropriate action to ensure they remain competent for their role. This is particularly important where an adviser has not been involved in this market for some time, or only advises on occasional cases. We are giving further thought to the question of minimum CPD requirements in light of responses received.

We would like PTSs to hold the new qualification as soon as practically possible, and by no later than 1 October 2020. In deciding on the transition period, we are conscious that there needs to be sufficient time allowed for PTSs to study and take the additional qualification. We consider two years to be a reasonable period in which this can be achieved. In the meantime, firms continue to be responsible for assessing and maintaining the competence of their employees. This requirement will also form part of the Senior Managers & Certification Regime.

We do not intend to make any changes to our proposals regarding automatic transition. We believe the concerns about 'gap-filling' are addressed by our Training & Competence requirements, above.

Our rules continue to permit an adviser who does not meet the PTS requirements to provide pension transfer advice, as long as their advice is checked before the client is given a suitability report. Our view is that this ensures the continued supply of advice in the market.

PTS exam qualification standards

Our proposal

2.9 In CP18/7, we proposed changes to the appropriate exam standards (AES) for the PTS qualification itself (ApEx21). These changes reflect our updated rules and guidance, as well as more widespread changes to the pensions environment, such as the introduction of the pensions freedoms.

Feedback received

2.10 No respondents disagreed with our proposal to update ApEx21. However, some thought that we should have proposed compulsory gap-filling for those PTSs who may have passed the relevant exams some years ago. Some respondents also again raised the need for specific CPD requirements. However, others suggested that the gaps between the proposed AES and previous versions of the PTS qualification could be covered by firms themselves as part of maintaining competence.

Our response

We are proceeding with our proposal (see Appendix 2).

Firms are reminded that our Training & Competence (TC) Sourcebook requires them to review employees' competence on a regular and frequent basis and take appropriate action to ensure that staff remain competent for their role. We consider that this requirement should address the gap-filling issues raised by respondents.
As noted above, we are considering the issue of CPD further in light of responses received.

The definition of a pension transfer

Our proposal

2.11 In CP18/7, we proposed amending the Handbook glossary definition of 'pension transfer' to include reference to safeguarded benefits and flexible benefits. Our intention was to simplify the existing definition and remove from it transfers of non-safeguarded benefits which require different protections.

Feedback received

2.12 Some respondents asked detailed questions about the scope of the proposed definition, and argued we had failed to simplify it. In particular, firms interpreted the scope of the new definition in different ways and had different opinions of how the cancellation rights would apply for different types of transfers. Some firms felt we had not removed all transfers of non-safeguarded benefits from the definition, and some made alternative drafting suggestions.

Our response

We have decided not to proceed with our proposal to amend the pension transfer definition at this time. The issues raised during consultation showed we had not achieved the simplification and clarity that we had intended.

We are using the respondents' feedback to help us investigate alternative ways to simplify and clarify the definition. While we consider these issues further, we will retain the existing definition of a pension transfer. In practice, this means that the definition will continue to include some transfers of non-safeguarded benefits.

3 Preparing to give advice

3.1 In CP18/7, we consulted on guidance on the processes we expect advisers to have in place before dealing with clients and other stakeholders. This covered processes for:

- taking account of the proposed destination of a client's transfer funds
- triage services

In this chapter, we summarise the feedback we received and give our response.

Taking account of the proposed destination of a client's transfer funds

Our proposals

3.2 When advising on a pension transfer, the advice must take account of the proposed destination of the transfer funds if a transfer proceeded. This includes both the proposed scheme and the proposed investments in that scheme. Our rules do not prevent two separate advisers providing the pension transfer advice and the advice on the proposed receiving scheme and its investments. However, we expect the two advisers to work with the same information about the client and have in place robust processes to ensure that this happens. Therefore, in CP18/7, we proposed guidance which sets out our expectations that both parties should work together to:

- collect necessary information, to inform both the pension transfer advice and the associated investment advice
- undertake risk profiling, which assesses both the client's attitude to transfer risk and attitude to investment risk (see also our response on Attitude to transfer risk in Chapter 4)
- recognise that the investment advice should consider the impact of the loss of any safeguarded benefits on the client's ability to take on investment risk

Feedback received

3.3 Many respondents welcomed the guidance and agreed with our proposals. They emphasised the need for both advisers to liaise with the client as important to understand the client's needs.

3.4 Some respondents also requested more clarity in a few areas. For example, some respondents asked for specific examples of good practice in two-adviser models, including a checklist setting out our expectations. This could be expanded to show how the advisers would share liabilities if a client complained.

3.5 Many respondents agreed with our expectations, as set out in CP18/7, that firms working in two-adviser models should ensure robust arrangements and processes are in place. Some suggested that we should go further and require formal contracts to be put in place. Others said we should expand on what we mean by 'robust arrangements'.

3.6 There were some polarised views about two-adviser models themselves with some suggesting that consumers were best served by having two advisers. On the other hand, some respondents felt that a PTS should have sole responsibility for the advice process as they did not consider it possible for two firms to give holistic advice on a transfer. These respondents said that consumers find two-adviser models confusing and that such models lead to higher charges.

3.7 Some respondents also raised concerns about future liabilities arising from complaints and how these would be shared. Some believed that most of the liability should fall on to the PTS. One particular concern was whether a PTS would be liable if a consumer changes their investments in the future.

Our response

We are proceeding with the proposals.

We note the comments about the need for requirements for formal contracts and for giving examples of best practice. We consider that it is good business practice to carry out effective due diligence on partner firms and to agree processes. However, as firms have different ways of working, we believe that setting prescriptive rules here would be disproportionate and unnecessary. Equally, all firms should be clear on what is meant by good operating practice, including robust arrangements, without the need for a regulatory checklist.

When a firm operates a two-adviser model, the firm should make this arrangement clear to the client. The client should be able to understand the roles of the two advisers, as well as their respective charging structures, and how to make a future complaint about the services provided by either of the firms.

We note the concerns raised about two-adviser models. However, we consider that effective two-adviser models help with the supply of advice in this market. They also allow advisers with existing clients to maintain their current relationship, while outsourcing the pension transfer advice to a specialist.

The Financial Ombudsman Service (the Ombudsman) or the Courts have responsibility for determining liability for unsuitable pension transfer advice, based on the specific circumstances of each case. Where relevant, the Ombudsman will assess the responsibilities of each party and consider the respective work each has undertaken. This may include looking at any contracts in place between the parties. Based on this information and where they decide redress is appropriate, the Ombudsman may assess a fair allocation of liabilities between the advisers. Alternatively, they may find against one of the advisers and it will then be up to the adviser firm to seek redress from the other, if applicable.

We have discussed our proposals with the Ombudsman and we have a shared understanding of how the two-adviser model works. Liability for any future investment decisions would depend entirely on the circumstances at that time, and any particular advice the customer had relied on.

Advising a self-investor

3.8 Our rules and guidance do not prevent advisers from advising self-investors. Self-investors are clients who choose their own proposed scheme and investments, often as part of a plan to consolidate their pension arrangements. In CP18/7 we set out our expectations, but did not propose new rules or guidance, for firms advising self-investors. Our expectations are as follows:

- We expect advisers advising on a pension transfer to take into account the proposed destination of the funds. The situation when the client puts forward the destination themselves is no different, except that the adviser will have to make clear that the client needs to provide the necessary information about the scheme and its underlying investments.
- Where a transfer is unsuitable in principle, but not specifically because of the proposed destination, the adviser should explain the basis for the recommendation. Where the transfer is unsuitable specifically because of the proposed destination, the adviser should explain that a transfer may be suitable if the client selects a different destination for the funds. If the adviser gives an opinion on how to amend the proposed destination, it is likely to be investment advice (Perimeter Guidance (PERG) 8.28.1G).

Feedback received

3.9 Around a half of those who responded agreed with our explanations. A further third said that they did not work with self-investors. The minority, who disagreed with our explanations, generally took the view that self-investment should not be permitted.

3.10 Several respondents said this was a difficult area and one which was growing in volume. While many raised concerns about whether investors have suitable knowledge, they also thought that an outright ban would be excessive and deprive some consumers of their right to access the pension freedoms.

3.11 Some respondents commented on particular areas of difficulty when working with self-investors. For example, some asset classes, such as commercial property, are hard to assess. Some investors move into cash initially for timing reasons so the adviser may not be sure of the ultimate destination. It would also be useful to look at an investment's security and past performance in the Appropriate Pension Transfer Analysis (APTA) as part of the assessment. Some respondents also suggested that advisers should check how the investor sourced the destination investment in the first place, to help prevent scams.

3.12 A few respondents thought that the Handbook should give a definition of self-investor, and that this should be limited to genuinely professional investors. Respondents thought that 'amateur' investors did not have the experience to monitor and amend their investments in the future as their circumstances change.

Our response

We believe that our explanations about self-investors (see paragraph 3.8 above) are clear and appropriate and that no further rules, guidance or Handbook definitions are required.

We acknowledge respondents' concerns about the risks of self-investors, both for the advisory firm and the consumer. However, we consider that the existing framework, together with our explanations of our expectations, are adequate to protect self-investors. Ultimately, firms can take a commercial decision on whether to advise self-investors.

If a firm chooses to advise self-investors on pension transfers, they must have a clear view on the destination scheme and the long-term investment strategy within that scheme. This is so that they can take into account the risks, expected returns and charges in the APTA which supports the pension transfer advice. Where there is uncertainty about the client's future intentions or the relevant information about particular asset classes is not available, an adviser should not advise on a transfer. Against this backdrop, we do not consider that further specific checks on how the investor sourced the destination investment are required.

We do not believe advisers should be prevented from dealing with self-investors who they view as 'amateur' investors. However, they should consider the extent to which this influences their personal recommendation to keep or give up safeguarded benefits.

Triage services

Our proposals

3.13 Many advisers currently operate a triage service as part of their DB transfer advice process. This is where firms have an initial conversation with potential customers. The purpose of triage is to give the customer sufficient information about safeguarded and flexible benefits to enable them to decide whether to take advice on the transfer or conversion of their pension benefits. We agree that triage can be useful; for example, when used appropriately it can prevent consumers from paying advice charges unnecessarily. However, when we reviewed firms' triage services, we found that some forms of triage were straying into the provision of personal recommendations, rather than generic information.

3.14 So in CP18/7 we consulted on new perimeter guidance on how firms can provide an appropriate triage service without stepping across the advice boundary for advising on conversion or transfer of pension benefits. Using examples, the guidance sets out our view of what is and is not advice on the conversion or transfer of pension benefits. We consider that triage should be educational and provide generic, balanced information on the advantages and disadvantages of a pension transfer. If an adviser makes a reference about how a client's personal circumstances may influence advice to transfer, then it is likely that they are providing advice.

3.15 We also said we consider it would be good practice for firms to keep records where they have provided triage. This may help in resolving any future complaints.

3.16 We recognise the link between triage services and adviser charging models, and discuss this further in chapter 5.

Feedback received

3.17 We received extensive feedback on our proposals. Around a third of respondents fully supported them. Of the rest, while many welcomed the clarity on the boundary, they also had concerns about what this would mean in practice for the ways in which firms carry out initial conversations.

3.18 Many were disappointed with the FCA's view of where the boundary lay and suggested that it was too narrow. There was widespread concern that triage services will be less useful to consumers in the future. Many respondents considered that they would no longer be able to prevent consumers from proceeding to full advice even where a transfer was unlikely to be suitable.

3.19 Most of these respondents thought that some degree of personalisation was essential in a triage service and that letting clients decide for themselves whether to proceed to advice was not a helpful outcome.

3.20 Respondents made several suggestions about how a triage service could operate more effectively. These included forms of self-scoring or risk warnings that could help a client better understand how their own circumstances could affect any subsequent transfer advice. Another suggestion was to introduce a form of streamlined advice (which could be provided at lower cost) for pension transfers where it was relatively clear from the start it was unlikely to be in the client's best interests to transfer. Many respondents recognised that, once the client's attitude to transfer risk was assessed, this often resulted in the client withdrawing from the advice process.

3.21 Three respondents questioned whether the FCA's re-stated starting assumption on suitability - that a transfer is unlikely to be in a client's best interests - would of itself be giving an opinion which strayed into advice.

3.22 Other respondents looked at other guidance models and questioned consistency with what The Pensions Advisory Service (TPAS) (and, potentially, the incoming Single Financial Guidance Body - SFGB) could say in similar circumstances. Some respondents mentioned triage videos that can provide advisers and clients with an option for a first stage of discussions. Some were also concerned about the risks that triage could be carried out by unregulated introducers, who would not be subject to the FCA's rules.

3.23 Several respondents also asked whether it would be permissible for clients to be shown a Transfer Value Comparator (TVC) at the same time as they were shown a Cash Equivalent Transfer Value (CETV). They considered that both the CETV and the replacement cost shown in the TVC, while relating to the client's own situation, are calculated on a prescribed basis and showing the numbers on their own would not necessarily constitute advice.

3.24 Finally, several respondents mentioned the increased significance of an effective triage service if we ban contingent charging. They felt that if a client is obliged to pay for advice whatever the outcome, it is essential that cases that are clearly unsuitable for a transfer should be filtered out at an early stage, to avoid unnecessary costs being incurred. In this case, some respondents suggested that it would be appropriate to make triage, or a referral to a guidance service, mandatory.

Our response

We intend to proceed with our proposed perimeter guidance on triage, with an additional example which we explain below.

Our regulatory perimeter is set by Parliament in legislation. Where we give perimeter guidance, we are setting out what the courts have already said about the legislation and our views about how they may interpret it in the future. We are explaining where the boundary between advice and guidance lies - we are not moving it. Where a reasonable observer would view the adviser as presenting a recommendation as suitable for the customer or based on a consideration of their circumstances, then this must be treated as a personal recommendation. We cannot exercise discretion on this.

Clarification of the boundary between advice and guidance was generally welcome. But we acknowledge the widespread concern that the proposed perimeter guidance would restrict firms' ability to engage with consumers, with a view to filtering out those who are not suitable candidates for a transfer. However, we note that the responses also showed a lack of understanding that the provision of pension transfer advice is a different regulated activity from advising on investments. As a result, the boundary considerations are different.

Advice on a pension transfer can only result in one of two outcomes: to transfer or not to transfer. This limits the scope for providing guidance during triage. So we consider that any guidance based on a consideration of a customer's circumstances which steers them one way or the other is likely to be advice on the merits of a transfer, and therefore pension transfer advice. In comparison, it is possible for firms to have broad-ranging conversations about investments, for example on different asset classes, without these being considered to be advice.

As indicated in CP18/7, information provided during triage is likely to steer consumers one way or the other if it is presented in an unbalanced way or is guided by their personal circumstances. Therefore it remains our view that guidance services, such as triage, should be educational and present a balanced view of the advantages and disadvantages of transferring. We know that some firms are keen to discuss further with us how they can deliver guidance to consumers for this specific regulated activity, given the narrow scope compared to that for investment advice. We have noted their suggested approaches above and will continue to talk to stakeholders over coming months. We would welcome further input from interested parties while we consider if any further work is needed in this area. However, we cannot change the boundary.

We do not consider that firms re-stating our starting assumption of unsuitability will be giving advice, if the statement is given as information about the FCA's view on pension transfers during a triage service. So it would be appropriate for firms to quote this assumption, while giving clients balanced examples of circumstances where a transfer may be beneficial or harmful.

Where firms do not wish to carry out triage services themselves, they are able to signpost prospective clients to TPAS or outsourced triage services, following appropriate due diligence.

The Treasury make the arrangements for designated guidance providers. Both TPAS and the incoming SFGB are able to provide guidance on flexible benefits in their role as a designated guidance provider. However, this is only part of the function of both TPAS and the incoming SFGB. In addition, they are able to provide information and guidance on occupational and personal pensions more broadly. However, they are not able to provide advice in relation to pension transfers. So our guidance is relevant for these bodies when designing their internal processes to be consistent with their stated intention not to provide regulated financial advice. However, their situation is slightly different from that of advisory firms as guidance activities undertaken by TPAS or the SFGB are not regulated.

The TVC gives a customer a comparison of the value they have been offered by their scheme and the estimated cost of purchasing the same benefits in a DC scheme. It is likely to influence the customer's decision to keep or give up safeguarded benefits. Firms giving customers a TVC must consider whether they are providing regulated pension transfer advice. Unauthorised firms, such as occupational pension schemes and their trustees, may be able to provide members with a TVC alongside their CETV, as long as it is not provided 'by way of business'. On the other hand, if an advisory firm provides its clients with a TVC during triage then this is likely to constitute pension transfer advice. We have updated the perimeter guidance to reflect this.

We recognise the link between an effective triage service and any further proposals on charging models. We consider the responses to our questions on charging models in Chapter 5. We will take into account the connection when we consider whether to make any policy interventions on charges.

4 Providing advice

4.1 In CP18/7, we consulted on changes to the way in which advice is provided to consumers, including:

- assessing a client's attitude to transfer risk
- suitability reports for negative recommendations
- pension increase assumptions

Assessing a client's attitude to transfer risk

Our proposals

4.2 When advising on the transfer or conversion of safeguarded benefits we expect advisers to focus on the client's attitude to the features of both a safeguarded benefits scheme and of a flexible benefit scheme. From our supervisory work, and feedback from previous consultations, we know that some attitude to risk assessments focus solely on the attitude to investment risk. This overlooks the very different risks from clients giving up certainty of income. So we proposed Handbook guidance to clarify our expectations.

4.3 The proposed guidance indicates how advisers should consider the client's attitude to the features of both safeguarded and flexible schemes.

Feedback received

4.4 A significant number of respondents agreed with our proposals, with many saying that this should already be part of the advisory process.

4.5 Some respondents commented on specific areas that advisers should focus on when assessing attitude to transfer risk. This included a focus on:

- longevity risk
- sponsor insolvency risk
- differentiating between the different risks at, or before, retirement
- the sustainability of boosting income in the early years of retirement
- the need to ensure that risk assessments are personalised to the client and rather than generic
- one respondent suggested that we should include 'bearing investment risk' in our definitions

4.6 Some respondents further commented that it would take time for best practice to emerge in this area and for suitable software to be developed.

4.7 A few respondents were concerned that consumers would be overloaded with information at outset. Another felt that the FCA was 'over-reacting' based on only a small number of cases.

4.8 A small number of respondents commented that attitude to transfer risk could be a helpful part of triage (see Chapter 3 for more comments on triage) in steering clients away from advice, particularly if contingent charging was subsequently banned. Other respondents suggested that we should make formal risk warnings a requirement, working together with The Pensions Regulator (TPR) to inform members of the risks involved in a transfer.

Our response

We are proceeding with our proposals.

A robust assessment of the client's attitude to transfer risk is an essential part of the advice process. The assessment should be detailed enough for the adviser to form a view of features which are appropriate to each client's personal circumstances. Our recent supervisory work has found cases where the assessment has either not been sufficiently detailed, used biased wording to undersell the advantages of safeguarded benefits, including the Pension Protection Fund (PPF), or oversold the merits of flexibility and death benefits without considering the significant risks.

We consider that the new Handbook wording is sufficiently flexible to cover all the specific issues that respondents raised. We agree that the client needs to be told about risks such as longevity risks and investment risks. These are important parts of any risk assessment process. Advisers should also consider sponsor insolvency risk in a balanced way so that any client biases and misconceptions are managed, for instance regarding the benefits provided by the PPF.

We recognise that risk profiling software may currently be more focused on investment risk and portfolio construction. If a firm uses software which is restricted in this way, then the adviser should determine the client's attitude to transfer risk in other ways. We do not accept that the client will be overloaded with information. Assessing transfer risk is part of the advisory process of getting to know the client, and understanding their preferences and financial behaviours. It also ensures that the client is aware of the risks involved in giving up their safeguarded benefits for flexible benefits.

We recognise the link between the assessment of a client's attitude to transfer risk and a triage service. But we remind firms of the risks of overstepping the advice boundary if they use the client's personal circumstances to steer triage conversations. We are also working with TPR to consider ways in which scheme members can receive clearer messaging from the scheme about safeguarded benefits that they might be considering giving up.

Suitability reports for negative recommendations

Our proposals

4.9 In CP18/7 we proposed amending our rules so that firms are required to provide a suitability report, regardless of whether their advice results in a recommendation to transfer. We consider that advising a client that it is not in their best interests to transfer, and setting out the reasons why, is just as valuable an outcome as a recommendation to transfer.

4.10 We also proposed amending Handbook guidance to clarify that firms should provide an advice confirmation for both positive and negative recommendations.

Feedback received

4.11 Most respondents agreed with our proposals. Many firms confirmed that it is already their practice to issue suitability reports, regardless of whether their advice is to remain in a scheme or transfer.

4.12 However, some firms said this additional requirement would add significantly to the cost of providing advice, a cost which would be passed on to consumers. Some firms were also concerned that, at the very least, this would deter some consumers from seeking advice, and make it unaffordable for others.

4.13 Some respondents did not think a suitability report was always necessary. This was, particularly in cases where firms can determine early on, based on limited information, that a transfer would not be in the client's best interests. Other respondents accepted the proposal but suggested that a suitability report for a recommendation not to transfer should not need to be as extensive as one to transfer.

4.14 Some respondents commented that our proposal offers protection for advisers as much as clients, especially where the client goes on to transfer against the adviser's recommendation to remain in their existing scheme. However, some advisers thought the proposed requirement would create a new liability for advisers who did not recommend a transfer.

4.15 There was wide agreement with our proposal that an advice confirmation should also be completed for a negative recommendation. However, one respondent asked us to clarify the position of an adviser who signs the advice confirmation having not recommended a transfer, if the client subsequently chooses to transfer and the PI insurer views the transaction as insistent client business.

Our response

We are proceeding with our proposals. We address the feedback on costs in our response on the CBA in Chapter 6.

We view pension transfer advice as a valuable service. Where the client is advised not to transfer, the suitability report provides them with a lasting record of why remaining in a safeguarded benefits scheme is the most suitable outcome for them. We also consider that explaining the factors that contributed to that recommendation will be useful for these clients. We accept that some costs may be passed on to consumers.

As respondents suggested, it may not be necessary to undertake an extensive analysis to determine that a transfer would be unsuitable. As a result, the suitability report may show only that information that is needed to allow the personal recommendation to be made.

The report provides the adviser with a record which should help them if there is a future dispute. This requirement does not change adviser liability; an adviser is always liable for the recommendations they provide. This is the case even when the advice is not to transfer - and so there is no resulting sale of a product - as the regulated activity of advising on a pension transfer results in advice to keep the safeguarded benefit. Similarly, advice to transfer out of safeguarded benefits carries a liability, as well as the liability for the investment advice on where to transfer the funds.

The requirement for a suitability report and advice confirmation is also consistent with our Handbook guidance on handling insistent customers, which sets out the information that should be given to an insistent client. Our guidance on the advice confirmation is intended to supplement the legislative requirements. If a consumer decides to transfer despite a recommendation not to do so, there will be a clear record of the advice they received.

Pension increase assumptions

Our proposals

4.16 The Transfer Value Comparator (TVC) requires advisers to make assumptions about the inflationary increases applied to DB scheme benefits when valuing these benefits. We proposed a change to the assumptions to use where minimum (collars) and maximum (caps) rates apply to inflationary increases. These could, for example, be those linked to the Retail Price Index (RPI) or Consumer Prices Index (CPI) provided by a scheme. To prevent such pension increases being overvalued we proposed that firms should assume fixed rate increases at the collar, for collars above the relevant RPI/CPI rate; and at the cap, for caps below the RPI/CPI rate. All other increases should be valued at RPI/CPI.

Feedback received

4.17 Of those respondents who expressed a view, the large majority supported our changes although some felt they were not qualified to express an opinion.

4.18 Some respondents proposed more complex solutions, in particular, the use of stochastic (Black Scholes) models or forward inflation rates based on market data. Some respondents thought that our approach might risk undervaluing increases.

4.19 Others said that allowance should be made for the reduced increases that would be paid by the PPF, should the scheme enter it. They also made the more general point that the annuity market cannot always replicate the inflationary increases that some schemes offer.

Our response

We are proceeding with our proposals as set out in CP18/7.

We do not consider that the more complex solutions some respondents suggested are compatible with the methods used to project future benefits. Using more complex solutions may also increase some firms' costs. Our regular review of assumptions should manage the risks of undervaluing increases. Our rules do not prevent lower increases being used to illustrate outcomes from the PPF (as may be shown in the Appropriate Pension Transfer Analysis (APTA)).

5 Charging structures associated with advising on pension transfers

5.1 In CP18/7 we included discussion questions about the different charging structures used in pension transfer advice. We focused on contingent charging. In its purest form, this is a charging arrangement where an adviser is only paid by a consumer if a transfer takes place. The alternative to a contingent charging model is where all clients are charged the same amount regardless of whether they transfer or not. However, firms often use hybrid models where they can still charge an additional amount for carrying out the transaction if it went ahead.

5.2 We identified that contingent charging can result in cross-subsidies: the cost of advice for consumers who do not transfer is cross-subsidised by those who do transfer. Contingent charging generally results in higher charges for those who transfer than a non-contingent model.

5.3 We also highlighted the inherent conflict of interest in a transaction contingent model - the imbalance of incentives between advisers and consumers. Contingent charging may incentivise an adviser to recommend a transfer, as well as recommend products where ongoing advice charges can be deducted. We noted that our supervisory work on pension transfer advice suggests that firms may not be managing the potential conflicts of their charging structures. We commented on the unique features of pension transfer advice (compared to investment advice) and the consumer biases which are commonly seen in scheme members who seek advice on a pension transfer.

5.4 However, we acknowledged that the causal link between contingent charging and unsuitable advice is not clear-cut. It is generally hard to show a direct link between unsuitable advice and firms using contingent charging models. We also recognised that intervening in the way charges are levied could limit access to pension transfer advice. We took into account different business models, eg where two advisers are involved in providing advice. We were also aware of the potential for firms to 'game' a ban on contingent charging.

5.5 In our discussion questions, we focused on potential consumer harm from contingent charging, asking for views on whether intervening on charges was an appropriate response to the broader harm of unsuitable advice. We asked questions on three areas:

- whether contingent charging increases the likelihood of unsuitable advice and, if so, whether respondents could provide evidence to support us intervening in the way pension transfer advice is charged

- how any restriction on the way pension transfer advice is charged should be implemented, particularly how to prevent the 'gaming' of restrictions

- the impact different forms of restrictions on charging might have on consumers and firms and how we might minimise any harm, such as reduced access to advice

These issues are interlinked, and many respondents considered all questions jointly. We have done the same in the summary of feedback below and in our response at the end of the chapter.

Feedback received

5.6 Respondents' views were typically polarised in favour of and against a ban on contingent charging, with a small majority of respondents arguing against a ban. Both groups of respondents also made a number of suggestions for mitigating consumer harm which are also set out below.

In favour of a ban

5.7 Those in favour of banning contingent charging models saw them as a cause of conflicts of interest. These respondents considered that contingent charging models incentivise a recommendation to transfer and drive a significant portion of unsuitable advice. Several respondents likened contingent charging to commission. While respondents recognised that a ban on contingent charging models may potentially reduce the supply of pension transfer advice, some did not believe that this should be a concern given the inherent value of DB scheme benefits.

5.8 Some respondents said the charges generated by contingent charging models greatly overstate the true cost of advice for those proceeding with a transfer. This is due to the cross-subsidisation of costs benefitting those who don't transfer. These respondents recognised that larger cases generate extra work and additional regulatory risks, but felt the fees being charged were disproportionate.

5.9 Several other respondents drew parallels with other professions (solicitors, surveyors), where advice for and against a course of action results in a fee being paid, and the advice being valued, whatever the outcome. They considered that advice to stay in a scheme should be seen as valuable advice, and that this will not be the case if no charge is made for this advice.

5.10 Many respondents were generally against intervening in how much firms choose to charge. However, some said this market had several unique features, such as the fact that clients are potentially giving up valuable retirement benefits while often having low levels of knowledge about pensions and the advice process. This justified a standalone approach to charging.

Opposing a ban

5.11 Respondents who were against a ban on contingent charging were largely concerned about the availability of advice in future. In particular, they suggested that vulnerable consumers may not be able to access advice and many others (who are income-poor but pension-rich) may be prevented from accessing the pension freedoms. As a result, they felt that the DB advice market could become the preserve of only wealthy consumers. Less well-off consumers, or those with smaller pots, may seek out the cheapest advice, which may be less likely to be suitable. There may also be a tendency for consumers to shop around for advisers known to be sympathetic towards transferring. Alternatively, some respondents believed that the numbers of insistent clients would increase to enable consumers to pay for the advice they had received from their transferred fund.

5.12 Many respondents said there is no evidence of a causal link between contingent charging and unsuitable advice which would support a regulatory intervention. Although contingent charging models were bound to lead to some biases, respondents felt it was hard to demonstrate definitively that these models increased the likelihood of poor advice. However, a small number of respondents pointed to evidence that poor advice had been seen where non-contingent charging had applied (for instance, some Enhanced Transfer Value exercises). They argued that banning contingent charging would not solve the problem of poor advice.

5.13 In response to our question on firms 'gaming' a ban, many respondents agreed that some firms would try to find a way round any ban. Others questioned whether we would be able to supervise any ban effectively.

5.14 Respondents also raised a related area of concern about ongoing advice charges. They were concerned that if a ban was introduced, it would be too easy for advisers to charge a minimal amount for initial pension transfer and investment advice and increase ongoing charges for future investment advice. As customers could pay ongoing charges for many years, this was seen as more of an incentive to recommend a transfer than the initial advice charge, even at current levels. Some respondents suggested that the FCA should focus on this aspect of charging instead, as the conflicts of interest were potentially greater.

5.15 Several respondents said that there are legitimate reasons for charging more when a transfer takes place. A firm may undertake a significant amount of additional work, and is also taking on substantial regulatory risk and liability, as well as potential PI insurance costs. Other respondents made the related point that many advice firms operate 'hybrid' models. Many firms do not charge on a purely contingent basis. Some charge a fixed amount for every client, applying an additional implementation charge to reflect the extra work and liabilities taken on when a transfer takes place.

5.16 While many respondents recognised the inherent conflict of interest in contingent charging, a significant number believed that these could be addressed by having effective controls in place. Some argued that if firms followed the rules on disclosures and conflicts of interest then a problem should not arise.

Suggestions for mitigating consumer risks

5.17 Many respondents said that an effective triage service is essential, particularly if any restrictions on contingent charging are introduced. Some respondents believed that triage services should be made mandatory. As discussed in Chapter 3, some respondents were concerned that our proposals on triage services would limit their effectiveness in future. They also suggested that we should allow firms to provide low cost 'preliminary advice', which could identify where a member should not consider a transfer.

5.18 Several other respondents suggested that our rules and guidance on conflicts of interest should be strengthened to reduce the risk of poor consumer outcomes, such as guidance on managing conflicts of interest on charging or on remuneration policies. Another suggestion was that firms should employ independent advice reviewers to ensure that advice was suitable and reduce the risk of poor outcomes from contingent charging. Respondents also suggested that we could have greater data requirements for firms who used contingent charging.

5.19 Other respondents felt that we needed to strengthen the rules and guidance on disclosing charges. This would ensure that consumers were completely clear on what they would pay if a transfer did or did not proceed. One suggestion was that initial charges should always be set in £ and not % terms. Others felt that firms should provide a clear and prominent breakdown of the costs of the three main stages of the initial advice process - the transfer advice, the investment advice and implementation costs if a transfer proceeded. They also suggested that we should cap ongoing investment advice charges so they were no more than ongoing advice charges on an investment sourced from a non-DB transfer.

5.20 Respondents also made links to other areas of work. One respondent suggested that the post-implementation reviews of FAMR and RDR in 2019 could look at charging models. This would allow the issues to be examined holistically and take any unintended outcomes into account. They also noted that contingent charging was not unique to pension transfer advice, and that we should consider its impact in other advice markets. On the other hand, one respondent considered that as advice on some safeguarded benefits (such as guaranteed annuity rates) is less complex and does not require a PTS, any policy intervention on charges should not be applied to that section of the market.

5.21 Some respondents also suggested that the way in which the Value Added Tax (VAT) exemption on product intermediation works might be driving the use of certain charging models. Several respondents felt that the VAT exemption (which applies to intermediating transactions in securities) needs to be clarified for pension transfer advice. This is particularly the case where the advice is not to transfer and so there is no product intermediation. It was also suggested that there should be an increase in the pensions advice allowance so that the cost could be covered from another pension where there was no recommendation to transfer.

5.22 A number of respondents highlighted the role of our supervisory work in identifying and preventing unsuitable advice. One respondent suggested that we should further scrutinise firms with high transfer conversion rates, and withdraw permissions if a firm is not willing to alter its charging model.

5.23 Many respondents emphasised the need to work with TPR to ensure that schemes provide members with effective education about the value of their benefits. Some also suggested that the 'scheme pays' system, which can be used to fund annual allowance tax charges, could be extended to cover the cost of advice. This could help to mitigate the effects of a ban on contingent charging. Another suggestion was that schemes should appoint an adviser(s) who could handle significant numbers of clients and so benefit from economies of scale by gaining knowledge of the workings of the scheme.

5.24 Finally, one respondent pointed out that the majority of adviser charges are deducted by providers. Since these providers are the biggest gainers from DB transfer income, they could help prevent abuses which may lead to unsuitable advice. For example, by not automatically deducting the payment for the advice received from the funds that are transferred in, without having conducted some type of due diligence.

Our response

We are grateful to all of those who took time to provide considered responses about charging for pension transfer advice. The comments acknowledge the complexities and interlinked issues that need to be worked through and considered. As a result, and because of the significance of this issue to all stakeholders in the market, we need to carry out further analysis of the issues drawing on our supervision work and considering related workstreams such as the RDR/FAMR review. It is also clear that any further changes to our rules on charging may have wider implications for the advice market and for consumers, for instance on the supply of advice.

The responses also confirm our initial thoughts that any causal link between contingent charging and suitability is difficult to prove. Charging models are only one of the potential drivers of unsuitability, and they need to be considered amongst other factors.

Our work in this area will take into account the responses and suggestions as we look at whether intervention is necessary. If we consider that changes are appropriate we will consult further on any new proposals in the first half of 2019. In the meantime, we encourage firms to check that they meet our current requirements on disclosing charges and managing conflicts of interest. We respond below to some of the specific points raised by respondents:

- Firms should be aware that the FCA already has in place rules and guidance in place that cover both managing conflicts of interest and charges disclosures.
- We recognise the close link between an effective triage service and contingent charging models, and are aware of the concerns raised about our triage proposals in CP18/7. We comment further on these points in Chapter 3 of this PS.
- Some of the areas respondents refer to are outside the FCA's remit, such as VAT issues and information from DB schemes to members. However, we are speaking to HMRC to clarify the VAT issues. We are also working closely with TPR to help ensure that schemes provide effective messaging to members on the value of their pensions.

6 Cost Benefit Analysis

6.1 In CP18/7, at Annex 2, we included a cost benefit analysis (CBA) of our proposed rules, as required by the Financial Services and Markets Act 2000 (FSMA). We set out the anticipated benefits of our proposals and our estimates of the one-off and ongoing costs to firms of implementing the changes.

6.2 Based on some assumptions about the pension transfer market, we estimated additional costs from changes to:

- qualification requirements
- triage services
- attitude to risk assessment
- two-adviser model operations
- suitability reports for all recommendations, positive or negative

6.3 Twelve respondents to CP18/7 had specific comments on the CBA. These respondents provided feedback on various aspects of our analysis and did not focus on any one element of it.

6.4 Two respondents said our analysis assumed that all potential harm would be eliminated if our proposals were implemented, which they felt was unrealistic.

6.5 One respondent argued that we had underestimated the additional costs involved in meeting the new suitability report requirements. Another thought our assumptions about advice market volumes and the potential harms were too low, and therefore that the potential consumer loss figures were likely to be much higher. One respondent suggested that better redress data would be available from the Ombudsman Service. Another respondent said the degree of potential harm we identified would be enough to threaten the stability of the Financial Services Compensation Scheme.

6.6 One respondent questioned whether a sample of 88 cases from our supervisory review of transfers was enough for us to have extrapolated a level of harm. They compared the sample's outcomes with the findings of our Assessing Suitability Review (ASR) work in 2017, which showed a much higher suitability rate (93%).

Our response

We have reviewed our cost benefit analysis, in light of all the feedback received.

We accept that our proposals are unlikely to eliminate all harms. However, we do consider that each proposal has merit and is likely to reduce harm. It is difficult to project with any accuracy what the actual collective impact, and resulting benefits, will be. For the reasons set out below we think our figures provide the best estimate of the likely costs and benefits of our proposals.

We accept that providing a suitability report for both positive and negative transfer recommendations will have cost implications and have tried to make a fair assessment of those costs. However, even if the costs are slightly higher than those we expect, we still consider that this requirement is proportionate and will benefit consumers. As set out in Chapter 4, it may not be necessary to undertake an extensive analysis to determine that a transfer would be unsuitable. This will mean that costs for a report based on a negative recommendation may be limited, given the reduced level of analysis needed.

Similarly, we consider our assumptions about transfer advice market volumes and the incidence of harm to be reasonable, as these are based on recent figures issued by TPR. Accurate data in this market have not always been available because of the way schemes report transfers, so actual volumes of transfers could in fact be higher. However, this serves to strengthen the need for our proposals.

The redress assumptions in our cost benefit analysis were based on figures provided by the Ombudsman Service, based on their own historical data. However, we note that the number of DB transfer complaints that the Ombudsman Service has upheld since 2015 is very small. Additionally, the nature of these transactions means that complaints do not tend to materialise quickly. Therefore, figures are based on a small sample size. However, from these figures it is clear that the degree of potential harm to consumers identified is high, with the possibility of serious consequences for firms in terms of redress. The actions we are taking are intended to address the causes of this harm.

Our supervisory work is ongoing, and has previously shown that a relatively low proportion of advice was considered suitable. We consider that the work cannot be compared directly with the ASR. The ASR looked at investment advice across the market while our pension transfer work focused specifically on pension transfer advice, looking at a smaller number of firms that we considered posed a high risk to consumers. So our findings on pension transfer advice may not be representative of pension transfer advice more broadly across the industry.

Annex 1
List of non-confidential respondents

Association of British Insurers

Association of Consulting Actuaries

Aegon

Age Partnership

Aon

Association of Professional Compliance Consultants

Association of Pension Lawyers

Bankhall Support Services

Baroness Ros Altmann, CBE

bdhSterling Limited

Belle Financial Services Ltd

Brian Shearing and Partners Limited

Carbon

Cazenove Capital

Clarke & Partners

Clifton Compliance Services Ltd

Creative Wealth Management

Credenda

CTC Software

Dalbeath Financial Planning Ltd

Fidelity International

Financial Services Consumer Panel

Fowler Drew

G3 Financial Freedom

Hymans Robertson

Institute of Chartered Accountants in England and Wales

Institute and Faculty of Actuaries

Intelligent Pensions

Jigsaw Financial Solutions

JLT Employment Benefits

John Dowling

Jones Financial (Norwich) Ltd

Just

Lifestyle Financial Services

Lloyds Banking Group

LV=

M Thurlow & Co (Ins) Brokers

Matthew Rodhouse

Michelle K Valencia

Money Alive

Money Honey

MPA Financial Management Ltd

Old Mutual Wealth

Openwork

Origen Financial Services

The Pensions Advisory Service

Pensionhelp

Pension Matters (North East) Limited

The Pensions Regulator

Personal Finance Society

Personal Investment Management and Financial Advice Association

Pension and Lifetime Savings Association

Powell Financial Planning

Prismatic Wealth

Profile Pensions

Prudential

RPC/International Underwriting Association Professional Indemnity Forum

Sam Lever – IFA Ltd

Scott Keachie

Simon Osborne

Small Business Practitioners' Panel

SimplyBiz Group

Society of Pension Professionals

St George's Financial Advice

Standard Life

Stewardship Wealth

Tenet

threesixty services LLP

TPWM LLP

Twenty Twenty Compliance Solutions

Uniec Prestige Ltd

Willis Towers Watson

WPS Advisory

X2 Wealth Management

Annex 2
Abbreviations used in this paper

AES	Appropriate exam standards
APTA	Appropriate Pension Transfer Analysis
CBA	Cost benefit analysis
CETV	Cash equivalent transfer value
COBS	Conduct of Business Sourcebook
CP	Consultation Paper
CPD	Continuing Professional Development
CPI	Consumer Prices Index
DB	Defined benefit
FCA	Financial Conduct Authority
FAMR	Financial Advice Market Review
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
PERG	Perimeter Guidance
PI	Professional indemnity
PTS	Pension transfer specialist
RDR	Retail Distribution Review
RPI	Retail Price Index
SFGB	Single Financial Guidance Body
SMCR	Senior Managers and Certification Regime

TC	Training and Competence
TPAS	The Pensions Advisory Service
TPR	The Pensions Regulator
TVC	Transfer Value Comparator

We have developed the policy in this Policy Statement 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.

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Appendix 1
Made rules (legal instrument)

CONDUCT OF BUSINESS SOURCEBOOK (PENSION TRANSFERS) (No 2) INSTRUMENT 2018

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 138C (Evidential provisions); and
(4) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. Part 1 of Annex B comes into force on 4 October 2018.

D. Annex A comes into force on 1 October 2020.

E. Part 2 of Annex B and Annex C come into force on 1 January 2019.

F. Part 3 of Annex B comes into force on 6 April 2019.

Amendments to the Handbook

G. The modules of the FCA Handbook listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Training and Competence sourcebook (TC)	Annex A
Conduct of Business sourcebook (COBS)	Annex B
Perimeter Guidance manual (PERG)	Annex C

Citation

H. This instrument may be cited as the Conduct of Business Sourcebook (Pension Transfers) (No 2) Instrument 2018.

By order of the Board
27 September 2018

Annex A

Amendments to the Training and Competence sourcebook

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

Comes into force 1 October 2020

2 Competence

2.1 Assessing and maintaining competence

…

Supervisors

2.1.4 G *Firms* should ensure that those supervising *employees* carrying on an activity in *TC* Appendix 1 have the necessary coaching and assessment skills as well as technical knowledge and experience to act as a competent supervisor and assessor. In particular *firms* should consider whether it is appropriate to require those supervising *employees* not assessed as competent to attain an appropriate qualification as well (except where ~~the *employee* is giving *personal recommendations* on *retail investment products* or *advising on P2P agreements*, see~~ *TC* 2.1.5R applies).

2.1.5 R Where an *employee* has not been assessed as competent to do so and:

(1) …

(2) gives *advice on P2P agreements* to *retail clients*, the *firm* must ensure that the individual supervising and assessing that *employee* has attained an appropriate qualification for giving *personal recommendations* on *retail investment products* to *retail clients*; or

(3) undertakes the activity of a *pension transfer specialist*, the *firm* must ensure that the individual supervising and assessing that *employee* has attained an appropriate qualification for undertaking the activity of a *pension transfer specialist* and an appropriate qualification for giving *personal recommendations* on *retail investment products* to *retail clients*.

…

2.1.5I …

Knowledge and competence requirements for a pension transfer specialist

2.1.5J R *TC* 2.1.5KR applies to a *firm advising on pension transfers, pension conversions and pension opt-outs*.

2.1.5K R A *firm* must not, for the purposes of *TC* 2.1.1R, assess an *employee* as competent to carry on activity 11 in *TC* Appendix 1 until the *employee* has attained each module of an appropriate qualification for giving *personal recommendations* on *retail investment products* to *retail clients* (i.e. in addition to an appropriate qualification for activity 11).

2.1.5L G The effect of *TC* 2.1.5KR is that an *employee* undertaking the activity of a *pension transfer specialist* must be qualified to the same standard as if that *employee* were providing investment advice to *retail clients* on *retail investment products* (in addition to attaining an appropriate qualification for activity 11).

2.1.5M G An *employee* who only carries on activity 11 of the activities included in *TC* Appendix 1 is not a *retail investment adviser*. As such, the *rules* in this section applicable to *retail investment advisers* are not relevant to *employees* who only *advise on pension transfers and pension opt-outs*.

Qualification requirements before starting activities

…

2.1.7 R A *firm* must ensure that an *employee* does not carry on any of the following activities without first attaining each module of an appropriate qualification:

(1A) giving *personal recommendations* on and dealing in *securities* which are not *stakeholder pension schemes*, *personal pension schemes* or *broker funds*; or

(1B) giving *personal recommendations* on and dealing in *derivatives*; or

(2) the activity of a *broker fund adviser*; or

(3) *advising on syndicate participation at Lloyd's*. ~~; or~~

(4) ~~the activity of a *pension transfer specialist*.~~ [deleted]

2.1.7A R A *firm* must ensure that an *employee* does not undertake the activity of a *pension transfer specialist* without first attaining each module of an appropriate qualification for undertaking the activity of a *pension transfer specialist* and each module of an appropriate qualification for giving *personal recommendations* on *retail investment products* to *retail clients*.

…

Selecting an appropriate qualification

2.1.10 E (1) This *rule* applies for the purposes of *TC* 2.1.1R, *TC* 2.1.5R, *TC* 2.1.5HR, *TC* 2.1.5KR, *TC* 2.1.6R, *TC* 2.1.7R, *TC* 2.1.7AR, *TC* 2.1.9R, *TC* 2.2A.1R, *TC* 2.2A.3R and *TC* 2.2A.6R.

…

…

App 4.1 Appropriate Qualification tables

…

App 4.1.1E …

Part 1B: The non-Retail Distribution Review activities (non-RDR activities)

Activity Number	**Non-RDR Activity (non-overseeing activity)**
…	
11	Undertaking the activity of a *pension transfer specialist* (see also *TC* 2.1.5KR)
…	

…

Annex B

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 4 October 2018

9 Suitability (including basic advice) (non-MiFID provisions)

…

9.4 Suitability reports

Providing a suitability report

9.4.1 R A *firm* must provide a *suitability report* to a *retail client* if the *firm* makes a *personal recommendation* to the *client* and the *client*:

…

(4) enters into a ~~*pension transfer*, *pension conversion* or~~ *pension opt-out*.

…

9.4.2A R If a *firm* makes a *personal recommendation* in relation to a *pension transfer* or *pension conversion*, it must provide the *client* with a *suitability report*.

…

19 Pensions supplementary provisions

19.1 Pension transfers, conversions, and opt-outs

…

Guidance on assessing suitability

19.1.6 G …

(4) To demonstrate (3), the factors a *firm* should take into account include:

…

(b) the *retail client's* attitude to, and understanding of the risk of giving up s*afeguarded benefits* (or potential *safeguarded benefits*) for *flexible benefits*~~;~~ , taking into account the following factors:

(i) the risks and benefits of staying in the ceding arrangement;

(ii) the risks and benefits of transferring into an arrangement with *flexible benefits*;

(iii) the *retail client's* attitude to certainty of income in retirement;

(iv) whether the *retail client* would be likely to access funds in an arrangement with *flexible benefits* in an unplanned way;

(v) the likely impact of (iv) on the sustainability of the funds over time;

(vi) the *retail client's* attitude to and experience of managing investments or paying for *advice on investments* so long as the funds last; and

(vii) the *retail client's* attitude to any restrictions on their ability to access funds in the ceding arrangement;

…

(5) If a *firm* uses a risk profiling tool or software to assess a *retail client's* attitude to the risk in (4)(b) it should:

(a) check whether the tool or software is capable of taking into account at least those factors listed in (4)(b)(i) to (vii); and

(b) ensure that those factors which are not included are factored into the *firm's* assessment of the *client's* attitude to risk.

(6) When a *firm* asks questions about a *retail client's* attitude to the risk in 4(b) it should consider the *rules* on communicating with *clients* (*COBS* 4), which require a *firm* to ensure that a communication is fair, clear and not misleading.

Working with another adviser

19.1.6A G (1) This *guidance* relates to the obligations to assess suitability in *COBS* 9.2.1R to 9.2.3R.

(2) Paragraphs (3) and (4) apply in the following situations:

(a) where two or more *firms* are involved in providing both *advice on pension transfers, pension conversions and pension opt-outs* and *advice on investments* in relation to the same transaction; and

(b) where two or more *employees* within the same *firm* are involved in providing both *advice on pension transfers, pension conversions and pension opt-outs* and *advice on investments* in relation to the same transaction.

(3) In such situations, *firms* should work together (or ensure their *employees* work together) to:

(a) obtain information from the *retail client* under *COBS* 9.2.2R(1) that is sufficient to inform both the *advice on pension transfers, pension conversions and pension opt-outs* and the *advice on investments*; and

(b) obtain information from the *retail client* under *COBS* 9.2.2R(2) about the client's preferences regarding risk taking and their risk profile that covers both the risk in *COBS* 19.1.6R(4)(b) and the risk in *COBS* 19.1.6R(4)(c).

(4) In such situations, the *firm(s)* providing the *advice on investments* in relation to the proposed transaction should ensure that (where relevant) the advice takes into account the impact of any loss of *safeguarded benefits* (or potentially *safeguarded benefits*) on the *retail client's* ability to take on investment risk.

…

Record keeping and suitability reports

…

19.1.9 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

19.1.10 G (1) 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.

(2) The *firm* should provide the confirmation regardless of whether it advised the *client* to proceed with a *pension transfer* or *pension conversion* or not.

Part 2: Comes into force 1 January 2019

19 Pensions supplementary provisions

19.1 Pension transfers, conversions, and opt-outs

…

Triage services

19.1.11 G The table in *PERG* 12 Annex 1G includes examples of when a *firm* is and is not *advising on conversion or transfer of pension benefits* when it has an initial “triage” conversation with a potential customer. The purpose of triage is to give the customer sufficient information about *safeguarded benefits* and *flexible benefits* to enable them to make a decision about whether to take *advice on conversion or transfer of pension benefits*.

Part 3: Comes into force 6 April 2019

19 Pensions supplementary provisions

…

19 Annex 4C Assumptions

This annex belongs to *COBS* 19.1.2BR and *COBS* 19.1.3AR.

Assumptions				
R				
1	(1)	…		
			…	
			…	
	(2)	The assumptions are:		
		…		
		(d)	the annuity interest rate for post-retirement *limited price indexation* 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 (c) allowing for increases at the maximum or minimum rate of pension increase respectively; otherwise it is the rate in (a);	

		(e)	the annuity interest rate for post-retirement *limited price indexation* based on the *CPI* with maximum pension increases less than or equal to 2.5%, or with minimum pension increases more than or equal to ~~3.5%~~ <u>3.0%</u>, is the rate in (c) above allowing for increases at the maximum <u>or minimum</u> rate of pension increase <u>respectively</u>; ~~where minimum pension increases are more than or equal to 2.5% 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;
		…	
	…		

Annex C

Amendments to the Perimeter Guidance manual (PERG)

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

12 Guidance for persons running or advising on personal pension schemes

…

12.6 Advising on conversion or transfer of pension benefits

…

Q35. When does a *firm* advise on conversion or transfer of pension benefits when it provides triage services?

The table in *PERG* 12 Annex 1G includes examples of when a *firm* is and is not *advising on conversion or transfer of pension benefits* when it has an initial "triage" conversation with a potential customer. The purpose of triage is to give the customer sufficient information about *safeguarded benefits* and *flexible benefits* to enable them to make a decision about whether to take *advice on conversion or transfer of pension benefits*.

After PERG 12.6 (Advising on conversion or transfer of pension benefits) insert the following new Annex. The text is not underlined.

12 Annex 1G Examples of what is and is not advising on conversion or transfer of pension benefits

Example	Is this advising on conversion or transfer of pension benefits?
Firm A has a triage conversation with customers. It gives them factual information about *safeguarded benefits* and *flexible benefits* and describes the requirement to take *advice on conversion or transfer of pension benefits* and the cost of transfer. In addition the *firm* explains the features of pension schemes with *flexible benefits* and pension schemes with *safeguarded benefits* that make them more or less suitable for general groups of people. The *firm* also explains the cash equivalent transfer value.	

(1) During the triage conversation the customer’s circumstances are covered. Based on these specific circumstances, the *firm* tells the customer that they should not take advice.	Yes. This is advice because it is effectively advice to stay in the occupational pension scheme and advice not to transfer.
(2) Same circumstances as example (1) but the *firm* tells the customer that they would be unlikely to recommend a transfer if the customer took advice.	Yes. This is likely to be an implicit recommendation not to transfer.
(3) After giving the factual information set out at the start of this table and taking into account the customer’s specific circumstances, the *firm* tells the customer it will not provide them with *advice on conversion or transfer of pension benefits*.	The *firm* will not give regulated advice in these circumstances if it tells the customer that it will not give them advice. The *FCA* thinks that *firms* should be able to turn down business they do not want to carry out without this being interpreted as *advising on conversion or transfer of pension benefits*. Refusing to do business with someone is not consistent with having an advisory relationship with them. (A similar issue arises under the *regulated activity* of *advising on investments* - see example F(12) at *PERG* 8 Annex 1G.)
(4) After giving the factual information set out at the start of the table, the *firm* signposts sources of information on them, including an option to take advice. The *firm* leaves it to the customer to decide whether or not to take advice.	No. The general context of the information provided and the neutral way in which it is presented should not involve advice. A *firm* may give advice if it provides an opinion on whether the customer should go on to take advice or if it uses language which may be perceived as influencing a customer’s decision to take advice. A *firm* does not necessarily give advice by bringing obviously relevant facts to the attention of a customer who wants to transfer, even if those facts show that a transfer would be a poor decision.
(5) After giving the factual information set out at the start of the table, the *firm* provides the customer with the transfer value comparator (TVC) prepared in accordance with *COBS* 19.1.3AR.	Yes. This is likely to be advice as the TVC is prepared using personal information and is objectively likely to influence the customer’s decision to transfer or remain in the scheme. Occupational schemes and employers providing the TVC to scheme members should consider whether they are providing the TVC by way of business (*PERG* 2.3) and require authorisation.

Appendix 2
ApEx21

ApEx21 Pension Transfers			
Attainment Level	**Outcome**		**Indicative Content**
K Demonstrate a knowledge of:	K1. Regulatory definition of a pension transfer, pension conversion and pension opt-outs	K1.1	Financial Conduct Authority's (FCA's) definition
	K2. Legislative and regulatory requirements in relation to conversions and transfers of pension benefits	K2.1	Section 48 of Pension Schemes Act 2015
		K2.2	The Pensions Scheme Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015
		K2.3	The Statutory right to a transfer
		K2.4	Treating Customers Fairly requirements (reference to ApEx1)
		K2.5	The regulatory framework governing how transfer values are set
U Demonstrate an understanding of:	U1. Financial Conduct Authority and The Pensions Regulator Rules	U1.1	FCA rules, guidance and alerts specific to pension transfers, pension conversions and pension opt-outs
		~~1.1.2~~ U1.1.1	Record keeping and data protection requirements
		~~1.1.3~~ U1.1.2	Reporting
		~~1.1.4~~ U1.1.3	Insistent customers
		U1.1.4	Advice and guidance
		U1.1.5	~~Suitability~~ Personal recommendation and suitability
		U1.1.6	~~TVAS~~ Appropriate Pension Transfer Analysis (APTA), including Transfer Value Comparator (TVC)
		U1.1.7	The statutory advice requirement, including confirmation of advice
		U1.1.8	Accepting business and engaging new clients
		U1.1.9	Triage services and the advice boundary
		U1.2	The Pensions Regulator rules
		U1.2.1	How scheme is run
		U1.2.2	Responsibility of trustees

		U1.2.3	Guidance for ~~cash~~ incentive~~s~~ exercises
		U1.2.4	Annual fund statement including voluntary codes
		U1.2.5	Due diligence & identifying scams, including where business generated via introducers
	U2. Main parties involved in a pension transfer	U2.1	Roles and responsibilities of those involved in the pension transfer process including ~~Pension Wise~~ impartial guidance services
		~~U2.2~~	~~Motivation for transfer, including pension unlocking, and reasons for advice given and the ABI estimated time standard~~
		U2.2	The role and powers of the Pension Ombudsman Service and the Financial Ombudsman Service over disputes on pension transfers
		U2.3	Responsibilities in relation to outsourced pension transfer advice or outsourced pension transfer advice checking
		U2.4	Due diligence, contractual arrangements and processes when working with other advice firms
		U2.5	Due diligence when dealing with introducers
		U2.6	Working with schemes to obtain necessary data for undertaking transfers
		U2.7	Client motivation for transfer, including need for cash, and other reasons why advice is being sought
		U2.8	Managing client expectations on time constraints
		U2.9	Using third party software
		U2.10	Discretionary fund managers
	U3. The role of the pension transfer specialist	~~U3.1~~	~~Key stages of the pension transfer process~~
		~~U3.1.1~~	~~Client objectives and restraints, regulatory restrictions~~
		~~U3.1.2~~	~~Retirement strategy to meet client objectives~~
		~~U3.1.3~~	~~Implementation of retirement strategy~~

		~~U3.1.4 Responsibility for post-transfer review and control~~ U3.1 Advice and wider business models, including data protection U3.1.1 Pension transfer specialist acting as sole adviser U3.1.2 Pension transfer specialist acting as outsourced adviser, with client passed back to introducer U3.1.3 Pension transfer specialist acting for self-investor U3.1.4 Pension transfer specialist checking reasonableness of advice U3.2 Operating a triage service U3.2.1 Key stages of the pension transfer process U3.2.2 Disclosing charges, potential charges and possible conflicts of interest U3.2.3 Providing generic, balanced information on the advantages and disadvantages of giving up safeguarded benefits U3.2.4 Avoiding giving advice based on the client's circumstances and objectives U3.2.5 Availability of alternatives to giving up safeguarded benefits U3.2.6 Responsibility for implementation of retirement arrangement U3.2.7 Responsibility for post-transfer review and control, and on-going advice in retirement
	U4. Establishing and meeting client objectives	U4.1 Current relevant ~~pension~~ retirement arrangements, including state pension and benefits U4.2 Other relevant assets and financial and personal information U4.3 Client ~~pension~~ retirement objectives and expectations of outcome, including income requirements and need for tax free cash ~~U4.4 Attitude to risk~~ U4.4 Identification and management of unrealistic client objectives

		~~U4.5~~	~~Capacity for loss~~
		U4.5	Capability to accept risk associated with transferring safeguarded benefits
		~~U4.5~~	~~How and when benefits will be taken~~
		U4.6	Attitude to investment risk, including capacity for investment loss
		~~U4.6~~	~~Client liquidity requirements~~
		U4.7	How and when benefits will be taken, including assessment of client's ability to manage funds over the long term
		U4.8	Retail clients and professional clients
		U4.9	Assessment of client's financial capability and knowledge including ability to manage funds over the long term
		U4.10	Client liquidity requirements
		U4.11	Dealing with a client who is a self-investor
	U5. Rights and options of leavers	U5.1	Transfer value
		U5.2	Ill health, serious ill-health, disability and other forms of benefits and implications for taxation
		U5.3	Early retirement benefits and impact on APTA
		U5.4	Deferred benefits and impact on APTA
		U5.5	Cash commutation of benefits at retirement
		U5.6	Partial transfers
	U6. ~~Critical yield~~ APTA and TVC	~~U6.1~~	~~Basic principles of TVAS~~
		~~U6.2~~	~~Asset allocation and how critical yield might be achieved~~
		~~U6.3~~	~~What benefits affect the critical yield~~
		U6.1	Role and impact of TVC
		U6.2	Purpose of APTA in demonstrating suitability
		U6.3	The continuing use of critical yield including its limitations, in APTA
		U6.4	The use of cash flow modelling in APTAs
		U6.5	Specific information on receiving scheme and onward destination in APTA, including asset allocation, charge, taxation effects and flexibilities

		U6.6	Stochastic and deterministic modelling for APTAs, and reconciling different approaches
		U6.7	Quantitative and qualitative analysis in the APTA
		U6.8	Reconciling client objectives and needs with trade-offs between retirement options, TVC and other factors
		U6.9	Communicating APTA and TVC to clients
	U7. Apply rules regarding pension transfers and ~~divorce~~ relationships	U7.1	Shadow benefits in the event of divorce and ending of civil partnerships
		U7.2	Implications of pension sharing and impact on the transfer
		U7.3	Issues surrounding pension sharing versus attachment orders
		U7.4	The ~~relevance~~ differences between legal systems in the UK in terms of marriage, civil partnerships and divorce
	U8. Schemes with solvency issues	U8.1	The role and impact of the Pension Protection Fund (PPF), in meeting client objectives and needs
		U8.2	The role and impact of the Pensions ~~Ombudsman Service over disputes on pension transfers~~ Regulator in overseeing scheme funding issues
		U8.3	The impact of scheme solvency ~~of~~ on the transfer value and whether reductions apply
		~~U8.3~~ U8.4	Order of priorities for drawing benefits from a scheme with solvency issues
		U8.5	The risks of analysing scheme solvency, funding levels and employer covenant
		U8.6	Comparing PPF benefit levels with DC benefits and risks
		U8.7	Options for sponsors in financial difficulties including Regulated Apportionment Arrangements
	U9. Transfers abroad (to and from overseas	U9.1	Qualifying rules
		U9.2	Tax implications/HMRC rules in outline

	schemes)	U9.3 U9.4 U9.5 U9.6 U9.7	Legislative and FCA requirements for overseas customers and the parties involved including regulated individuals in the UK and overseas Benefits and risks of overseas transfers including carrying out due diligence of overseas partners Obtaining necessary information from overseas advisers Adjusting the APTA for overseas transfers Comparison of consumer protections that apply in UK and overseas
	U10. Fundamentals of workings of block transfers and winding up	U10.1 U10.2 U10.3 ~~U10.4~~	Protection of tax free cash and protected retirement ages Reporting requirements Notification periods ~~Potential conflicts of interest in advising individuals and trustees~~
An Demonstrate an ability to analyse:	~~An1. Implications of the source of a transfer~~	~~An1.1~~ ~~An1.2~~ ~~An1.3~~ ~~An1.4~~	~~Defined contribution schemes~~ ~~Defined benefit schemes~~ ~~Public sector schemes~~ ~~Insolvency risk~~
	~~An2. The implications of moving between different scheme types~~	~~An2.1~~ ~~An2.2~~ ~~An2.2.1~~ ~~An2.2.2~~ ~~An2.2.3~~ ~~An2.3~~ ~~An2.4~~ ~~An2.5~~ ~~An2.6~~ ~~An2.7~~ ~~An2.8~~ ~~An2.9~~	~~Workplace pensions~~ ~~Benefit crystallisation option~~ ~~Phased income/retirement~~ ~~Flexi access drawdown~~ ~~Annuities – including guaranteed rates, recycling rules and transfers for immediate vesting~~ ~~Alternative retirement vehicles~~ ~~An2.4 Final salary schemes~~ ~~An2.5 Career average schemes~~ ~~An2.6 Public sector transfer club~~ ~~An2.7 Trusts – impact on trust if transfer carried out~~ ~~An2.8 Death in service~~ ~~An2.9 Impact of dependents' benefits on a personal Pension scheme~~
	An1. Different types of pension arrangements	An1.1 An1.2 An1.3	Defined contribution schemes Defined benefit schemes Other safeguarded benefit schemes

		An1.4	Career average schemes
		An1.5	Hybrid schemes
		An1.6	Public sector schemes including transfer options
		An1.7	Small self-administered schemes
		An1.8	Stakeholder pensions, personal pensions and self invested personal pensions
		An1.9	Workplace pensions and automatic enrolment
		An1.10	Benefit crystallisation options
		An1.10.1	Phased Income/retirement
		An1.10.2	Flexi access drawdown and Uncrystallised Funds Pension Lump Sum
		An1.10.3	Annuities – including guaranteed rates, impaired life, temporary annuities, variable annuities, recycling rules and transfers for immediate vesting, hybrid annuity/drawdown options, later life annuities
		An1.11	Insolvency risk in defined benefit and defined contribution arrangements
		An1.12	Death in service only schemes
	~~An3.~~An2. Implications of ~~cash~~ incentives to leave a defined benefit scheme, including enhanced transfer value exercises	~~An3.1~~ An2.1	Implications of ~~cash~~ incentives to leave a defined benefit scheme
		~~An3.2~~ An2.2	Impact on ~~TVAS reporting~~ APTA and TVC and way in which pension transfer is reported
		~~An3.3~~ An2.3	Motivation of employers to offer such incentives
		An2.4	Risks of streamlining advice when providing personal recommendations
		An2.5	Potential conflicts of interest in advising individuals, trustees and employers
		An2.6	Code of Practice on incentivised exercises
	~~An4.~~An3. Transitional protection arrangements	~~An4.1~~	~~Primary protection~~
		An3.1	Transitional protection arrangements (primary & enhanced) protection
		~~An4.2~~	~~Enhanced protection~~
		~~An4.3~~ An3.2	Protected transfers
		~~An4.4~~ An3.3	Protected tax free cash and retirement ages Historical changes in tax

		An3.4	limits
	~~An5.~~An4. APTA: Income options and death benefits and their impact on the transfer recommendation	~~An5.1~~ An4.1 ~~An5.2~~ An4.2 ~~An5.3~~ An4.3 ~~An5.4~~ An4.4 ~~An5.5~~ An4.5 ~~An5.6~~ An4.6 ~~An5.7~~ An4.7 ~~An5.8~~ An4.8 ~~An5.9~~ An4.9 ~~An5.10~~ An4.10 An4.11	Difference between retirement options relative to client's capacity to accept transfer risk and attitude to investment risk ~~Maximum benefits - tax free cash etc~~ Consideration of structure of benefits and alternative means to meet clients' objectives and needs ~~Risk and return~~ Illustrating income options and risks, relative to income retirement needs for a sufficient period of time, allowing for charges and tax ~~Analysis of critical yields in drawdown cases~~ Comparing death benefit structures on a consistent basis, at different points in time Mortality drag, life expectancy risk and the risk of running out of money - if live beyond average life expectancy Certainty vs Flexibility ~~Comparison of features on income drawdown~~ Effect of taxation for differing retirement options – income tax, inheritance tax, lifetime allowance, annual allowance, scheme pays option, tapered annual allowance, money purchase annual allowance, overseas transfer tax charges ~~Effect of transfer on income drawdown~~ The pension advice allowance ~~Added years' purchase~~ Ill health considerations, including tax ~~Life expectancy risk~~ PPF outcomes Trade-offs between options and benefits, TVC and client objectives and needs
	~~An6.~~An5. How	~~An6.1~~	Inflation and investment

	income options and death benefits are related to a combination of investment risk, ~~capital~~ economic risk and mortality risk	An5.1 ~~An6.2~~ An5.2 ~~An6.3~~ An5.3 ~~An6.4~~ An5.4 ~~An6.5~~ An5.5 ~~An6.6~~ An5.6 ~~An6.7~~ An5.7 ~~An6.8~~ An5.8 ~~An6.9~~ An5.9 An5.10	returns – nominal and real The effects of inflation The time value of money The impact of varied retirement returns, including sequencing risk Risks associated with each retirement option The appropriateness of indexation The probabilities in relation to dependents' benefits Capital protection on death Guarantee periods Benefits already taken
	~~An7.~~An6. Advantages and disadvantages of a transfer	~~An7.1~~ An6.1	Analyse the advantages and disadvantages of a transfer in a range of given circumstances, using an APTA, including a TVC, to support the analysis
	~~An8.~~An7. Financial circumstances and retirement options	~~An8.1~~ An7.1 An7.2	Analyse and interpret a range of financial circumstances and retirement options in order to prepare personal recommendations ~~to meet client objectives~~ which meet suitability requirements Consider how the personal recommendation fits with the FCA view that giving up safeguarded benefits will not be suitable
A Demonstrate an ability to apply:	A1. Apply suitable pension transfer solutions to specific client circumstances	A1.1	Apply suitable pension transfer solutions in a range of given circumstances, demonstrating the principles of best practice and reinforcing the Know Your Customer process

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