Conduct of Business Sourcebook

Chapter 19

Pensions supplementary provisions

Assumptions

This annex belongs to COBS 19.1.2BR and COBS 19.1.3AR.

[**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]

Assumptions

R

1	(1)	A *firm* must use the assumptions in (2) when:	
		(a)	the *proposed arrangement* includes a *pension annuity* and COBS 19 Annex 4A 1R(2) applies; or
		(b)	it determines the estimated cost of future income benefits as a *pension annuity* under COBS 19 Annex 4B 1R(2) or COBS 19 Annex 4B 2R(2).
	(2)	The assumptions are:	
		(a)	the index-linked annuity interest rate for pension benefits linked to the *RPI* is the average of the previous 3 *months'* intermediate rate of return in COBS 13 Annex 2 3.1R(6) for annuities linked to the *RPI* (using the 6th day of any *month* as the starting point for calculation purposes), but determined as if the annual provision applies on the 15th of each *month*;
		(b)	the index-linked annuity interest rate for pension benefits linked to the *CPI* is the annuity rate in (a) plus 1.0%;
		(c)	the annuity interest rate is the average of the previous 3 *months' intermediate rate of return* in COBS 13 Annex 2 3.1R(6) for annuities with a level or fixed rate of increase (using the 6th day of any *month* as the starting point for calculation purposes), but determined as if the annual provision applies on the 15th of each *month*;
		(d)	the annuity interest rate for post-retirement *limited price indexation* based on the *RPI* with maximum pension increases less than or equal to 3.5%, or with minimum pension increases more than or equal to 3.5%, is the rate in (c) allowing for increases at the maximum or minimum rate of pension increase respectively; otherwise it is the rate in (a);
		(e)	the annuity interest rate for post-retirement *limited price indexation* based on the *CPI* with maximum pension increases less than or equal to 2.5% or with minimum pension increases more than or equal to 3.0%, is the rate in (c) above allowing for increases at the maximum or minimum rate of pension increase respectively; otherwise it is the rate in (b) above;
		(f)	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 PMA08 and PFA08 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;
		(g)	the annuity expense allowance is: 4.0%
		(h)	the *transfer value comparator* should be calculated on the basis that: (i)a female member of the scheme has a male spouse or partner who is 3 years older; or (ii)a male scheme member has a female spouse or partner who is 3 years younger.

(3) A *firm* must use the assumptions in (4) when it:

(a) projects the level of income likely to be paid under the *ceding arrangement* at the point of retirement under COBS 19 Annex 4A 1R(3); or

(b) revalues the future income benefits in COBS 19.1.3AR(1) by projecting them to the date they would normally be paid under COBS 19 Annex 4B 1R(1).

(4) The assumptions are:

(a)	the *RPI* is:	3.0%
(b)	the average earnings index and the rate for section 148 orders is:	3.5%
(c)	for benefits linked to the *RPI*, the pre-retirement *limited price indexation* revaluation is:	3.0%
(d)	for benefits linked to the *CPI*, the pre-retirement *limited price indexation* revaluation is:	2.0%

[**Note:** section 148 orders are orders made by the Secretary of State under section 148 of the Social Security Administration Act 1992. Section 148(7) of this Act provides that orders made previously under section 21 of the Social Security Pensions Act 1975 will be treated as orders made under section 148.]

Rate of return and charges

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2 (1) This *rule* applies for the purposes of COBS 19 Annex 4B 1R(3).

(2) The rates of return for valuing future income benefits between the date of calculation and the date when the future income benefits would normally come into payment must be based on the fixed coupon yield on the UK FTSE Actuaries Indices for the appropriate term.

(2A) The fixed coupon yields in (2) are derived using the appropriate term from one of the following indices:

(a) up to 5 years;

(b) up to 5-10 years;

(c) up to 10-15 years; or

(d) over 15 years.

(3) The product charges prior to *future income benefits* coming into payment must be assumed to be: 0.4%

(4) The fixed coupon yields in (2) are updated on the 6th day of each month based on the yield that applied on the 15th day of the previous month.

Mortality rate

E

3 (1) This *rule* applies for the purposes of COBS 19 Annex 4C 1R(2)(f).

(2) For any year commencing 6 April, 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, should be used.

(3) Contravention of (2) may be relied on as tending to establish contravention of the *rule* referred to in (1).