PENSIONS (TRANSFER VALUE ANALYSIS ASSUMPTIONS) INSTRUMENT 2012

Powers exercised

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

(1) section 138 (General rule-making power);
(2) section 149 (Evidential provisions);
(3) section 156 (General supplementary powers); and
(4) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 May 2012.

Amendments to the Handbook

D. The Conduct of Business sourcebook (COBS) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Pensions (Transfer Value Analysis Assumptions) Instrument 2012.

By order of the Board
26 April 2012

Annex

Amendments to the Conduct of Business sourcebook (COBS)

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

19.1 Pension transfers and opt-outs

…

19.1.3 G In particular, the comparison should:

…

(2) have regard to the benefits and options available under the ceding scheme and the effect of replacing them with the benefits and options under the proposed scheme; ~~and~~

(3) explain the assumptions on which it is based and the rates of return that would have to be achieved to replicate the benefits being given up; and

(4) be illustrated on rates of return which take into account the likely expected returns of the assets in which the *retail client's* funds will be invested.

19.1.4 R When a *firm* compares the benefits likely to be paid under a *defined benefits pension scheme* with the benefits afforded by a *personal pension scheme* or *stakeholder pension scheme* (*COBS* 19.1.2R(1)), it must:

(1) assume that:

(a) the annuity interest rate is the intermediate rate of return appropriate for a level or fixed rate of increase annuity in (*COBS* 13 Annex 2 3.1R(6))) unless *COBS* 19.1.4BR applies or the rate for annuities in payment (if less);	
…	
(e) the annuity rate for post-retirement limited price increases ~~at~~ with maximum increases less than or equal to 3.5% or with minimum increases more than or equal to 3.5% is the rate in (a) above; otherwise it is the rate in (f) below;	~~2.5%~~
(f) the index linked pensions rate is the intermediate rate of return in *COBS* 13 Annex 2 3.1R(6)for annuities linked to the retail prices index unless *COBS* 19.1.4BR applies;	
(g) the mortality rate used to determine the annuity is based	

on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PCMA00 and PCFA00 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;	

or use more cautious assumptions;

…

19.1.4A E For any year commencing 6 April, the use of the male and female annual CMI Mortality Projections Models in the series CMI(20YY-1)_M_[1.25%] and CMI(20YY-1)_F_[1.25%], where YY-1 is the year of the Model used, will tend to show compliance with *COBS* 19.1.4R(1)(g).

19.1.4B R *Firms* must apply the annual provisions at *COBS* 13 Annex 2 3.1R(6) on a monthly basis in any month where the yields on the 15th of the relevant month would give a rolling 12 month average annuity rate that varies by at least 0.2% from the previous rate.

….

Suitability

….

19.1.7A G When giving a *personal recommendation* about a *pension transfer*, a *firm* should clearly inform the *retail client* about the loss of the fixed benefits and the consequent transfer of risk from the *defined benefits pension scheme* to the *retail client*, including:

(1) the extent to which benefits may fall short of replicating those in the *defined benefits pension scheme*;

(2) the uncertainty of the level of benefit that can be obtained from the purchase of a future annuity and the prior investment risk to which the *retail client* is exposed until an annuity is purchased with the proceeds of the proposed *personal pension scheme* or *stakeholder pension scheme*; and

(3) the potential lack of availability of annuity types (for instance, annuity increases linked to different indices) to replicate the benefits being given up in the *defined benefits pension scheme*.

19.1.7B G In considering whether to make a *personal recommendation*, a *firm* should not regard a rate of return which may replicate the benefits being given up from the *defined benefits pension scheme* as sufficient in itself.