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

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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.

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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*

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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.

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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

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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.