Chapter 13

Preparing product information

Projections

This annex belongs to ■ COBS 13.4.1 R (Contents of a key features illustration), ■ COBS 13.5.1 R (Projections for in-force products) and ■ COBS 13.5.2 R (Projections: other situations).

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Projections

1   Calculating standardised deterministic projections

1.1   A *standardised deterministic projection* must:

     (1)   include a *projection* of benefits at the lower, intermediate and *higher rates of return*;

     (2)   be rounded down; and

     (3)   show no more than three significant figures.

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1.2   Calculating projections: additional requirements for a *personal pension scheme* and *stakeholder pension scheme*

(1)   A *standardised deterministic projection* must be in real terms and be accompanied by information explaining why price inflation has been taken into account and that price inflation reduces the worth of all savings and investments.

(2)   A *standardised deterministic projection* in real terms must be calculated using:

     (a)   the appropriate *lower*, *intermediate* and *higher rates of return*;

     (b)   the intermediate rate of price inflation, in accordance with COBS 13 Annex 2 2.5R; and

     (c)   an annuity calculated in accordance with COBS 13 Annex 2 3.1R.

(3)   The *standardised deterministic projection* must show only the numeric value of the three real rates of return after the appropriate price inflation assumption has been taken into account, that is, the real rate of projected growth which has been applied to the real value of the contributions.

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1.2A   A *firm* may provide a *retail client* with a *projection* in nominal terms:

     (1)   of their fund or *pension commencement lump sum* for planning purposes (for example for a pension mortgage); or

     (2)   of a *pension commencement lump sum* or *income withdrawal* or *uncrystallised funds pension lump sum* if the *retail client* requests it,

     if the *projection* is prepared in a way which is consistent with the *standardised deterministic projection*.

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1.3   (1)   If a *generic projection* is prepared for a *stakeholder pension scheme* or *personal pension scheme* in circumstances where a *generic key features illustration* is permitted under COBS 13.4.2 R, sufficient separate *projections*, covering a range of different contractual periods and contributions, must be included for a *retail client* to be able to make an informed decision about whether to invest.

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

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1.4   A *firm* will provide sufficient separate *projections* if it prepares a table that shows *projections* in real terms for a variety of periods to maturity and a variety of contribution levels, taking into account the *charges* and other material terms that apply to the *stakeholder pension scheme* or *personal pension scheme*. Such a table could be laid out like a specimen benefits table (see COBS 13 Annex 2 1.8).

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Providing a stochastic projection

1.5   A *stochastic projection* may only be provided if:

(1)   [deleted]

(2)   [deleted]

        [deleted]

(3)

        [deleted]

(4)   it is based on a reasonable number of simulations and assumptions which are reasonable and supported by objective data;

(5)   it is accompanied by enough information for the *retail client* to be able to understand the difference between the *stochastic projection* and the *standardised deterministic projection* being provided; and

(6)   it is presented in real terms where the accompanying *standardised deterministic projection* is required to be in real terms.

1.6   [deleted]

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Exceptions

1.7

A *projection* for an in-force product that will mature in six *months* or less may be prepared and presented on any reasonable basis.

1.7A   If a *projection* is prepared in connection with an offer for or conclusion of a *personal pension scheme*, three different rates of return must be used.

[**Note:** article 185(5) of the *Solvency II Directive*]

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1.8   In the case of a *stakeholder pension scheme* in circumstances where a *generic key features illustration* is permitted under COBS 13.4.2R, the specimen benefits table, contained within the "Stakeholder pension decision tree" factsheet available on https://www.moneyhelper.org.uk and headed "Pension Table...How much should I save towards a pension?" which sets out initial monthly pension amounts, may be used instead of a *standardised deterministic projection* but only if it is accompanied by an explanation of the caveats and assumptions behind the table.

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1.9   The *rules* in this Annex do not apply to:

(1)   a *projection* for an in force product which is consistent with the *statutory money purchase illustration* requirements; and

(2)   a *safeguarded-flexible benefits risk warning*.

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1.10 A *standardised deterministic projection* for an in force product may omit the *intermediate rate of return* except for *personal pension scheme* and *stakeholder pension scheme* contracts taken out after 5 April 2014.

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2 Assumptions to follow when calculating projections.

Assumptions: projection date

2.1 A *standardised deterministic projection* must be calculated to the *projection date* described below:

	Product	Projection date
(1)	A contract which is a *whole life assurance* the *premiums* under which are regular *premiums*	The anniversary of the commencement date:
		(a) which first falls after the seventy-fifth birthday of the life assured; or
		(b) (if there is more than one life assured) the anniversary of the commencement date which falls after the seventy fifth birthday of:
		(i) (if benefits are payable on the first death) the oldest life assured; or
		(ii) (in all other cases) the youngest life assured;
		subject to a minimum *projection date* of ten years.
(2)	A contract that is not in (1):	An appropriate date which highlights the features of the product
	(a) where the relevant marketing refers to a surrender value or an option to take benefits before they would otherwise be paid; or	
	(b) that is open-ended, or linked to one or more lives, which is not a *personal pension scheme* or *stakeholder pension scheme*	
(3)	A contract that is not in (1) or (2) and has a specified maturity date	The maturity date specified in the contract
(4)	A contract that is not in (1) or (2) or (3)	The tenth anniversary of the commencement date

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Assumptions: contributions

2.2 A *standardised deterministic projection* must:

(1) take account of all contributions due during the *projection period*;

(2) be calculated on the basis that contributions are accumulated, net of *charges*, at the appropriate rate of return compounded on an annual basis;

(3) (if it includes assumptions about contribution increases in line with an index) be based on an assumption that contribution increases are consistent with any assumptions regarding that index in this annex; and

(4) deduct from contributions any rider benefits or extra *premium* which may be charged for an increased underwriting risk.

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Assumptions: rates of return

2.3 A *standardised deterministic projection* must be calculated as follows:

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(i)   the *intermediate rate of return* must accurately reflect the investment potential of each of the product's underlying investment options;

(iii)   the *lower* and *higher rates of return* must maintain a differential of 3% relative to the *intermediate rate of return*; and

(iii)   the rates of return for each underlying investment option must not exceed the following maximum rates:

Nominal rates	Lower rate	Inter-mediate rate	Higher rate
tax-exempt business held in a *wrapper* or by a *friendly society*	2%	5%	8%
personal pension schemes, *stakeholder pension schemes* and investment-linked annuities			
all other products	1½%	4½%	7½%

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Exceptions

2.4   A *standardised deterministic projection*:

(1)   [deleted]

(2)   may be calculated using a lower rate of return if a *retail client* requests it; and

(3)   where there is a contractual obligation to provide a minimum rate of return that exceeds any one or more of the *lower*, *intermediate* or *higher rates of return*, the *standardised deterministic projection* must be calculated by substituting the obligated rate of return for the *lower*, *intermediate* or *higher rate of return*, as appropriate.

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Assumptions: inflation

2.5   If inflation is taken into account, the *standardised deterministic projection* must be calculated using the following rates:

	Lower rate	Inter-mediate rate	Higher rate
Price inflation	0.00%	2.00%	4.00%
Earnings inflation	≥1.5%	≥3.5%	≥5.5%

2.5A	R	If inflation is taken into account, and the level of future contributions, *charges* or benefits is linked to *RPI*, the *standardised deterministic projection* must be calculated using the following rates in respect of those future contributions, *charges* or benefits:

	Lower rate	Inter-mediate rate	Higher rate
RPI price inflation	1.00%	3.00%	5.00%

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Assumptions: charges

2.6   The *charges* allowed for in a *standardised deterministic projection*:

(1)   must properly reflect:

    (a)   all of the charges, expenses and deductions a *client* will, or may expect to be taken after investment into the product;

(b)   the tax relief available to the *firm* in respect of so much of the *firm*'s gross expenses as can properly be attributed to the contract; and

(c)   the fact that certain *charges* will be fully or partially off-set, but only to the extent that the *firm* can show that the off-set funds will be available when the relevant *charges* arise; and

(2)   must not include the *firm*'s dealing costs incurred on the underlying portfolio; and

(3)   must include the retained interest *charges* specified in COBS 13 Annex 3 1.1R(4) or COBS 13 Annex 4 1.1R(4), where relevant.

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2.7   (1)   Development and capital costs should normally be written off in the year in which they are incurred. However, some costs (for example, exceptional new business expenses) may be amortised and previous years' costs may then be brought into account.

(2)   If it is reasonable to assume that higher expenses will be incurred in the future, appropriate allowances should be made, and any inflation assumptions should be consistent with those prescribed in these rules.

(3)   Expenses should be apportioned appropriately between products so that scales of expenses can be calculated and applied.

(4)   Where appropriate, mortality and morbidity should be allowed for on a best estimate basis. The basis for annuities should allow for future improvements in mortality.

(5)   A projection should not assume that *charges* will fall over time to a rate that is lower than the rate currently being charged on the relevant product (or, if there is no such charge, on a similar product).

(6)   A projection of surrender value, cash-in value or transfer value should take into account any specific current surrender value basis and penalties which may be applied.

(7)   If a *personal pension scheme* is invested in assets that are volatile or difficult to value, the *standardised deterministic projection* should be prepared using the best available reasonable assumptions.

(8)   The methodology for a projection including retained interest *charges* should:

(a)   take account of any required minimum cash balances;

(b)   be based on reasonable assumptions such that the overall charges in relation to the product and the investments are unlikely to be understated; and

(c)   have regard to the overall level of retained interest *charges* across all relevant business.

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Additional requirements: with-profits policies

2.8   (1)   A *standardised deterministic projection* for a *with-profits policy* must properly reflect the deductions from asset share which a *firm* expects to make in accordance with its *deductions plan*.

(2)   A *standardised deterministic projection* for a *with-profits policy* where bonus rates apply must assume that the bonus rates supported by the relevant premium and rate of return apply throughout the term of the contract.

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Additional requirements: drawdown pensions and regular *uncrystallised funds pension lump sum* payments

2.9   (1)   A *standardised deterministic projection* for a *drawdown pension* or regular *uncrystallised funds pension lump sum* payments must be based on the requirements contained in (2) to the extent that they impose additional or conflicting requirements to the balance of the *rules* in this section.

(2)   A *standardised deterministic projection* for a *drawdown pension* or regular *uncrystallised funds pension lump sum* payments must include:

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(a)   where relevant the maximum initial income specified in the tables published by the Government Actuaries Department for a *drawdown pension*;

(b)   the assumed level of income;

(c)   for a *short-term annuity*, where subsequent *short-term annuities* are assumed, a statement reflecting that fact;

(d)   (under 'What the benefits might be' or similar heading, either:

   (i)   the amount of income and the projected value of the fund at five yearly intervals to age 99 for the *lower*, *intermediate* and *higher rate of return* for as long as the fund is projected to exist (at the *higher rate of return*); or

   (ii)   a description of the income and a projection of the age at which the fund will cease to exist for the *lower*, *intermediate* and *higher rate of return*; and

(e)   [deleted]

(f)   the amount of annuity that could be secured using an immediate annuity rate available in the market.

(3)   A *standardised deterministic projection* for a *drawdown pension* or regular *uncrystallised funds pension lump sum* payments may also include the projected open market values and the amounts of annuity that might be purchased at some point in the future.

(4)   A *standardised deterministic projection* for a *drawdown pension* entered into before 6 April 2015 must, where relevant, be based on an assumption that the current gilt index yield will continue to apply throughout the relevant term.

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         [deleted]

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3   How to calculate a projection for a future annuity

3.1   A *projection* for a future annuity must:

(1)   be calculated by rounding all factors to three decimal places before applying them to the relevant retirement fund;

(2)   use a mortality rate based on the year of birth 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;

(3)   [deleted]

(4)   (for an annuity where two lives are concerned):

(a)   reflect the age difference between the two lives; or

(b)   be based on the assumption that the male life is three years older than the female (if the genders differ) or the two lives have the same age (if the genders are the same);

(5)   include an expenses allowance of 4%;

(6)   be based on the following rates of return as appropriate:

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	Lower rate	Intermediate rate	Higher rate
Level or fixed rate	Y+1.5%	Y+3.5%	Y+5.5%

of increase annuities			
RPI or LPI linked annuities	Y-1%	Y	Y+1%

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	where:
	'Y' is 0.5* (ILG0 + ILG5)-0.5 rounded to the nearest 0.2%, with an exact 0.1% rounded down; and
	'ILG0' and 'ILG5' are the real yield on the FTSE Actuaries Government Securities Index-linked Real Yields over 5 years, assuming 0% and 5% inflation respectively, updated every 6 April to use the ILG0 and ILG5 which applied on or, if necessary, the *business day* immediately before, the preceding 15 February; and

	(7)	(in the case of a future annuity with less than one year to maturity) be calculated using annuity rates that are no more favourable than the *firm's* relevant current immediate annuity rate or (if there is no such rate) the relevant immediate annuity rate available in the market; and
	(8)	be assumed to be payable monthly in advance with a guaranteed period of 5 years, unless it is unreasonable to do so.

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3.1A		For any year commencing 6 April, the use of the male and female annual CMI Mortality Projections Models in the series CMI(20YY-2)_M_[1.25%] and CMI (20YY-2_F)_[1.25%], where YY-2 is the year of the Model used, will tend to show compliance with COBS 13 Annex 2 3.1 R (2).

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3.3		A projection for an annuity with a *guaranteed annuity rate* must:
	(1)	show an additional projection of the income that could be provided where that *guaranteed annuity rate* provides higher rates of return than those otherwise shown; and
	(2)	calculate the income that could be provided on the basis of the rates in the *guaranteed annuity rate*, using a projection of the fund calculated using the *intermediate rate of return*.

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3.4		When providing an additional projection for an annuity with a *guaranteed annuity rate*, a *firm* should:
	(1)	[deleted]
	(2)	take account of multiple *guaranteed annuity rates* on the fund or non-guaranteed elements of the fund on a proportionate basis; and
	(3)	provide an explanation of the key restrictions which may apply when the *guaranteed annuity rate* is taken up, particularly where these differ from the other projections shown.

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3.2		A *projection* for a future annuity:
	(1)	must be calculated using lower rates of return , if the rates described in this section overstate the investment potential of the product;
	(2)	may be calculated using a lower rate of return if a *retail client* requests it.
4		[deleted]

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5   Projections: accompanying statements and presentation

5.1   A *standardised deterministic projection* must be accompanied by:

(1)   appropriate risk warnings, including warnings about volatility and the impact of inflation and that the product may pay back less than paid in (if that could be the case), and the degree to which any figures can be relied upon; and

(2)   a statement:

      (a)   [deleted]

      (b)   that *charges* may vary;

      (c)   of the contributions that have been assumed;

      (d)   that increases in contributions have been assumed (if that is the case), together with sufficient information for a *retail client* to be able to understand the nature and magnitude of the assumed increases;

      (e)   of the sum of any actual *premiums* charged for any rider benefits or increased underwriting risks (where these have been charged);

      (f)   (for *personal pension schemes* and *stakeholder pension schemes*) of the assumptions used to calculate the regular income and that the *client* may choose when to take this income (if that is the case); and

      (g)   that the projection takes account of the existence of contractual obligations to provide a minimum rate (if that is the case).

[Note: article 185(5) of the *Solvency II Directive*]

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5.1A   When presenting a *standardised deterministic projection* a *firm* must:

(1)   include a short introductory explanation of what the *projection* seeks to illustrate;

(2)   use a descriptive heading such as 'What your regular income might be worth in future or 'What might I get back from my plan?';

(3)   place the *projection* and the associated explanation adjacent to each other on the same page; and

(4)   explain that the *client* will be sent annual statements (if that is the case) which will allow them to keep track of their benefits.

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Additional requirements: pension schemes and products linked to other products

5.2   A *standardised deterministic projection* for a product where the benefits illustrated depend on a link to a separate product must include an appropriate description of the material factors that might influence the returns available overall and any restrictions assumed in providing an illustration of benefits in relation to that separate product.

[Note: article 185(5) of the *Solvency II Directive*]

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