

## Chapter 19

# Pensions supplementary provisions



## Appropriate pension transfer analysis

This annex belongs to ■ COBS 19.1.2BR.

[Note: The FCA has also issued non-Handbook guidance for firms who advise on pension transfers. See <https://www.fca.org.uk/publication/finalised-guidance/fg21-3.pdf>]

### *appropriate pension transfer analysis*

R

- 1 In preparing an *appropriate pension transfer analysis*, a firm must:
  - (1) use rates of return which reflect the investment potential of the assets in which the *retail client's* funds would be invested under the *proposed arrangement*;
  - (2) where the *proposed arrangement* includes a UK lifetime *pension annuity* that is being purchased on normal terms, use the assumptions in COBS 19 Annex 4C 1R(2) to assess the benefits likely to be paid under the *proposed arrangement*;
  - (3) use the assumptions in COBS 19 Annex 4C 1R(4) to project the level of income likely to be paid under the *ceding arrangement* at the point of retirement;
  - (4) take into account:
    - (a) the impact of the proposed transfer on the tax position of the *retail client*, particularly where there would be a financial impact from crossing a tax threshold or entering a new tax band;
    - (b) the impact (if any) on the *retail client's* access to state benefits;
  - (5) have regard to the likely pattern of benefits that might be taken from both the *ceding arrangement* and the *proposed arrangement*;
  - (6) undertake any comparisons of benefits and options consistently;
  - (7) plan for a reasonable period beyond average life expectancy particularly where a longer period would better demonstrate the risk of funds not lasting throughout retirement;
  - (8) consider how each of the arrangements would play a role in:
    - (a) meeting the *retail client's* income needs throughout retirement (relative to other means available to meet those needs);
    - (b) the provision of death benefits, where relevant (including by providing comparisons on a fair and consistent basis between the *ceding* and *proposed arrangement* both at present and at various future points in time);
  - (9) consider the trade-offs that may occur by prioritising differing *client* objectives (e.g. prioritising income needs throughout retirement over the provision of death benefits and vice-versa); and
  - (10) use more cautious assumptions where appropriate.

G

- 2
  - (1) When making assumptions about the rate of return under COBS 19 Annex 4A 1R(1), a firm should consider consistency with other assumptions (such as inflation and exchange rates).
  - (2) COBS 19 Annex 4A 1R(1), 1R(2) and 1R(3) do not prevent a firm from preparing the *appropriate pension transfer analysis* on additional assumptions (such as to demonstrate variability of returns) as long as such analyses are not given more prominence than an analysis prepared in accordance with this Annex.

- (3) When providing an indication of life expectancy or mortality which is not linked to an annuity, *firms* should use appropriate published population statistics which allow for future cohort mortality improvements, such as those published by the Office for National Statistics.
- (4) When the *proposed arrangement* includes a *pension annuity*, the assumptions in COBS 19 Annex 4C 1R(2) may not always be relevant (for example, if the *retail client* is considering a transfer to access an impaired life annuity or an overseas annuity). In such circumstances the *firm* should assess the benefits likely to be paid under the *proposed arrangement* in an alternative way (for example by obtaining quotations).

#### Charges used for the *appropriate pension transfer analysis*

R

3 An *appropriate pension transfer analysis* must take account of all charges that may be incurred by the *retail client* as a result of a *pension transfer* or *pension conversion* and subsequent access to funds following such a transaction, other than:

- (1) *adviser charges* paid by a third party (e.g. an employer); and
- (2) *adviser charges* that would be payable whether the *pension transfer* or *pension conversion* happened or not.

G

4 The charges in COBS 19 Annex 4A 3R include, but are not limited to, any of the following:

- (1) product charges, including those on any investments within the product;
- (2) *platform charges*;
- (3) *adviser charges* in relation to the *personal recommendation* and subsequently during the pre-retirement period as well as at benefit crystallisation and beyond, where likely to be relevant; and
- (4) any other charges that may be incurred if amounts are subsequently withdrawn.

#### Cashflow model

R

5 Where a *firm* prepares a cashflow model, it must:

- (1) produce the model in real terms in line with the CPI inflation rate in COBS 19 Annex 4C1R (4)(d);
- (2) (if the net income is being modelled) ensure that the tax bands and tax limits applied are based on reasonable assumptions;
- (3) take into account all relevant tax charges that may apply in both the *ceding arrangement* and the *proposed arrangement*; and
- (4) include stress-testing scenarios to enable the *retail client* to assess more than one potential outcome.