Calculating redress for non-compliant pension transfer advice

Policy Statement

PS22/13

November 2022

This relates to

Consultation Paper 22/15
which is available on our website at
www.fca.org.uk/publications

Email:
cp22-15@fca.org.uk

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1 Summary

1.1 On 2 August, we published Consultation Paper 22/15 (CP22/15) on our methodology for calculating redress for consumers who received non-compliant advice to transfer from a defined benefit (DB) pension scheme to a defined contribution (DC) pension scheme. This Policy Statement (PS) summarises the feedback we received on Chapters 1-7 of CP22/15 and the changes we have decided to make to the methodology following consultation.

1.2 In Chapter 8 of CP22/15, we also set out the approach to redress calculations for the consumer redress scheme for former members of the British Steel Pension Scheme (BSPS) that we proposed in CP22/6. We said that redress calculation for the BSPS redress scheme would broadly follow the same approach as the methodology for all other cases, although a BSPS-specific approach would be necessary in some areas. We refer to the methodology for non-BSPS redress scheme cases as the 'general methodology'. This is to distinguish it from the methodology for cases covered by the BSPS redress scheme.

1.3 The final rules for calculating redress for:

- The general methodology are in Appendix 1 of this PS. These rules, which will be in a new fourth appendix to the Dispute Resolution: Complaints (DISP) sourcebook (DISP App 4) will come into force on 1 April 2023.
- The BSPS redress scheme are in PS22/14, which includes summaries of the feedback we received on our BSPS-specific proposals and the changes we are making in response. These rules and guidance, which will be in new chapters in the Consumer Redress (CONRED) sourcebook (CONRED 3 and 4), will also come into force on 1 April 2023.

Who this affects

1.4 This PS will affect:

- regulated firms who provide, or used to provide, advice on transfers from DB pension schemes to personal DC pension schemes
- actuarial specialists who carry out calculations for regulated firms
- industry groups/trade bodies
- individual consumers who transferred their pension, and their representatives
- consumer groups
- insurers who provide professional indemnity insurance (PII) for regulated firms

The wider context of this policy statement

Our consultation

1.5 Consumers may suffer financial loss if they receive non-compliant DB pension transfer advice from a firm and, but for that advice, would have remained in their DB pension. We expect firms to use the methodology to calculate how much redress should be paid to consumers to put them back in the position they would have been in if they had remained in their DB scheme.

1.6 The methodology uses a range of economic, demographic and other assumptions to estimate the present-day value of the retirement benefits the consumer would have received if they had not transferred. This value is then compared with the current value of the consumer's DC arrangement attributable to the original transfer value (ie excluding any other pensions and contributions) at the same date. Any shortfall between the DC and DB values is the amount of redress due.

1.7 The methodology is comparable to how a court would award damages in similar circumstances and firms have used this approach since it was introduced in the 1990s for the Pensions Review. The provisions setting out the methodology were adopted by the FCA from predecessor regulators, notably the Securities and Investments Board (SIB) and the Personal Investment Authority (PIA), in 2001. In this PS, we refer to predecessor regulators' provisions as the 'Pensions Review provisions'.

1.8 We last carried out a review of the methodology in 2016. Following this, we published Finalised Guidance (FG) 17/9 in 2017. When we published FG17/9, we committed in the accompanying Feedback Statement to undertake a review at least every four years.

1.9 In September 2021, we published a statement announcing that we would start this periodic review of the methodology by the end of the year. In January 2022, we appointed Deloitte Total Reward and Benefits Limited ('Deloitte') to conduct the review.

1.10 On 2 August, we published CP22/15, setting out the findings of the review and proposing some changes to the general methodology. As explained in paragraph 1.2, CP22/15 also set out the approach to calculating redress for cases covered by the proposed BSPS redress scheme.

1.11 Alongside CP22/15, we published:

- Deloitte's Technical Report ('the Technical Report'), which sets out Deloitte's analysis and the recommendations they made to us
- Deloitte's Technical Manual ('the Technical Manual'), providing worked examples of the calculation process using the proposed methodology, and
- a summary of a legal opinion from Michael Furness KC (MFKC) of Wilberforce Chambers, focusing primarily on how the current and proposed methodology compared with the approach a court would take to awarding damages for non-compliant DB pension transfer advice.

How it links to our objectives

1.12 We set out in CP22/15 how all three of our operational objectives will be advanced by our proposals. We consider this analysis, repeated below, remains the same for the final rules.

Consumer protection

1.13 Our proposed changes to the methodology will advance our objective to secure an appropriate degree of protection for consumers. They will do this by ensuring that consumers who received non-compliant advice and suffered harm as a result receive redress that, so far as possible, puts them back in the position they would have been in if they had received compliant advice. Our proposal to consolidate the methodology as new rules and guidance in the DISP sourcebook will further increase consumer protection by improving understanding of the methodology and providing a direct route for assertive supervision or enforcement action should we identify misconduct in relevant redress exercises.

Market integrity

1.14 Our proposed changes to the methodology will advance our objective to protect and enhance the integrity of the UK financial system. They will do this by ensuring confidence among firms and consumers that the methodology will continue to enable calculation of an appropriate amount of redress where consumers have been harmed by non-compliant advice.

Competition

1.15 Our proposed changes to the methodology, specifically to the adviser and product charges assumption, will advance our objective to promote effective competition in the interests of consumers. They will do this by ensuring redress provides for a reasonable level of future charges, enabling consumers to switch to a different adviser if they wish to.

Outcome we are seeking

1.16 Our approach covers situations where a firm or adviser has failed to give compliant advice or has committed some other breach of the relevant requirements, and the consumer has transferred out their DB scheme as a result. In such cases, the basic objective of redress is to put the consumer, so far as possible, back into the position they would have been in if they had been given compliant advice and decided to remain in their DB scheme.

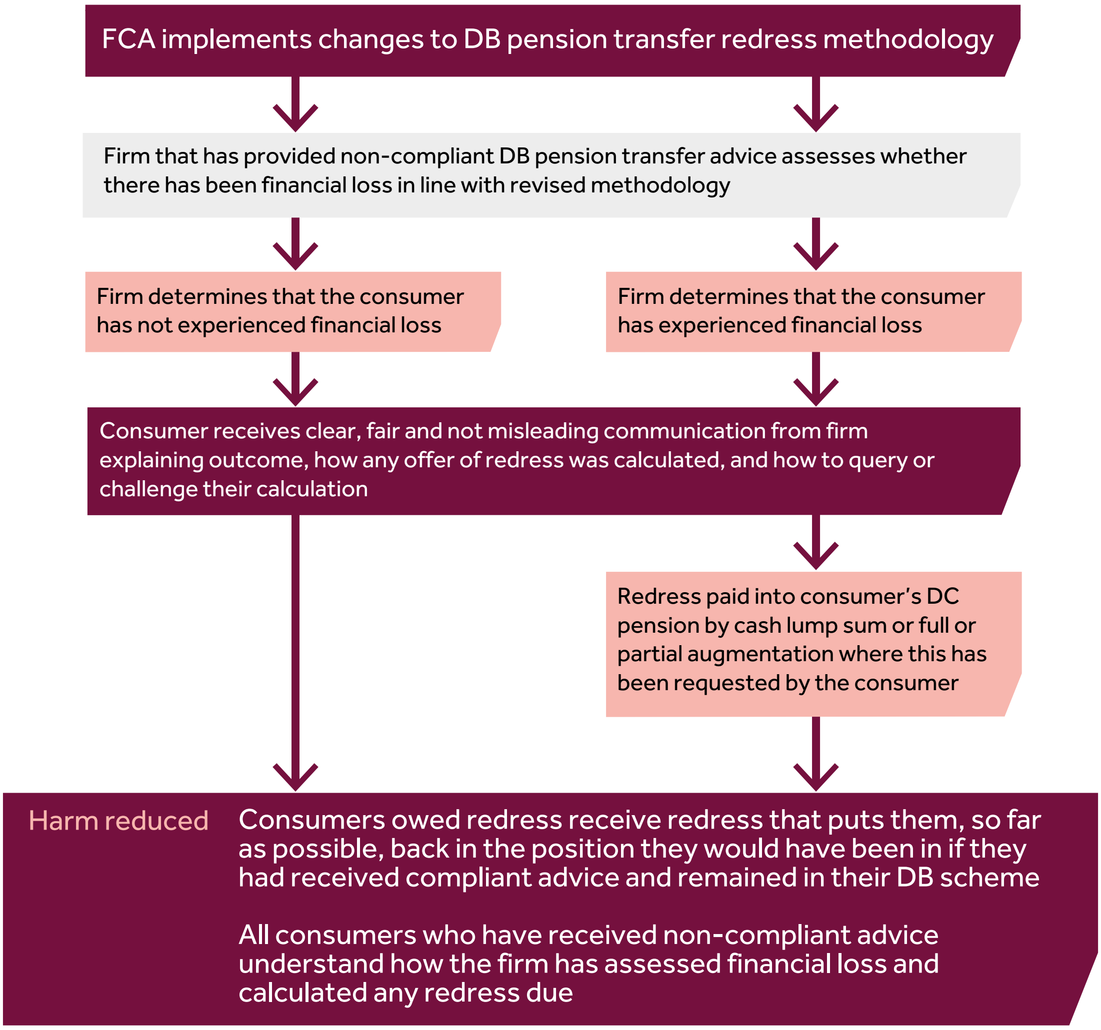
1.17 We also want to ensure that our proposals:

- Take account of factors such as recent and future changes to the pensions landscape, the availability of data, and actuarial standards and best practice to ensure the redress methodology and assumptions continue to be as robust as possible over an extended period.
- Ensure consistency of approach between firms carrying out the calculation.

- Ensure clarity and minimise the scope for ambiguity when applying the methodology, minimising the risk that the approach to calculating redress can be misinterpreted or manipulated.
- Allow calculations to be completed efficiently to avoid delays and excessive costs in resolving complaints.
- Enable those who undertake calculations or provide redress software to understand the rationale behind the methodology and assumptions and be able to apply it readily in practice.
- Ensure key elements of the calculation are transparent and explainable to consumers.
- Minimise the need for the FCA to update the methodology and assumptions or elements of them regularly to ensure that they remain appropriate.

1.18 Figure 1 shows how our proposals intend to achieve these outcomes.

Figure 1: Causal chain setting out how we expect our revised redress calculation requirements to reduce harm



Measuring success

1.19 Our proposals aim to ensure consumers receive appropriate redress by making calculations more consistent, more responsive to consumers' individual circumstances and easier for consumers to understand.

1.20 Key indicators of success include:

- greater consumer confidence that consumers in similar circumstances (and whose redress is calculated at the same time) receive similar redress offers (measured through fewer representations to us on the methodology by consumers and their representatives)
- fewer disputes between firms and consumers about calculations (measured through fewer complaints to firms about calculations)
- lower costs to firms and their actuarial advisers through fewer questions to us about how to calculate redress

What we are changing and key feedback

1.21 We received 38 responses to CP22/15 from a range of stakeholders, including firms, individuals, actuarial and pensions consultancies, consumer representatives and trade bodies.

1.22 CP22/15 set out the findings of a comprehensive periodic review of a highly technical methodology. It was necessarily long and included 74 questions. Of the 70 questions relating directly to redress calculation, 53 were on the general methodology and 17 were on the BSPS-specific methodology. We also asked a question on our estimate of the costs and benefits of our proposals, as set out in our cost benefit analysis (CBA).

1.23 As explained in paragraph 1.3, feedback on our BSPS-specific proposals and our response is set out in PS22/14. On the general methodology, respondents to most questions supported our proposals. We recorded high levels of agreement (more than three quarters of respondents agreeing with the proposal) on 16 of our questions.

1.24 On a further 29 questions, more respondents agreed with the proposal than disagreed, albeit to varying degrees. Questions with lower levels of agreement included questions on the information firms obtain to calculate redress, the timeframe for issuing calculations, allowing for the pension commencement lump sum (PCLS), allowing for advice and product charges, allowing for tax and means-tested state benefits entitlements on cash lump sum payments, and several issues related to augmentation.

1.25 There were 8 questions where no more than half of respondents agreed with our proposal. These included questions on how frequently firms should update the economic assumptions used in calculations, the pre-retirement discount rate, payment of interest on redress amounts and the level at which consumers should be compensated for initial advice.

1.26 We have set out the feedback and how we are responding in the relevant chapters of this PS. Table 1, below, summarises the most significant proposals we consulted on for the general methodology, the feedback we received and our response. Table 1 also includes proposals that we did not consider significant when we published our consultation, but the relatively high proportion of responses disagreeing with the proposal have given us cause to reconsider our approach.

Table 1: Summary of key proposals, feedback and our response

We proposed that	Summary of feedback	Our response	Location
General approach to redress calculations (Chapter 2)			
The methodology is consolidated as a new fourth appendix (App 4) in the Dispute Resolution: Complaints (DISP) sourcebook covering pension transfer redress cases within the current scope of FG17/9	Almost all respondents supported this proposal.	We are proceeding with the proposal as consulted on.	Paragraph 2.7
Firms calculate redress as the difference between the estimated value of the benefits given up in the consumer's DB scheme and the current value of the consumer's DC pension and pay that redress in cash as a lump sum	Six in 10 respondents agreed with this proposal or were neutral. Those who disagreed said that redress should be provided in the form of a guaranteed income, either by reinstating the consumer in their DB scheme or purchasing them a deferred or immediate annuity.	There are several significant barriers that make the alternatives proposed by respondents impractical as a default approach to redress. While cash lump sum redress will remain the default, we will add guidance clarifying that firms may settle redress offers by arranging to provide a pension arrangement with safeguarded benefits to the consumer if certain steps are followed.	Paragraph 2.10
Firms issue calculations within 3 months of the valuation date	Almost 8 in 10 respondents agreed with this proposal or were neutral. Those who disagreed said this allowed firms too much time. Some respondents noted that the 3-month period to issue a calculation would not be aligned with the proposed monthly cycle for updating the economic assumptions.	We will proceed with the requirement that firms issue calculations promptly and within 3 months of the valuation date. As set out below, we are not proceeding with the proposed monthly assumption update cycle, so issue periods will remain aligned with the update cycle. To help ensure firms issue calculations promptly, we will add guidance clarifying that firms should issue calculations within the quarter in which the valuation date falls.	Paragraph 2.19
Firms must confirm to consumers that they have used an approach approved by an actuary to value the benefits given up in the DB scheme, and when the DC valuation is not straightforward.	Around 8 in 10 respondents agreed with our proposal on actuarial oversight of calculations. Those who disagreed largely focused on the time and cost of using an actuary. Respondents asked for further clarification on the use of actuarial software.	We have decided to proceed with the proposal we consulted on. We have added specific rules to reflect the requirement and provide further clarification, rather than relying on firms to confirm to consumers that they have used an approach which has been approved by an actuary.	Paragraph 2.24
Economic assumptions used in redress calculations (Chapter 3)			
Firms update the economic assumptions used in redress calculations no less frequently than the last working day of each month	Half of respondents disagreed with this proposal. Those who disagreed tended to agree in principle with more frequent updates but had significant concerns about having enough time to complete calculations within a month, given the time needed to update the assumptions and calculation software.	We will not proceed with this proposal and will instead retain the current quarterly update cycle and not permit more regular assumption updates. As explained above, we will also amend the rule so that all calculations must be carried out and issued within the quarter during which the calculation is carried out. To guard against the risk of unrepresentative economic assumptions being 'locked in' for the forthcoming quarter due to significant market volatility on the last business day of the previous quarter, we will monitor whether underlying indicators are in line with recent trends.	Paragraph 3.4

We proposed that	Summary of feedback	Our response	Location
Firms use the existing pre-retirement discount rate assumption consistent with a 50% return on equity	Half of respondents disagreed with this proposal. Those who disagreed argued for either a higher or a lower pre-retirement discount rate than we proposed on the basis that it exposed consumers to, respectively, too little, or too much risk.	We are proceeding with the proposal we consulted on. We consider the proposed pre-retirement discount rate strikes an appropriate balance between the ability for consumers in a DC arrangement to make a return on their investment and the level of investment risk it is reasonable to expect them to bear in the pre-retirement phase.	Paragraph 3.26
Firms assume consumers would have maximum available PCLS if they had remained in their DB scheme, using the DB scheme PCLS commutation factors in force at the date of retirement	Six in 10 respondents agreed with this proposal or were neutral. Those who disagreed said we should amend our approach to better reflect specific consumer or scheme circumstances, and to reflect how lump sums may have changed over time (including due to different tax regimes).	We are proceeding with our proposal in general and introducing further elements to improve the accuracy of the approach in certain situations. We do not consider the option to tailor the assumption to individual schemes/consumers to be practical or reliable, so will retain the general approach consulted on.	Paragraph 3.36
Demographic assumptions used in redress calculations (Chapter 4)			
Firms use a probability table based on term to retirement and current marital or civil partnership status to determine whether the consumer will be married or in a civil partnership when they retire	Almost all respondents supported this proposal.	We are proceeding with the proposal as consulted on.	Paragraph 4.9
Other assumptions used in redress calculations (Chapter 5)			
Firms presume that the consumer would have retired in their DB scheme at the scheme's normal retirement age (NRA) unless they have evidence which demonstrates that it is more likely than not that the consumer would have retired at an alternative date in their DB scheme	Eight in 10 respondents agreed with this proposal. Those who disagreed were either concerned about the complexity of the approach proposed or the risk of comparing a consumer's behaviour in a DC arrangement with how they would have behaved in their DB scheme.	We are proceeding with the proposal as consulted on. We understand concerns about the additional burden placed on firms. We also agree that, since the pension freedoms, consumers may behave differently in a DC environment to how they would have behaved if they had remained in their DB scheme. However, firms still need to assess whether the consumer would have retired to calculate an appropriate value for the consumer's DB benefits.	Paragraph 5.4
Firms allow for a reasonable level of product and ongoing advice charges (fixed at, respectively, 0.75% and 0.5% of the consumer's DC fund value)	Around 6 in 10 respondents agreed with this proposal or were neutral. Those who disagreed said that the proposed reasonable levels were either too high or too low. One thought redress should take account of the charges actually incurred.	We are proceeding with the proposal as consulted on. We consider most consumers should be able to access products and services for the level of charges proposed.	Paragraph 5.16

We proposed that	Summary of feedback	Our response	Location
Firms allow for initial advice charges when consumers are not currently in an advice arrangement or where their ongoing advice charges are above the reasonable level	Around two thirds of respondents agreed with this proposal or were neutral. Those who disagreed (and had not misunderstood that the allowance would only apply where the consumer was not currently in an advice arrangement) were mainly concerned about the proposed level of the fee.	We are proceeding broadly with the proposal as consulted on. Given the importance of ongoing advice, we think it's appropriate that redress calculations should allow for the cost of taking initial advice from a new adviser first, in specified circumstances. These are when the consumer is not currently in an advice arrangement or where their ongoing advice charges from the firm that gave them the non-compliant advice are above the reasonable level.	Paragraph 5.16
Initial advice charges are set at 2.4% of the consumer's DC fund value, subject to minimum and maximum charges of, respectively, £1,000 and £3,000	Half of respondents disagreed with this proposal. Those who disagreed were mainly concerned that the cap of £3,000 was too low to compensate many consumers for the actual cost they would incur.	We are proceeding with the proposal as consulted on. Respondents did not provide any evidence that the rates we proposed, or the data they were based on, were inappropriate.	Paragraph 5.16
Paying redress and issuing and explaining calculations to consumers (Chapter 6)			
Firms pay as much of the redress as possible directly into the consumer's defined contribution pension by augmentation	Around two thirds of respondents agreed with this proposal or were neutral. Some of those who disagreed felt that redress should be provided in the form of a guaranteed income product. Others said that consumers should have the choice of what to do with their redress so it should be paid as cash. A third group, including some who were neutral, were concerned about the complexities of ensuring augmentation did not result in consumers incurring tax charges.	We will not require firms to calculate an augmentation for every redress payment. Instead, firms should calculate redress as a cash lump sum but, before calculating how much is due, also offer to calculate an augmentation. If the consumer accepts, any subsequent redress offer should show both a cash lump sum and augmentation option.	Paragraph 6.11
Firms increase redress between the valuation date and the payment date using, as appropriate, the pre-retirement or post-retirement discount rate to compensate consumers for foregone investment returns	Two thirds of respondents agreed with this proposal or were neutral. Some of those who disagreed said consumers should not be compensated for the entire period proposed. Others said that redress should be calculated as a percentage of the DC fund value at both the valuation and settlement date. A third group said that the proposal would be complex to implement and confusing for consumers.	We are proceeding with the policy as consulted on. This is now referred to as the 'additional compensation amount' in the rules, rather than 'interest'. We consider the approach is consistent with the principle behind the methodology on investment returns.	Paragraph 6.25

Equality and diversity considerations

1.27 We have considered the equality and diversity issues that may arise from the proposals in this Policy Statement.

1.28 In CP22/15, we said that we did not consider that the proposals we consulted on materially impact any of the groups with protected characteristics under the EA2010. We did not receive any feedback from stakeholders on this assessment. Nor did we receive any feedback on the proposals themselves relating to their impact on groups with protected characteristics.

1.29 We do not consider that the changes we have made post-consultation change our assessment.

Next steps

1.30 The legal instrument accompanying this PS contains final rules and guidance. There will be an implementation period of just over 4 months before the changes take effect on 1 April 2023.

1.31 If your firm is affected by these changes you need to take necessary steps over the next few months to be ready to comply.

1.32 We received feedback on whether tax and benefits legislation could be changed to make it easier for firms to pay redress by augmentation and ensure consumers' entitlements to means-tested state benefits are not affected by redress payments. However, policy on tax and benefits is a matter for the Government and is outside our control.

1.33 As we explain in Chapter 2, we will start our next full review of the methodology within 8 years (ie by 2031). We will carry out an interim review of the discount rates and inflation-related assumptions in 2027.

2 Our general approach to pension transfer redress calculations

2.1 In CP22/15, we set out some fundamental proposals on the redress methodology, covering:

- consolidation of the methodology into rules and guidance
- the basis for the methodology
- the key steps that firms should take when calculating redress
- our proposed approach for future reviews of the methodology

2.2 In this chapter, we set out the feedback, and our response, to the proposals.

Consolidating the redress calculation methodology

2.3 In CP22/15, we proposed that the methodology should be consolidated as new rules and guidance in DISP. We said that this would help make the methodology more transparent and ensure greater consistency in its application. We also said it would provide a direct route for assertive supervision or enforcement action should we identify misconduct in redress exercises.

2.4 As part of the proposed consolidation, we said we would retain some of the Pensions Review provisions that are not part of the calculation steps or the assumptions, but which provide important information to firms when calculating redress. However, we considered certain Pensions Review provisions no longer relevant to the current pensions landscape and/or the options available to transferring members and proposed these should not be retained.

2.5 We asked:

> **Q1:** ***Do you agree that we should consolidate the pension transfer redress methodology as a new appendix in the Dispute Resolution: Complaints sourcebook covering pension transfer redress cases within the current scope of Finalised Guidance 17/9? If not, what alternative approach would you propose?***
>
> **Q2:** ***Do you agree with our decision not to retain the Securities and Investments Board/Personal Investment Authority provisions specified in Table 1 [in CP22/15]? If not, why do you think we should retain them?***

2.6 Almost all respondents agreed that we should consolidate the methodology as a new DISP appendix.

2.7 Around two thirds of respondents agreed that we should not retain the Pensions Review provisions we had identified as no longer relevant. However, others pointed out that some of the provisions were still relevant, even if the number of cases they would apply to are falling. For example, several respondents said that many DB schemes still provide discretionary increases and the impact of not accounting for them in redress calculations could be significant. More generally, respondents said that if it was not possible to guarantee that cases with features covered by the provision would not arise then we should retain the provisions. Moreover, there appeared to be no downside to doing so.

Our response

We have decided to proceed with the proposal we consulted on to consolidate the methodology as a new DISP appendix.

In recognition of concerns about not retaining Pensions Review provisions that could still be relevant, we consider the guidance we have added to DISP App 4.2.5G clarifying that firms may still refer to relevant guidance published by other regulators, including the Pensions Review provisions, addresses these concerns.

Overall approach

2.8 In CP22/15, we proposed that firms should continue to use the Pensions Review approach. This is to calculate redress as the difference between the estimated value of the benefits given up in the DB scheme and the current value of the consumer's DC pension and pay that redress as a lump sum. We said this is also comparable to the way a court would award damages in similar circumstances. We considered a range of alternatives, including those that would provide the consumer with a guaranteed income in retirement rather than lump sum redress now. However, we concluded that these alternatives presented significant challenges.

2.9 We asked:

Q3: ***Do you agree with our proposal that firms should continue to calculate redress as the difference between the estimated value of the benefits given up in the defined benefit scheme and the current value of the consumer's defined contribution pension and pay that redress as a lump sum? If not, what alternative approach would you propose?***

2.10 Around 6 in 10 respondents agreed with our proposal or were neutral. Of those who disagreed, several made persuasive cases why redress for consumers who had lost the security provided by a DB pension should be provided with a guaranteed income in retirement rather than being exposed to investment risk with a cash lump sum. This would likely take the form of an annuity, as reinstatement in the consumer's DB scheme is unlikely to be a viable option (nor is it within our powers to secure reinstatement). Some of these responses also referred to other aspects of the methodology, particularly the pre-retirement discount rate. We deal with feedback on specific aspects of the methodology elsewhere in this PS. For example, Chapter 3 covers the discount rate assumptions.

Our response

We have decided to proceed broadly with the proposal we consulted on.

We understand the strength of feeling on this issue. It is clear that the overall approach to redress is fundamental to stakeholders' perceptions of the fairness of the methodology. In anticipation of this feedback, we explained in CP22/15 that redress which provides consumers with a guaranteed income in retirement would be most likely to put consumers back in the position they would have been in if they had not transferred out of their DB scheme due to non-compliant advice. This remains our view and we have addressed situations where cases could potentially be settled by providing a pension arrangement with safeguarded benefits at DISP App 4.2.8R. We explain this provision and how it will work below.

However, we continue to believe that the Pensions Review approach is the most feasible way to calculate appropriate redress for consumers. We recognise that paying redress as a lump sum exposes consumers who have not yet retired to more investment risk that they would have been exposed to in their DB scheme. However, we consider the level of risk implied by the proposed pre-retirement discount rate (see Chapter 3) is reasonable. For example, it is significantly more cautious than the typical investment strategy for a DC pension. By requiring firms to allow for the cost of future product and adviser charges when calculating redress, we are also giving consumers the means to manage the risk that they don't achieve the level of returns envisaged by the pre-retirement discount rate. The legal opinion from MFKC notes that this approach strikes a reasonable balance between the interests of consumers and those of firms.

Our methodology also aims to provide a way for firms to settle their liabilities without the need for legal action. So it is important that the methodology is consistent with how a court would award damages for cases like those covered by the methodology. MFKC's opinion is clear that a court would generally assess damages as a cash lump sum which the claimant can spend as they like. MFKC also considered that compensating a consumer based on the estimated cost of an annuity providing the same value of benefits as their former DB scheme is a justifiable approach.

Challenges settling cases with deferred annuities
If a consumer is retired or very close to retirement, the redress calculated under the methodology and their current DC fund should ensure they have enough money to purchase an immediate annuity providing a guaranteed income with the same value of benefits as their former DB scheme.

If a consumer is not yet retired, a guaranteed income on retirement could be secured now by using their redress and their DC fund to purchase a deferred annuity, rather than investing a cash lump sum on the basis it will grow to an amount sufficient to buy an immediate annuity on retirement. In CP22/15, we noted the high premium that providers of deferred annuities would charge. This would be because providers would want to use low-risk investments to ensure there are sufficient funds through retirement to pay the pension payments as they fall due. This would probably mean a material increase in redress costs for firms, although these higher costs would be offset by not having to compensate consumers who purchase a deferred annuity for future product and adviser charges.

We doubted in CP22/15 whether annuity providers would be willing to offer deferred annuities in the first place, noting that there is currently no functioning market for individual deferred annuities. We have not seen anything to suggest that this has changed. Our view remains that providers may have more appetite to offer bulk deferred annuities, but these are only likely to be viable where the population of potential policyholders has transferred out of the same DB scheme. Even where this is the case, there are several significant barriers:

- Our rules apply to firms. In most cases, a deferred annuity providing the same value as a consumer's foregone DB benefits would require use of their pension fund as well as any redress they are due. We cannot compel consumers to use their pension fund (or any other financial resources they may have) to fund or part-fund a deferred annuity.
- The provision of products is a matter for the market. We cannot guarantee that suitable products will be available when the consumer's redress is calculated. As we note above, there is currently no functioning market for individual deferred annuities.
- Requiring firms to procure a replacement product for consumers could create an unsatisfactory position if there is no market for suitable replacement product, and/or where firms would be required to provide (or pay as directed by consumers) for regulated advice on the suitability of products. This is a particular problem in circumstances where consumers have received unsuitable advice and are not confident in their advisers.
- Some products are not available to all consumers. For example, pension annuities are only available to consumers who have reached normal minimum pension age. This is currently 55 but rises to 57 in April 2028 (unless a protected pension age applies).
- The amount of redress payable into a DC pension in any given year is limited by the tax regime so many redress offers will include a cash component. As a pension annuity can only be purchased with pension money, firms are unlikely to be able to offer one annuity providing the same value as the consumer's DB benefits. They could, in theory, offer to 'top up' a pension annuity with a purchased life annuity (PLA), but, in practice, this will be complicated. For example, PLAs have a different tax treatment to pension annuities.
- Redress by way of an annuity risks overcompensating consumers because an annuity offers greater security than a DB pension. This is due to the reduced benefits provided by the Pension Protection Fund (PPF) in the event of the sponsoring employer of the DB scheme's insolvency.

Alternatives to settling cases with cash redress
We said in CP22/15 that our proposed approach would not prevent cases being settled with the purchase of a guaranteed income product instead of the payment of cash redress if the firm and the consumer want to do this. The firm would need to consider the tax implications of paying redress into a guaranteed income product (See Chapter 6) and ensure the consumer understands the implications for their current DC arrangement. So we have added a new rule at DISP App 4.2.8R. This clarifies that, in these circumstances, firms should:

- follow the approach to valuing the consumer's DB benefits set out in the methodology
- offer redress in the form of a pension arrangement with safeguarded benefits which are no less than the value of benefits that the consumer would have received from their DB pension.

Such an offer would require a personal recommendation, which should be provided at no cost to the consumer, and firms must also tell consumers they are under no obligation to accept redress in this way. The personal recommendation (which must comply with the suitability rules in COBS 9.2) will help consumers understand what the pension arrangement with safeguarded benefits offers them and should specifically identify any ways in which the offer differs from the benefits offered by their DB scheme, eg if the shape of the benefits is different even though the value is the same. As the offer is an alternative to the payment of cash redress, the firm's suitability assessment should reference the merits of the alternative offers and set out why the pension arrangement with safeguarded benefits is suitable for them, given their current circumstances (rather than their circumstances at the time of the transfer).

This provision also says that, where the consumer's former DB scheme is willing to reinstate the consumer's benefits, the firm is willing to pay for their reinstatement, and the consumer wants this to happen, this would also be allowed.

Redress calculation methodology

2.11 In CP22/15, we set out how firms should calculate whether a consumer who received non-compliant transfer advice suffered a loss. We provided a formula which set out how firms should determine:

- the benefits that would have been available from the DB scheme
- the value of benefits from the DC scheme, and
- the benefits to which the member may have been entitled from the state earnings related pension scheme (SERPS) if they had not transferred

2.12 Where the formula resulted in a value greater than zero, we said the consumer will have suffered a loss, and be entitled to a payment we refer to as the 'primary redress amount' (to distinguish it from other redress elements such as consequential losses).

The formula can be applied to cases where the consumer has already retired or died and cases where they would retire in the future, with appropriate modifications. We also recognised that there are few cases where consumers have fully realised their losses before to the valuation date, for example if they have used all of their DC pension to purchase an annuity. So, we considered there was no longer a need to distinguish between actual and prospective loss cases.

2.13 We asked:

> **Q4:** ***Do you agree with the high-level description of the steps that we propose firms should take to calculate redress and with our proposal to no longer specify separate approaches for actual and prospective loss cases? If not, what alternative approach would you propose?***

2.14 Around three quarters of respondents to this question either agreed or had no specific view. Some respondents thought the description in the CP did not adequately cover cases where a consumer died before or after retiring, prior to the valuation date, although one noted the principles could apply equally to such cases. One respondent queried the need to separate out past payments from a consumer's DC pension before and after they would have retired from their DB scheme although noted the net result would be unchanged. Some respondents also referred to the age a consumer would have retired from their DB scheme, the prudence of the assumptions and the tax position of past payments.

Our response

We are proceeding with the formula we consulted on. We consider that the firms can apply the principles in the final rules to cases where the consumer dies before or after retiring and have added Handbook guidance to that effect at DISP App 4.5.17G. The formula set out past payments separately so that respondents could consider the appropriateness of rolling them up (ie increasing them for the passage of time) at the same rate. The other issues raised by respondents to this question have been considered elsewhere in this PS.

Valuation and calculation dates

2.15 As explained in paragraph 2.8, calculations under the methodology are based on the difference between a valuation of the benefits given up in the DB scheme, and a valuation of the DC pot attributable to the transfer. In CP22/15, we said we wanted to reinforce the principle that both the DB and DC benefits should be valued at the same date.

2.16 We proposed to:

- clarify that all valuations of benefits must be undertaken on a same date basis, referred to as the 'valuation date', which is the first business day following the date on which the economic assumptions are updated (see Chapter 3),

- distinguish between the valuation date and the 'calculation date', which is the date the firm completes the calculation, and which must fall within the same period as the valuation date (currently the same quarter but proposed in CP22/15 to be the same month), and
- require firms to issue calculations and any offers of redress to consumers within 3 months of the valuation date

2.17 We asked:

> **Q5:** ***Do you agree with our proposal that all valuations of benefits must be undertaken on a same date basis, referred to as the 'valuation date'?***
>
> **Q6:** ***Do you agree with our proposal that firms should issue calculations within 3months of the valuation date? If not, what timeframe would you propose for issuing calculations to consumers and why?***

2.18 Seven in 10 respondents agreed that all valuations of benefits must be undertaken on a same date basis. Of those who did not agree, more than half were neutral. The minority of respondents who disagreed did not provide reasons for the alternative approaches they proposed. One respondent queried the need to distinguish between the valuation date and the calculation date.

2.19 Around half of respondents agreed that calculations and offers of redress should be issued within 3 months of the valuation date. Around a third disagreed but for different reasons. Consumers and their representatives said that 3 months was too long, while firms and consultants carrying out calculations on firms' behalf said 3 months was inadequate given the time it can take to collect information necessary to complete the calculation. Several of those who said 3 months was inadequate cited issues obtaining information from DB schemes and the consumer's personal pension provider. Some of those who disagreed did so because they disagreed with our proposal to move to a monthly cycle for updating the economic assumptions used in calculations.

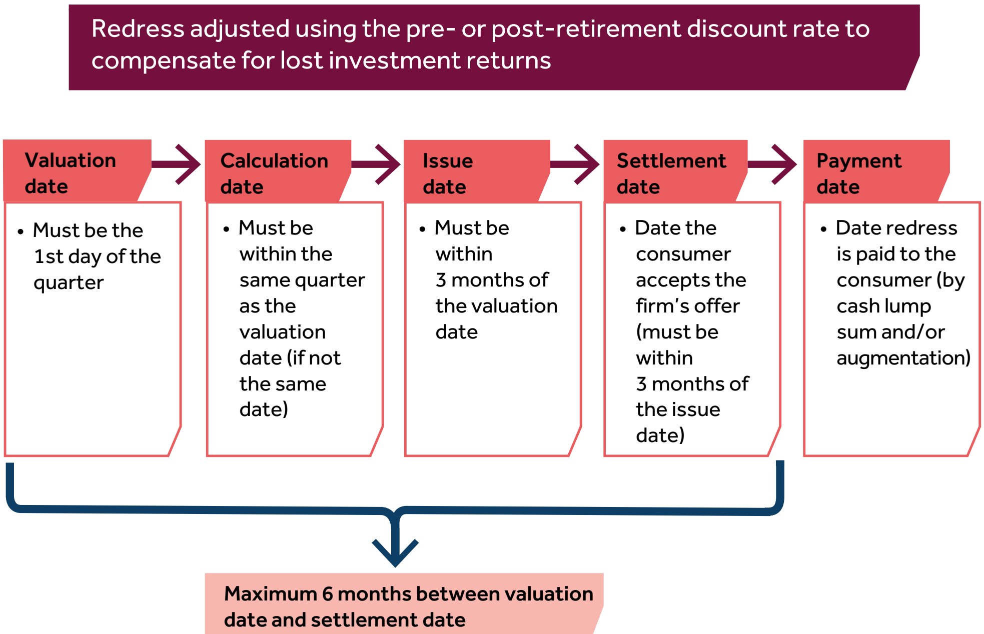
Our response

We have decided to proceed broadly with the proposal we consulted on. We consider our decision not to move to a monthly cycle for updating the economic assumptions (see Chapter 3) addresses most of the objections we received. As a result of this change, firms must:

- undertake all valuations of benefits on a same date basis (this date will be the first business day of each calendar quarter using economic assumptions updated on the last business day of the previous quarter),
- ensure the calculation date is within the same quarter as the valuation date falls, and
- issue calculations and any offers of redress within 3 months of the valuation date

As Figure 2 shows, this will mean calculations are always carried out using the latest set of economic assumptions and that calculations and any offers of redress are always issued before these assumptions change. In any given quarter, the result of the redress calculation will be the same, irrespective of the actual calculation date. We recognise that this may mean firms need to delay calculating redress for cases received towards the end of each quarter into the following quarter to ensure they have enough time to issue them in the timeframe.

Figure 2: Key dates in the provision of redress to consumers



We are considering whether we need to do more to make our expectations of personal pension providers (including self-invested personal pension (SIPP) operators) clearer when dealing with requests for information necessary to complete redress calculations. This would include requests from the Financial Services Compensation Scheme (FSCS).

Actuarial oversight of redress calculations

2.20 The methodology is complex and involves techniques normally used by actuaries. In CP22/15, we proposed clarifying that the valuation of DB benefits should be carried out by an actuary. Alternatively, firms may use an approach that has been approved by an actuary. For example, inputting information about the DB scheme benefits and the consumer's information into a software package where the system and formula have been developed or reviewed by an actuary.

2.21 We also said that where the calculation of redress requires any element of calculation of the value of the DC scheme, this should also be undertaken by an actuary or using an approach that has been approved by an actuary. If there have been any additional contributions added to the transferred pot which need stripping out of the calculation, this should also be done by an actuary or using an actuary-approved approach.

2.22 We asked:

> **Q7:** ***Do you agree with our proposals for actuarial oversight of redress calculations? If not, what alternative approach would you propose?***

2.23 Around 8 in 10 respondents agreed with our proposal on actuarial oversight of calculations. Some respondents thought actuaries should do more, to introduce more independence into the process. For example, they considered the risk of incorrect data input would be reduced if it was carried out by an actuary. They also considered actuaries could help with placing a value on DC pensions and with augmentation calculations. One respondent believed actuaries should undertake the entirety of the calculation.

2.24 Four respondents disagreed. One was concerned about the time and cost of using an actuary, while another was concerned about the scope for inconsistency in redress outcomes between different actuaries applying the same methodology. This respondent suggested that all firms use software designed by the FCA to mitigate this risk. Other respondents thought we needed to be clearer about the use of software packages. For different reasons, 2 respondents said that actuarial oversight was not necessary. One said we had overstated the actuarial nature of the redress calculation, while the other said actuarial oversight would be unnecessary if redress was provided by purchasing the consumer an annuity.

Our response

We have decided to proceed with the proposal we consulted on. We have added specific rules at DISP App 4.2.6R setting out when firms must obtain actuarial oversight of calculations to reflect the requirement, rather than relying on firms to confirm to consumers that they have used an approach which has been approved by an actuary. We have also added guidance at DISP 4.2.7G on when firms may want to consider using an actuary for some elements of the calculation.

We note the concerns of a minority about time and cost. However, given the complexity of the methodology, we consider consumers need assurance that a qualified person has either carried out or overseen the calculation methodology. This includes where adjustments are needed to strip out DC contributions that were not attributable to the transfer.

In our view, this review of the methodology and assumptions will clarify areas of the methodology where there has previously been a risk of incorrect or inconsistent application. We consider this is more likely to address the risk of inconsistent outcomes than mandating common calculation software, whether FCA-designed or otherwise.

Regarding software, we have clarified that a firm may use actuarial software which is compliant with technical actuarial standards to undertake the relevant calculations, to the extent that they have the competence to do so. This software does not need to be designed by the FCA. However, there may be instances where it makes sense for the FCA to provide software. As we explain in PS22/14 on the

BSPS consumer redress scheme, we have designed a calculator for calculating redress under the scheme as we consider this could help make calculations more consistent under the scheme, ensure more former BSPS members receive fair and quicker redress, and reduce the overall cost of calculations. Firms calculating redress for former BSPS members who are outside the scope of the scheme can choose to use the BSPS calculator for determining redress amounts while it is available.

Information needed to complete redress calculations

2.25 To calculate redress, we proposed in CP22/15 that firms must collect necessary information. We provided a non-exhaustive list of this information in the proposed DISP App 4 Annex 2. Reflecting the taxonomy in the Pensions Review provisions, we grouped this information into 3 categories: information about the consumer; information about the consumer's former DB scheme; and information about the consumer's current DC pension (relating to funds from the transfer).

2.26 We also proposed a set of requirements in DISP App 4.3 to ensure any requests to consumers for information are reasonable. These included minimising requests, explaining why information is needed and allowing enough time for consumers to respond. As part of this proposal, we also set out what firms should do if consumers don't respond to reasonable requests for information. We said in these cases it may be appropriate for the firm to make its decision based on what has been supplied and possibly to rely on more general sources of information.

2.27 We asked:

Q8: ***Do you agree with the information we have proposed that firms obtain to calculate redress? If not, what alternative approach would you propose?***

Q9: ***Do you agree with our proposed approach to requesting information from consumers, including what should happen if consumers do not respond to reasonable requests? If not, what alternative approach would you propose?***

Information firms need to get

2.28 Two thirds of respondents either agreed with or were neutral on our proposal. Some of those who disagreed provided detailed responses, which we have summarised below.

2.29 Several respondents considered the list of information proposed was too high-level and fell short of the level of detail provided in the Pensions Review provisions. Some also referred to the data classification used in the Pension Review provisions and the use of acceptable defaults where information was unobtainable. Respondents noted that the information gathering stage of the process can take a considerable amount of time relative to the redress calculation itself. Respondents suggested that we make it clearer that firms should seek to obtain as much of the information proposed, without it being a requirement that they obtain all of it.

2.30 Respondents also highlighted specific areas, where the information firms need to collect is more extensive than we had proposed in CP22/15. For example, on the consumer's former DB scheme, firms will need to consider:

- For pre- and post-retirement increase rates, a range of issues for each tranche of guaranteed and non-guaranteed minimum pension (GMP). These include whether increases are linked to the retail or consumer price index (RPI/CPI) of inflation, the inflation reference month used, any caps or floors on increases, the increase date in year, and whether the first increase is proportional or not.
- For pre-retirement increase rates, the application of any link to earnings, GMP (particularly if the member would have retired before GMP age) and how comparisons between 2 or more different types of increase rate are handled
- Scheme rules on:
  - any checks/step-ups in relation to GMP at GMP age
  - the treatment of pension tranches with different NRAs if the member retires at the lowest tranche NRA, or the highest tranche NRA, or somewhere in between
  - any adjustments to benefits for high earners, eg any Scheme Pays deductions, and if so, details of amounts and increase rates
  - whether early or late retirement factors are applied in addition to revaluation
  - member contributions paid, whether these would have been refunded on death before retirement, plus any increase/interest rate applicable between leaving and death.
- If the consumer had a spouse who has died and, if so, the date of their death.

2.31 On the consumer's DC scheme, respondents flagged the following areas as needing inclusion and/or more detail:

- the RPI or CPI reference month used for any inflationary increases to the consumer's DC pension
- any additional voluntary contributions (AVCs) included in the transfer
- in cases where a consumer's original DC fund has been transferred elsewhere, whether firms could use a notional fund value rather than attempting to get the fund value from the current provider
- in cases where current charges being incurred are greater than those from the original DC investment, whether the charges should be limited to those that would have been expected to apply in the original DC investment

2.32 On our proposals on augmentation, respondents pointed out that:

- firms will need to know the consumer's annual allowance usage for the year redress is paid, noting that this will not necessarily be the same as total DC pension contributions
- annual allowance usage will not definitively be known until the end of the tax year in which redress is being calculated
- firms will also need to know the expected annual allowance usage in the next few year (as redress that uses up annual allowance carry forward in the current year would reduce the carry forward available for expected annual allowance excesses over the next 2 years)

Requesting information from the consumer

2.33 Almost 9 in 10 respondents either agreed with or were neutral on our proposals. Some of those who disagreed said that firms should not have to calculate redress for consumers who do not respond to reasonable requests for information. For example, there was concern that the use of default assumptions in the absence of actual information could result in consumers being overcompensated because a calculation based on actual information might result in lower redress.

2.34 We also received helpful feedback from those who agreed with or were neutral on our proposals. These respondents asked us:

- to clarify what firms should do if the consumer failed to provide requested information before the calculation but provides it once they have received their offer
- to do more to ensure that DC and DB schemes provide information directly to firms who need it to calculate request to avoid requests for often complex information having to go via the consumer

Our response

We have decided to proceed with the proposal on information firms need to get that we consulted on. We have also decided to proceed with the proposal on requesting information from the consumer that we consulted on, although we will add some guidance clarifying our position on firms' obligations to recalculate redress. We explain our reasons for both decisions below. The feedback we received on charges and notional DC fund values (paragraph 2.31) and on annual allowance issues (paragraph 2.32) are considered in Chapters 5 and 6, respectively.

Information firms need to get
We appreciate the detailed comments on this issue. But we are confident that our rules and guidance in DISP App 4.2 address these concerns.

Our final approach is consistent with the approach in the Pensions Review provisions in that firms must collect necessary information about the consumer's former DB scheme and their DC pension attributable to the transfer, as well as necessary information about the consumer themselves. Given the wide range of DB and DC arrangements and consumers' own personal circumstances, we do not consider it is possible to provide an exhaustive list of information that firms should collect. So DISP App 4 Annex 2 is guidance rather than a rule.

We also believe our approach enables firms to calculate redress based on the information they hold (eg on the client file or from public or general sources of information) if they cannot get all the necessary information.

Finally, DISP App 4.2.5G provides overarching guidance on what firms should do if DISP App 4 does not address the particular and individual circumstances of a consumer's complaint. Where this is the case, firms should address such circumstances in a way that is consistent with DISP App 4 and in line with their obligations in DISP 1.4.1R. Under DISP 1.4.1R, when assessing complaints, firms must take 'all relevant factors into account'. DISP 1.4.2G explains that 'relevant factors' includes relevant guidance published by the FCA and other regulators. So we have added guidance to DISP App 4.2.5G clarifying that firms may take the Pensions Review provisions into account as long as they do so in a way that is consistent with their DISP 1.4.1R obligations and DISP App 4. So, where DISP App 4 does not specify a default assumption, a firm could consider whether it would be fair to use the relevant default in the Pensions Review provisions.

Requesting information from the consumer
As noted above, under our proposal, firms may discontinue calculations if, having followed the rules on making requests for information, they cannot calculate redress based on information they have been able to get. While we recognise the risk of consumers being able to 'game' the calculation by withholding certain information, consumers will not typically have a sophisticated enough understanding of this highly complex methodology to make this determination.

We are sympathetic to concerns about consumers providing information that had been requested before the calculation when they receive their offer. So we have, added guidance to DISP App 4.3.14G. This clarifies that firms who have followed our requirements on making reasonable requests for information are not obliged to recalculate redress once an offer has been made solely because the consumer failed to provide the necessary information at the time, without good reason. Consumers who are dissatisfied with a firm's refusal to recalculate redress for this reason may complain to the firm about it and, if necessary, to the Financial Ombudsman Service. However, if a final decision has already been issued directing the firm to undertake the calculation, the Financial Ombudsman Service cannot reopen the complaint or consider a new complaint about that calculation.

Losses outside the scope of the redress calculation methodology

2.35 In line with the approach the Financial Ombudsman Service and a court would take, we proposed that firms should determine whether the consumer suffered any reasonably foreseeable consequential losses, other than any direct financial loss established by the calculation. This could be because of the non-compliant advice or the redress payment itself. We said that if this was the case, firms should offer the consumer compensation to reflect their liabilities over and above the redress sum calculated in line with the methodology.

2.36 We asked:

Q10: ***Do you agree that compensation should include losses outside the redress calculation methodology? If not, why not?***

2.37 Around 8 in 10 respondents agreed with the proposal. Some respondents thought we should provide further guidance on the potential types of consequential losses caused by the transfer and how to determine redress. For example, one suggested that any additional lifetime allowance charges should be assessed using assumptions and methodology consistent with the redress calculation. The minority who disagreed did not object in principle but were concerned about the practical difficulties of assessing consequential loss. Some respondents also noted that there was no commentary on how to allow for consequential gains.

Our response

We have decided to proceed with the proposal that we consulted on. Practical difficulties assessing consequential losses are not a valid reason why such losses should not be considered. Moreover, as the methodology aims to establish a way to resolve civil liabilities informally, it needs to cover all types of losses for which a court would award damages.

We agree that, where relevant, it would be rational to use the redress methodology and assumptions for determining consequential losses. However, where such losses are not pension-related, firms should consider carefully whether different assumptions should be used.

Future reviews of the methodology

2.38 We proposed a framework for the future review of the methodology which included a full review by 2030, interim reviews on certain assumptions and event-based triggers based on certain market events.

2.39 We asked:

Q11: ***Do you agree with our proposed approach to keeping the methodology under review? If not, do you have any other suggestions for how we could ensure the methodology and individual assumptions remain appropriate?***

2.40 Around 9 in 10 respondents agreed or were neutral to the proposal. Three respondents questioned how the timescales for reviews had been set as the 4- and 8-year periods appeared arbitrary.

2.41 Respondents noted that regular reviews would allow any detrimental market changes to be identified quickly and loopholes to be closed. However, too frequent reviews may cause negative impact on consumers, for example if their payments were delayed whilst a review was completed.

2.42 One respondent felt the reviews should be aligned with the reviews of the transfer value comparator (TVC) methodology. Another would prefer to see inflation and inflation related assumption methodologies revisited more frequently. One respondent suggested current economic volatility would warrant a full review in 12 months' time.

Our response

We have decided to proceed broadly with the proposal we consulted on. However, as the new methodology will not come into force until 1 April 2023, we will carry out the next interim review by 2027 (not 2026) and the next full review by 2031 (not 2030).

We note respondents' concerns about the apparent arbitrariness of these timescales and the need to ensure the methodology, which is a 'point in time' calculation appropriately reflects market conditions. To guard against the risk of unrepresentative economic assumptions being 'locked in' for the forthcoming quarter due to significant market volatility on the last business day of the previous quarter, we will monitor whether underlying indicators are in line with recent trends.

3 Economic assumptions used in pension transfer redress calculations

3.1 In CP22/15, we explained our reasoning for the economic assumptions we proposed firms should use when calculating redress. Economic assumptions are assumptions that require the use of data about market conditions, such as investment return and inflation expectations. In this chapter, we set out the feedback to our proposals and our final approach.

Frequency for updating the economic assumptions

3.2 Under FG17/9, we expect firms to update the economic assumptions they use in redress calculations quarterly. In CP22/15, we proposed that firms should update the economic assumptions no less frequently than monthly. We considered that more frequent updates would help reduce the impact of market volatility on calculations. Given improvements in technology, we observed that actuarial software providers should be able to cope with more frequent updates.

3.3 We asked:

> **Q12:** ***Do you agree with our proposal that firms should update the economic assumptions they use for redress calculations no less frequently than the last working day of each month? If not, what frequency and timeframes would you propose for updating the economic assumptions and why?***

3.4 Around half of respondents to this question disagreed with our proposal although some acknowledged the rationale for it. Those who disagreed said that monthly updates to software would not leave enough time to complete the number of calculations each month and it was misaligned with the period for issuing calculations (see paragraph 2.19). Some said our proposal would increase costs for software providers which would need to be passed on to firms. Some respondents also considered that the proposal would not achieve the objective of managing volatility better. Some respondents were also concerned that more frequent updates increased the risk of firms handpicking the month in which to undertake calculations to make the redress cost more favourable to them.

Our response

We agree with respondents' feedback and have decided not to proceed with the proposal that we consulted on.

Instead, we will keep the quarterly update cycle. Firms will need to carry out calculations during the quarter, as at the first working day of the quarter, and issue them within the same quarter. We will not be permitting more frequent assumption updates, for the reasons highlighted by respondents. We have amended the final rules to make clear that assumptions should only be updated quarterly and not more frequently. This will ensure that all consumers receive calculations based on the same assumptions, irrespective of the actuarial software provider the firm chooses.

To guard against the risk of unrepresentative economic assumptions being 'locked in' for the forthcoming quarter due to significant market volatility on the last business day of the previous quarter, we will monitor whether underlying indicators are in line with recent trends.

Inflation – RPI and CPI

3.5 In CP22/15, we proposed to keep the source for setting retail price index (RPI) inflation. We proposed some amendments compared to the methodology in FG17/9. These included setting an assumption of 0.2% for an inflation risk premium (IRP) and introducing a formula for deriving the differential between RPI and consumer price index (CPI) inflation.

3.6 We asked:

Q13: ***Do you agree with our proposal to retain the 'UK instantaneous implied inflation forward curve (gilts)' for deriving retail price index inflation and our proposed changes to improve consistency of redress calculations? If not, which alternative approach would you propose?***

Q14: ***Do you agree with our proposed approach to setting an inflation risk premium? If not, what alternative approach would you propose?***

Q15: ***Do you agree with our proposal to introduce a formula-based approach to calculating the future differential between the retail price index and the consumer price index? If not, which alternative approach would you propose?***

3.7 Around two thirds of respondents agreed with our proposals for deriving the RPI and CPI assumptions. One respondent queried the need to annualise the published Bank of England rates. Another thought we could do more to help users find the relevant figures. One respondent queried the use of inflation-linked assumptions which might not reflect the actual scheme benefits. One respondent questioned whether the inflation linked assumptions should be set in the same way as they are for TVC calculations.

3.8 One respondent suggested a different approach could be used for terms shorter than that published by the Bank of England, citing the current high inflationary environment. Some respondents thought that the current levels of inflation suggested a need for more frequent reviews of the inflation assumptions.

Our response

We have decided to proceed with the approach we consulted on for deriving RPI and CPI assumptions.

We agree that users may need to annualise the published rates in their calculations, but we consider that the published rates (without any necessary annualisation) should be shown in any calculation output to enable easier checking. Users can access the relevant rates from the Bank of England website.

Firms should take account of historic actual increases, based on the scheme rules before the valuation date. Full RPI and CPI inflation linked assumptions would only be used to estimate future benefits if they were part of the original ceding DB scheme's benefit structure. Firms should apply the relevant amendments (see below) to the full rates where relevant.

As the TVC calculations are for a different purpose, we think it is reasonable for there to be differences in the underlying methodology. We consider the proposals we put forward in CP22/15 are the most appropriate for redress calculations.

The Bank of England published rates are consistently published, readily available and provide a market view of future rates. We do not consider that any other source for short-term inflation rates shares these characteristics. Having considered these and the impact on other inflation linked assumptions (including the pre-retirement discount rate), we do not consider it appropriate to reference a different source for short-term inflation rates. We will consider short-term inflation rates as part of our regular reviews of the redress methodology.

Inflation – earnings inflation

3.9 In CP22/15, we proposed an earnings growth assumption of CPI+1.0% for benefits that grow in line with earnings.

3.10 We asked:

> **Q16:** ***Do you agree with our proposal to introduce an earnings inflation assumption? If so, do you agree it should be set at +1.0% above the consumer price index? If not, what alternative approach would you propose?***

3.11 Around two thirds of respondents were supportive of the introduction of an assumption and generally agreed with the proposed level of this assumption, although some noted the different levels of increases seen over different historic periods.

3.12 One respondent suggested different assumptions may be appropriate for private/public sector employees as well as opt-out/non-joiner cases, and one considered that actuaries could be given discretion to set an assumption based on the personal circumstances of the consumer.

3.13 Some respondents noted the current volatile market conditions and the impact that high inflation has had on real salary growth, with wages generally failing to match inflation. Consequently, they proposed a closer review of the relationship between inflation and salary over the near term.

Our response

We have decided to proceed with the proposal that we consulted on for the earnings inflation assumption. The Handbook text was accidentally omitted from CP22/15 but has now been added to the final instrument.

An earnings inflation assumption is necessary for projecting the salary of a consumer for opt-out/non-joiner cases and where there is a retained salary link for deferred benefits. It is also required for Section 148 Orders which are linked to National Average Earnings. We consider that the assumption is suitable for all these uses. We consider it would be inappropriate to introduce inconsistency across calculations by allowing actuaries greater freedom or using different assumptions for public and private sector schemes.

We acknowledge that different time periods will produce different real salary growth figures. However, we consider that it is most appropriate to use more recent periods, as considered by Deloitte in its Technical Report (p127).

Pension increases pre- and post-retirement

3.14 In CP22/15, we set out how firms should allow for different types of revaluation increases from the valuation date to the assumed retirement date. This included fixed rate increases, increases under Section 148 orders based on earnings inflation, and RPI and CPI increases with caps and floors. We set out similar proposals for post-retirement pension increases in payment, including the use of Black-Scholes model when allowing for inflation-linked increases with caps and/or floors.

3.15 We asked:

Q17: ***Do you agree with our proposed approach to pre-retirement pension increases? If not, what alternative approach would you propose?***

Q18: ***Do you agree with our proposed approach to pension increases in payment, including the use of the Black-Scholes model? If not, what alternative approach would you propose?***

3.16 Over half of respondents agreed with our proposal. The comments of those that didn't agree addressed particular elements of the approach.

3.17 Two respondents commented on the need to make different allowances for revaluation before and after the valuation date and the impact on how this would interact with any caps. Another wanted clarity over the approach for using inflation indices before retirement, including where these may be capped on an annual basis.

3.18 Two respondents asked whether introducing the Black-Scholes model added additional complexity without a material increase in accuracy.

Our response

We have decided to proceed broadly with the proposal we consulted on but will make the clarifications set out below.

The revaluation applied should reflect the benefit structure of the ceding DB scheme. This includes appropriate allowance for the correct inflation index and reference month and appropriately allowing for known historic inflation.

Any caps and floors should be applied as would be applied by the ceding scheme. Commonly, we expect this to apply over the full period from date of leaving to retirement date. But some schemes may use annual caps for pre-retirement increases. Where relevant, firms should be cautious when sourcing historic increase data, applying caps correctly over the whole period and not inadvertently just over the period from date of leaving to valuation date. Firms should also take care to apply the correct increases where a scheme has entered the PPF (or the associated assessment period) where increases may differ between the period up to entry and post entry.

Where caps apply annually before retirement, firm should use the Black-Scholes approach for the future revaluation assumptions, in the equivalent way that it is applied to pension increases in payment.

The introduction of the Black-Scholes model will have a material impact on some pension increase assumptions, so we consider the additional complexity is justified.

Pre-retirement discount rate

3.19 The pre-retirement discount rate is used to discount the value of the DB scheme benefits at a retirement date in the future back to the valuation date. We proposed that we retain the existing pre-retirement discount rate assumption which is consistent with a 50% return on equities.

3.20 As recommended by Deloitte, we set out some changes to the way in which the formula elements are calculated. These changes were:

- Using a rolling average of the dividend yield over the previous 12 months rather than the most recent quarterly figure. This will provide a more sustainable dividend yield and less volatile equity return assumption
- An increase in the GDP growth assumption from 0.5% to 1.0%p.a.
- Changing the inflation assumption to reflect CPI expectations, rather than RPI, to convert real GDP growth into nominal GDP growth

3.21 We said that we did not consider it was appropriate to allow for lifestyling as it would introduce additional complexity to the calculation. We also chose not to specify an alternative pre-retirement discount rate where consumer's investments were unlikely to achieve the proposed rate. But we indicated that firms should still seek to address the particular circumstances of a consumer's case.

3.22 We asked:

Q19: ***Do you agree that we should continue to retain the existing pre-retirement discount rate assumption consistent with a 50% return on equity? If not, what alternative approach would you propose?***

Q20: ***Do you agree with the proposed formula for calculating the pre-retirement discount rate? If not, what alternative approach would you propose?***

Q21: ***Do you agree with the proposed changes to the dividend yield, GDP growth and inflation elements used in the pre-retirement discount rate formula? If not, what alternative approach would you propose?***

Q22: ***Do you agree with our proposal not to make an allowance for lifestyling within the pre-retirement discount rate? If not, how do you think we should allow for lifestyling?***

Q23: ***Do you agree with our assessment that we do not need to specify an alternative pre-retirement discount rate for use where the consumer's investments are unlikely to achieve the proposed rate? If not, what alternative approach would you propose?***

3.23 Half of respondents agreed with Q19. Some respondents to Q19 considered the pre-retirement discount rate was too cautious. They felt the rate should reflect more typical investment strategies which target growth in accumulation, rather than reflect the strategy of a more cautious investor. They noted this would reduce costs for firms and the FSCS. One respondent stated it was not clear how the risk profile of unsuitable transferees was established. Other respondents to Q19 considered that the rate was not cautious enough and should more closely reflect the security offered by a DB scheme. For example, by using index-linked gilt yields with a margin to allow for the near guarantee of a DB scheme. Although not raised in responses, we know that some stakeholders consider that the Ogden personal injury discount rate, which is set by the Government and written into secondary legislation, may be used by a court awarding damages in similar circumstances. They considered that using an approach based on the Ogden actuarial compensation tables also removes the complexity of a point in time calculation which can be difficult for consumers to understand.

3.24 At least 6 in 10 respondents agreed with each of Q20 and Q21. One stakeholder said that the formula for the pre-retirement discount rate in the draft rules needed correcting to reflect the target of 50% of equity returns. One respondent felt the formula is too simplistic and not consistent with long term real equity returns, including allowing adequately for returns based on RPI inflation. One respondent considered the dividend yield could be averaged over a longer period than 12 months, eg over a 5-year period. Another respondent argued that smoothing the dividend yield was inconsistent with using unsmoothed DC values. Some respondents believed that the proposed dividend growth assumption should be increased from 1% to 1.5%, as they felt it better reflected the data shown in the Deloitte report.

3.25 Over 85% of respondents agreed with each of Q22 and Q23. On Q22, 1 respondent noted that lifestyling was also commonly used even when consumers do not intend to buy an annuity.

3.26 On Q23, 1 respondent said it was inconsistent to amend the pre-retirement discount rate for lower-than-expected returns, but not when returns may be higher. Some respondents felt it would be most effective to mandate the assumption in all circumstances and not give firms any option to choose a rate themselves, as this would increase the risk of inconsistency. Some respondents suggested that we needed to give more guidance on when firms should consider applying an alternative rate. Some respondents gave specific examples of when they thought an alternative rate was and was not needed. For example, some thought it was needed when a consumer is locked into illiquid assets which are of little/nil value. Some thought it was not needed where the consumer chooses to make investment choices which are not in line with the firm's recommendation or is a self-investor.

Our response

We have decided to proceed with the proposal we consulted on.

The legal opinion from MFKC considered whether a court calculating redress would use a higher discount rate for the pre-retirement than the post-retirement period, even though as a DB scheme member the consumer would have been exposed to no more risk in one period than the other. MFKC concluded it was reasonable to assume that a consumer would not be entirely invested in gilts pre-retirement, because it should be possible for even a relatively cautious investor to hold investments that generate a return above the ultra-low rate provided by a predominantly gilts-based portfolio. This is particularly the case if the consumer is getting investment advice. The methodology compensates consumers for future advice charges regardless of whether they are currently paying them, meaning they can get this investment advice.

MFKC's opinion supports a redress calculation that takes account of the returns that could be generated by even a relatively cautious investor in a DC scheme, as we proposed. MFKC has also advised that the Ogden tables are unlikely to be suitable for DB pension mis-selling cases. The tables state that they are only to be used for pension loss computations in 'straightforward cases'. They do not, for example, consider an anticipated rate of return on a DC pot, or calculate loss based on discount rates sufficiently close to the date of assessment of compensation.

We agree with Deloitte's published analysis that supports retaining the proposed pre-retirement discount rate. There are 2 main reasons for this. First, it shows an investment strategy with an equivalent equity return proportion of 50% is significantly more cautious than a typical DC strategy. Second, it shows there is a reasonably high probability of the consumer's actual fund outperforming the discount rate assumption.

For setting the expected return on equities, as noted in CP22/15 all approaches will have limitations. However, the approach proposed is straightforward, commonplace and predominantly relies on market observable data. One particular limitation we referenced was that it assumes historical dividend yields are sustainable into the future. The proposal to smooth the dividend yield therefore aims to provide a balance between the limitation of using previous dividends as a predictor for the future levels while still retaining a link to equity prices. We consider that the proposed 12-month rolling average with 1% real dividend growth best achieves this when the overall methodology is considered (including the approach for valuing DC pensions) and reflects Deloitte's analysis.

For Q23 we consider the existing framework provides sufficient coverage for the small number of cases where an alternative discount rate may be appropriate, with firms required to treat consumers fairly and consistently.

Post-retirement discount rate

3.27 The post-retirement discount rate assumption is used to calculate a capitalised value of the consumer's future DB scheme retirement benefits, assuming a matching annuity purchase. We proposed to retain the existing source for deriving the gilt yields at the date the consumer would have retired. We also proposed to keep the 0.6% deduction for the annuity pricing margin and the current discounted mean terms which provide a weighted average term of the future pension payments.

3.28 We asked:

Q24: ***Do you agree with our proposal to continue calculating the post-retirement discount rate by using the Bank of England gilt curve to derive gilt yields at the consumer's retirement date? If not, what alternative approach would you propose?***

Q25: ***Do you agree with our proposal to apply a 0.6% deduction to the post-retirement discount rate to allow for the margins built into annuity pricing? If not, what alternative approach would you propose?***

Q26: ***Do you agree that where a consumer has already retired, the consumer's term to retirement for annuitisation purposes will be zero and the post-retirement discount rate will be based only on the consumer's discounted mean term at the valuation date? If not, what alternative approach would you propose?***

3.29 Almost three quarters of respondents agreed that we should retain the use of the Bank of England gilt curve for deriving the post-retirement discount rate. Some respondents preferred a more cautious approach, given uncertainty about whether the rates derived from the curve could be borne out in practice. One respondent suggested using current index-linked gilt yields, in the same way as the TVC. Another respondent considered that using nominal gilt yields and point inflation forecasts could result in overcompensation. One respondent felt it was inappropriate to use a discount rate based on annuitisation when so few retirees buy annuities. They believed that the discount rate should allow for a compromise between guaranteed and real returns, like the pre-retirement discount rate.

3.30 Nearly all respondents agreed, in principle, with the 0.6% annuity pricing margin and applying the proposed discounted mean terms (DMTs) at the valuation date for consumers who have already retired. One respondent thought a flat rate margin was too simplistic for different levels of pension increases in payment and suggested a table of factors for different escalation rates. Another thought the 0.6% adjustment was too high and inconsistent with the 4% total expense assumption used elsewhere in our rules. One respondent suggested it would be helpful to extend the DMT table to ages 80 and 85 for those who have already retired.

Our response

We have decided to proceed with the approach we consulted on.

The calculations are made at a point in time and reflect the market expectations for the future. Using this approach is the most suitable for putting the consumer back in the position they would have been had they received compliant advice. The proposed methodology is practical and produces an assumption which adjusts to market conditions.

We do not propose to introduce a table of annuity pricing adjustments as we do not consider the additional accuracy outweighs the practical and implementation challenges.

The 4% total expense assumption used elsewhere would have been set based on the associated overall methodology which is different to that used here and so would not be directly comparable to the 0.6% adjustment applied here. We consider the 0.6% adjustment is supported by the Deloitte analysis and represents more than just expenses.

We don't propose to extend the DMT table beyond age 75, given the small number of cases where they may be required. However, firms should extrapolate the rates beyond the table, if required.

Allowance for Pension Commencement Lump Sum

3.31 In CP22/15, we proposed to retain the current approach which allows for most DB scheme members who have not yet retired to take the maximum HMRC entitlement to a pension commencement lump sum (PCLS) from their scheme. This is achieved by an addition of 1.6% to 25% of the initial post-retirement discount rate. For consumers who have already retired, we proposed that firms should assume they would have taken their maximum entitlement, based on the actual commutation factors in force at the time, or using a default factor of 20 when the actual factors are unavailable, except in certain circumstances.

3.32 We asked:

> **Q27:** ***Do you agree with our approach for allowing for the pension commencement lump sum? If not, what alternative approach would you propose?***

3.33 Just over half of respondents agreed with our proposals. Some respondents felt that it would be more appropriate to consider specific consumer or scheme circumstances. For example, taking more account of whether a consumer who should have been advised to remain in their scheme would typically have taken the full PCLS available, or taking account of the amount of PCLS taken from a DC scheme, where lower than permitted under the DB scheme, or using an option that maximises DB value.

3.34 Some respondents considered that a flat rate of 1.6% did not reflect the wide range of commutation factors schemes use to calculate the PCLS and so could under- or overstate the value of benefits. Similarly, they felt that our proposal did not take sufficient account of situations where the level of commutation factors would deter consumers from taking a PCLS. One respondent observed that Deloitte's report stated that the adjustment of 1.6% was consistent with commutation factors of 20.5-26 and they felt it was inconsistent with findings of typical rates of 16-20 published by the Institute and Faculty of Actuaries.

3.35 Some respondents suggested that we needed to provide more clarity where the PCLS could be provided from AVCs, money purchase funds within the same scheme or in addition to a scheme pension. One respondent felt that for historic cases, the previous HRMC regime should be referenced. Another respondent stated that for free standing AVC added years cases, the allowance should mirror the consumer's actual behaviour with their scheme pension.

3.36 Some respondents considered that a single default factor of 20 was inappropriate, for similar reasons to the single 1.6% adjustment above. They suggested instead that it should differ by retirement age or be based on a cost-neutral approach, stating that the latter would typically benefit consumers. One respondent suggested that the guidance should clarify that using the default commutation factor was a last resort and that every effort should be used to obtain actual cash commutation factors at the appropriate retirement date. Respondents suggested it could also be more appropriate to use known data from either side of the relevant retirement date to make an assumption, rather than to use the default factor.

Our response

We have decided to proceed broadly with the proposals we consulted on but make the following clarifications.

We consider that suggestions to get and using data from the original DB scheme to determine the proportion of PCLS taken are impractical and risk introducing inconsistency across calculations. Respondents did not provide evidence that transferring members are any different to the general DB membership who typically take a tax-free PCLS close to the maximum amount. So, we are retaining this assumption with the exceptions listed and as clarified here.

On the 1.6% adjustment, we consider that this remains appropriate given the general trend of strengthening DB scheme cash factors and current economic markets.

Where benefits would have been subject to a previous HMRC tax regime, firms should make allowance for this, applying the same principles as set out for the current tax regime.

We know of some schemes which provide only a small additional lump sum benefit, meaning members are likely to commute some of their DB pension. Therefore, where the retirement date is at or prior to the valuation date and where a pension commencement lump sum was payable in addition to the pension benefit, an adjustment should be made to assume the consumer took the maximum lump sum permitted overall (including this additional lump sum)

Some respondents noted that the use of the default factor of 20 should only be a last resort and we agree that every effort should be made to get the relevant factors. Where firms cannot get cash factors at the retirement date, they should consider any cash factors of the ceding scheme which they can be obtain (for example either side of the retirement date) to derive an appropriate factor. As the default factor should only be used as a last resort we will not proceed with the suggestions to provide default factors which vary by retirement age or over time. Where the actual factor is not used, the approach used and implications of it should be explained to the consumer.

Some respondents discussed using more information from the consumer's actions in the DC scheme to determine the amount of PCLS to allow for from the DB scheme. However, as set out in the CP we do not consider that these actions are always representative of what would have happened in the DB scheme and so we will only retain the exceptions listed.

4 Demographic assumptions used in redress calculations

4.1 In this chapter, we set out the feedback we received, and final approach to the proposed demographic assumptions for calculating redress. These cover information about the consumer for whom redress is being calculated, specifically their life expectancy, their marital or civil partnership status, and, where relevant, their spouse's age difference.

Pre- and post-retirement mortality

4.2 In CP22/15, we proposed to update the post-retirement base mortality tables from the Series 08 tables to the Series 16 tables published by the Continuous Mortality Investigation (the PxA16 mortality tables). We also proposed firms should allow for both the probability of consumers receiving post-retirement benefits on their survival or the payment of death benefits in the event of their earlier death. We proposed that firms should use the same mortality tables and improvements factors for valuing pre-retirement benefits as for post-retirement benefits.

4.3 We asked:

> Q28: ***Do you agree with our proposal to update the post retirement mortality basis with the PxA16 mortality tables? If not, what alternative basis would you suggest?***
>
> Q29: ***Do you agree with our proposal that firms should allow for pre-retirement mortality? If not, what alternative approach would you suggest?***

4.4 There was widespread agreement with the mortality proposals. Two respondents noted that the proposed tables may have been superseded by subsequent events (such as Covid-19) and so future amendments to this assumption should be given when the data is available.

Our response

We have decided to proceed with the approach we consulted on.

Spouse/civil partner benefits

4.5 In CP22/15, we proposed to update the approach for determining the proportion of consumers with a spouse or civil partnership. For consumers before their retirement age, we proposed to move from a single assumption of 85% to a table of probabilities which better reflect the consumers' individual circumstances. We also proposed to retain the current approach for determining the spouse's/partner's age.

4.6 We asked:

> **Q30:** ***Do you agree that we should move from a single assumption based on a constant probability of a consumer being married or in a civil partnership to a probability table based on term to retirement and current marital or civil partnership status? If not, what alternative approach would you propose?***
>
> **Q31:** ***Do you agree that the approach to the spouse's age difference assumption remains appropriate? If not, what alternative approach would you propose?***

4.7 Respondents agreed with the approach of moving away from the single assumption to a table of probabilities. They noted that this would be a fairer approach and move away from the current 'cliff edge'. One respondent felt the probability for a currently single consumer far from retirement to become married/partnered is too low. Another proposed that the default assumption where the status is unknown should be that the consumer is married/in a civil partnership.

4.8 Over two-thirds of respondents agreed with the proposed approach for the age difference. Two respondents commented that a non-zero age difference would better reflect the data.

4.9 One respondent asked for clarification over when firms should undertake the assessment of marital status, at the assumed date of retirement or at the valuation date, and whether this is a change in approach from the existing guidance.

Our response

We have decided to proceed with the approach we consulted on.

We consider the values in the probability table are appropriate based on Deloitte's analysis. We consider the zero-age difference remains appropriate and consistent with the gender-neutral approach.

For clarity, marital/civil partner status should be assessed at the valuation date. This is a slight change in approach from the existing FG17/9 guidance which refers to the status at date of crystallisation.

We consider using a default assumption of not married/in civil partnership where the status is unknown remains appropriate.

5 Other assumptions used in redress calculations

5.1 In this chapter, we summarise the feedback we received, and our response, to the other assumptions we proposed that firms should use when calculating redress. These cover:

- the consumer's retirement age
- how to allow for adviser and product charges
- matters relating to the benefit structure of the consumer's DB scheme (eg early retirement factors)
- enhanced transfer values
- unavailable asset values
- adjusting for the State Earnings Related Pension Scheme (SERPS), and
- adjusting for Guaranteed Minimum Pension (GMP) equalisation

Consumer's retirement age

5.2 In CP22/15, we proposed a 'rebuttable presumption', requiring firms to presume that the consumer would have retired from their DB scheme at the scheme's normal retirement age (NRA). Firms would only be able to depart from the presumption if they could evidence that it was more likely than not that the consumer would have retired at an alternative date. We set out guidance to help firms identify where it was more and less likely that the consumer had retired at an alternative date. We also proposed that, where firms did not apply the presumption, they must explain to the consumer why they think the approach taken is appropriate.

5.3 We asked:

> **Q32:** ***Do you agree with our proposal to introduce a 'rebuttable presumption' to ensure that firms make appropriate assumptions about when the consumer would have retired in their DB scheme? If not, what alternative approach would you propose?***

5.4 Eight in 10 respondents agreed with our proposal. Of the 3 respondents who disagreed, 2 said that it was wrong to draw any link at all between a consumer's behaviour in a DC environment and how they would have behaved if they had remained in their DB scheme. The other respondent who disagreed said the proposal relied on the consumer providing significant information and there would be inconsistencies between firms in how they interpret that information.

Our response

We have decided to proceed with the proposal we consulted on.

We agree that, since the pension freedoms, consumers may behave differently in a DC environment to how they would have behaved if they had remained in their DB scheme. However, firms still need to assess whether the consumer would have retired to calculate an appropriate value for the consumer's DB benefits.

Before the pension freedoms it was reasonable to assume that consumers would only have accessed their pension if they were retiring, regardless of whether they were in a DC or a DB scheme. This is because of the lower income that would have been payable if they accessed their pension before retirement. Those in a DC scheme would, in most cases, have had to buy an immediate annuity with their pension funds and, therefore, would only have done this at the point they needed the income. Those in a DB scheme would – as remains the case today – have had their benefits actuarially reduced if they accessed their pension before their scheme's NRA. Most consumers would, therefore, only access their DB pension if they intended to retire and, as most DB scheme members retire at their scheme's NRA, the rebuttable presumption reflects this.

In this context, 'retirement' essentially means the point at which the consumer becomes dependent on their DC pension fund for their regular income needs. To help firms fairly assess whether the consumer has reached this point in the changed landscape since the pension freedoms, we have provided guidance setting out the factors they should consider if seeking to rebut the presumption. This guidance is intended to prevent firms making simplistic assumptions that consumers who have accessed their DC pension fund because the pension freedoms allow them to do so would necessarily have done the same if they had received compliant advice and remained in their DB scheme.

Adviser and product charges

5.5 Consumers in DC schemes pay for product and adviser charges separately. These charges need to be allowed for when calculating redress as they create a drag on investment returns. In CP22/15, we proposed changes to the current methodology.

5.6 For product charges, we proposed that instead of allowing for actual charges that are expected to be incurred, up to a cap of 0.75% per year, all consumers should be compensated for a reasonable level of charges up to retirement. We proposed a reasonable level of product charges of 0.75% per year. This would enable consumers who currently pay less to be more flexible with their product/funds.

5.7 For adviser charges, we proposed that instead of allowing for actual adviser charges that are currently being paid, all consumers should be compensated for a reasonable level of charges up to retirement. This would enable all consumers to take advice going forward which would give them a better chance of achieving the investment returns needed to put them back in the position they should have been in. We proposed a reasonable level of adviser charges of 0.5% per year. We proposed that both ongoing product and adviser charges should be allowed for by netting down the pre-retirement discount rate.

5.8 We also proposed that consumers should be redressed for new initial advice charges where they:

- were not currently in advice arrangement, or
- would need to switch advice firms to get future ongoing advice services at or below the proposed reasonable level

5.9 We proposed that the initial advice charge should be set at 2.4% of the current DC pot value, subject to a minimum charge of £1,000 and a maximum charge of £3,000.

5.10 We asked:

Q33: ***Do you agree with our proposal to allow for a reasonable level of product charges of 0.75% and ongoing adviser charges of 0.5%? If not, what alternative approach would you propose?***

Q34: ***Do you agree that redress should allow for initial advice charges when consumers are not currently in an advice arrangement or where their ongoing advice charges are above the reasonable level? If not, what alternative approach would you propose?***

Q35: ***Do you agree with the proposed initial advice charge of 2.4% if a consumer needs to find a new adviser, with a minimum charge of £1,000 and maximum charge of £3,000? If not, what alternative approach would you propose?***

Ongoing product and adviser charges

5.11 The majority of respondents agreed or had no view on our proposals for ongoing product and adviser charges.

5.12 On product charges specifically, some respondents thought redress should be based on actual product charges incurred, especially if the consumer had a reasonable argument for paying more. Others thought the proposal disadvantaged firms who had recommended products that cost less than the level proposed.

5.13 On ongoing adviser charges, some respondents thought the proposed level was too low and would limit the number of advisory firms who could service consumers. Others thought actual charges should be used, and only if consumers were taking ongoing advice. One respondent suggested that higher ongoing adviser charges should be permitted if the firm was content to do so to keep the client relationship.

5.14 One respondent wanted us to clarify if the proposal for product and adviser charges was a default where the actual charges were not known.

Initial advice charges

5.15 Around two-thirds of respondents agreed or were neutral that redress should allow for the cost of new initial advice charges (Q34). But over half of respondents disagreed with the level at which these should be set (Q35). Some respondents felt it would be inappropriate to redress consumers for new initial advice if they don't want to take advice or chose to be self-investors. Some respondents had concerns about consumers receiving money that they might not use as intended and said it should only be provided if consumers took advice from a new adviser.

5.16 Some respondents thought the cap should be higher and did not reflect the average cost of new initial advice. One respondent considered the floor was too low for anyone to find advice at that cost. Other respondents thought consumers should be compensated for the actual amount, rather than an assumed cost, and no cap should be applied. One respondent said it was not clear if any consideration was given to having a single fixed amount for all consumers. One respondent asked for clarity on whether a consumer should be redressed for ongoing adviser charges if the client was also being redressed for new initial advice charges. Following the consultation period, we were also asked to clarify if the initial advice charges should be redressed when a consumer has already moved to a new advice firm for ongoing servicing.

Our response

We have decided to proceed broadly with the proposal we consulted on.

We recognise that the approach is different to the one that is currently in place, following consultation in 2017, and which took account of the feedback at that time. The approach we are putting in place now is consistent with the duty on consumers to minimise their losses. This duty applies when a court declines to award damages to cover losses which could have been avoided if the claimant had taken reasonable steps to do so.

Setting the level of ongoing advice and product charges
We know that some consumers will currently be paying more than 0.75% in product charges. But we think that the majority of consumers should be able to access products with charges of 0.75% or less. Where consumers are currently paying less, the approach we are adopting (by not using actual charges) provides them with more flexibility to change products and funds, if they want to, without being worse off.

Our data on ongoing advice charges shows that 0.5% remains a common price point in the advice market. So, we are satisfied that consumers should be able to find advice at this price. We think that it's right that all consumers who have received non-compliant advice to transfer out of a DB scheme should be able to access future ongoing advice, without further charges to themselves. In particular, we consider that consumers who should not have transferred should be given the best chance to achieve the investment returns they need to put them back, as far as possible, in the position they would have been in if they had received compliant advice. We do not intend to permit higher ongoing adviser charges even where the firm is content to do so to keep the client relationship. Although this would be cost-neutral to both the consumer and the firm if the consumer remains with the firm until their NRA, it would not be in other circumstances. We think it's simpler to have a single level of charges for calculation purposes. So our final approach is that the ongoing product and adviser charges of 0.75% and 0.5% respectively should be used in all calculations, regardless of the level of charges that the consumer is actually paying.

Circumstances in which consumers should be compensated for initial advice
Given the importance of ongoing advice, as set out above, we think it's appropriate that redress calculations should allow for the cost of taking initial advice from a new adviser first, in specified circumstances. We don't think it's feasible to redress consumers for these charges only when they are known and incurred, as consumers need to be provided with a full and final settlement.

We have clarified in the final rules in DISP App 4.3.32R that firms must include the cost of initial advice charges in redress calculations in 2 sets of circumstances. Firstly, they must include it where the consumer is not currently paying for ongoing advice. Secondly, they must allow for it when the consumer is paying ongoing adviser charges to the firm that gave non-compliant DB transfer advice and the firm will not provide an undertaking to lower their charges to, or below, the default charges level. Where a consumer has already chosen to take ongoing advice from another firm, they had the opportunity to shop around and choose a firm whose services and charges suited them. So, we will not require firms to compensate consumers for new initial advice charges when the consumer is taking ongoing advice from a firm who did not give them the non-compliant DB transfer advice, irrespective of the level of ongoing adviser charges the consumer is paying that firm.

Setting the level of initial advice charges
If consumers are to be compensated for the cost of initial advice, we need to set an assumption for the new initial advice charges. We know that most advisers levy new initial advice charges based on a percentage of funds. Respondents did not provide any evidence that the rates we proposed, or the data they were based on, were inappropriate. This means that an allowance for new initial advice charges must be made wherever:

- a consumer is not taking ongoing advice at the time of the calculation, or
- their current adviser will not commit to providing advice at 0.5%p.a. or less until the age they would have retired from their DB scheme

Firms should assume that a consumer who is redressed for new initial advice charges will take ongoing advice thereafter and allow for these charges in the calculation.

Early and late retirement factors

5.17 Early and late retirement factors are used to actuarially adjust the value of the consumer's DB benefits, if it is assumed they would have retired, respectively, before or after the DB scheme's NRA. We proposed that when every effort has been made to get the actual factors that would have applied, but it is not possible to get the relevant information, the firm should adopt a default early retirement factor of 4% p.a. compound and a default late retirement factor of 5% p.a. compound. We said these factors should be applied to the pension revalued to early/late retirement date.

5.18 We asked:

> **Q36:** ***Do you agree with the default early and late retirement factors we have proposed? If not, what alternative approach would you propose?***

5.19 Two-thirds of respondents agreed with our proposals. Some respondents suggested alternative levels, including factors that were more penal, less penal or had a cost-neutral basis. One respondent considered the factors should vary over time. Another suggested they should be linked to the economic assumptions. Some respondents asked us to clarify whether the factors should be applied on a simple or compound basis, and the nature of a compound basis. For late retirements, respondents also asked for clarity on whether the factor should be applied to the GMP or just to the excess pension. One respondent commented that many DB schemes would not allow deferred benefits to be paid late. One respondent suggested that the guidance should clarify that using the default factors was a last resort and that every effort should be used to obtain actual factors at the appropriate retirement date.

Our response

We have decided to proceed with the proposal we consulted on.

The default factors will be 4% for early retirement and 5% for late retirement. We do not consider it is appropriate to introduce additional complexity by having various default assumptions applying in different situations. We consider the factors are set at a reasonable level and supported by Deloitte's analysis.

The factors should be applied on a compound basis and we have clarified this in the Handbook text at DISP App 4 Annex 1 11.1G. For example, for a 2-year early retirement, the calculation would be: Pension x 0.96^2. The early and late retirement factors should be applied consistently with the approach taken by the ceding DB scheme, including where early/late retirements were not permitted and cases involving GMP.

Firms should make every attempt to get the relevant factors from the DB scheme, and this is reflected in the relevant guidance in the instrument. Where the actual factors are not used, the approach used and implications of it should be explained to the consumer.

Enhanced transfer values

5.20 Firms should include the value of any cash enhancement payment paid directly to the consumer in addition to their cash equivalent transfer value (CETV) in the calculation. We proposed to retain the approach in FG17/9 which expects firms to roll up the cash enhancement from the date of payment to the valuation date using 50% of the return on the FTSE 100 Total Return Index, net of charges. It should then be added to the value of the consumer's DC pension.

5.21 We asked:

> **Q37:** ***Do you agree with our approach to cash enhancement payments? If not, what alternative approach would you propose?***

5.22 Eight in 10 respondents agreed with this. Two respondents commented that a different level of return could be assumed, reflecting that consumers may have used the cash enhancement in a different way.

Our response

We have decided to proceed with the approach we consulted on.

Although different returns could be assumed, this approach is consistent with the pre-retirement discount rate and doesn't require consideration of how the consumer used the cash enhancement.

Unavailable asset values

5.23 Firms need to place a value on the DC pension attributable to a transfer when calculating redress. In certain (limited) circumstances, up-to-date DC values at the valuation date will not be readily available. This could either be because the investments are in illiquid/unquoted assets or because the DC provider is unable to provide them.

5.24 We proposed that where investments are held in illiquid or unquoted assets, and a current valuation is not available at the valuation date, firms should use the most recent historical valuation increased in line with CPI to the valuation date, unless there is clear evidence that the value has moved materially. Where the investment appears to have no value, it should be treated as having no value. Where investments are held in liquid assets and firms cannot get a value, we proposed that firms should calculate a notional value of the DC fund at the valuation date using an available price for the underlying fund (and allowing for known charges).

5.25 We asked:

> **Q38:** ***Do you agree with our approach to valuing illiquid assets? If not, please suggest an alternative approach and the rationale for your suggestion. Are there any other circumstances when it is difficult to obtain defined contribution fund values?***
>
> **Q39:** ***Do you agree with our approach to valuing liquid assets where an up-to-date defined contribution fund value is not available? If not, please suggest an alternative approach and the rationale for your suggestion. Are there any other circumstances when it is difficult to get DC valuations?***

5.26 While around 8 in 10 respondents generally supported our proposals, they cited difficulties getting values of certain assets, particularly where these are based abroad or in complex SIPPs. Several respondents gave examples of asset values where they would have no realisable value, were subject to insolvency proceeding or the latest available value was unrealistic (for example due it being stated at book value). Some respondents asked us to confirm whether they should be using a notional DC value at the switching date when a new adviser switches a consumer's DC pension arrangement to a new provider.

Our response

We have decided to proceed broadly with the proposal we consulted on but make the following clarifications.

An asset may be illiquid/unquoted for different reasons. Firms should understand the reason for this and be conscious of any assets which could be associated with a scam, illegal activity or be subject to insolvency procedures.

Where such assets have no realisable value, they should be treated as having nil value. Where there is still realistic probability of receiving value from the asset, it should be valued in line with the proposal (increased by CPI from the last historical valuation).

Where only a book value is available, firms should consider if this value is truly representative of what could be realised from the investment and make an appropriate adjustment (including treating it as having nil value if there is no realisable value).

For all illiquid/unquoted assets, firms should explain to the consumer the value being placed on this asset and the reasons for this approach.

Where a DC arrangement has been switched to a new provider following a change of adviser or a non-advised decision made by the consumer, firms should use the value of the new arrangement at the valuation date. This is because the switch could only have taken place as a result the non-compliant transfer advice. We have clarified this in the final Handbook text.

State Earnings Related Pension Scheme adjustment

5.27 Under the Pensions Review provisions, an adjustment was made to calculations to allow for the impact on the individual's state pension entitlement of transferring/opting out of the original DB scheme. This is known as the State Earnings Related Pension Scheme (SERPS) adjustment. Following discussions with the Department for Work and Pensions (DWP), we proposed that no SERPS adjustment is needed for transfers or opt-outs from 6 April 2016. For transfers or opt-outs before 6 April 2016, we proposed that a SERPS adjustment would be needed as an individual's state pension entitlement would have been affected. We did not propose a general industry standard approach as each assessment is highly individualised and dependent on detailed information on an individual's state pension calculation which needs to be obtained from DWP.

5.28 We asked:

> **Q40:** ***Do you agree with our clarification that a State Earnings Related Pension Scheme adjustment to the redress calculation is no longer needed for transfers occurring after 6 April 2016? If not, why not?***

5.29 Almost all respondents agreed that no adjustment is required for post 6 April 2016 cases. Four respondents wanted further guidance on the approach for pre 2016 cases.

Our response

We have decided to proceed with the approach we consulted on.

For pre-6 April 2016 cases, the calculation to work out the impact of the SERPS adjustment is highly specific to the individual, depending on their personal circumstances, and information will be needed from DWP. As a result, it is not feasible to provide a detailed approach which is appropriate in all circumstances.

Guaranteed Minimum Pension equalisation

5.30 Calculations allow for the loss of the GMP where members transfer out of DB schemes that were contracted out of SERPS. Following a High Court ruling in 2018, GMP entitlements need to be equalised between men and women and the methodology may need to account for this. We did not propose a specific approach to GMP equalisation. In the draft Handbook text, we added guidance that firms should consider the impact of GMP equalisation. However, we were keen to receive feedback on whether there should be a more definitive approach to GMP equalisation for consistency and how it could work in practice.

5.31 We asked:

> **Q41:** ***Do you agree that we should not propose a specific approach to Guaranteed Minimum Pension (GMP) equalisation? If not, how do you think GMP equalisation should be taken into account when undertaking redress calculations? Please consider materiality and consistency across the industry.***

5.32 Respondents agreed that the potential impact of this was likely to be immaterial in the majority of cases. Some commented that there was a risk introducing inconsistencies across calculations by not proposing a specific approach. A number of respondents proposed different approaches which could be taken for certain groups of consumers.

Our response

We have decided to proceed with the approach we consulted on and do not intend to introduce a specific approach.

GMP equalisation is a complex and evolving topic within the pensions industry. Introducing any of the suggested approaches would not be practical or appropriate given the likely immateriality of GMP equalisation on redress amounts.

Past payments (Past Loss)

5.33 Where a consumer would have retired in their DB scheme and has accessed their DC arrangement, past payments need to be rolled up to the valuation date (ie increasing them for the passage of time). We proposed that past payments (relating to both the DB scheme and the DC arrangement) should be increased from date of payment to the valuation date in line with the Bank of England Base Rate over the period.

5.34 We asked:

> **Q42:** ***Do you agree that past payments should be increased from date of payment to the valuation date in line with Bank of England Base Rate over the period? If not, what alternative approach would you propose?***

5.35 Two-thirds of respondents agreed with our proposals. Some respondents believed the proposed rate was inconsistent with how similar roll-ups are handled. Others considered that a higher rate was needed, for example a risk-based rate to reflect growth forgone when funds were accessed via drawdown or a rate that reflects the spending power of past payments such as CPI. One respondent said that we should clarify whether the same principles should apply where relevant to free-standing additional voluntary contribution (FSAVC) cases and opt-out/non-joiner cases.

Our response

We have decided to proceed with the approach we consulted on to use the Bank of England Base Rate. We have added a formula to the Handbook text to help firms understand how to apply the increase, in practice (DISP App 4 Annex 1 12.2G).

We consider that the different types of roll-ups in this document are appropriate for the nature of each element and DB transfer redress, as a whole. Rates which depend on the origin or use of the past payments are overly complex and risk introducing inconsistency across different calculations. Although respondents proposed different rates, there was no consensus on an alternative.

DISP App 4.2.4G sets out that where a firm upholds a complaint concerning a non-joiner, pension opt-out or FSAVC case, the firm may use the methodology or assumptions set out for DB transfer redress as a basis for calculating and offering redress, to the extent that it is appropriate to do so and subject to the particular circumstances of the case.

Pension Protection Fund

5.36 Where the consumer's DB scheme has entered the PPF or is in the PPF assessment period, the valuation of the consumer's DB benefits may need to be adjusted to reflect this. We proposed that where a DB scheme is in the assessment period for the PPF, the DB scheme benefits should be valued in line with the PPF benefits. However, where a firm knows, or ought to have known, that the scheme is shortly going to be secured outside of the PPF (known as an 'scheme buyout') and members will receive higher benefits, we proposed the firm should use the benefits available under the bought-out scheme.

5.37 We asked:

Q43: ***Do you agree with our proposal that where a DB scheme has entered the Pension Protection Fund (PPF), redress should be calculated on the basis of the PPF benefits unless the firm knows that the scheme is shortly going to be secured outside of the PPF, resulting in members receiving higher benefits? If not, what alternative approach would you propose?***

5.38 Three quarters of respondents agreed with our proposal. Some respondents asked for more guidance to explain how to deal with situations where the buy-out is known but the benefits are not known and further clarification on the word 'shortly'. One respondent suggested that a moratorium on calculations should apply in these circumstances. Another suggested this could be avoided by making firms liable for top-up payments if a buy-out proceeded. Some respondents considered that redress should be based on the PPF benefits only, as it was not possible to foresee a future buy-out when the advice was given. They felt considered this would avoid delays in payment and unfair outcomes where a consumer deliberately transferred to avoid the risk of the scheme defaulting to the PPF. One respondent said that where a consumer transferred but would have retired from the DB scheme before it entered PPF assessment, the calculation should take account of the period of higher benefits.

Our response

We have decided to amend the approach for schemes in these circumstances to provide more clarity on the approach which firms should take and so achieve greater consistency across calculations.

Fair redress should reflect any future changes once these are quantified, certain and known (or should have been known) by firms. Therefore, any uplifts should be applied from the date the benefit changes are quantified and publicly available, rather than the date they are effective from. We would expect firms not to expedite cases unduly to try and settle claims before any such updates are announced.

Where schemes are in the PPF assessment period, firms should disclose this to the consumer alongside information on any known potential future uplifts to benefits

We have also considered situations where there may be a choice of comparator schemes for the redress calculations. In those instances, firms should use the comparator scheme the consumer would most likely have rights to had they not transferred out following the unsuitable transfer advice. To make this assessment, firms should consider all available evidence and fairly weigh up how different factors will have affected the scheme the consumer would have ended up in. In line with our requirements on how to explain calculations to consumers, firms should explain which scheme was selected and why, and encourage consumers to check this selection and explain how to challenge such selection. If the comparator scheme selected is likely to be less advantageous to consumers, firms should make this clear to consumers and highlight the importance of checking, and if appropriate, challenging the comparator scheme selection.

For firms considering redress BSPS claims outside the BSPS consumer redress scheme, firms should refer to the rules applicable to the scheme which consider the actual factors relevant to the BSPS choice of comparator scheme.

Free standing additional voluntary contribution/added years benchmark index

5.39 Some firms gave non-compliant advice to consumers to invest in FSAVCs rather than the in-house AVC, resulting in consumers losing out on an employer contribution. Some in-house AVCs enabled consumers to buy added years of pensionable service in their DB scheme. Firms need to redress consumers for any losses incurred as a result.

This means that firms need to make an assumption on the returns within the in-house AVC. We proposed that firms must use the FTSE UK Private Investor Growth Total Return Index for returns post-1 January 2005. We asked:

Q44: ***Do you agree with our proposals to adopt the FTSE UK Private Growth Total Return Index for returns post 1 January 2005? If not, please could you indicate what alternative benchmark index should be used.***

5.40 Two-thirds of respondents agreed with our proposals. Some respondents felt that we should specify an index that was freely available. One respondent proposed an alternative index which tracks the returns of master trust default funds.

Our response

We have decided to proceed with the proposal that we consulted on to use the FTSE UK Private Investor Growth Total Return Index.

As noted in CP22/15, the Financial Ombudsman Service has directed firms to use the index for many years as they consider it provides the closest match to the index previously used in the FSAVC Review Model Guidance for returns before 1 January 2005.

6 Paying redress and issuing and explaining calculations to consumers

6.1 In this chapter, we have set out our final approach in response to the feedback we received on our proposals on how firms should pay redress and issue and explain calculations to consumers. This includes consideration of key issues, including:

- the form in which redress should be paid to consumers (ie lump sum augmentation, cash lump sum or a combination of both)
- how firms should allow for tax and state benefits entitlements when paying redress
- validity and acceptance periods for calculations and offers, and
- how firms should explain calculations to consumers

How redress should be paid to consumers

6.2 In CP22/15, given the low prospect of reinstating the consumer in their original DB scheme (see Chapter 2), we proposed that as much of the redress as possible should be paid directly into the consumer's DC pension (or another DC pension) by augmentation. We said this gives consumers the best chance of being put back in the position they should have been in, as the methodology presumes this is what will happen. We also proposed that:

- Where tax legislation prevents full augmentation (due to limits on pension contributions) or would require firms to pay more redress for HMRC's benefit, firms could make a partial augmentation and the remainder could be paid as a cash lump sum.
- If a consumer specifically requests it and the firm considers this would be in the consumer's best interests, the full amount could be paid as a cash lump sum. We proposed draft guidance to help firms determine when full or partial augmentation would not be in the consumer's best interests.

6.3 We also proposed guidance on the factors that may be relevant to whether full or partial augmentation would result in a consumer exceeding their annual or lifetime allowance, or their limit for personal contributions.

6.4 We asked:

> **Q45:** ***Do you agree that firms should pay as much of the redress as possible directly into the consumer's defined contribution pension by augmentation? Do you also agree that payment should only be by cash lump sum where augmentation is likely to mean consumers incur a tax charge or where the consumer specifically requests that redress is provided in this way? If not, how do you think redress should be provided to consumers and why?***

Q46: ***Do you agree with the factors that are likely to be relevant in judging whether augmentation would result in a consumer exceeding their annual or lifetime allowance? If not, which factors do you think are likely to be relevant?***

6.5 There was a very mixed response to our proposals on augmentation (Q45). Slightly over half of respondents agreed with our proposals but a significant minority disagreed. However, few of those who disagreed augmentation did so in principle. Instead, objections focused mainly on practicalities, dividing between concerns about tax-related issues and about other, non-tax issues.

6.6 There was also significant disagreement with our proposals on factors relevant to judging whether augmentation would result in a consumer exceeding their annual or lifetime allowance (Q46). However, most who disagreed with this proposal appeared to do so because they had concerns about the practicalities of the main augmentation proposal (Q45) and used this response to repeat or underline their concerns.

6.7 Only a quarter of those who disagreed suggested other factors that they considered likely to be relevant when judging the impact of augmentation. These were:

- details of any lifetime allowance protection secured
- details of any lifetime allowance protection enhancement factors,
- previous benefit crystallisation events
- confirmation of whether the money purchase annual allowance has been triggered
- details of income from all sources from the current and previous 3 tax years
- current value of all DC and DB pension arrangements for lifetime allowance purposes, and
- details of any pension share award pending from a divorce settlement

Tax issues

6.8 The main concern about tax was that it will be very difficult and complex for firms to identify how much of a consumer's redress payment could be augmented without causing a tax issue. For example, the consumer incurring annual or lifetime allowance charges or being ineligible for tax relief. Respondents considered that working out this amount would require the collection of significant amounts of information from consumers. This would be burdensome for firms and could cause long delays to redress payments, particularly if firms needed to seek advice from HMRC. Several respondents also said that requiring firms to do this would be disproportionate as most consumers want their redress paid as a cash lump sum.

6.9 Respondents also said that, even if the relevant information could be collected efficiently from consumers, it would still not be possible to calculate accurately how much redress could be augmented without the consumer subsequently suffering a loss due to tax charges. Concerns raised by respondents included:

- Difficulties in getting information about a consumer's annual allowance, particularly if redress is being paid part way through a tax year and they are still contributing to a pension scheme. For example, an unexpected pay rise later in the year could cause problems, as would any accrual in a DB arrangement. Ultimately, an accurate tax assessment could only be achieved after the end of the relevant tax year end, by which time it would be too late to make any contribution based on that information.

- Establishing whether an individual is likely to be affected by the lifetime allowance at some future date is also challenging, especially if inflation remains high and there is uncertainty over future increases in the lifetime allowance. Respondents said this would require firms to make detailed projections of pensions and various subjective assumptions about possible consumer behaviour.

6.10 Several respondents said that these issues could be addressed if redress payments were exempted from all pension contribution allowance limits. Other solutions proposed by respondents included splitting redress payments across multiple tax years to maximise the amount that can be augmented.

Non-tax issues

6.11 Issues raised by respondents that were not about tax were largely about the impact of the augmentation of redress payments on the DC scheme receiving the payment. Respondents said:

- DC schemes should not be responsible for the costs incurred in processing augmentations,
- it should be possible to pay redress to a range of DC pension schemes, ie not just the scheme which was established as a consequence of the non-compliant advice (and which may no longer exist), and
- we should clarify the position if the consumer's DC scheme is unwilling or unable to accept new transfer payments and whether this means a new DC arrangement will need to be set up to augment the redress.

Our response

Our preference remains that redress should be used to augment the consumer's DC pension, as this is what the methodology presumes will happen and is likely to maximise the chances of the consumer investing their redress for retirement. However, due to the feedback we received, we have decided to make changes to the main proposal we consulted on.

We have not changed our approach because we are persuaded by arguments about complexity. Professional examination standards for retail investment advisers require an ability to analyse and apply the tax framework applying to investments in pension schemes.

But we do recognise that firms could expend significant resources collecting information and calculating how much redress could be augmented for consumers who will only accept redress in cash. This would introduce friction for consumers and unduly delay payments. It is also important that the methodology is consistent with the approach a court would take, and we note MFKC's view that a court will generally assess damages as a cash lump sum which the claimant can spend as they like.

We note respondents' views that exempting pension transfer redress payments from all contribution allowance limits could make augmentation more straightforward. This could also provide a solution for issues that redress payments can cause for consumers' entitlements to means-tested state benefits, discussed below. However, tax policy is a matter for the Government.

Determining if an augmentation should be calculated

We have decided not to require firms to calculate how much of a consumer's redress could be augmented for every case. Instead, we have amended DISP App 4.3 so that firms must:

- always calculate and offer the consumer redress as a cash lump sum payment,
- explain to the consumer before starting the redress calculation that:
  - their redress will be calculated on the basis that it will be invested prudently (in line with the cautious investment return assumption used in the calculation), and
  - a straightforward way to invest their redress prudently is to use it to augment their DC pension
- offer to calculate how much of any redress the consumer receives could be augmented rather than receiving it all as a cash lump sum,
- if the consumer accepts the firm's offer, request the necessary information and not charge the consumer for the calculation, even if the consumer ultimately decides not to have any of their redress augmented, and
- take a prudent approach when calculating how much redress could be augmented, given the inherent uncertainty around the consumer's end of year tax position.

In some cases, the firm may consider it has the information it needs to calculate prudently how much redress could be augmented. If so, the firm may choose to do this calculation without getting the consumer's consent. The firm would then need to ask the consumer when it makes its offer of redress whether they wish to have their redress augmented (with any non-augmentable redress paid in cash) or take it all as a cash lump sum.

As well as not obliging firms to calculate an augmentation for consumers who want their redress entirely in cash, the above process aims to ensure that settlement of redress payments is not unduly delayed by firms carrying out augmentation calculations after they have worked out and offered a cash lump sum. If firms establish whether consumers are interested in augmenting any redress they receive before that redress is calculated, they will be able to request information necessary to calculate the augmentation at the same time as they request information needed for the redress calculation itself.

However, we do recognise that some consumers may only express an interest in augmentation when they are told how much redress they are due. In these cases, we would expect firms to comply with a consumer's request to calculate an augmentation of the redress offer as long as this request is made within the 3-month validity period (see below).

Factors relevant to judging the impact of augmentation
Regarding factors relevant to judging the impact of augmentation, we consider only some of the factors suggested by respondents are not already covered by the rules and guidance we consulted on. So we have, decided to add the following factors to DISP App 4.3.35G:

- details of any lifetime allowance protection secured,
- details of any lifetime allowance protection enhancement factors,
- previous benefit crystallisation events, and
- confirmation of whether the money purchase annual allowance has been triggered

Other issues raised in consultation
We do not agree that firms should be able to pay redress over multiple tax years to maximise the amount of redress that could be augmented. This would depend on the firm continuing to trade during the period of payment. For some firms in this market, it would not be possible to be certain about this. Paying redress over an extended period should only be considered as a last resort if it provides a way to prevent redress payments from affecting a consumer's entitlement to means-tested benefits (see below).

We consider the issues raised about the impact of augmentation on DC schemes do not apply to personal pension schemes. They may apply to occupational DC schemes, but most DB to DC transfers were to personal pension schemes, whose business model is the acquisition of funds under management. For this reason, we also consider it unlikely that such schemes would not accept these payments which can be treated as a normal contribution.

It is also not our policy intention that only the DC scheme that received the transfer for which redress is due may be augmented. We have drafted our rules widely enough to ensure that any DC pension the consumer holds may be augmented.

Allowing for tax and state benefit entitlements

6.12 In CP22/15, we set out our proposed approach on how firms should allow for tax and means-tested state benefit entitlements when redress is augmented or paid to the consumer in cash.

Redress paid by augmentation

6.13 We said that where redress is paid via augmentation:

- consumers will pay any relevant income tax charges when accessing their funds in due course, so firms do not need to consider income tax charges that could be levied in retirement
- means-tested state benefit entitlements would not be affected (because pension fund capital does not count as capital or savings when assessing somebody's means)

6.14 We asked:

> **Q47:** ***Do you agree with our proposal on how firms should allow for tax and means-tested state benefit entitlements on lump sum augmentation of redress payments? If not, what alternative approach would you propose?***

6.15 Nine in 10 respondents either agreed with our proposal or were neutral, with most agreeing. Those who disagreed raised concerns about:

- accuracy, noting that tax rates and criteria for means-tested state benefits change regularly, and
- the need for compensation protection trusts (CPTs) to be available for all consumers with insufficient annual allowance to augment their redress

6.16 One respondent raised concerns that some firms were reducing the amount of redress due on augmentation based on purported tax rebates that they claimed consumers would be due.

Our response

We have decided to proceed with the proposal we consulted on. We consider concerns about tax and means-tested state benefits implications are more relevant when redress is paid by cash lump sum and so have, addressed them below.

Following discussions with the Government, we understand that redress paid into a pension is also unlikely to be considered 'notional capital'. This is the term used to describe capital that people have 'deprived' themselves of to get means-tested benefits or to increase their entitlement to means-tested benefits, and so which would be considered capital in a means assessment (see below). More information on deprivation of capital can be found in published Government guidance.

We recognise that where redress is paid via augmentation and treated as a contribution, it should be amended as necessary for eligible tax relief.

Redress paid by cash lump sum

6.17 We said that where redress is paid by cash lump sum (either as an alternative, or in addition, to redress paid by augmentation):

- in the unlikely instances where capital gains tax (CGT) or income tax is due, firms should cover the cost, although consumers themselves are responsible for paying it through their self-assessment return
- it may be appropriate to make a notional deduction to cash lump sum payments to take account of tax that consumers would otherwise pay on income from their pension
- firms should ensure (eg by setting up a CPT) that cash lump sum payments that affect a consumer's entitlement to means-tested state benefits do not result in the consumer suffering a reduction in income because of the redress payment

6.18 We asked:

> **Q48:** ***Do you agree with our proposal on how firms should allow for tax and means-tested state benefit entitlements on cash lump sum redress payments? If not, what alternative approach would you propose?***

6.19 Around two thirds of respondents agreed with our proposals or were neutral on it. Those who did not agree raised concerns about the following issues:

- determining the tax rate for the notional deduction will require firms to make a subjective judgement which could delay the settlement of offers
- applying the notional deduction to the whole of the redress figure fails to acknowledge that not all the redress would be withdrawn as income, as some of it will go towards meeting future adviser and product charges
- it is not clear whether HMRC might view cash lump sum payments as unauthorised payments under the Finance Act 2004

6.20 Some respondents, including some who did not disagree with our proposals, made suggestions on how we could improve our proposals. These suggestions were aimed at reducing the amount of subjective judgement firms need to make about the consumer's tax position in retirement. These were to:

- Clarify that the notional deduction should reflect the position that the consumer would be in, if they were to buy an annuity providing the same value of benefits as their DB scheme with the proceeds of the transfer and the redress payment. This would ensure consistency between the notional deduction and the way in which redress is calculated.
- Ensure that for cases where the consumer would have already retired if they had remained in their DB scheme, past benefits are valued net of actual tax incurred and future benefits gross of tax, with the notional deduction applied only to the future loss (eg a 20% reduction applied to the gross future loss for a basic rate tax payer).

Our response

We have decided to proceed broadly with the proposal we consulted on. However, we have decided to add additional guidance to DISP App 4.3.27 G to clarify several issues on the impact of redress payments on a consumer's tax position and their entitlement to means-tested state benefits.

Tax issues
We agree that the suggestions made by respondents could improve our proposals. However, we also consider that there could be practical challenges to implementing them. We have added guidance to DISP App 4.5.18G reflecting the treatment of taxation on past payments.

On unauthorised payments, our proposals already recognise the risk of HMRC considering a redress payment an unauthorised payment. It is a matter for HMRC whether a payment is considered an unauthorised payment and will depend on the facts of the case. We cannot provide definitive guidance on unauthorised payments, other than to set out our broad understanding of the relevant legislation. A key point is that, for a payment to be capable of being an unauthorised payment, it must be made:

- by a registered pension scheme (ie from sums or assets held for the purposes of a registered pension scheme), or
- under, or in connection with, an investment acquired with sums or assets held for the purposes of a registered pension scheme

It appears unlikely to us that a firm making a redress payment for non-compliant financial advice would do so from sums or assets held for the purposes of a registered pension scheme. So firms are likely to need to consider whether the funds to make a redress payment have come from an investment acquired with sums or assets held for the purposes of a registered pension scheme.

Ultimately, it is for the firm making the redress payment to determine whether there is a risk of an unauthorised payment being made. If firms are unsure about the risk of making an unauthorised payment, they may seek HMRC clearance via the non-statutory clearance process. However, HMRC will only give a non-statutory clearance where the law is not clear and/or there is an ambiguity in HMRC guidance. It is necessary for firms to follow the strict procedure set out on HMRC's website when making an application for clearance, otherwise HMRC will simply reject the application. The impact on consumers of an unauthorised payment charge and surcharge amounting to 55% of a redress payment will be significant. So it is important that firms consider this risk properly, even if it causes a delay to calculating redress.

Benefit entitlement issues
We have also added guidance to DISP App 4.3.31G to clarify the issues set out below.

Contrary to what we said in CP22/15, we understand that CPTs are only available for personal injury and medical negligence compensation. They do not, therefore provide a way to protect a consumer's means-tested benefit entitlements if they receive compensation for financial loss caused by non-compliant pension transfer advice, which increases the level of capital held by the consumer or their partner above certain 'capital limits'.

The benefits system may treat redress paid in cash as capital in the normal way for such assets, which may reduce or end benefit entitlement. If, on the other hand, the consumer had received compliant advice and remained in their DB scheme, their pension would have been treated as income only once they reached the qualifying age for the pension to be paid.

The 'lower capital limit' is more than £6,000 for Universal Credit and more than £10,000 for Pension Credit and Housing Benefit for Pensioners. A consumer's income from certain benefits will start to be reduced once these limits are exceeded. Capital under the lower limit does not lead to a reduction in benefits. Working age benefits have an upper capital limit of £16,000, which, if exceeded, would end benefit entitlement. This is known as the 'upper capital limit'.

Firms should seek to ensure that redress payments do not reduce or end a consumer's entitlement to means-tested benefits by taking the consumer over their lower capital limit, or adding to their capital if they are already over their limit. This is consistent with aiming to put consumers back in the position they would have been in if the firm's non-compliant advice had not caused the consumer to transfer out of their DB scheme.

Firms should take reasonable steps to ensure the consumer does not suffer a reduction in income, principally by paying:

- as much redress as possible by augmentation of the consumer's DC pension (because pension fund capital does not count as savings or capital in a means assessment as the Government's policy is to encourage people to save for their retirement)
- redress in cash only if doing so would not reduce the consumer's income from benefits

If there is still significant redress outstanding after following these steps, the firm should refer the consumer to free, impartial advice on their entitlement to benefits. As set out in MoneyHelper guidance, sources of such advice include Citizens Advice and Law Centres. If the consumer is informed of an arrangement for the payment of redress that would not affect their entitlement to means-tested benefits, the firm should cooperate with the consumer to put that arrangement in place. If such arrangements are not available to the consumer, the firm may need to consider whether the redress payment could be increased to compensate the consumer for the loss of their benefits.

Firms should note that any arrangement involving payment of redress over an extended period (eg agreeing with the consumer for the firm to augment the consumer's pension with the outstanding redress over future tax years) should be a last resort. Such an arrangement may trigger other regulatory requirements. For example, requirements on holding client money. The firm would also need to ensure the consumer is compensated for the passage of time between the valuation date and each payment date while the firm retained the outstanding redress.

We would not consider firms who have agreed to take reasonable steps to avoid the consumer suffering a loss of benefits income from their redress payment to have treated consumers unfairly if the consumer does not agree to follow those steps. For example, where the firm has advised the consumer that they could protect their benefit entitlements by augmenting some (or all) of their redress and the consumer has decided not to do this.

Issuing calculations – validity and acceptance period

6.21 In CP22/15, we proposed that calculations should remain valid for 3 months from the date of issue to the consumer, in line with the current guidance. This gives consumers 3 months to decide whether to accept a redress offer. We asked:

> **Q49: Do you agree with our proposal that calculations should be valid for 3 months from date of issue to the consumer? If not, what alternative timeframe would you propose?**

6.22 Eight in 10 of respondents agreed with our proposal or were neutral. Some respondents thought the time should be shorter. For example, they thought 60 days was sufficient time to consider an offer. Others thought it should be longer with a suggestion that it should be aligned with Financial Ombudsman Service rights which expire after 6 months. One respondent asked for clarification on the consequences of an offer being accepted outside the 3-month period. One respondent asked whether the 3-month period was a minimum, given a reference to a minimum 3-month period elsewhere in CP22/15.

Our response

We have decided to proceed broadly with the proposal we consulted on. We have added a new rule with accompanying guidance at DISP App 4.3.25R and 4.3.26G providing that, if consumers are aware of the 3-month period, we would not expect firms to extend the period except when the reason for the consumer failing to decide whether to accept the offer is outside the consumer's control.

Redress for non-compliant pension transfer advice can involve significant sums of money. So it is important that consumers have enough time to review their calculation and decide whether to accept any offer of redress made by the firm.

We note concerns about the apparently 'open-ended' nature of our proposal. This is particularly because of the potentially contradictory references in our proposals to a 'definitive' validity period of 3 months in the proposed DISP 4.3.24R and 'minimum' validity period of 3 months in the proposed DISP App 4.3.38R (which concerns the communication of calculations and redress offers). We agree that firms need clarity on what we expect them to do if the consumer does not accept an offer within the 3-month period, particularly because we are requiring them to compensate consumers for foregone investment returns during this period.

We consider that in most cases 3 months should be enough time for a consumer to decide whether to accept an offer, even if they need to query or challenge aspects of it. Accordingly, we have decided that the provisions referenced above should refer only to a 3-month validity period. If the validity period is explained to the consumer in a clear, fair and not misleading way when the explanation of the redress calculation and offer is sent to the consumer, we would not expect firms to extend the validity period once it has expired. After the validity period has expired, any subsequent calculation (eg a calculation following a decision on a complaint by the Financial Ombudsman Service) should be a new calculation. We consider that removing the word 'minimum' in DISP App 4.3.38R should provide firms with clarity on this point.

There may, however, be circumstances where it would be fair to allow the consumer more time to decide whether to accept any offer of redress made by the firm. This is likely to be when the failure to accept an offer is outside the consumer's control. For example, because the firm made errors in the calculation it initially issued to the consumer and had to make changes, or because of exceptional circumstances affecting the consumer during the validity period, such as bereavement or incapacitation. We would expect firms to treat consumers fairly when deciding how much additional time consumers should be given when a failure to accept an offer within 3 months is outside their control. Our guidance for firms on the fair treatment of vulnerable customers may be relevant in these circumstances.

Compensating consumers for forgone investment returns between valuation date and payment

6.23 The methodology assumes that the calculated redress amount is invested from the valuation date. In CP22/15, we proposed that consumers should be compensated for the delay between the valuation date and the date the consumer receives their money. We proposed that where a consumer would:

- not have retired in their DB scheme at or before the valuation date, redress should be increased from the valuation date to the payment date in line with the pre-retirement discount rate, netted down for charges
- have retired in their DB scheme at or before the valuation date, redress should be increased from the valuation date to the payment date in line with the post-retirement discount rate, without any adjustment for annuity pricing or PCLS

6.24 We asked:

Q50: ***Do you agree that redress payments should be increased between the valuation date and the payment date using, as appropriate, the pre-retirement or post-retirement discount rate to compensate consumers for foregone investment returns? If not, what alternative approach would you propose?***

6.25 Around two-thirds of respondents agreed or had a neutral view on our proposals. Some respondents felt that the roll up was inconsistent with the roll-up of past payments or suggested an alternative rate. Two respondents noted that other factors in the redress methodology which change between the valuation date and payment date had been omitted, including the value of the DC pension. Some respondents noted that it could encourage consumers, particularly those represented by a claims management company or solicitor, to unduly delay acceptance of an offer. Some respondents considered that the valuation date should be replaced with a different date, eg the date of the decision/offer letter. Similarly, some thought the payment date should instead be the settlement/acceptance date. Other respondents considered that the roll up should be for a fixed period, such as 30 days, to give a reasonable timeframe for acceptance and commented that delay is often not the firms fault. One respondent believed that where augmentation occurs, an alternative approach would be to express the roll up as a % of the DC pension. Two respondents considered the approach was too complex. One respondent asked whether it was correct to exclude the annuity pricing adjustment where the consumer had already retired.

Our response

We have decided to proceed with the proposal we consulted on on compensating consumers for the delay between the valuation date and payment of redress. This is now referred to as the 'additional compensation amount' in the rules, rather than 'interest'. We consider the approach is consistent with the principle behind the methodology on investment returns. The methodology assumes that redress would be invested in a pension at the valuation date and invested in a way that could produce returns in line with the pre-retirement discount rate. So this return would not normally be referred to as interest. It would be too onerous to allow for other factors that change over time.

We consider it is right to use the valuation date as the starting point, as that is the assumed date from which investment returns are lost. Similarly, the payment date is the date from which the consumer could start to earn investment returns directly on the redress amount. In general, we consider that firms, consumers and their representatives all want to close complaints as soon as possible.

We consider that using an adjustment based on a % of the DC pension to be overly complex in some scenarios (such as where further withdrawals have been made from the pension) or impractical where it takes some time to get the fund value or it has zero realisable value.

We disagree that the approach is complex. It consists of applying a constant rate, based on the pre- or post-retirement discount rate, to the primary compensation amount for a fixed period of time. We consider this should be within the capability of all firms. To help further, we have provided a formula in the final instrument. The annuity pricing adjustment is used in the post-retirement discount rate to reflect several different factors which influence the price. We do not consider these factors should be reflected in the additional compensation amount. So we will, maintain the approach of excluding the annuity pricing adjustment.

Explaining calculations to consumers

6.26 In CP22/15, we proposed that when firms inform the consumer of the calculation result, they should explain the key elements of the calculation and the assumptions they have made.

6.27 We said the explanation should be clear, fair and not misleading and provided in a durable medium. We also listed some of the key information that should be communicated to consumers to help them understand their redress offer. We said firms must encourage consumers to read their explanation and explain clearly how consumers can challenge any of the information used in the calculation and make a complaint.

6.28 We also proposed firms issue a warning that redress is calculated on the basis that it will be invested prudently and not spent, and we requested comments on its wording.

6.29 We asked:

Q51: ***Do you agree with the proposed content of the calculation explanation? If not, what information do you think consumers should be given to help them understand their calculation?***

Q52: ***Do you agree with the proposed wording for the warning when consumers receive redress as a cash lump sum? If not, what wording do you suggest would be more impactful for consumers?***

Q53: ***Do you agree that consumers should be encouraged to read their explanations carefully and that firms should be required to and set out clearly the process the consumer should follow if they have any questions, wish to challenge any of the information used in the calculation, or make a complaint?***

Content of the calculation explanation

6.30 Two-thirds of respondents agreed with the content of the calculation explanation. Some thought our proposed measures should go further. Some thought we should issue a template redress offer document, or a leaflet to generally explain the calculation methodology. One respondent suggested firms agree the retirement age assumption with consumers in advance. Another said firms should tell consumers where they have used default assumptions if information was missing. Others thought the detail of the explanation should be limited by taking out superfluous information on assumed investment returns or charges or thought that more detail will increase disputes and failures to settle complaints. Finally, some thought it would be helpful for us to clarify that firms are not required to provide any further information than that listed in CP22/15.

Proposed warning for cash lump sum payments

6.31 About two-thirds of respondents agreed with the suggested wording. Some respondents asked us to reconsider the use of the term 'prudent' as it is open to different interpretations and to clarify that redress on its own does not provide a retirement income. Some thought the warning illustrated that the lump sum method of redress is not appropriate. Some also suggested the wording should be tested with consumers for effectiveness. Some thought the warning should explain tax considerations and the benefit of spreading the payment into their pension over several years to stay within their contribution allowance.

Engaging consumers with their explanations

6.32 There was almost unanimous support for encouraging consumers to engage with their redress offers, although some respondents said consumers will need support with this.

Our response

We have decided largely to proceed with the proposals we consulted on. We have addressed feedback on the cash lump sum approach to redress earlier in this chapter. We have clarified that the explanation should indicate where default assumptions were made if information was missing. We have simplified the tax explanations, changed some of the wording on how the redress amount should be invested, and we are considering issuing a leaflet to help consumers understand their redress calculations.

Content of the calculation explanation
We consider that our requirements on explaining calculations are consistent with firms' obligations under the forthcoming Consumer Duty. Firms' communications should help consumers to understand the implications of any decisions they must make. For redress offers, this means more transparency on how the redress was calculated so that consumers can assess, and if required, challenge the fairness of the amount offered before deciding whether to accept the offer. We expect that clearer explanations should reduce disputes and failures to settle complaints, but firms should nonetheless respond promptly to any reasonable requests for information or clarification from consumers. The suggestion to agree the retirement age used for the calculation in advance with the consumer is good practice and should help reduce disputes, so firms can choose to use this approach.

We agree with the suggestion that firms should indicate where they have made default assumptions, and we have clarified our requirements accordingly.

Firms must also explain to consumers on what basis their redress is calculated. They should do so in a way that consumers understand the importance of investing their redress appropriately, taking account of charges, assumed investment growth, tax liabilities etc. We appreciate that the technicalities of some of this information may be overwhelming to some consumers. However, we consider that financial advice firms should be able to communicate effectively to consumers with varying levels of financial literacy. For example, in the BSPS consumer redress scheme rules we have included template letters in CONRED 4 that firms can use as an example of good practice in how to communicate with consumers more generally. In the BSPS redress offer letter, we included all the information consumers should focus on to decide whether to accept the offer, and some frequently asked questions giving other information some consumers may require. We also used the calculation report to include some of the more technical information such as the charges covered by the redress and the assumed investment growth. Consumers with different investment experience may benefit from different disclosure formats so we have decided against issuing a template redress offer document in the general methodology.

Given our revised approach to augmentation set out earlier in this chapter, we have simplified our disclosure requirements on tax adjustments. Firms need to explain the assumed rate of tax at retirement applied to cash lump sum payments and refer consumers to HMRC if they are unsure how the offer may affect their tax position. For offers involving augmentation, consumers should be able to rely on a firm's determination of the maximum amount permitted as a contribution. Firms should provide the information used to adjust their redress offer for tax if the consumer requests this. As discussed at the beginning of this chapter, we do not agree that firms should be able to pay redress over multiple tax years, but if firms wish to advise consumers on how to spread their payment into their pension to maximise their tax allocation, they can do so if they are prepared to take on the responsibility of such recommendation based on the review of the consumer's circumstances.

Proposed warning for cash lump sum payments
We have taken respondents' feedback into consideration and amended the warning to say that the redress amount, plus the transferred pension value, are intended to provide the consumer with the same value of retirement income they would have received if they had remained in their DB pension scheme, as long as they invest it prudently. When explaining the term 'prudently', firms should refer to the assumed level of future investment returns, required in the disclosure.

We are not mandating an exact wording for use in consumer disclosures. This means that firms can adapt the wording if they feel the wording is not effective for the consumers they are writing to.

We have also simplified the requirements the tax adjustment disclosures, as discussed above.

Engaging consumers with their explanations
DB pension redress is a very complex issue to explain to consumers. To help consumers engage with the redress process, firms must provide communications that are clear, fair and not misleading. We explain above how we made this information more accessible in the BSPS scheme template letters. Our guidance for firms on the fair treatment of vulnerable customers may be relevant in these circumstances.

To support consumers with their decision on their redress offer, we require firms to direct consumers to trusted sources of guidance. We are considering issuing a leaflet explaining DB redress offers for firms to enclose and send out with their redress determinations.

7 Cost benefit analysis

7.1 In the CBA that we published in CP22/15, we said that the changes proposed to the methodology would have strong distributional effects. This means the impact of the changes on redress payments will depend heavily on the individual circumstances of the consumers for whom redress is being calculated.

7.2 We said that estimating the impact of our proposed changes on individual firms and the industry overall would require an extensive data gathering and modelling exercise. We explained that we did not consider it would be proportionate to carry out such an exercise. Instead, we used the modelling of notional redress cases carried out by Deloitte to establish that the overall impact of our proposed changes would likely be modest.

7.3 We said, however, that we did intend to model the impact of our proposals on the discrete population of firms and consumers subject to the proposed BSPS consumer redress scheme. We said that we would update the CBA for the redress scheme to take account of the impact of any changes to the methodology on the average financial loss figure before we make our final decision on whether to go ahead with the redress scheme.

7.4 We asked:

> **Q74:** ***Do you agree with our estimates of the costs and benefits of our proposals?***

7.5 We received relatively few responses (10 in total) to this question. Of those responses, just over half disagreed with our estimates. Most who did not disagree were neutral.

7.6 Respondents raised the following concerns:

- the early retirement and cash commutation factors used to model the impact of the proposed change to the retirement age assumption are more penal than those applied by DB schemes and, therefore, risk overstating the impact of the proposal
- the CBA should have considered:
  - the financial and non-financial impacts (eg inconvenience) on firms of having to update the assumptions more frequently,
  - the cost of actuarial consultants used by firms to calculate redress, and
  - the cost of redeveloping redress calculation software to accommodate the changes we had proposed, as these costs would be passed through to firms,

7.7 Some respondents used their response to repeat concerns they had already raised in their response to our earlier consultation on the proposed BSPS consumer redress scheme. We have considered these responses in PS22/14.

Our response

We do not consider the changes we are making following consultation materially change our assessment of the impact of the revised methodology on redress payments. This is because the changes largely relate to the administration of redress payments. Further, it is likely that the main changes to our proposals in this area (ie on augmentation of redress payments and the frequency of updating the economic assumptions) will mean the administrative cost to firms of carrying our redress calculations remains at broadly the current level.

Regarding other issues raised by respondents:

- We recognised in CP22/15 that early retirement and cash commutation factors can vary significantly. However, we think taking the mid-point of the typical range for early retirement factors (4%) and using the HMRC maximum for DB scheme cash commutation is a reasonable approach.
- The cost of actuarial consultants is not a consequence of the changes we proposed in CP22/15, so we did not consider it a cost for the purpose of our CBA, which only considered the impact of the changes to the methodology.
- Responses to CP22/15 from actuarial consultancies suggested that the extent of work needed to implement our proposed changes (and, therefore, of cost pass-through) depends on the software platform used. Consultancies using more modern platforms indicated it would be relatively easy (and, presumably, cost-effective) to make changes, whereas those with older systems said changes would be time-consuming and, therefore, more costly. There are a range of businesses offering redress calculation services and we do not consider there are significant barriers to firms switching provider. We, therefore, consider that market competition will act to minimise the impact of software redevelopment costs on firms.

Regarding our intention to update the CBA for the BSPS consumer redress scheme to take account of the impact of any changes to the methodology, we have concluded that it would be disproportionate for us to do this in the way we proposed to in CP22/15. This is because we would need to obtain a representative sample of consumers who would be subject to the redress scheme, including information necessary to carry out redress calculations under the previous and revised methodology. For example, the consumer's age, term to retirement, whether they are married or in a civil partnership and the charges they are currently paying. While we know how many transfers each firm subject to the scheme has carried out, we do not have this level of detail about the individuals who were advised. In the absence of this information, we consider it reasonable and proportionate to assume that, as with redress calculations outside the scope of the scheme, the overall impact of the changes to the methodology on redress payments under the scheme will be modest. However, in the final CBA for the BSPS redress scheme, we have conducted sensitivity analysis around the central scenario to account for a reasonable degree of uncertainty around redress payable under the scheme.

Annex 1
List of non-confidential respondents

APJ Solicitors

Association of British Insurers

bdh Sterling Ltd

British Steel Adviser Group

Clarke Wilmott LLP

Congruent

Consumer Redress Association

Creative Wealth Management

David John Leese

Equiniti Hazel Carr

Exasoft Group

Financial Services Consumer Panel

Hausfeld & Co LLP

Kirk Rice LLP

Legal and General Assurance Society Ltd

M&G

Michael Kiff

OAC plc

Pensionhelp Ltd

Personal Finance Society

SDA Actuaries

Society of Pension Professionals

Tideway Investment Partners LLP

Transparency Task Force

True Potential Wealth Management LLP

Annex 2
Abbreviations used in this paper

Abbreviation	Description
AVC	additional voluntary contribution
BSPS	British Steel Pension Scheme
BSPS2	new British Steel Pension Scheme
CBA	cost benefit analysis
CETV	cash equivalent transfer value
CGT	capital gains tax
COBS	Conduct of Business Sourcebook
CONRED	Consumer Redress Schemes sourcebook
CP	consultation paper
CPI	consumer price index
CPT	compensation protection trusts
DB	defined benefit
DC	defined contribution
DISP	Dispute Resolution sourcebook
DMT	discounted mean term
DWP	Department for Work and Pensions
GMP	Equality Act 2010
FCA	Financial Conduct Authority
FG	finalised guidance
FSAVC	Free Standing Additional Voluntary Contribution
FS	feedback statement

Abbreviation	Description
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GMP	guaranteed minimum pension
IRP	inflation risk premium
NRA	normal retirement age
PIA	Personal Investment Authority
PII	professional indemnity insurance
PPF	Pension Protection Fund
PS	Policy statement
RPI	retail price index
SERPS	State Earnings Related Pension Scheme
SIB	Securities and Investments Board
TVC	transfer value comparator

Appendix 1
Made rules (legal instrument)

PENSION TRANSFER REDRESS INSTRUMENT 2022

Powers exercised

A. The Financial Conduct Authority ("the FCA") 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 138C (Evidential provisions);
(3) section 137T (General supplementary powers);
(4) section 139A (Power of the FCA to give guidance); and
(5) section 395(5) (The FCA's and PRA's procedures).

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2023.

Amendments to the Handbook

D. The Dispute Resolution: Complaints sourcebook (DISP) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Pension Transfer Redress Instrument 2022.

By order of the Board
24 November 2022

Annex

Amendments to the Dispute Resolution: Complaints sourcebook (DISP)

In this Annex all of this text is new and is not underlined.

After Appendix 3 (Handling Payment Protection Insurance complaints), insert Appendix 4, Handling pension transfer redress calculations.

App 4	**Handling pension transfer redress calculations**			
App 4.1	**Definitions**			
App 4.1.1	R	The following definitions are used in this appendix:		
		(1)	‘additional compensation sum’ is the redress sum calculated in accordance with *DISP* App 4.3.29R(3);	
		(2)	‘annual allowance’ is the maximum amount that can be added to an *individual’s* pension each tax year without the *individual* being liable for an annual allowance tax charge;	
		(3)	‘annual allowance tax charge’ includes:	
			(a)	the standard annual allowance limit of £40,000 saved into a pension in the current tax year; and
			(b)	the money purchase annual allowance which is triggered when a *consumer* has flexibly accessed their pension, which reduces their annual allowance to £4,000; and
			(c)	the tapered annual allowance which reduces the annual allowance for those earning above £200,000;
		(4)	‘assumptions’ are the economic, demographic and other assumptions to be used in the redress calculation set out at *DISP* App 4 Annex 1;	
		(5)	‘augmentation’ is the payment of redress into the *consumer’s* chosen defined contribution pension scheme;	
		(6)	‘calculation date’ is the date on which the *firm* completes the calculation at Step 3 at *DISP* App 4.3.19R;	
		(7)	‘commencement date’ is 1 April 2023;	
		(8)	‘compliant pension transfer advice’ is *advice* to a *consumer on the conversion or transfer of pension benefits* from a *defined*	

			benefit occupational pension scheme to a DC pension arrangement, which complies with the following:	
			(a)	(as applicable) the suitability requirements in *COBS* 9 and *COBS* 19.1; and
			(b)	the common law duty in contract or tort to exercise reasonable skill and care in advising the *consumer*; and
			(c)	(where the advice is to remain in the *defined benefit occupational pension scheme* and the *firm* arranges the *pension transfer* or *pension conversion*) a *firm's* obligations when dealing with insistent clients (from 1 January 2018, see *COBS* 9.5A);
		(9)	'DC pension arrangement' means any pension arrangement holding the value of the *consumer's* pension benefits which originated from the non-compliant pension transfer advice, including where the arrangement has been subsequently changed to a new arrangement;	
		(10)	'defined contribution pension scheme' means an occupational or non-occupational pension scheme with a right or entitlement to *flexible benefits*;	
		(11)	'non-compliant pension transfer advice' is *advice* to a *consumer on the conversion or transfer of pension benefits* from a *defined benefit occupational pension scheme* to a DC pension arrangement, which does not comply with one or more of the following:	
			(a)	(as applicable) the suitability requirements in *COBS* 9 and *COBS* 19.1;
			(b)	the common law duty in contract or tort to exercise reasonable skill and care in advising a *consumer*; or
			(c)	(where the advice is to remain in the *defined benefit occupational pension scheme* and the *firm* arranges the *pension transfer* or *pension conversion*) a *firm's* obligations when dealing with insistent clients (from 1 January 2018, see *COBS* 9.5A);
		(12)	'non-joiner' is a *consumer* who declined or failed to join an *occupational pension scheme* for which they were or are eligible, while continuing in the relevant employment;	
		(13)	'normal retirement age' is the earliest age at which the *consumer* could have retired from the *defined benefit occupational pension scheme* without both their employer's consent and actuarial reduction;	

		(14)	‘payment date’ is the date that the redress is paid to the *consumer*;
		(15)	‘pension tranche’ is an element of pension benefit which typically has a unique combination of revaluation increases before coming into payment and pension increases during payment, but may also have a unique payment starting age or payment end age;
		(16)	‘primary compensation sum’ is the redress sum calculated in accordance with *DISP* App 4.3.20R;
		(17)	‘quarter’ is the period of 3 *months* commencing 1 January, 1 April, 1 July and 1 October in each year;
		(18)	‘redress offer’ is an offer of redress made to a *consumer* after a *firm* has determined that the *consumer* suffered loss as a result of non-compliant pension transfer advice;
		(19)	‘retirement date’ is the *consumer’s* presumed or alternative retirement date determined in accordance with *DISP* App 4.3.15R to 4.3.18R;
		(20)	‘secondary compensation sum’ is the redress sum comprising the components in *DISP* App 4.3.29R(2);
		(21)	‘SERPS’ is the state earnings related pension scheme;
		(22)	‘settlement date’ is the date on which the *firm’s* redress offer is accepted by the *consumer*;
		(23)	‘unauthorised payment’ is defined in section 160 of the Finance Act 2004;
		(24)	‘unauthorised payment charges’ include any tax charges levied pursuant to chapter 5, part 4 of the Finance Act 2004; and
		(25)	‘valuation date’ is the date at which the benefits in the *defined benefit occupational pension scheme* and benefits in the DC pension arrangement must be valued for the calculation at Step 3 at *DISP* App 4.3.19R.
App 4.2	**Application**		
App 4.2.1	G	This appendix sets out the *rules* and *guidance* about the steps *firms* should take and the assumptions *firms* should use to:	
		(1)	calculate the redress (if any) to offer to a *consumer*, their spouse or their dependant(s) for non-compliant pension transfer advice which resulted in the *consumer* transferring out of a *defined*

			benefit occupational pension scheme and into a defined contribution pension scheme; and
		(2)	make a redress offer to a *consumer* or their beneficiary.
App 4.2.2	R	This appendix applies to any redress calculation and redress offer relating to non-compliant pension transfer advice arising as a result of:	
		(1)	a *complaint* received by a *firm* on or after the commencement date;
		(2)	a *complaint* received before the commencement date where the *firm* has not issued a redress offer to the *consumer* on or before that date;
		(3)	the *FCA's* approach to supervising *firms* (*SUP* 1A.3);
		(4)	any other redress exercise carried out by a *firm*; and
		(5)	a requirement in *CONRED* 4 (British Steel Consumer Redress Scheme).
App 4.2.3	R	This appendix also applies to redress calculations and redress offers where a *firm* upholds a *complaint* received after 3 August 2016 about a *pension transfer* between 29 April 1988 and 30 June 1994 in circumstances where either:	
		(1)	the *firm* did not review the relevant pension transaction in accordance with the regulatory standards or requirements applicable for the review of the transaction at the time; or
		(2)	the particular circumstances of the case were not addressed by those standards.
App 4.2.4	G	Where a *firm* upholds a *complaint* concerning a non-joiner, *pension opt-out* or *FSAVC* case, the *firm* may use this appendix as a basis for calculating and offering redress, to the extent that it is appropriate to do so and subject to the particular circumstances of the case.	
App 4.2.5	G	(1)	This appendix should be considered alongside applicable *rules* and *guidance* in *DISP* 1. Where this appendix does not address the particular and individual circumstances of a *consumer's complaint*, a *firm* should address such circumstances:
			(a) in a way which is consistent with the *rules* and *guidance* in this appendix; and
			(b) in accordance with their obligations in *DISP* 1.4.1R.

		(2)	*Firms* should also consider how the *Financial Ombudsman Service* has taken account of such circumstances when determining similar *complaints* (*DISP* 1.4.2G).	
		(3)	To the extent that taking them into account would be consistent with a *firm's* obligations in this appendix and *DISP* 1.4.1R, relevant guidance in *DISP* 1.4.2G(3) includes the provisions designated by the Financial Services Authority in November 2001 in the Designation of Pensions Review Provisions Instrument 2001 (as amended).	
		(4)	When calculating redress in accordance with this appendix, *firms* should:	
			(a)	take into account all relevant factors, including any known or anticipated changes in circumstances which may impact on the value of the redress which would be appropriate; and
			(b)	act fairly when assessing what redress is appropriate in light of such circumstances.
		(5)	In *DISP* App 4.2.5G(4)(a), relevant changes in circumstances may include changes in the value of the *consumer's* notional rights in a ceding *defined benefit occupational pension scheme*, which are certain and quantified, and which are known, or reasonably ought to be known, by the *firm* at the calculation date.	
App 4.2.6	R	A *firm* must use an *actuary* or an approach approved by an *actuary* when undertaking calculations in accordance with this appendix to calculate:		
		(1)	the valuation of the benefits in a *defined benefit occupational pension scheme* given up by a *consumer*; and	
		(2)	the value of the *consumer's* DC pension arrangement, where adjustments are necessary to obtain the current value.	
App 4.2.7	G	(1)	A *firm* may use actuarial software which is compliant with technical actuarial standards to undertake the relevant calculations, to the extent that they have the competence to do so.	
		(2)	The type of adjustments where *firms* should confirm their approach with an *actuary* include removing the effect of contributions into the *consumer's* DC pension arrangement that were not part of the cash equivalent transfer value.	
		(3)	If a *firm* has had confirmation from an *actuary* that its approach to relevant elements of the valuation is appropriate, that	

			approach can be used for materially similar cases without needing to obtain actuarial approval each time.	
		(4)	If a *firm* lacks competence to carry out any parts of the redress calculation in this appendix, including rolling up payments to allow for the passage of time, it should refer to an *actuary*.	
App 4.2.8	R	(1)	Notwithstanding this appendix, a *firm* may offer to arrange for the *consumer* to be reinstated into a *defined benefit occupational pension scheme*, where it is possible to do so, or offer to set up a pension arrangement with *safeguarded benefits* for the *consumer* in place of paying redress if it is agreed to by the *consumer*.	
		(2)	A *firm* may only offer to set up a pension arrangement with *safeguarded benefits* (such as a deferred annuity or *pension annuity*) in place of the payment of redress after the *firm* has calculated and informed the *consumer* of the redress offer which would otherwise be payable in accordance with this appendix.	
		(3)	Any pension arrangement with *safeguarded benefits* set up by the *firm* should provide benefits to the *consumer* which are no less than the value of the benefits the *consumer* would have received from their *defined benefit occupational pension scheme*.	
		(4)	If a *firm* offers to set up a pension arrangement with *safeguarded benefits* in place of paying redress, the *firm* must:	
			(a)	make a *personal recommendation* to the *consumer* about the suitability of the pension arrangement with *safeguarded benefits* which complies with the *rules* on assessing suitability in *COBS* 9;
			(b)	clearly inform the *consumer* that they are not required to accept a pension arrangement with *safeguarded benefits* and can instead receive redress as a cash lump sum payment or by augmentation in accordance with *DISP* App 4.3.33R; and
			(c)	not require the payment of any *fees* or *charges* by the *consumer* in connection with either the setting up of a pension arrangement with *safeguarded benefits* or the *personal recommendation* made by the *firm*.
App 4.3	**Steps for redress calculation**			
App 4.3.1	R	A *firm* must take the 5 steps set out in this section to carry out a redress calculation.		
App 4.3.2	G	The diagram at *DISP* App 4 Annex 3 explains the 5 steps for the redress calculation in diagrammatic form, with reference to the relevant sections		

		of the *rules* and *guidance*. To the extent there is any inconsistency between the diagram and the *rules*, the *rules* will prevail.		
	Step 1: obtain the necessary information to calculate redress			
App 4.3.3	R	The first step is for the *firm* to obtain the necessary information about the *consumer's*:		
		(1)	DC pension arrangement;	
		(2)	*defined benefit occupational pension scheme* or, if there is more than one *defined benefit occupational pension scheme*, the one which the *consumer* would most likely have had rights in if they had received compliant pension transfer advice determined in accordance with *DISP* App 4 Annex 1 16.1G to 16.5G;	
		(3)	personal and financial situation; and	
		(4)	preference for redress to be paid either as a cash lump sum, or by full or partial augmentation where it is possible to do so without the *consumer* incurring a tax charge or liability,	
		to enable it to complete the redress calculation and make a redress offer.		
App 4.3.4	R	A *firm* is entitled to rely on information previously provided by the *consumer* unless it is aware or ought to be aware that the information is out of date, inaccurate or incomplete.		
App 4.3.5	G	Information that may be relevant to calculating redress is set out at *DISP* App 4 Annex 2.		
App 4.3.6	R	To obtain the necessary information required to calculate or offer redress, a *firm* must:		
		(1)	identify whether there is any relevant information held on its client file or in publicly available records; and	
		(2)	if the information in (1) is not sufficient or could have changed:	
			(a)	request information from the *consumer*; and
			(b)	with the *consumer's* permission, contact the provider of the *consumer's* DC pension arrangement and *defined benefit occupational pension scheme* and, where relevant, HMRC or DWP to obtain the information.
App 4.3.7	R	When offering to calculate how much redress could be paid by full or partial augmentation, the *firm* must explain to the *consumer* that:		
		(1)	the redress offer will be calculated on the basis that the redress will be invested prudently by the *consumer*; and	

		(2)	augmenting a defined contribution pension scheme is one way in which the redress can be invested prudently.
App 4.3.8	R	Requests for information in *DISP* App 4.3.6R must be in a *durable medium*.	
App 4.3.9	R	The *firm* must only make requests for information that are necessary for the redress calculation that the *firm* is carrying out and, in relation to requests made to the *consumer*, information which the *consumer* can reasonably be expected to provide.	
App 4.3.10	R	(1)	A *firm* must give a *consumer* a clear description of the information needed and explain why the information is needed to calculate redress and the consequence if the *consumer* does not provide the information.
		(2)	A *firm* must give a *consumer* at least 14 *days* from receipt of the request to respond to any request for information.
		(3)	If the *consumer* does not respond to the first request for information, or responds with insufficient information, the *firm* must make a second request for information and give the *consumer* at least 14 *days* to respond.
		(4)	If the *consumer* does not respond to the second request for information, or responds with insufficient information, the *firm* must contact the *consumer* again, indicating that the *firm* may have to discontinue the redress calculation if no reply is received.
		(5)	A *firm* may make one or more subsequent requests for information if the *consumer's* personal circumstances support the making of such further requests.
		(6)	A *firm* may make reasonable additional requests for information if the *consumer* requests that the *firm* calculate the redress offer by augmentation.
App 4.3.11	G	A *firm* should take care to adapt the procedures in *DISP* App 4.3.6R to 4.3.10R to the individual circumstances of the *consumer* and exercise sensitivity when requesting information about a *consumer's* personal circumstances. It may be appropriate to allow the *consumer* more time to provide a response or to make more attempts to contact the *consumer*.	
App 4.3.12	R	If, after following the procedures in *DISP* App 4.3.6R to 4.3.10R, a *firm* does not have the necessary information about the *consumer's* DC pension arrangement, *defined benefit occupational pension scheme* and/or personal and financial situation to enable it to properly assess whether the *consumer* has suffered loss, the *firm* must:	

		(1)	in the first instance, attempt to calculate redress on the basis of the information it holds; and
		(2)	if it is not possible to calculate redress without further information, consider whether it is appropriate to discontinue the redress calculation.
App 4.3.13	G	Before deciding to discontinue a redress calculation (see *DISP* App 4.3.12R(2)), a *firm* should consider whether it can extrapolate from information on the client file or make assumptions based on public or generic sources of information (for example, on typical retirement ages for the *consumer's* occupation) to use in the redress calculation.	
App 4.3.14	G	A *firm* is not required to repeat a redress calculation after it has communicated a redress offer if the *consumer* subsequently provides information about their *defined benefit occupational pension scheme* or personal and financial situation which was reasonably requested by the *firm* following the procedures in *DISP* App 4.3.6R to 4.3.10R.	
	Step 2: determine when the consumer would have taken retirement benefits from the *defined benefit occupational pension scheme*		
App 4.3.15	R	(1)	The second step is for the *firm* to determine whether the *consumer* would have already taken retirement benefits from their *defined benefit occupational pension scheme* if, at or prior to the valuation date, they had remained a member of that scheme.
		(2)	To determine whether the *consumer* would have taken retirement benefits from their *defined benefit occupational pension scheme* at or prior to the valuation date, *firms* must apply the rebuttable presumption at *DISP* App 4.3.16R.
App 4.3.16	R	A *firm* must presume that a *consumer* would have taken pension benefits from their *defined benefit occupational pension scheme* at their normal retirement age in their *defined benefit occupational pension scheme* or on death if their death preceded their normal retirement age.	
App 4.3.17	G	The presumption in *DISP* App 4.3.16R will be rebutted where the evidence shows that it is more likely than not that the *consumer* or a beneficiary would have taken benefits from their *defined benefit occupational pension scheme* on an alternative date. Examples of such evidence include:	
		(1)	the *consumer* has used some or all of their transfer proceeds to purchase an annuity; or
		(2)	the *consumer* would have taken early or late retirement benefits from their *defined benefit occupational pension scheme*, having regard to:

			(a)	the *consumer's* demands, needs and intentions at the time of the *pension transfer* advice (evidence from the time of the advice is more likely to be relevant if it shows that the *consumer* had a considered plan for taking retirement benefits early from their *defined benefit occupational pension scheme*);
			(b)	any information gathered by the *firm* subsequently about the *consumer's* reasons or plans for accessing pension benefits from their DC pension arrangement; and
			(c)	any evidence that demonstrates that the *consumer* or members of their household changed or plan to change their working pattern at a similar time to the *consumer* taking regular benefits from their DC pension arrangement; or
		(3)	the *firm* has written confirmation that the *consumer* considers themselves to be retired from a date which is earlier than normal retirement age.	
App 4.3.18	G	The presumption in *DISP* App 4.3.16R is unlikely to be rebutted where there is:		
		(1)	evidence from the time of the *pension transfer* advice that indicates that there is a risk that the *consumer's* intentions were influenced by the *firm's* non-compliant pension transfer advice; or	
		(2)	evidence of irregular *pension commencement lump sum* withdrawals, particularly if the *consumer* is still working; or	
		(3)	evidence of full withdrawal of a *pension commencement lump sum* unless:	
			(a)	the *pension commencement lump sum* is being or has been used for regular income payments; or
			(b)	the *consumer* was in financial difficulty or in ill health at the time of the non-compliant pension transfer advice.
	Step 3: carry out redress calculation			
App 4.3.19	R	The third step is for the *firm* to calculate whether (X) is greater than (Y) on the valuation date using the formula at *DISP* App 4.4.2R, where:		
		(1)	(X) is the estimated value of the benefits in the *defined benefit occupational pension scheme* together with the difference in SERPS had the *consumer* remained a member; and	

		(2)	(Y) is the value of the benefits from the *consumer's* DC pension arrangement.	
App 4.3.20	R	Where (X) is greater than (Y), the *consumer* has suffered a loss and the amount calculated is the primary compensation sum to be used when producing a redress offer at *DISP* App 4.3.29R.		
	Dates for calculation			
App 4.3.21	R	The valuation date must be the first day of the quarter (for calculations undertaken within that quarter).		
App 4.3.22	R	The redress calculation date must fall within the same quarter as the valuation date but does not have to be the same date as the valuation date.		
App 4.3.23	R	(1)	Redress calculations must be based on the new assumptions available on the first day of each new quarter, using publicly available data from the final business day of the quarter immediately before.	
		(2)	If a *firm* carries out a further redress calculation after expiration of the validity period in *DISP* App 4.3.24R and 4.3.25R, including following a settlement or award made by *Financial Ombudsman Service*, that calculation must be based on the new assumptions for the quarter in which it is carried out.	
App 4.3.24	R	Redress calculations must remain valid for 3 *months* from the date the redress offer is sent to the *consumer*, irrespective of quarterly changes to the assumptions.		
App 4.3.25	R	A *firm* must extend the validity of the redress calculation for a reasonable period of time if there are circumstances outside of the *consumer's* control which impact on the *consumer's* ability to accept or reject a redress offer.		
App 4.3.26	G	(1)	Circumstances outside of the *consumer's* control for the purposes of *DISP* App 4.3.25R include:	
			(a)	errors by the *firm* in the carrying out the redress calculation which mean the redress calculation needs to be repeated or amended by the *firm*; and
			(b)	exceptional personal circumstances experienced by the *consumer*, including bereavement or incapacity.
		(2)	*Firms* should ensure that they treat the *consumer* fairly when determining a reasonable time for the validity of the redress calculation to be extended by.	

	Step 4: work out redress offer		
App 4.3.27	R	A *firm* must offer a *consumer* redress that, as far as possible, puts the *consumer* into the position they would have been in if they had received compliant pension transfer advice.	
App 4.3.28	R	Redress offers must be issued to the *consumer* promptly following the calculation date and within 3 *months* of the valuation date.	
	Redress components		
App 4.3.29	R	The redress must consist of the sum total of:	
		(1)	the primary compensation sum calculated in accordance with *DISP* App 4.3.19R and 4.3.20R, adjusted to take account of the *consumer's* tax position and any entitlement to means-tested state benefits; and
		(2)	a secondary compensation sum comprising any consequential losses, including any initial *adviser charges* on the DC pension arrangement and the primary compensation sum at (1) in accordance with *DISP* App 4.3.32G, calculated using the formula at *DISP* App 4.4.19R; and
		(3)	an additional compensation sum to compensate the *consumer* for the lapse of time between the valuation date and the payment date calculated in accordance with *DISP* App 4 Annex 1 14.1G to 14.3G.
App 4.3.30	R	A *firm* must adjust the redress offer to take account of:	
		(1)	the *consumer's* individual tax position, including (if the *consumer* directs that all or part of the redress be paid by full or partial augmentation) allowances on pension contributions eligible for tax relief; and
		(2)	the *consumer's* entitlement to means-tested state benefits.
App 4.3.31	G	(1)	*Firms* should have regard to where the redress methodology in this appendix already factors in tax, such as when taking into account of *pension commencement lump sums*.
		(2)	Where redress is paid (or partially paid) by augmentation, a *consumer* will usually pay income tax when accessing their funds.

		(3)	A *firm* may adjust cash lump sum payments to take account of a notional deduction for tax on income from the *consumer's* pension.		
		(4)	Where a cash lump sum payment could affect a *consumer's* entitlement to means-tested state benefits, a *firm* should take reasonable steps, with the agreement of the *consumer*, to ensure that the *consumer* does not suffer a reduction in income as a result of the redress payment. Steps that may be taken by a *firm* to prevent a *consumer* suffering a reduction in income may include:		
			(a)	paying redress by full augmentation;	
			(b)	paying redress as a cash lump sum up to an applicable capital or savings limit for the purposes of a state benefit eligibility means test, with the balance of the redress being paid by partial augmentation; or	
			(c)	only after informing the *consumer* that they should seek free impartial guidance from an appropriate source, such as a Citizens Advice Bureau, cooperating with the *consumer* to put in place any arrangement, including the payment of redress in instalments over one or more future tax years:	
				(i)	which the *consumer* has been informed would not affect their eligibility or income from means-tested state benefits;
				(ii)	which would not breach any regulatory requirement of the *firm*; and
				(iii)	if the arrangement involves the deferment of any part of the redress payable to the *consumer*, the *firm* pays an additional compensation sum in accordance with *DISP* App 4.3.29R(3), which is calculated to the payment date in respect of the deferred part.
		(5)	If a *firm* has clearly informed the *consumer* of reasonable steps that may be taken to avoid a reduction in their income from means-tested state benefits, the *firm* will not be acting in breach of *PRIN* 6 by continuing to pay redress in accordance with this appendix if the *consumer* does not agree to any of those reasonable steps being taken.		
App 4.3.32	R	Consequential losses must include the cost of initial *adviser charges* using the assumptions in *DISP* App 4 Annex 1 9.1G if the *consumer's* assumed retirement date is after the valuation date, and:			

		(1)	the *consumer* is not in an ongoing advice arrangement with any *firm*; or	
		(2)	the *consumer* is in an ongoing advice arrangement with the *firm* that gave the non-compliant pension transfer advice, where;	
			(a)	the *firm* is charging the *consumer* more than the default ongoing *adviser charges* in *DISP* App 4 Annex 1 9.1G(2); and
			(b)	the *firm* will not provide an undertaking to reduce its ongoing *adviser charge* to the level of the default ongoing *adviser charge* (or lower) for the period to the *consumer's* assumed retirement date.
	Means of payment			
App 4.3.33	R	(1)	A *firm* must always calculate and offer to pay the total amount of redress in *DISP* App 4.3.29R (with adjustments in *DISP* App 4.3.30R) as a cash lump sum payment.	
		(2)	Where a *firm* has the necessary information, the *firm* may also calculate the redress offer to be paid by augmentation without receiving a request to do so from the *consumer*.	
		(3)	If the *firm* calculates the redress that would be paid by augmentation, it must offer the *consumer* the option of the redress being paid by augmentation or by a lump sum cash payment.	
		(4)	If, during the period in which a redress calculation remains valid in accordance with *DISP* App 4.3.24R to 4.3.26G, a *firm* is requested to calculate the redress payable by augmentation, it must carry out that calculation promptly.	
		(5)	A *firm* must not charge the *consumer* for calculating how much of the redress could be paid by augmentation.	
App 4.3.34	G	When calculating the sum that would be payable by augmentation, a *firm* must act prudently, taking account of uncertainty around the *consumer's* potential tax position at the end of the tax year, and determine the amount of the redress payment which could be paid by augmentation without exceeding the *consumer's*:		
		(1)	allowance for personal contributions in the tax year;	
		(2)	annual allowance, including any carry forward from previous tax years; or	
		(3)	lifetime allowance.	

App 4.3.35	G	(1)	Factors which may be relevant to whether full or partial augmentation would result in a *consumer* exceeding their annual or lifetime allowance or allowance for personal contribution include:	
			(a)	the *consumer's* relevant earnings in the current tax year;
			(b)	the value of all pension contributions already made in the current tax year;
			(c)	if the redress payment would result in the *consumer's* unused annual allowance in the current and previous 3 tax years being exceeded;
			(d)	the expected value of all pensions held by the *consumer* up to the age of 75;
			(e)	any lifetime allowance protections secured by the *consumer*;
			(f)	any applicable lifetime allowance protection enhancement factors;
			(g)	any benefit crystallisation events; and
			(h)	whether the *consumer's* money purchase annual allowance has been triggered.
		(2)	Unless *DISP* App 4.3.33R(2) applies, the *firm* may make reasonable requests for information from the *consumer* where it is necessary for the *firm* to calculate the amount of redress which could be paid by augmentation.	
	Step 5: communicate outcome of redress calculation			
App 4.3.36	R	The fifth step is for the *firm* to communicate the outcome of the redress calculation and any redress offer to the *consumer*.		
App 4.3.37	R	The communication in *DISP* 4.3.36R must be in a *durable medium*.		
App 4.3.38	R	The communication in *DISP* App 4.3.36R must include the following information:		
		(1)	An explanation of the redress calculation, including:	
			(a)	confirmation that the redress has been calculated in accordance with the *FCA's rules* and *guidance* using an approach which has been approved by an *actuary*; and

			(b)	an explanation that the redress calculation takes account of the market conditions at the valuation date and this could mean that the redress might be different if it was calculated on a different date; and		
			(c)	the information and assumptions used in the redress calculation, including:		
				(i)	the retirement date used in the calculation; and	
				(ii)	whether the *firm* has determined that the *consumer* would have retired in their *defined benefit occupational pension scheme* at or prior to the valuation date and if so:	
					(A)	the basis for this determination;
					(B)	the impact of the determination on the valuation of the *consumer's defined benefit occupational pension scheme* (including the percentage reduction applied for early retirement) and, where the actual reduction for the *consumer's defined benefit occupational pension scheme* has not been used in the calculation, an explanation of the approach used and its impact on the redress offer; and
					(C)	any assumptions made about the allowance for the *pension commencement lump sum* including, where the actual commutation factors for the *consumer's defined benefit occupational pension scheme* have not been used in the calculation, an explanation of the approach used and its impact on the redress offer; and
				(iii)	if late retirement factors for the *consumer's defined benefit occupational pension scheme* have not been used in the calculation, an explanation of the approach used in the calculation by the *firm* and its implications for the redress offer;	
				(iv)	the value the *firm* has placed on any illiquid or unquoted assets and the reasons for that valuation;	
				(v)	the level of future investment returns assumed by the calculation, including an invitation for the	

					consumer to review their current investment strategy to ensure it is in line with this assumption; and
				(vi)	the level of any charges, including product, platform and *adviser charges*, that the *consumer* is currently paying compared to the level assumed in the redress calculation, including any allowance made for initial advice from a new adviser; and
				(vii)	any assumption made about the *consumer's* marital or civil partnership status;
				(viii)	if there is more than one *defined benefit occupational pension scheme* which the *consumer* could have had rights in, the information required by *DISP* App 4 Annex 1 16.1G to 16.5G;
				(ix)	whether the *consumer's defined benefit occupational pension scheme* has entered or is in the Pension Protection Fund assessment period and, if so, any future increases to the value of the *consumer's* benefits which are certain and quantified, and which are known, or reasonably ought to be known, by the *firm* at the calculation date; and
				(x)	where *RPI*, *CPI* or earnings inflation rates are used in the redress calculation, an explanation of the published rate underlying the rate used and its source (for example, the Bank of England website) where it can be checked by the *consumer*, without any adjustment for annualisation.
		(2)	An explanation of the redress offer, including:		
			(a)	if there is no loss on the valuation date, a clear explanation of why this is the case; and	
			(b)	if the result is a loss on the valuation date:	
				(i)	the total amount of redress calculated, with the primary compensation sum and the secondary compensation sum shown separately;
				(ii)	confirmation that if the redress offer is accepted by the *consumer*, the redress paid by the *firm* will be increased to include the additional compensation sum;

				(iii)	an offer to make payment of redress as a cash lump sum;
				(iv)	the warning in the form at *DISP* App 4.3.39R;
				(v)	if it has not already been requested by the *consumer*, an offer to calculate free of charge the redress that would be payable by full or partial augmentation; and
				(vi)	an explanation of how the *consumer's* tax position and entitlement to state benefits has been taken into account, including an allowance for any tax charges for which the *consumer* will be liable (and where the *consumer* is responsible for any payment of tax, this should be made clear and a recommendation that they contact HMRC provided).
		(3)	The terms and conditions of any redress offer, including the following information:		
			(a)	a statement requesting that the *consumer* review the assumptions used in the redress calculation and explaining that they may raise any questions about them with the *firm*;	
			(b)	that the redress offer is valid for a 3-*month* period from the date it is issued to them, during which period the *consumer* can consider their options and the offer will remain open for acceptance;	
			(c)	how to request that the *firm* calculate the redress that would be paid if the *consumer* directs for the redress to be paid by full or partial augmentation;	
			(d)	how to accept or reject the redress offer; and	
			(e)	the process for resolving any *complaints* about the redress calculation or redress offer.	
App 4.3.39	R	Where any of the redress is paid in the form of a cash lump sum to the *consumer*, a *firm* must provide:			
		(1)	a warning that this amount, in addition to the pension value in the *consumer's* DC pension arrangement, is intended to provide the *consumer* with the equivalent retirement income they would have received if they had not transferred out of their *defined benefit occupational pension scheme*, but only as long as the *consumer* invests it prudently; and		

		(2)	a warning that if the *consumer* does not invest the redress prudently, they risk losing out on the retirement income their redress amount is meant to provide; and
		(3)	information about trusted sources of free advice and guidance on making investment decisions and avoiding investment scams, such as Pension Wise, *MoneyHelper* and the *FCA's* 'Scam Smart' guidance; and
		(4)	an explanation of the risk and consequences of making an unauthorised payment, including the risk of unauthorised payment charges being levied.
App 4.3.40	R	When a *firm* communicates a redress offer to a *consumer*, it should:	
		(1)	take reasonable steps to communicate in a way that is fair, clear and not misleading;
		(2)	take into account the information needs of the *consumer,* including their understanding of financial services; and
		(3)	where possible, use plain language and avoid the use of jargon, unfamiliar or technical language.
App 4.4	**Redress calculation**		
App 4.4.1	G	(1)	This section sets out the formula to complete the redress calculation at Step 3 (*DISP* App 4.3.19R), using the assumptions in *DISP* App 4 Annex 1 to calculate the capitalised values of the *consumer's defined benefit occupational pension scheme* pension benefits (had they remained in the scheme) and any gains or losses arising from changes in the *consumer's* SERPS and DC pension arrangement.
		(2)	The formula is set out at *DISP* App 4.4.2R with *rules* and *guidance* for how to calculate the components (A) to (H) at *DISP* App 4.4.4R to 4.4.18R.
		(3)	There is technical guidance on the calculation of the components (A) to (H) at *DISP* App 4.5.
App 4.4.2	R	To complete the redress calculation at Step 3 (*DISP* App 4.3.19R), a *firm* must undertake the following computation at the valuation date: (A) + (B) + (C) – (D) - (E) - (F) - (G) + (H) where:	

		(1)	A is the capitalised value of pension benefits which would not yet have been taken from the *defined benefit occupational scheme*;	
		(2)	B is the capitalised value of future death benefits before the *consumer's* retirement date, to the extent not already included in A, which would have been payable from the *defined benefit occupational pension scheme*;	
		(3)	C is the accumulated value of past payments which would have been paid to the *consumer* from the *defined benefit occupational pension scheme* between the *consumer's* retirement date and the valuation date;	
		(4)	D is the current value of the DC pension arrangement;	
		(5)	E is the accumulated value of past benefits paid to the *consumer* or beneficiary from the *consumer's* DC pension arrangement from the retirement date to the valuation date;	
		(6)	F is the capitalised value of previously secured annuity benefits which will be paid from the *consumer's* DC pension arrangement to the valuation date;	
		(7)	G is the value of any increase in SERPS as a result of the transfer; and	
		(8)	H is the value of any reduction in SERPS as a result of the transfer.	
App 4.4.3	G	The *consumer* has suffered a loss if the computation in *DISP* App 4.4.2R is greater than zero.		
	Calculation of value of A			
App 4.4.4	G	A is the capitalised value of pension benefits which would not yet have been taken from the *defined benefit occupational scheme*.		
App 4.4.5	R	To calculate the value of A in *DISP* App 4.4.2R(1):		
		(1)	where:	
			(a)	the *consumer's* retirement date would have been prior to the valuation date; or
			(b)	a beneficiary would have received benefits prior to the valuation date because the *consumer* is deceased,
			use the sum of [K x L x M - (N/O)] x P x Q] across all pension tranches; or	

		(2)	where the retirement date is after the valuation date, use the sum of [K x LA x MA x QA x R x S] across all pension tranches.	
App 4.4.6	R	For the purpose of *DISP* App 4.4.5R(1) or (2):		
		(1)	K is the annual value of the pension at the date on which the *consumer* left active membership, split by each pension tranche;	
		(2)	L and LA are the cumulative revaluation factors for each pension tranche from the date of leaving active membership to the retirement date (including the date of the *consumer's* death), where:	
			(a)	L is based on known revaluation;
			(b)	LA is based on known and assumed revaluation, where the assumed revaluation is based on the relevant assumptions in *DISP* App 4 Annex 1 3.1G to 5.1G;
		(3)	M and MA are the early or late retirement factor applicable to each pension tranche at the retirement date, determined in accordance with *DISP* App 4 Annex 1 11.1G and 11.2G;	
		(4)	N is the assumed *pension commencement lump sum* which would have been taken from each pension tranche, determined in accordance with the technical guidance at *DISP* App 4.5.4G;	
		(5)	O is the *pension commencement lump sum* commutation factor applicable to each pension tranche, determined in accordance with *DISP* App 4 Annex 1 11.3G;	
		(6)	P is the cumulative known pension increases, including discretionary increases, that would have been applied to each pension tranche from the retirement date or the date beneficiary payments commenced, to the valuation date, in accordance with the scheme rules;	
		(7)	Q is the relevant annuity factor to apply to each pension tranche at the valuation date, taking into account the guidance on relevant annuity factors in *DISP* App 4.5.1G and made up of the assumptions at *DISP* App 4 Annex 1, including those relating to:	
			(a)	the initial post-retirement discount rate (which allows for the annuity pricing margin) at *DISP* App 4 Annex 1 7.1, based on the discounted mean term at the valuation date;
			(b)	post-retirement pension increases, as amended by the Black Scholes model at *DISP* App 4 Annex 1 6.1, where relevant;

			(c)	mortality at *DISP* App 4 Annex 1 10.1G;
		(8)	QA is the relevant annuity factor to apply to each pension tranche at the retirement date, taking into account the guidance on relevant annuity factors in *DISP* App 4.5.1G and made up of the assumptions in *DISP* App 4 Annex 1, including those relating to:	
			(a)	the final post-retirement discount rate (which allows for the annuity pricing margin and the adjustment for the *pension commencement lump sum*), based on the discounted mean term at the retirement date;
			(b)	post-retirement pension increases, as amended by the Black Scholes model, where relevant; and
			(c)	mortality assumptions;
		(9)	R is the discount factor for the period from the valuation date to the retirement date, based on the pre-retirement discount rate, netted down by product and *adviser charges*, following the technical guidance at *DISP* App 4.5.3G and using the relevant assumptions in *DISP* App 4 Annex 1; and	
		(10)	S is the probability of survival for the period from the valuation date to the retirement date, using the relevant assumptions in *DISP* App 4 Annex 1 10.1G.	
	Calculation of value of B			
App 4.4.7	G	B is the capitalised value of future death benefits before the *consumer's* retirement date which may have been payable from the *defined benefit occupational pension scheme*.		
App 4.4.8	R	To determine the value of B in *DISP* App 4.4.2R(2), a *firm* must:		
		(1)	identify the lump sum and regular pension payments that would be payable on the death of the *consumer* between the valuation date and the retirement date, based on the *defined benefit occupational* scheme rules; and	
		(2)	calculate the present value of the potential payments:	
			(a)	using the pre-retirement discount rate, netted down for charges, from *DISP* App 4 Annex 1 8.1G;
			(b)	allowing for the probability of each payment being made, using the mortality assumptions in *DISP* App 4 Annex 1 10.1G; and

			(c)	allowing for any pension increases in payment that would be applied to regular payments, using the assumptions in *DISP* App 4 Annex 1 6.1G.
	Calculation of value of C			
App 4.4.9	G	C is the accumulated value of past payments which would have been paid to the *consumer* from the *defined benefit occupational pension scheme* between the *consumer's* retirement date and the valuation date, taking into account the guidance on taxation of past payments at *DISP* App 4.5.18G.		
App 4.4.10	R	To determine the value of C in *DISP* App 4.4.2R(3), a *firm* must, for each pension tranche:		
		(1)	assume the value is zero if the retirement date is after the valuation date;	
		(2)	if the retirement date is before the valuation date, use the factors K, L, M, N, O and P from *DISP* App 4.4.6R to determine the level of the *pension commencement lump sum* and each scheme pension payment which would have been made to the *consumer* or their beneficiaries;	
		(3)	adjust each payment to reflect the tax which would have been paid, reflecting the guidance on taxation of past payments at *DISP* App 4.5.18G;	
		(4)	apply an accumulation rate to each payment, at the rate specified in *DISP* App 4 Annex 1 12.1G between the date of payment and the valuation date, allowing for changes in the rate over time; and	
		(5)	calculate the sum of all the accumulated payments which would have been made.	
	Calculation of value of D			
App 4.4.11	G	D is the current value of the DC pension arrangement.		
App 4.4.12	R	To determine the value of D in *DISP* App 4.4.2R(4), a *firm* must:		
		(1)	use the value of all investments and holdings within the *consumer's* DC pension arrangement at the valuation date, in accordance with the technical guidance at *DISP* App 4.5.5G;	

		(2)	where any payments were made from the DC pension arrangement prior to the retirement date:	
			(a)	identify all payments made before the retirement date;
			(b)	apply an accumulation rate to each payment, at the rate specified in *DISP* App 4 Annex 1 12G between the date of payment and the valuation date, allowing for changes in the rate over time; and
			(c)	add the total of all the accumulated payments in (2)(b) to the value in (1);
		(3)	deduct the accumulated value of any contributions and transfers to the DC pension arrangement, allowing for investment returns, not resulting from the *pension transfer* advice; and	
		(4)	add on the present-day value of any cash enhancements paid to the *consumer* in connection with the transfer, in accordance with the technical guidance at *DISP* App 4.5.5G and using the assumption at *DISP* App 4 Annex 1 13.1G.	
	Calculation of value of E			
App 4.4.13	G	E is the accumulated value of past benefits paid to the *consumer* or beneficiary from the *consumer's* DC pension arrangement from the retirement date to the valuation date, taking into account the guidance on taxation of past payments at *DISP* App 4.5.18G;		
App 4.4.14	R	To determine the value of E in *DISP* App 4.4.2R(5), a *firm* must:		
		(1)	identify all payments from the assumed retirement date to the valuation date, net of tax actually incurred, including:	
			(a)	*pension commencement lump sums*;
			(b)	*uncrystallised funds pension lump sums*;
			(c)	*income withdrawals*; and
			(d)	annuity payments;
		(2)	apply an accumulation rate to each payment, at the rate specified in *DISP* App 4 Annex 1 12.1G between the date of payment and the valuation date, allowing for changes in the rate over time; and	
		(3)	calculate the sum of all the accumulated payments which would have been made.	

	Calculation of value of F			
App 4.4.15	G	F is the capitalised value of previously secured annuity benefits which will be paid from the *consumer's* DC pension arrangement after the valuation date.		
App 4.4.16	R	To determine the value of F in *DISP* App 4.4.2R(6), a *firm* must calculate the value of: (T) x (U) where:		
		(1)	T is the annual value of the annuity income at the valuation date;	
		(2)	U is the relevant annuity factor to apply to the current level of the secured annuity income at the valuation date, following the guidance at *DISP* App 4.5.1G and made up of the assumptions in *DISP* App 4 Annex 1, including those relating to:	
			(a)	the initial post-retirement discount rate (which allows for the annuity pricing margin) based on the discounted mean term at the valuation date;
			(b)	pension increases that apply to the secure annuity income, as amended by the Black Scholes model, where relevant; and
			(c)	mortality assumptions.
	Calculation of value of G and H			
App 4.4.17	G	G is the value of any increase in SERPS as a result of the transfer and H is the value of any reduction in SERPS as a result of the transfer, only if the transfer took place prior to 6 April 2016.		
App 4.4.18	G	To determine the value of G and H a *firm* should have regard to the technical guidance in *DISP* App 4.5.11G.		
	Calculation of value of initial adviser charges (consequential loss)			
App 4.4.19	R	To determine the value of any initial *adviser charges*, *firms* must:		
		(1)	calculate the value of all the elements of the computation in *DISP* App 4.4.2R;	
		(2)	add the value in (1) to the current value of the *consumer's* DC pension arrangement;	

		(3)	multiply the result by the relevant assumed percentage initial *adviser charges* in *DISP* App 4 Annex 1 9.1G;		
		(4)	where the resulting initial *adviser charges*:		
			(a)	exceed the maximum level for the *initial adviser charges* in *DISP* App 4 Annex 1 9.1G, set the *initial adviser charges* to the maximum level; or	
			(b)	fall below the minimum level for the *initial adviser charges* in *DISP* App 4 Annex 1 9.1G, set the *initial adviser charges* to the minimum level.	
App 4.5	**Technical guidance**				
	Annuity values				
App 4.5.1	G	When calculating the relevant annuity factor to value future payments from either the *defined benefit occupational pension scheme* or a guaranteed income previously secured from the proceeds of the DC pension arrangement, *firms* should allow for:			
		(1)	the form of the payments they are valuing, such as the proportion of spouse's benefits on death, frequency and timing of payments, annual increases, remaining guaranteed payment and whether survivor payments are with or without overlap relative to the guaranteed period;		
		(2)	the proportion married:		
			(a)	where the presumed retirement date is after the valuation date, using the assumptions in *DISP* App 4 Annex 1 10.3G;	
			(b)	where the presumed retirement date is prior to the valuation date:	
				(i)	using the actual marital/civil partnership status; or
				(ii)	where the actual marital/civil partnership status is not known, using the assumption that the *consumer* is unmarried or not in a civil partnership; and
		(3)	the possibility that there may be other dependants who could have received benefits under the rules of the *defined benefit occupational pension scheme* or under the contract of any previously secured guaranteed income, and the same principles should be applied to such dependants.		

	Scheme benefits and rules			
App 4.5.2	G	When calculating the value of benefits in the *defined benefit occupational pension scheme*, *firms* should take account of the differences in pension tranches. This includes tranches such as bridging pensions which are payable only for a fixed period. The valuation of benefits should take account of how the *consumer's defined benefit occupational pension scheme* provided for the interaction of any guaranteed minimum pension (GMP) tranches with the rest of the scheme benefits (the excess) when pensions are revalued in deferment and increased in payment, including the impact of anti-franking legislation.		
	Discount factor			
App 4.5.3	G	When the presumed retirement date is after the valuation date, *DISP* App 4.4.6R(9) requires *firms* to use a discount factor ('R') to discount the annuity value at the future retirement date to the present day. The discount factor should be calculated as: $$\left(\frac{1}{(1 + r)}\right)^n$$ where:		
		(1)	r is the pre-retirement discount rate net of charges, as set out in *DISP* App 4.5.15G; and	
		(2)	n is the term to retirement.	
	Pension commencement lump sums			
App 4.5.4	G	(1)	Where the retirement date is at or prior to the valuation date, a *firm* should assume that the *consumer* would have commuted the maximum *pension commencement lump sum* permitted by legislation, using the actual lump sum commutation factors at the retirement date, unless:	
			(a)	the *consumer* has used the full value of their DC pension arrangement to secure a guaranteed annuity income, in which case *firms* should use the actual *pension commencement lump sum* taken by the *consumer* where this is lower than the maximum permitted by legislation from the *defined benefit occupational pension scheme*; or
			(b)	a *pension commencement lump sum* was payable in addition to the pension benefit in which case an adjustment should be made to assume the *consumer* took the maximum lump sum permitted overall (including the additional lump sum); or

			(c)	the *pension commencement lump sum* could have been funded by an additional voluntary contribution fund or a defined contribution section within the *defined benefit occupational scheme*, in which case *firms* should assume that those sources would have been used first to take the maximum permitted under legislation.
		(2)	A *firm* should base the order of commutation on the *defined benefit occupational pension scheme* rules but, where this is not known, the commutation should be proportionate across all pension tranches, excluding any guaranteed minimum pension.	
		(3)	A *firm* must make reasonable efforts to obtain the actual lump sum commutation factors at the retirement date from the ceding scheme.	
		(4)	For the purposes of (3), where a *firm* has information on the commutation factors available either side of the retirement date, or other relevant information, it should use that information to derive the expected factors at the retirement date.	
		(5)	Where the information in (4) is not available or is insufficient to determine the appropriate factors, a *firm* should use the default rate in *DISP* App 4 Annex 1 11.3G.	
		(6)	Where a different tax regime (to that currently in force) would have applied at the point of a *consumer's* retirement, this should be taken into account when calculating the maximum permitted by legislation.	
	Valuing the DC pension arrangement			
App 4.5.5	G	Step 1 at *DISP* App 4.3.3R(1) requires a *firm* to collect the necessary information about the *consumer's* DC pension arrangement. This information should include the value of the investments and holdings within the *consumer's* DC pension arrangement at the valuation date.		
App 4.5.6	G	(1)	If an up-to-date valuation is not readily available for an investment (for example, if the investment is held in illiquid or unquoted assets or because the manager or provider of the DC pension arrangement is unable to provide a valuation), a *firm* should take the following action to place a value on those investments:	
			(a)	where the investment is illiquid or unquoted but there is a realistic probability of receiving value from an asset, obtain the most recent historical valuation and, unless there is clear evidence that the value has otherwise materially changed, increase it in line with the consumer

				price index from the date of the historical valuation to the valuation date;
			(b)	where the investment is liquid, such as a fund, calculate the notional value of the fund by on the valuation date using available information. For example, using the known number of units and an available unit price, or a last known value and the change in the unit price (and allowing for known charges);
			(c)	where the investment is illiquid or unquoted and appears to have no realisable value, and there is no recent historical valuation, the *firm* should disregard the value of the investment.
		(2)	When deciding what action to take to place a value on investments, a *firm* should consider the reason why a valuation is not readily available for the investment and, in particular, seek to identify whether assets could be:	
			(a)	associated with a scam;
			(b)	associated with illegal activity; or
			(c)	subject to insolvency procedures.
		(3)	Where the only available valuation of an investment is the book value, a *firm* should consider whether the book value is representative of what could realistically be realised from the investment and, if appropriate, adjust the valuation accordingly, which may include disregarding 100% of the book value of the investment.	
		(4)	Where a *consumer* received a cash enhancement (which was paid in addition to and not as part of the cash equivalent transfer value), a *firm* should calculate the current value of the cash enhancement by increasing it in line with returns indicated in the relevant assumptions in *DISP* App 4 Annex 1, from the date of payment to the valuation date.	
	Early and late retirement			
App 4.5.7	G	When a *consumer* is presumed to have retired at a date which they would not have been able to retire in the *defined benefit occupational pension scheme*, then the retirement date used to value the *defined benefit occupational pension scheme* benefits should be the earliest date at which the *consumer* could have retired from the *defined benefit occupational pension scheme*.		
App 4.5.8	G	Early and late retirement factors at the retirement date are key items of data and every attempt should therefore be made to obtain them. Where		

		it is not possible to obtain the relevant information, a *firm* should use the default rates in *DISP* App 4 Annex 1. These factors should be applied to the pension revalued to early/late retirement date.	
	Other policies in conjunction with the transfer		
App 4.5.9	G	Any additional policies taken out in conjunction with the transfer (eg, life cover with a S.32) to replace life cover provided by the scheme should be taken into account. Consequently, where a claim arises under these policies, the amount paid offsets the loss. Where the investor has paid for this cover, the loss should be increased by the accumulated value of the premiums paid accumulated at bank base rates. This adjustment should be strictly limited both in terms of claims and premiums to that proportion of the benefits under the additional policies that replaced those under the scheme.	
	Contracted-out schemes		
App 4.5.10	G	Where retirement took place following a transfer from a contracted-out scheme, the precise formula depends on whether the contracted-out pension rights were also transferred. If they were not transferred, then they should not be taken into account when assessing loss.	
	Adjustment for SERPS		
App 4.5.11	G	(1)	A SERPS adjustment is not needed when the *consumer* transferred out or opted out of their contracted-out *defined benefit occupational pension scheme* from 6 April 2016.
		(2)	Where contracted-out pension rights from the *defined benefit occupational pension scheme* were transferred into the DC pension arrangement/section 32 buyout plan before 6 April 2016, a *consumer's* state pension entitlement may differ from that which would have been payable had the transfer not taken place.
		(3)	Allowance should be made for this difference by making a SERPS adjustment which values the difference in the *consumer's* state pension entitlement before and after the transfer. A *firm* will need to obtain the detailed information on the *consumer's* state pension entitlement to assess the impact on their starting amount of state pension.
	Pension increases in deferment (revaluation)		
App 4.5.12	G	(1)	When the *defined benefit occupational pension scheme* provides fixed rates of revaluation, a *firm* should use fixed rates for future revaluation.
		(2)	When the *defined benefit occupational pension scheme* provides revaluation increases based on *RPI, CPI and earnings inflation*, a *firm* should try to obtain information on how the scheme applies

			increases. This would include the month in which each index is both sourced and applied.
		(3)	A *firm* should apply increases for guaranteed minimum pensions for complete tax years.
		(4)	Unless the *defined benefit occupational pension scheme* provides otherwise, a *firm* should treat benefits linked to inflation as increasing by inflation over the whole period of revaluation rather than on a year-by-year basis. A *firm* should not make an adjustment for an individual year of negative inflation.
		(5)	When the *defined benefit occupational pension scheme* provides for pre-retirement pension increases to be capped on an annual basis, the Black-Scholes model should be applied for future revaluation assumptions, consistent with the approach for pension increases in payment in *DISP* App 4 Annex 1 6.1G.
	Pension increases in payment		
App 4.5.13	G	Where a *firm* values income benefits with increases in payment which are:	
		(1)	fixed, they should use those fixed rates; or
		(2)	dependant on *RPI* or *CPI*, they should use the relevant assumptions in *DISP* App 4 Annex 1.
	Multiple product providers		
App 4.5.14	G	Where the transfer value was split between 2 product providers, the loss may be assessed in 2 parts, with the occupational scheme benefits split in proportion to the transfer value.	
	Ongoing charges		
App 4.5.15	G	(1)	Where the *consumer's* retirement date is after the valuation date, *DISP* App 4.4.6R(9) requires a *firm* to net down the pre-retirement discount rate for the default product and *adviser charges* using the relevant assumptions in *DISP* App 4 Annex 1. Ongoing *adviser charges* should be included in all circumstances.
		(2)	When netting down the pre-retirement discount rate, a *firm* should use the following formula: [(1 + i%) x (1 - c%)] – 1 where:

			(a)	i% is the pre-retirement discount rate (unadjusted for charges) each year; and
			(b)	c% is the sum of the default product and *adviser charges* each year.
	Free standing additional voluntary contributions performance comparator			
App 4.5.16	G	Where *firms* need to make an assumption on returns within an in-house additional voluntary contribution arrangement, they should use the relevant assumption in *DISP* App 4 Annex 1.		
	Death of the consumer before the valuation date			
App 4.5.17	G	Where the *consumer* died before the valuation date, either before or after retiring, *firms* should apply the principles of the formulae in *DISP* App 4.4.2 to 4.4.19R.		
	Taxation when valuing past payments			
App 4.5.18	G	(1)	When a *firm* is valuing past payments made before the valuation date where the *consumer* has died or would have retired if they had remained in their *defined benefit occupational pension scheme*, it should value the payments from the:	
			(a)	DC pension arrangement net of any actual tax incurred; and
			(b)	notional payments from the *defined benefit occupational pension scheme* using the tax rate that would have applied if these payments had been made.
		(2)	App 4.5.18G(1) does not apply when a *firms* is rolling up past payments made from the DC pension arrangement to add back into the value of the DC pension arrangement where the *consumer* would not yet have retired from their *defined benefit occupational pension scheme*.	
App 4 Annex 1	**Assumptions for calculation of redress**			
	This Annex belongs to *DISP* App 4.4.			

1	**Assumption updates**			
1.1	R	(1)	A *firm* must use the following assumptions which are updated quarterly*:*	
			(a)	the *RPI* inflation rate;

			(b)	the *CPI* inflation rate;
			(c)	the post-retirement discount rate; and
			(d)	the pre-retirement discount rate.
		(2)	Redress calculations must be based on the new assumptions available on the first day of each new quarter, using publicly available data from the final business day of the quarter immediately before.	
		(3)	*Firms* must use the updated mortality assumptions in *DISP* App 4 Annex 1 at 10.1G from 1 April each year.	
2	**Alternative assumptions**			
2.1	R	A *firm* must not use assumptions that are less conservative than those specified in *DISP* App 4 Annex 1. Where this appendix does not address the particular and individual circumstances of a *consumer's complaint*, a *firm* should address those circumstances in accordance with the guidance at *DISP* App 4.2.5G.		
2.2	G	Where a *consumer* is likely to be disadvantaged by applying a pre-retirement discount rate calculated in accordance with *DISP* App 4 Annex 1 8.1G, *firms* should apply an appropriate alternative discount rate which reasonably reflects the expected rate of return from the *consumer's* DC pension arrangement investments to avoid that disadvantage.		
3	**RPI inflation**			
3.1	G	(1)	A *firm* should use the *RPI* inflation rate which is based on the 'UK instantaneous implied inflation forward curve (gilts)' published by the Bank of England by taking:	
			(a)	the spot rate for the number of integer years to retirement, for a pre-retirement *RPI* inflation rate; or
			(b)	a derived forward rate commencing from the date of retirement for the number of integer years indicated by the discounted mean term, for a post-retirement *RPI* inflation rate, using the approach set out in *DISP* App 4 Annex 1 7.1G.
		(2)	A *firm* should use the 40-year rate where the number of integer years exceeds 40.	
		(3)	A *firm* should use the rate for the shortest term available on the curve (including half-years) where the number of integer years required is fewer than shown in the curve.	
		(4)	A *firm* should deduct an inflation risk premium of 0.2% from the pre-retirement *RPI* when deriving a *RPI* inflation rate for pre-retirement	

			revaluation increases and the pre-retirement discount rate (but not for post-retirement increases).		
		(5)	A *firm* should round the *RPI* inflation rate to the nearest 0.05% unless it is being used to derive another assumption.		
4	**Consumer Price Index (CPI) inflation**				
4.1	G	(1)	A *firm* should deduct an unrounded *CPI* adjustment factor from the unrounded *RPI* inflation rate, then round the resulting *CPI* inflation to the nearest 0.05%.		
		(2)	A *firm* should derive the pre-retirement *CPI* adjustment (to apply to the pre-retirement *RPI* rate) as follows:		
			(a)	if 20YY + a $\leq$ 2030, an adjustment of 1.0%; or	
			(b)	if 20YY + a > 2030, an adjustment determined by the result of the formula: $$\frac{[\,1\% \times (2030 - 20YY)\,] + 0.5\%}{a}$$ where:	
				(i)	the calculation has a valuation date in year 20YY;
				(ii)	the *consumer* has a term to retirement of x years where: $a \leq x < b$ (and a and b are the integer values either side of x); and
				(iii)	a > 0 (as the pre-retirement inflation assumptions are not required when a=0).
		(3)	A *firm* should derive the post-retirement *CPI* adjustment (to apply to the post-retirement *RPI* rate) as follows:		
			(a)	if 20YY + a > 2030, a rate of 0%; or	
			(b)	if 20YY + a $\leq$ 2030, a rate determined by the result of the formula: $$\frac{[\,1\% \times (2030 - 20YY)\,] + 0.5\%}{d}$$ where:	
				(i)	the calculation has a valuation date in year 20YY;

				(ii)	the *consumer* has a term to retirement of x years where: $a \leq x < b$ (and a and b are the integer values either side of x); and
				(iii)	the *consumer* retires at an age with associated discounted mean term of d.
5	**Earnings inflation**				
5.1	G	A *firm* should use earnings inflation of CPI + 1% whenever they need to project benefits which are earnings related, such as those which increase in line with an order made under section 148 of the Social Security Administration Act 1992, by:			
		(1)	taking the relevant *CPI* spot inflation rate, derived in line with the (unrounded) approach for setting the *CPI* assumption; and		
		(2)	rounding the resulting earnings inflation rate to the nearest 0.05%.		
6	**Pension increases in payment**				
6.1	G	(1)	Where a pension tranche increases in payment with either *RPI* or *CPI* and the scheme rules impose a cap and/or a floor, the pension increase assumption should be derived using a standard Black Scholes model with an inflation volatility of 1.0%.		
		(2)	The final assumption in (5.1G(1)) should be rounded to the nearest 0.05%.		
7	**Post retirement discount rate**				
7.1	G	To calculate the initial post-retirement discount rate, *firm*s should:			
		(1)	determine the relevant rate on the Bank of England nominal government bond (gilt) yield curve, using the following formula: $$\left(\frac{(1+r)^{(n+d)}}{(1+\mathrm{rs})^{n}}\right)^{\left(\frac{1}{d}\right)} - 1$$ where:		
			(a)	r is the spot rate for a term equal to the sum of the integer period to retirement and the relevant discounted mean term;	
			(b)	rs is the spot rate for the integer period to retirement;	

			(c)	n is the integer number of years to retirement; and
			(d)	d is the discounted mean term;
		(2)	derive an 'initial rate' by deducting 0.6% from the rate in (1) above, as an allowance for annuity pricing margins.	
7.2	G	(1)	Where the *consumer's* presumed date of retirement is after the valuation date, *firms* should use the discounted mean term in the table below based on the *consumer's* age at the presumed date of retirement; otherwise, they should use the discounted mean term based on the *consumer's* age at the valuation date:	

Age	**Discounted mean term**
55	23
60	20
65	16
70	13
75	11

		(2)	Where the *consumer's* age is in between the ages shown in the tables, *firms* should use linear interpolation to derive the discounted mean term, and round the resulting figure to the nearest integer.	
		(3)	Where the *consumer's* age is higher than the ages shown in the tables, *firms* should derive the discounted mean term by extrapolation, and round the resulting figure to the nearest integer.	
7.3	G	Where the *consumer's* date of retirement is after the valuation date, *firms* should derive a final post-retirement rate, as follows:		
		(1)	(a)	75% of the initial rate, plus;
			(b)	25% of the initial rate plus 1.6%; or
		(2)	by modifying the approach in *DISP* App 4 Annex 1 7.3G(1) to reflect where a *pension commencement lump sum* was payable in addition to the pension income in the *defined benefit occupational pension scheme*.	
7.4	G	*Firms* should round the final post-retirement rate to the nearest 0.05%.		
8	**Pre-retirement discount rate**			

8.1	G	(1)	Where the retirement date is after the valuation date, the pre-retirement discount rate represents the assumed rate of return for the period from the valuation date to the *consumer's* retirement date and targets a rate of return of one-half of the return on equities.	
		(2)	A *firm* should round down the period of retirement to the number of integer years remaining to the retirement date.	
		(3)	A *firm* should derive the pre-retirement discount rate as follows: 0.5 x [(1 + *CPI* spot inflation rate) x (1+ average dividend yield) x (1 + growth in dividends) - 1] where:	
			(a)	the *CPI* spot inflation rate is derived in line with the (unrounded) approach for setting the *CPI* assumption;
			(b)	the average dividend yield is taken as the arithmetic average of the dividend yield on the FTSE All Share Index of the last business day over the last 4 quarter ends; and
			(c)	the growth in dividends is assumed to be 1.0 % each year.
		(4)	*Firms* should round the final assumption to the nearest 0.05% per annum.	
9	**Charges**			
9.1	G	(1)	Default product charges: 0.75% each year.	
		(2)	Default ongoing *adviser charges*: 0.5% each year.	
		(3)	Default initial *adviser charges*: 2.4% of investment value.	
		(4)	Minimum initial advice amount: £1,000.	
		(5)	Maximum initial advice amount: £3,000.	
10	**Demographic assumptions**			
10.1	G	A *firm* should use pre and post-retirement mortality assumptions based on:		
		(1)	the year of birth mortality rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PMA16 and PFA16 and including mortality improvements derived from each of the male and female annual mortality projection models, in equal parts; and	
		(2)	mortality improvements derived from the male and female annual CMI Mortality Projections Models in the series CMI (20YY-2)	

			M_[1.25%] and CMI (20YY-2_F)_[1.25%] in equal parts for the year commencing 1 April 20YY.
10.2	G	A *firm* should use the actual age of a spouse or civil partner who is eligible for benefits on the *consumer's* death unless their age is unknown, in which case the *firm* should assume they are the same age as the *consumer*.	
10.3	G	(1)	Where the presumed date of retirement is after the valuation date, *firms* should use the *consumer's* current marital/civil partner status to determine which status to use at the presumed date of retirement, using the table below:

Term to retirement (in years)	**Married/Civil partner**	**Not married/No civil partner**
0	100%	0%
5	95%	10%
10	90%	20%
15	85%	30%
20	80%	40%
25	75%	45%
30	70%	50%
35	70%	55%
40	70%	55%

		(2)	When deriving status rates from the table in (1), *firms* should:	
			(a)	interpolate for terms that are not shown and round to the nearest 1%; and
			(b)	not apply any adjustments for mortality of the spouse/civil partner before the retirement date.
		(3)	Where the retirement date is prior to the valuation date, a *firm* should use the *consumer's* actual marital/civil partner status, at the valuation date, where known.	

		(4)	Where the actual marital/civil partnership status is not known, a *firm* should use the assumption that the *consumer* is not married or in a civil partnership.
11	**Default factors for early retirement, late retirement and lump sum commutation**		
11.1	G	Where the date of retirement is at or prior to the valuation date and the actual early retirement factors are unknown, *firms* should use a default early retirement factor of 4.0% per annum compound, applied after the pension has been revalued to the assumed date of retirement, and assuming the factor is compounded for the number of years, n, to retirement as follows: $(1 – 0.04)^n$.	
11.2	G	Where the *consumer* has already passed their normal retirement age and the actual late retirement factors are unknown, *firms* should use a default late retirement factor of 5.0% per annum compound, applied after the pension has been revalued to the late date of retirement.	
11.3	G	Where the date of retirement is prior to the valuation date and the actual lump sum commutation factor is unknown and cannot be reasonably determined from other available information, *firms* should use a default lump sum commutation factor of 20.	
12	**Accumulation rate for rolling up past payments to the valuation date**		
12.1	G	To calculate the accumulated value of past payments at the valuation date, a *firm* should ensure the accumulation rate from the date of payment to the valuation date reflects the cumulative return, as if each payment had been invested in line with the Bank of England Base Rate over the period.	
12.2	G	The cumulative return for each past payment should reflect changes in the Bank of England Base Rate over the period by compounding the relevant rates over the period, using the following approach: $$\prod_{1}^{t}(1 + i_t)^{\left(\frac{n_t}{365}\right)}$$ where: t is the number of different Bank of England Base Rates that applied over the period from the date of payment of a past payment to the valuation date; i_t is the Bank of England Base Rate, for each t; and n_t is the number of days that each Bank of England Base Rate applies in the period.	
13	**Cash enhancement rate of return**		

13.1	G	The cash enhancement rate of return is: 50% of the return on the FTSE 100 Total Return Index.		
14	**Additional compensation sum**			
14.1	G	Where the date of retirement is after the valuation date, *firms* should increase the redress amount using a rate equal to the pre-retirement discount rate (with an adjustment for charges) between the valuation date and the payment date.		
14.2	G	Where the date of retirement is at or prior to the valuation date, *firms* should increase the redress amount using a rate equal to the post retirement discount rate (with no adjustment for annuity pricing or *pension commencement lump sums*) between the valuation date and the payment date.		
14.3	G	To calculate the additional compensation sum, *firms* should derive a factor as follows: $(1 + r)^{t/365}$ Where: r is the rate in *DISP* App 4 Annex 1 14.1G or 14.2G, as appropriate; and t is the number of days from the valuation date to the payment date, not counting the payment date itself, and where the valuation date is Day 1.		
15	**Free standing additional voluntary contributions comparator returns**			
15.1	G	The benchmark index for the rate of return within an in-house additional voluntary contribution arrangement is:		
		(1)	the CAPS 'mixed with property' fund, for returns prior to 1 January 2005; and	
		(2)	the FTSE UK Private Investor Growth Total Return Index for returns from 1 January 2005.	
16	**Correct comparator scheme**			
16.1	G	(1)	For the purpose of this appendix, the *firm* must treat a *consumer* as having a *defined benefit occupational pension scheme* if immediately before the *pension transfer* or *pension conversion* the *consumer* had rights in a *defined benefit occupational scheme* but would now be entitled to rights or benefits from any of the following if they had not been transferred or converted:	
			(a)	the Pension Protection Fund, whether during an assessment period or after the entry of the ceding *defined benefit occupational pension scheme*; or
			(b)	any registered pension scheme offering *safeguarded benefits*.

16.2	G	(2)	If there is more than one *defined benefit occupational pension scheme* that the *consumer* could have had rights in if they had not transferred to the DC pension arrangement, the *firm* should calculate the primary compensation sum using the *defined benefit occupational pension scheme* that the *consumer* would most likely have had rights in if the *firm* had provided compliant pension transfer advice.	
		(3)	When determining which *defined benefit occupational pension scheme* the *consumer* would have had rights in, the *firm* should consider all of the evidence available to it and which it could reasonably obtain.	
		(4)	If the *defined benefit occupational pension scheme* used by the *firm* when calculating redress is likely to produce a primary compensation sum that is lower than would be the case if another *defined benefit occupational pension* scheme had been used, the *firm* should explain:	
			(a)	why the *firm* considers the redress offer would be higher if another *defined benefit occupational pension scheme* had been used as the comparator;
			(b)	why it considers the *consumer* would most likely have had rights in the *defined benefit occupational pension scheme* used over other options;
			(c)	the evidence and information considered by the *firm* when determining which *defined benefit occupational pension scheme* to use when calculating the primary compensation sum; and
			(d)	how the *consumer* can challenge the *defined benefit occupational pension scheme* used by the *firm* if they disagree with the *firm's* decision.
		(5)	For *consumers* who were members of the British Steel Pension Scheme, *firms* should determine the correct comparator scheme to use in accordance with *CONRED* 4 Annex 21 13.21R to 13.26R.	

App 4 Annex 2 **Information for redress calculation**

This Annex belongs to *DISP* App 4.3.5G.

The following information may be relevant to the redress calculation:

Category	Information needed
Information about the *consumer*	• Date of birth (DOB) • Date of death (if applicable)

	• Marital or civil partnership status • Spouse or civil partner's DOB • Children's ages if the *consumer* has children who pension benefits would potentially be payable to • Whether the *consumer* is assumed to have retired and, if so, the date at which the *consumer* is assumed to have retired • Information to help determine any adjustment to take the *consumer's* tax position into account: o annual taxable income o expected total contributions to *consumer's* DC pension in the tax year in which redress is being paid o annual allowance carry forward from previous years o current lifetime allowance usage o expected future lifetime allowance usage o details of any lifetime allowance protections o marginal tax rate expected in retirement
Information about the *consumer's* former DB scheme	• Date of leaving active service in the DB scheme ('DOL') • Section • Annual DB pension at DOL split by tranche, as applicable to each section, including GMP splits • Automatic lump sum entitlement due at retirement at DOL split by tranche, as applicable to each section • Normal retirement age applying to each tranche • Early and later retirement factors • Confirmation of any lower unreduced retirement age that applies to any tranches due to any enhanced early retirement provision

	• Amount of any other associated benefits (eg, bridging pension, death benefit entitlements pre- and post-retirement) • PCLS factors in force at date of retirement • Details of any adjustment applicable to the transfer as part of a pension sharing order entered into
Information about the *consumer's* current DC pension (relating to funds from the transfer)	• Date of transfer out of the DB scheme • Fund value at valuation date • Percentage-based product charges and *adviser charges*, including annual management charges • Product and adviser non-percentage charges, including ongoing *adviser charges* • Amount of any PCLS taken and dates of payment • Amount of any funds accessed flexibly and dates of payments • Date of any annuity purchased • Annuity terms (if applicable): o amount o increases (*RPI* linked, *CPI* linked, applicable cap, applicable floor) o spouse's pension – proportion on death o remaining guarantee period from the valuation date o payment in arrears or advance o payment frequency

App 4 Annex 3 Redress steps in diagrammatic form

This Annex belongs to *DISP* App 4.3.2G.

The diagram illustrates the steps to take to calculate redress and to make a redress offer.

Step 1: Obtain the necessary information to calculate redress

- Types of information are specified in DISP App 4.3.3R to 4.3.14G. - Information will be collected by reviewing client files; contacting the consumer; contacting the pension provider and contacting the former DB scheme trustees.	**Relevant rules: DISP App 4.3.3R - 4.3.14G**

Step 2: Determine when the consumer would have taken retirement benefits from the defined benefit occupational pension scheme

- Determine the retirement date using rebuttable presumption at DISP App 4.3.16R. - Guidance on circumstances is provided in DISP App 4.3.17G.	**Relevant rules: DISP App 4.3.15R - 4.3.18G**

Step 3: Carry out redress calculation

- The redress calculation is done by using the formula at DISP App 4.4.2R. - Calculate primary compensation at DISP App 4.4 using the technical guidance at DISP App 4.5 and in DISP App 4 Annex 1.	**Relevant rules: DISP App 4.3.19R - 4.3.26G**

Step 4: Work out the redress offer and means of payment

- A firm must promptly offer a consumer redress that, as far as possible, puts the consumer into the position they would have been in if they had received compliant pension transfer advice.	**Relevant rules: DISP App 4.3.27R - 4.3.35G**

Step 5: Communicate outcome of redress calculation

- This should include an explanation of the redress offer. - When a firm communicates a redress offer to a consumer, it should comply with Principle 7.	**Relevant rules: DISP App 4.3.36R - 4.3.40G**

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