Appendix 4
Handling pension transfer redress calculations

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4.1 Definitions

App 4.1.1 R The following definitions are used in this appendix:

(1) 'additional compensation sum' is the redress sum calculated in accordance with ■ DISP App 4.3.29R(3);

(2) 'annual allowance' is the maximum amount that can be added to an *individual's* pension each tax year without the *individual* being liable for an annual allowance tax charge;

(3) 'annual allowance tax charge' includes:

(a) the standard annual allowance limit of £40,000 saved into a pension in the current tax year; and

(b) the money purchase annual allowance which is triggered when a *consumer* has flexibly accessed their pension, which reduces their annual allowance to £4,000; and

(c) the tapered annual allowance which reduces the annual allowance for those earning above £200,000;

(4) 'assumptions' are the economic, demographic and other assumptions to be used in the redress calculation set out at ■ DISP App 4 Annex 1;

(5) 'augmentation' is the payment of redress into the *consumer's* chosen defined contribution pension scheme;

(6) 'calculation date' is the date on which the *firm* completes the calculation at Step 3 at ■ DISP App 4.3.19R;

(7) 'commencement date' is 1 April 2023;

(8) 'compliant pension transfer advice' is *advice to a consumer on the conversion or transfer of pension benefits* from a *defined benefit*

occupational pension scheme to a DC pension arrangement, which complies with the following:

(a) (as applicable) the suitability requirements in COBS 9 and COBS 19.1; and

(b) the common law duty in contract or tort to exercise reasonable skill and care in advising the *consumer*; and

(c) (where the advice is to remain in the *defined benefit occupational pension scheme* and the *firm* arranges the *pension transfer* or *pension conversion*) a *firm's* obligations when dealing with insistent clients (from 1 January 2018, see COBS 9.5A);

(9) 'DC pension arrangement' means any pension arrangement holding the value of the *consumer's* pension benefits which originated from the non-compliant pension transfer advice, including where the arrangement has been subsequently changed to a new arrangement;

(10) 'defined contribution pension scheme' means an occupational or non-occupational pension scheme with a right or entitlement to *flexible benefits*;

(11) 'non-compliant pension transfer advice' is *advice to a consumer on the conversion or transfer of pension benefits* from a *defined benefit occupational pension scheme* to a DC pension arrangement, which does not comply with one or more of the following:

(a) (as applicable) the suitability requirements in COBS 9 and COBS 19.1;

(b) the common law duty in contract or tort to exercise reasonable skill and care in advising a *consumer*; or

(c) (where the advice is to remain in the *defined benefit occupational pension scheme* and the *firm* arranges the *pension transfer* or *pension conversion*) a *firm's* obligations when dealing with insistent clients (from 1 January 2018, see COBS 9.5A);

(12) 'non-joiner' is a *consumer* who declined or failed to join an *occupational pension scheme* for which they were or are eligible, while continuing in the relevant employment;

(13) 'normal retirement age' is the earliest age at which the *consumer* could have retired from the *defined benefit occupational pension scheme* without both their employer's consent and actuarial reduction;

(14) 'payment date' is the date that the redress is paid to the *consumer*;

(15) 'pension tranche' is an element of pension benefit which typically has a unique combination of revaluation increases before coming into payment and pension increases during payment, but may also have a unique payment starting age or payment end age;

(16) 'primary compensation sum' is the redress sum calculated in accordance with DISP App 4.3.20R;

(17) 'quarter' is the period of 3 *months* commencing 1 January, 1 April, 1 July and 1 October in each year;

(18) 'redress offer' is an offer of redress made to a *consumer* after a *firm* has determined that the *consumer* suffered loss as a result of non-compliant pension transfer advice;

(19) 'retirement date' is the *consumer's* presumed or alternative retirement date determined in accordance with DISP App 4.3.15R to 4.3.18R;

(20) 'secondary compensation sum' is the redress sum comprising the components in DISP App 4.3.29R(2);

(21) 'SERPS' is the state earnings related pension scheme;

(22) 'settlement date' is the date on which the *firm's* redress offer is accepted by the *consumer*;

(23) 'unauthorised payment' is defined in section 160 of the Finance Act 2004;

(24) 'unauthorised payment charges' include any tax charges levied pursuant to chapter 5, part 4 of the Finance Act 2004; and

(25) 'valuation date' is the date at which the benefits in the *defined benefit occupational pension scheme* and benefits in the DC pension arrangement must be valued for the calculation at Step 3 at DISP App 4.3.19R.

4.2 Application

App 4.2.1 G This appendix sets out the *rules* and *guidance* about the steps *firms* should take and the assumptions *firms* should use to:

(1) calculate the redress (if any) to offer to a *consumer*, their spouse or their dependant(s) for non-compliant pension transfer advice which resulted in the *consumer* transferring out of a *defined benefit occupational pension scheme* and into a *defined contribution pension scheme*; and

(2) make a redress offer to a *consumer* or their beneficiary.

App 4.2.2 R This appendix applies to any redress calculation and redress offer relating to non-compliant pension transfer advice arising as a result of:

(1) a *complaint* received by a *firm* on or after the commencement date;

(2) a *complaint* received before the commencement date where the *firm* has not issued a redress offer to the *consumer* on or before that date;

(3) the *FCA's* approach to supervising *firms* (SUP 1A.3);

(4) any other redress exercise carried out by a *firm*; and

(5) a requirement in CONRED 4 (British Steel Consumer Redress Scheme).

App4.2.3 R This appendix also applies to redress calculations and redress offers where a *firm* upholds a *complaint* received after 3 August 2016 about a *pension transfer* between 29 April 1988 and 30 June 1994 in circumstances where either:

(1) the *firm* did not review the relevant pension transaction in accordance with the regulatory standards or requirements applicable for the review of the transaction at the time; or

(2) the particular circumstances of the case were not addressed by those standards.

App4.2.4 G Where a *firm* upholds a *complaint* concerning a non-joiner, *pension opt-out* or *FSAVC* case, the firm may use this appendix as a basis for calculating and offering redress, to the extent that it is appropriate to do so and subject to the particular circumstances of the case.

App4.2.5 G (1) This appendix should be considered alongside applicable *rules* and *guidance* in DISP 1. Where this appendix does not address the particular and individual circumstances of a *consumer's complaint*, a *firm* should address such circumstances:

(a) in a way which is consistent with the *rules* and *guidance* in this appendix; and

(b) in accordance with their obligations in DISP 1.4.1R.

(2) *Firms* should also consider how the *Financial Ombudsman Service* has taken account of such circumstances when determining similar *complaints* (DISP 1.4.2G).

(3) To the extent that taking them into account would be consistent with a *firm's* obligations in this appendix and DISP 1.4.1R, relevant guidance in DISP 1.4.2G(3) includes the provisions designated by the Financial Services Authority in November 2001 in the Designation of Pensions Review Provisions Instrument 2001 (as amended).

(4) When calculating redress in accordance with this appendix, *firms* should:

(a) take into account all relevant factors, including any known or anticipated changes in circumstances which may impact on the value of the redress which would be appropriate; and

(b) act fairly when assessing what redress is appropriate in light of such circumstances.

(5) In DISP App 4.2.5G(4)(a), relevant changes in circumstances may include changes in the value of the *consumer's* notional rights in a ceding *defined benefit occupational pension scheme*, which are certain and quantified, and which are known, or reasonably ought to be known, by the *firm* at the calculation date.

App4.2.6 R A *firm* must use an *actuary* or an approach approved by an *actuary* when undertaking calculations in accordance with this appendix to calculate:

(1) the valuation of the benefits in a *defined benefit occupational pension scheme* given up by a *consumer*; and

(2) the value of the *consumer's* DC pension arrangement, where adjustments are necessary to obtain the current value.

App4.2.7 G

(1) A *firm* may use actuarial software which is compliant with technical actuarial standards to undertake the relevant calculations, to the extent that they have the competence to do so.

(2) The type of adjustments where *firms* should confirm their approach with an *actuary* include removing the effect of contributions into the *consumer's* DC pension arrangement that were not part of the cash equivalent transfer value.

(3) If a *firm* has had confirmation from an *actuary* that its approach to relevant elements of the valuation is appropriate, that approach can be used for materially similar cases without needing to obtain actuarial approval each time.

(4) If a *firm* lacks competence to carry out any parts of the redress calculation in this appendix, including rolling up payments to allow for the passage of time, it should refer to an *actuary*.

App4.2.8 R

(1) Notwithstanding this appendix, a *firm* may offer to arrange for the *consumer* to be reinstated into a *defined benefit occupational pension scheme*, where it is possible to do so, or offer to set up a pension arrangement with *safeguarded benefits* for the *consumer* in place of paying redress if it is agreed to by the *consumer*.

(2) A *firm* may only offer to set up a pension arrangement with *safeguarded benefits* (such as a deferred annuity or *pension annuity*) in place of the payment of redress after the *firm* has calculated and informed the *consumer* of the redress offer which would otherwise be payable in accordance with this appendix.

(3) Any pension arrangement with *safeguarded benefits* set up by the *firm* should provide benefits to the *consumer* which are no less than the value of the benefits the *consumer* would have received from their *defined benefit occupational pension scheme*.

(4) If a *firm* offers to set up a pension arrangement with *safeguarded benefits* in place of paying redress, the *firm* must:

(a) make a *personal recommendation* to the *consumer* about the suitability of the pension arrangement with *safeguarded benefits* which complies with the *rules* on assessing suitability in ■ COBS 9;

(b) clearly inform the *consumer* that they are not required to accept a pension arrangement with *safeguarded benefits* and can instead receive redress as a cash lump sum payment or by augmentation in accordance with ■ DISP App 4.3.33R; and

(c) not require the payment of any *fees* or *charges* by the *consumer* in connection with either the setting up of a pension arrangement with *safeguarded benefits* or the *personal recommendation* made by the *firm*.

4.3 Steps for redress calculation

App4.3.1 R A *firm* must take the 5 steps set out in this section to carry out a redress calculation.

App4.3.2 G The diagram at DISP App 4 Annex 3 explains the 5 steps for the redress calculation in diagrammatic form, with reference to the relevant sections of the *rules* and *guidance*. To the extent there is any inconsistency between the diagram and the *rules*, the *rules* will prevail.

Step 1: obtain the necessary information to calculate redress

App4.3.3 R The first step is for the *firm* to obtain the necessary information about the *consumer's*:

(1) DC pension arrangement;

(2) *defined benefit occupational pension scheme* or, if there is more than one *defined benefit occupational pension scheme*, the one which the *consumer* would most likely have had rights in if they had received compliant pension transfer advice determined in accordance with DISP App 4 Annex 1 16.1G to 16.5G;

(3) personal and financial situation; and

(4) preference for redress to be paid either as a cash lump sum, or by full or partial augmentation where it is possible to do so without the *consumer* incurring a tax charge or liability,

to enable it to complete the redress calculation and make a redress offer.

App4.3.4 R A *firm* is entitled to rely on information previously provided by the *consumer* unless it is aware or ought to be aware that the information is out of date, inaccurate or incomplete.

App4.3.5 G Information that may be relevant to calculating redress is set out at 2.

App4.3.6 R To obtain the necessary information required to calculate or offer redress, a *firm* must:

(1) identify whether there is any relevant information held on its client file or in publicly available records; and

(2) if the information in (1) is not sufficient or could have changed:

(a) request information from the *consumer*; and

(b) with the *consumer's* permission, contact the provider of the *consumer's* DC pension arrangement and *defined benefit occupational pension scheme* and, where relevant, HMRC or DWP to obtain the information.

App4.3.7 R When offering to calculate how much redress could be paid by full or partial augmentation, the *firm* must explain to the *consumer* that:

(1) the redress offer will be calculated on the basis that the redress will be invested prudently by the *consumer*; and

(2) augmenting a defined contribution pension scheme is one way in which the redress can be invested prudently.

App4.3.8 R Requests for information in DISP App 4.3.6R must be in a *durable medium*.

App4.3.9 R The *firm* must only make requests for information that are necessary for the redress calculation that the *firm* is carrying out and, in relation to requests made to the *consumer*, information which the *consumer* can reasonably be expected to provide.

App4.3.10 R (1) A *firm* must give a *consumer* a clear description of the information needed and explain why the information is needed to calculate redress and the consequence if the *consumer* does not provide the information.

(2) A *firm* must give a *consumer* at least 14 *days* from receipt of the request to respond to any request for information.

(3) If the *consumer* does not respond to the first request for information, or responds with insufficient information, the *firm* must make a second request for information and give the *consumer* at least 14 *days* to respond.

(4) If the *consumer* does not respond to the second request for information, or responds with insufficient information, the *firm* must contact the *consumer* again, indicating that the *firm* may have to discontinue the redress calculation if no reply is received.

(5) A *firm* may make one or more subsequent requests for information if the *consumer's* personal circumstances support the making of such further requests.

(6) A *firm* may make reasonable additional requests for information if the *consumer* requests that the *firm* calculate the redress offer by augmentation.

App4.3.11 G A *firm* should take care to adapt the procedures in DISP App 4.3.6R to 4.3.10R to the individual circumstances of the *consumer* and exercise sensitivity when requesting information about a *consumer's* personal circumstances. It may be appropriate to allow the *consumer* more time to provide a response or to make more attempts to contact the *consumer*.

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App4.3.12 R If, after following the procedures in ■ DISP App 4.3.6R to 4.3.10R, a *firm* does not have the necessary information about the *consumer's* DC pension arrangement, *defined benefit occupational pension scheme* and/or personal and financial situation to enable it to properly assess whether the *consumer* has suffered loss, the *firm* must:

(1) in the first instance, attempt to calculate redress on the basis of the information it holds; and

(2) if it is not possible to calculate redress without further information, consider whether it is appropriate to discontinue the redress calculation.

App4.3.13 G Before deciding to discontinue a redress calculation (see ■ DISP App 4.3.12R(2)), a *firm* should consider whether it can extrapolate from information on the client file or make assumptions based on public or generic sources of information (for example, on typical retirement ages for the *consumer's* occupation) to use in the redress calculation.

App4.3.14 G A *firm* is not required to repeat a redress calculation after it has communicated a redress offer if the *consumer* subsequently provides information about their *defined benefit occupational pension scheme* or personal and financial situation which was reasonably requested by the *firm* following the procedures in ■ DISP App 4.3.6R to 4.3.10R.

Step 2: determine when the consumer would have taken retirement benefits from the defined benefit occupational pension scheme

App4.3.15 R (1) The second step is for the *firm* to determine whether the *consumer* would have already taken retirement benefits from their *defined benefit occupational pension scheme* if, at or prior to the valuation date, they had remained a member of that scheme.

(2) To determine whether the *consumer* would have taken retirement benefits from their *defined benefit occupational pension scheme* at or prior to the valuation date, *firms* must apply the rebuttable presumption at ■ DISP App 4.3.16R.

App4.3.16 R A *firm* must presume that a *consumer* would have taken pension benefits from their *defined benefit occupational pension scheme* at their normal retirement age in their *defined benefit occupational pension scheme* or on death if their death preceded their normal retirement age.

App4.3.17 G The presumption in ■ DISP App 4.3.16R will be rebutted where the evidence shows that it is more likely than not that the *consumer* or a beneficiary would have taken benefits from their *defined benefit occupational pension scheme* on an alternative date. Examples of such evidence include:

(1) the *consumer* has used some or all of their transfer proceeds to purchase an annuity; or

(2) the *consumer* would have taken early or late retirement benefits from their *defined benefit occupational pension scheme*, having regard to:

(a) the *consumer's* demands, needs and intentions at the time of the *pension transfer* advice (evidence from the time of the advice is more likely to be relevant if it shows that the *consumer* had a considered plan for taking retirement benefits early from their *defined benefit occupational pension scheme*);

(b) any information gathered by the *firm* subsequently about the *consumer's* reasons or plans for accessing pension benefits from their DC pension arrangement; and

(c) any evidence that demonstrates that the *consumer* or members of their household changed or plan to change their working pattern at a similar time to the *consumer* taking regular benefits from their DC pension arrangement; or

(3) the *firm* has written confirmation that the *consumer* considers themselves to be retired from a date which is earlier than normal retirement age.

App 4.3.18 G The presumption in DISP App 4.3.16R is unlikely to be rebutted where there is:

(1) evidence from the time of the *pension transfer* advice that indicates that there is a risk that the *consumer's* intentions were influenced by the *firm's* non-compliant pension transfer advice; or

(2) evidence of irregular *pension commencement lump sum* withdrawals, particularly if the *consumer* is still working; or

(3) evidence of full withdrawal of a *pension commencement lump sum* unless:

the *pension commencement lump sum* is being or has been used for regular income payments; or

the *consumer* was in financial difficulty or in ill health at the time of the non-compliant pension transfer advice.

Step 3: carry out redress calculation

App 4.3.19 R The third step is for the *firm* to calculate whether (X) is greater than (Y) on the valuation date using the formula at DISP App 4.4.2R, where:

(1) (X) is the estimated value of the benefits in the *defined benefit occupational pension scheme* together with the difference in SERPS had the *consumer* remained a member; and

(2) (Y) is the value of the benefits from the *consumer's* DC pension arrangement.

App 4.3.20 R Where (X) is greater than (Y), the *consumer* has suffered a loss and the amount calculated is the primary compensation sum to be used when producing a redress offer at DISP App 4.3.29R.

Dates for calculation

App 4.3.21 R The valuation date must be the first day of the quarter (for calculations undertaken within that quarter).

App4.3.22 R The redress calculation date must fall within the same quarter as the valuation date but does not have to be the same date as the valuation date.

App4.3.23 R (1) Redress calculations must be based on the new assumptions available on the first day of each new quarter, using publicly available data from the final business day of the quarter immediately before.

(2) If a *firm* carries out a further redress calculation after expiration of the validity period in DISP App 4.3.24R and 4.3.25R, including following a settlement or award made by *Financial Ombudsman Service*, that calculation must be based on the new assumptions for the quarter in which it is carried out.

App4.3.24 R Redress calculations must remain valid for 3 *months* from the date the redress offer is sent to the *consumer*, irrespective of quarterly changes to the assumptions.

App4.3.25 R A *firm* must extend the validity of the redress calculation for a reasonable period of time if there are circumstances outside of the *consumer's* control which impact on the *consumer's* ability to accept or reject a redress offer.

App4.3.26 G (1) Circumstances outside of the *consumer's* control for the purposes of DISP App 4.3.25R include:

(a) errors by the *firm* in the carrying out the redress calculation which mean the redress calculation needs to be repeated or amended by the *firm*; and

(b) exceptional personal circumstances experienced by the *consumer*, including bereavement or incapacity.

(2) *Firms* should ensure that they treat the *consumer* fairly when determining a reasonable time for the validity of the redress calculation to be extended by.

Step 4: work out redress offer

App4.3.27 R A *firm* must offer a *consumer* redress that, as far as possible, puts the *consumer* into the position they would have been in if they had received compliant pension transfer advice.

App4.3.28 R Redress offers must be issued to the *consumer* promptly following the calculation date and within 3 *months* of the valuation date.

Redress components

App4.3.29 R The redress must consist of the sum total of:

(1) the primary compensation sum calculated in accordance with DISP App 4.3.19R and 4.3.20R, adjusted to take account of the *consumer's* tax position and any entitlement to means-tested state benefits; and

(2) a secondary compensation sum comprising any consequential losses, including any initial *adviser charges* on the DC pension arrangement and

the primary compensation sum at (1) in accordance with DISP App 4.3.32G, calculated using the formula at DISP App 4.4.19R; and

(3) an additional compensation sum to compensate the *consumer* for the lapse of time between the valuation date and the payment date calculated in accordance with DISP App 4 Annex 1 14.1G to 14.3G.

App 4.3.30 R A *firm* must adjust the redress offer to take account of:

(1) the *consumer's* individual tax position, including (if the *consumer* directs that all or part of the redress be paid by full or partial augmentation) allowances on pension contributions eligible for tax relief; and

(2) the *consumer's* entitlement to means-tested state benefits.

App 4.3.31 G (1) *Firms* should have regard to where the redress methodology in this appendix already factors in tax, such as when taking into account of *pension commencement lump sums*.

(2) Where redress is paid (or partially paid) by augmentation, a *consumer* will usually pay income tax when accessing their funds.

(3) A *firm* may adjust cash lump sum payments to take account of a notional deduction for tax on income from the *consumer's* pension.

(4) Where a cash lump sum payment could affect a *consumer's* entitlement to means-tested state benefits, a *firm* should take reasonable steps, with the agreement of the *consumer*, to ensure that the *consumer* does not suffer a reduction in income as a result of the redress payment. Steps that may be taken by a *firm* to prevent a *consumer* suffering a reduction in income may include:

(a) paying redress by full augmentation;

(b) paying redress as a cash lump sum up to an applicable capital or savings limit for the purposes of a state benefit eligibility means test, with the balance of the redress being paid by partial augmentation; or

(c) only after informing the *consumer* that they should seek free impartial guidance from an appropriate source, such as a Citizens Advice Bureau, cooperating with the *consumer* to put in place any arrangement, including the payment of redress in instalments over one or more future tax years:

(i) which the *consumer* has been informed would not affect their eligibility or income from means-tested state benefits;

(ii) which would not breach any regulatory requirement of the *firm*; and

(iii) if the arrangement involves the deferment of any part of the redress payable to the *consumer*, the *firm* pays an additional compensation sum in accordance with DISP App 4.3.29R(3), which is calculated to the payment date in respect of the deferred part.

(5) If a *firm* has clearly informed the *consumer* of reasonable steps that may be taken to avoid a reduction in their income from means-tested state benefits, the *firm* will not be acting in breach of PRIN 6 by continuing to

pay redress in accordance with this appendix if the *consumer* does not agree to any of those reasonable steps being taken.

App4.3.32 R Consequential losses must include the cost of initial *adviser charges* using the assumptions in DISP App 4 Annex 1 9.1G if the *consumer's* assumed retirement date is after the valuation date, and:

(1) the *consumer* is not in an ongoing advice arrangement with any *firm*; or

(2) the *consumer* is in an ongoing advice arrangement with the *firm* that gave the non-compliant pension transfer advice, where;

(a) the *firm* is charging the *consumer* more than the default ongoing *adviser charges* in DISP App 4 Annex 1 9.1G(2); and

(b) the *firm* will not provide an undertaking to reduce its ongoing *adviser charge* to the level of the default ongoing *adviser charge* (or lower) for the period to the *consumer's* assumed retirement date.

Means of payment

App4.3.33 R (1) A *firm* must always calculate and offer to pay the total amount of redress in DISP App 4.3.29R (with adjustments in DISP App 4.3.30R) as a cash lump sum payment.

(2) Where a *firm* has the necessary information, the *firm* may also calculate the redress offer to be paid by augmentation without receiving a request to do so from the *consumer*.

(3) If the *firm* calculates the redress that would be paid by augmentation, it must offer the *consumer* the option of the redress being paid by augmentation or by a lump sum cash payment.

(4) If, during the period in which a redress calculation remains valid in accordance with DISP App 4.3.24R to 4.3.26G, a *firm* is requested to calculate the redress payable by augmentation, it must carry out that calculation promptly.

(5) A *firm* must not charge the *consumer* for calculating how much of the redress could be paid by augmentation.

App4.3.34 G When calculating the sum that would be payable by augmentation, a *firm* must act prudently, taking account of uncertainty around the *consumer's* potential tax position at the end of the tax year, and determine the amount of the redress payment which could be paid by augmentation without exceeding the *consumer's*:

(1) allowance for personal contributions in the tax year;

(2) annual allowance, including any carry forward from previous tax years; or

(3) lifetime allowance.

App4.3.35 G (1) Factors which may be relevant to whether full or partial augmentation would result in a *consumer* exceeding their annual or lifetime allowance or allowance for personal contribution include:

(a) the *consumer's* relevant earnings in the current tax year;

(b) the value of all pension contributions already made in the current tax year;

(c) if the redress payment would result in the *consumer's* unused annual allowance in the current and previous 3 tax years being exceeded;

(d) the expected value of all pensions held by the *consumer* up to the age of 75;

(e) any lifetime allowance protections secured by the *consumer*;

(f) any applicable lifetime allowance protection enhancement factors;

(g) any benefit crystallisation events; and

(h) whether the *consumer's* money purchase annual allowance has been triggered.

(2) Unless DISP App 4.3.33R(2) applies, the *firm* may make reasonable requests for information from the *consumer* where it is necessary for the *firm* to calculate the amount of redress which could be paid by augmentation.

Step 5: communicate outcome of redress calculation

App 4.3.36 R The fifth step is for the *firm* to communicate the outcome of the redress calculation and any redress offer to the *consumer*.

App 4.3.37 R The communication in DISP App 4.3.36R must be in a *durable medium*.

App 4.3.38 R The communication in DISP App 4.3.36R must include the following information:

(1) An explanation of the redress calculation, including:

(a) confirmation that the redress has been calculated in accordance with the *FCA's rules* and *guidance* using an approach which has been approved by an *actuary*; and

(b) an explanation that the redress calculation takes account of the market conditions at the valuation date and this could mean that the redress might be different if it was calculated on a different date; and

(c) the information and assumptions used in the redress calculation, including:

(i) the retirement date used in the calculation; and

(ii) whether the *firm* has determined that the *consumer* would have retired in their *defined benefit occupational pension scheme* at or prior to the valuation date and if so:

(A) the basis for this determination;

(B) the impact of the determination on the valuation of the *consumer's defined benefit occupational pension scheme* (including the percentage reduction applied for early retirement) and, where the actual reduction for the *consumer's defined benefit occupational pension scheme* has not been used in the calculation, an explanation of the approach used and its impact on the redress offer; and

(C) any assumptions made about the allowance for the *pension commencement lump sum* including, where the actual commutation factors for the *consumer's defined benefit occupational pension scheme* have not been used in the calculation, an explanation of the approach used and its impact on the redress offer; and

(iii) if late retirement factors for the *consumer's defined benefit occupational pension scheme* have not been used in the calculation, an explanation of the approach used in the calculation by the *firm* and its implications for the redress offer;

(iv) the value the *firm* has placed on any illiquid or unquoted assets and the reasons for that valuation;

(v) the level of future investment returns assumed by the calculation, including an invitation for the *consumer* to review their current investment strategy to ensure it is in line with this assumption; and

(vi) the level of any charges, including product, platform and *adviser charges*, that the *consumer* is currently paying compared to the level assumed in the redress calculation, including any allowance made for initial advice from a new adviser; and

(vii) any assumption made about the *consumer's* marital or civil partnership status;

(viii) if there is more than one *defined benefit occupational pension scheme* which the *consumer* could have had rights in, the information required by 1 16.1G to 16.5G;

(ix) whether the *consumer's defined benefit occupational pension scheme* has entered or is in the Pension Protection Fund assessment period and, if so, any future increases to the value of the *consumer's* benefits which are certain and quantified, and which are known, or reasonably ought to be known, by the *firm* at the calculation date; and

(x) where *RPI*, *CPI* or earnings inflation rates are used in the redress calculation, an explanation of the published rate underlying the rate used and its source (for example, the Bank of England website) where it can be checked by the *consumer*, without any adjustment for annualisation.

(2) An explanation of the redress offer, including:

(a) if there is no loss on the valuation date, a clear explanation of why this is the case; and

(b) if the result is a loss on the valuation date:

(i) the total amount of redress calculated, with the primary compensation sum and the secondary compensation sum shown separately;

(ii) confirmation that if the redress offer is accepted by the *consumer*, the redress paid by the *firm* will be increased to include the additional compensation sum;

(iii) an offer to make payment of redress as a cash lump sum;

(iv) the warning in the form at DISP App 4.3.39R;

(v) if it has not already been requested by the *consumer*, an offer to calculate free of charge the redress that would be payable by full or partial augmentation; and

(vi) an explanation of how the *consumer's* tax position and entitlement to state benefits has been taken into account, including an allowance for any tax charges for which the *consumer* will be liable (and where the *consumer* is responsible for any payment of tax, this should be made clear and a recommendation that they contact HMRC provided).

(3) The terms and conditions of any redress offer, including the following information:

(a) a statement requesting that the *consumer* review the assumptions used in the redress calculation and explaining that they may raise any questions about them with the *firm*;

(b) that the redress offer is valid for a 3-*month* period from the date it is issued to them, during which period the *consumer* can consider their options and the offer will remain open for acceptance;

(c) how to request that the *firm* calculate the redress that would be paid if the *consumer* directs for the redress to be paid by full or partial augmentation;

(d) how to accept or reject the redress offer; and

(e) the process for resolving any *complaints* about the redress calculation or redress offer.

App4.3.39 R Where any of the redress is paid in the form of a cash lump sum to the *consumer*, a *firm* must provide:

(1) a warning that this amount, in addition to the pension value in the *consumer's* DC pension arrangement, is intended to provide the *consumer* with the equivalent retirement income they would have received if they had not transferred out of their *defined benefit occupational pension scheme*, but only as long as the *consumer* invests it prudently; and

(2) a warning that if the *consumer* does not invest the redress prudently, they risk losing out on the retirement income their redress amount is meant to provide; and

(3) information about trusted sources of free advice and guidance on making investment decisions and avoiding investment scams, such as Pension Wise, *MoneyHelper* and the *FCA's* 'Scam Smart' guidance; and

(4) an explanation of the risk and consequences of making an unauthorised payment, including the risk of unauthorised payment charges being levied.

App4.3.40 R When a *firm* communicates a redress offer to a *consumer*, it should:

(1) take reasonable steps to communicate in a way that is fair, clear and not misleading;

(2) take into account the information needs of the *consumer*, including their understanding of financial services; and

(3) where possible, use plain language and avoid the use of jargon, unfamiliar or technical language.

4.4 Redress calculation

App 4.4.1 G

(1) This section sets out the formula to complete the redress calculation at Step 3 (DISP App 4 Annex 1), using the assumptions in DISP App 4 Annex 1 to calculate the capitalised values of the *consumer's defined benefit occupational pension scheme* pension benefits (had they remained in the scheme) and any gains or losses arising from changes in the *consumer's* SERPS and DC pension arrangement.

(2) The formula is set out at DISP App 4.4.2R with *rules* and *guidance* for how to calculate the components (A) to (H) at DISP App 4.4.4R to 4.4.18R.

(3) There is technical guidance on the calculation of the components (A) to (H) at DISP App 4.5.

App 4.4.2 R

To complete the redress calculation at Step 3 (DISP App 4.3.19R), a *firm* must undertake the following computation at the valuation date:

(A) + (B) + (C) – (D) - (E) - (F) - (G) + (H)

where:

(1) A is the capitalised value of pension benefits which would not yet have been taken from the *defined benefit occupational scheme*;

(2) B is the capitalised value of future death benefits before the *consumer's* retirement date, to the extent not already included in A, which would have been payable from the *defined benefit occupational pension scheme*;

(3) C is the accumulated value of past payments which would have been paid to the *consumer* from the *defined benefit occupational pension scheme* between the *consumer's* retirement date and the valuation date;

(4) D is the current value of the DC pension arrangement;

(1) E is the accumulated value of past benefits paid to the *consumer* or beneficiary from the *consumer's* DC pension arrangement from the retirement date to the valuation date;

(6) F is the capitalised value of previously secured annuity benefits which will be paid from the *consumer's* DC pension arrangement to the valuation date;

(7) G is the value of any increase in SERPS as a result of the transfer; and

(8) H is the value of any reduction in SERPS as a result of the transfer

App 4.4.3 G The *consumer* has suffered a loss if the computation in DISP App 4.4.2R is greater than zero.

Calculation of value of A

App 4.4.4 G A is the capitalised value of pension benefits which would not yet have been taken from the *defined benefit occupational scheme*.

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App 4.4.5 R To calculate the value of A in DISP App 4.4.2R(1):

(1) where:

(a) the *consumer's* retirement date would have been prior to the valuation date; or

(b) a beneficiary would have received benefits prior to the valuation date because the *consumer* is deceased,

use the sum of [K x L x M - (N/O)] x P x Q] across all pension tranches; or

where the retirement date is after the valuation date, use the sum of [K x LA x MA x QA x R x S] across all pension tranches.

App 4.4.6 R For the purpose of DISP App 4.4.5R(1) or (2):

(1) K is the annual value of the pension at the date on which the *consumer* left active membership, split by each pension tranche;

(2) L and LA are the cumulative revaluation factors for each pension tranche from the date of leaving active membership to the retirement date (including the date of the *consumer's* death), where:

(a) L is based on known revaluation;

(b) LA is based on known and assumed revaluation, where the assumed revaluation is based on the relevant assumptions in DISP App 4 Annex 1 3.1G to 5.1G;

(3) M and MA are the early or late retirement factor applicable to each pension tranche at the retirement date, determined in accordance with DISP App 4 Annex 1 11.1G and 11.2G;

(4) N is the assumed *pension commencement lump sum* which would have been taken from each pension tranche, determined in accordance with the technical guidance at DISP App 4.5.4G;

(5) O is the *pension commencement lump sum* commutation factor applicable to each pension tranche, determined in accordance with DISP App 4 Annex 1 11.3G;

(6) P is the cumulative known pension increases, including discretionary increases, that would have been applied to each pension tranche from the retirement date or the date beneficiary payments commenced, to the valuation date, in accordance with the scheme rules;

(7) Q is the relevant annuity factor to apply to each pension tranche at the valuation date, taking into account the guidance on relevant annuity

factors in ■ DISP App 4.5.1G and made up of the assumptions at ■ DISP App 4 Annex 1, including those relating to:

(a) the initial post-retirement discount rate (which allows for the annuity pricing margin) at ■ DISP App 4 Annex 1 7.1, based on the discounted mean term at the valuation date;

(b) post-retirement pension increases, as amended by the Black Scholes model at ■ DISP App 4 Annex 1 6.1, where relevant;

(c) mortality at ■ DISP App 4 Annex 1 10.1G;

(8) QA is the relevant annuity factor to apply to each pension tranche at the retirement date, taking into account the guidance on relevant annuity factors in ■ DISP App 4.5.1G and made up of the assumptions in ■ DISP App 4 Annex 1, including those relating to:

(a) the final post-retirement discount rate (which allows for the annuity pricing margin and the adjustment for the *pension commencement lump sum*), based on the discounted mean term at the retirement date;

(b) post-retirement pension increases, as amended by the Black Scholes model, where relevant; and

(c) mortality assumptions;

(9) R is the discount factor for the period from the valuation date to the retirement date, based on the pre-retirement discount rate, netted down by product and *adviser charges*, following the technical guidance at ■ DISP App 4.5.3G and using the relevant assumptions in ■ DISP App 4 Annex 1; and

(10) S is the probability of survival for the period from the valuation date to the retirement date, using the relevant assumptions in ■ DISP App 4 Annex 1 10.1G.

Calculation of value of B

App4.4.7 G B is the capitalised value of future death benefits before the *consumer's* retirement date which may have been payable from the *defined benefit occupational pension scheme*.

App4.4.8 R To determine the value of B in ■ DISP App 4.4.2R(2), a *firm* must:

(1) identify the lump sum and regular pension payments that would be payable on the death of the *consumer* between the valuation date and the retirement date, based on the *defined benefit occupational scheme* rules; and

(2) calculate the present value of the potential payments:

(a) using the pre-retirement discount rate, netted down for charges, from ■ DISP App 4 Annex 1 8.1G;

(b) allowing for the probability of each payment being made, using the mortality assumptions in ■ DISP App 4 Annex 1 10.1G; and

(c) allowing for any pension increases in payment that would be applied to regular payments, using the assumptions in ■ DISP App 4 Annex 1 6.1G.

Calculation of value of C

App 4.4.9 G C is the accumulated value of past payments which would have been paid to the *consumer* from the *defined benefit occupational pension scheme* between the *consumer's* retirement date and the valuation date, taking into account the guidance on taxation of past payments at DISP App 4.5.18G.

App 4.4.10 R To determine the value of C in DISP App 4.4.2R(3), a *firm* must, for each pension tranche:

(1) assume the value is zero if the retirement date is after the valuation date;

(2) if the retirement date is before the valuation date, use the factors K, L, M, N, O and P from DISP App 4.4.6R to determine the level of the *pension commencement lump sum* and each scheme pension payment which would have been made to the *consumer* or their beneficiaries;

(3) adjust each payment to reflect the tax which would have been paid, reflecting the guidance on taxation of past payments at DISP App 4.5.18G;

(4) apply an accumulation rate to each payment, at the rate specified in DISP App 4 Annex 1 12.1G between the date of payment and the valuation date, allowing for changes in the rate over time; and

(5) calculate the sum of all the accumulated payments which would have been made.

Calculation of value of D

App 4.4.11 G D is the current value of the DC pension arrangement.

App 4.4.12 R To determine the value of D in DISP App 4.4.2R(4), a *firm* must:

(1) use the value of all investments and holdings within the *consumer's* DC pension arrangement at the valuation date, in accordance with the technical guidance at DISP App 4.5.5G;

(2) where any payments were made from the DC pension arrangement prior to the retirement date:

(a) identify all payments made before the retirement date;

(b) apply an accumulation rate to each payment, at the rate specified in DISP App 4 Annex 1 12G between the date of payment and the valuation date, allowing for changes in the rate over time; and

(c) add the total of all the accumulated payments in (2)(b) to the value in (1);

(3) deduct the accumulated value of any contributions and transfers to the DC pension arrangement, allowing for investment returns, not resulting from the *pension transfer* advice; and

(4) add on the present-day value of any cash enhancements paid to the *consumer* in connection with the transfer, in accordance with the technical guidance at DISP App 4.5.5G and using the assumption at DISP App 4 Annex 1 13.1G.

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Calculation of value of E

App4.4.13 G E is the accumulated value of past benefits paid to the *consumer* or beneficiary from the *consumer's* DC pension arrangement from the retirement date to the valuation date, taking into account the guidance on taxation of past payments at DISP App 4.5.18G;

App4.4.14 R To determine the value of E in DISP App 4.4.2R(5), a *firm* must:

(1) identify all payments from the assumed retirement date to the valuation date, net of tax actually incurred, including:

(a) *pension commencement lump sums;*

(b) *uncrystallised funds pension lump sums*;

(c) *income withdrawals*; and

(d) annuity payments;

(2) apply an accumulation rate to each payment, at the rate specified in DISP App 4 Annex 1 12.1G between the date of payment and the valuation date, allowing for changes in the rate over time; and

(3) calculate the sum of all the accumulated payments which would have been made.

Calculation of value of F

App4.4.15 G F is the capitalised value of previously secured annuity benefits which will be paid from the *consumer's* DC pension arrangement after the valuation date.

App4.4.16 R To determine the value of F in DISP App 4.4.2R(6), a *firm* must calculate the value of:

(T) x (U)

where:

(1) T is the annual value of the annuity income at the valuation date;

(2) U is the relevant annuity factor to apply to the current level of the secured annuity income at the valuation date, following the guidance at DISP App 4.5.1G and made up of the assumptions in DISP App 4 Annex 1, including those relating to:

(a) the initial post-retirement discount rate (which allows for the annuity pricing margin) based on the discounted mean term at the valuation date;

(b) pension increases that apply to the secure annuity income, as amended by the Black Scholes model, where relevant; and

(c) mortality assumptions.

Calculation of value of G and H

App4.4.17 G G is the value of any increase in SERPS as a result of the transfer and H is the value of any reduction in SERPS as a result of the transfer, only if the transfer took place prior to 6 April 2016.

App 4.4.18 G To determine the value of G and H a *firm* should have regard to the technical guidance in DISP App 4.5.11G.

Calculation of value of initial adviser charges (consequential loss)

App 4.4.19 R To determine the value of any initial *adviser charges*, *firms* must:

(1) calculate the value of all the elements of the computation in DISP App 4.4.2R;

(2) add the value in (1) to the current value of the *consumer's* DC pension arrangement;

(3) multiply the result by the relevant assumed percentage initial *adviser charges* in DISP App 4 Annex 1 9.1G;

(4) where the resulting initial *adviser charges*:

(a) exceed the maximum level for the *initial adviser charges* in DISP App 4 Annex 1 9.1G, set the *initial adviser charges* to the maximum level; or

(b) fall below the minimum level for the initial *adviser charges* in DISP App 4 Annex 1 9.1G, set the *initial adviser charges* to the minimum level.

4.5 Technical guidance

Annuity values

App 4.5.1 G When calculating the relevant annuity factor to value future payments from either the *defined benefit occupational pension scheme* or a guaranteed income previously secured from the proceeds of the DC pension arrangement, *firms* should allow for:

(1) the form of the payments they are valuing, such as the proportion of spouse's benefits on death, frequency and timing of payments, annual increases, remaining guaranteed payment and whether survivor payments are with or without overlap relative to the guaranteed period;

(2) the proportion married:

(a) where the presumed retirement date is after the valuation date, using the assumptions in DISP App 4 Annex 1 10.3G;

(b) where the presumed retirement date is prior to the valuation date:

(i) using the actual marital/civil partnership status; or

(ii) where the actual marital/civil partnership status is not known, using the assumption that the *consumer* is unmarried or not in a civil partnership; and

(3) the possibility that there may be other dependants who could have received benefits under the rules of the *defined benefit occupational pension scheme* or under the contract of any previously secured guaranteed income, and the same principles should be applied to such dependants.

Scheme benefits and rules

App 4.5.2 G When calculating the value of benefits in the *defined benefit occupational pension scheme*, *firms* should take account of the differences in pension tranches. This includes tranches such as bridging pensions which are payable only for a fixed period. The valuation of benefits should take account of how the *consumer's defined benefit occupational pension scheme* provided for the interaction of any guaranteed minimum pension (GMP) tranches with the rest of the scheme benefits (the excess) when pensions are revalued in deferment and increased in payment, including the impact of anti-franking legislation.

Discount factor

App 4.5.3 G When the presumed retirement date is after the valuation date, DISP App 4.4.6R(9) requires firms to use a discount factor ('R') to discount the annuity value at the future retirement date to the present day. The discount factor should be calculated as:

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where:

(1) r is the pre-retirement discount rate net of charges, as set out in DISP App 4.5.15G; and

(2) n is the term to retirement.

Pension commencement lump sums

App 4.5.4 G (1) Where the retirement date is at or prior to the valuation date, a *firm* should assume that the *consumer* would have commuted the maximum *pension commencement lump sum* permitted by legislation, using the actual lump sum commutation factors at the retirement date, unless:

(a) the *consumer* has used the full value of their DC pension arrangement to secure a guaranteed annuity income, in which case *firms* should use the actual *pension commencement lump sum* taken by the *consumer* where this is lower than the maximum permitted by legislation from the *defined benefit occupational pension scheme*; or

(b) a *pension commencement lump sum* was payable in addition to the pension benefit in which case an adjustment should be made to assume the *consumer* took the maximum lump sum permitted overall (including the additional lump sum); or

(c) the *pension commencement lump sum* could have been funded by an additional voluntary contribution fund or a defined contribution section within the *defined benefit occupational scheme*, in which case *firms* should assume that those sources would have been used first to take the maximum permitted under legislation.

(2) A *firm* should base the order of commutation on the *defined benefit occupational pension scheme* rules but, where this is not known, the commutation should be proportionate across all pension tranches, excluding any guaranteed minimum pension.

(3) A *firm* must make reasonable efforts to obtain the actual lump sum commutation factors at the retirement date from the ceding scheme.

(4) For the purposes of (3), where a *firm* has information on the commutation factors available either side of the retirement date, or other relevant information, it should use that information to derive the expected factors at the retirement date.

(5) Where the information in (4) is not available or is insufficient to determine the appropriate factors, a *firm* should use the default rate in ■ DISP App 4 Annex 1 11.3G.

(6) Where a different tax regime (to that currently in force) would have applied at the point of a *consumer's* retirement, this should be taken into account when calculating the maximum permitted by legislation.

Valuing the DC pension arrangement

App4.5.5 G Step 1 at ■ DISP App 4.3.3R(1) requires a *firm* to collect the necessary information about the *consumer's* DC pension arrangement. This information should include the value of the investments and holdings within the *consumer's* DC pension arrangement at the valuation date.

App4.5.6 G (1) If an up-to-date valuation is not readily available for an investment (for example, if the investment is held in illiquid or unquoted assets or because the manager or provider of the DC pension arrangement is unable to provide a valuation), a *firm* should take the following action to place a value on those investments:

(a) where the investment is illiquid or unquoted but there is a realistic probability of receiving value from an asset, obtain the most recent historical valuation and, unless there is clear evidence that the value has otherwise materially changed, increase it in line with the consumer price index from the date of the historical valuation to the valuation date;

(b) where the investment is liquid, such as a fund, calculate the notional value of the fund by on the valuation date using available information. For example, using the known number of units and an available unit price, or a last known value and the change in the unit price (and allowing for known charges);

(c) where the investment is illiquid or unquoted and appears to have no realisable value, and there is no recent historical valuation, the *firm* should disregard the value of the investment.

(2) When deciding what action to take to place a value on investments, a *firm* should consider the reason why a valuation is not readily available for the investment and, in particular, seek to identify whether assets could be:

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(a) associated with a scam;

(b) associated with illegal activity; or

(c) subject to insolvency procedures.

(3) Where the only available valuation of an investment is the book value, a *firm* should consider whether the book value is representative of what could realistically be realised from the investment and, if appropriate, adjust the valuation accordingly, which may include disregarding 100% of the book value of the investment.

(4) Where a *consumer* received a cash enhancement (which was paid in addition to and not as part of the cash equivalent transfer value), a *firm* should calculate the current value of the cash enhancement by increasing it in line with returns indicated in the relevant assumptions in DISP App 4 Annex 1, from the date of payment to the valuation date.

Early and late retirement

App4.5.7 G When a *consumer* is presumed to have retired at a date which they would not have been able to retire in the *defined benefit occupational pension scheme*, then the retirement date used to value the *defined benefit occupational pension scheme* benefits should be the earliest date at which the *consumer* could have retired from the *defined benefit occupational pension scheme*.

App4.5.8 G Early and late retirement factors at the retirement date are key items of data and every attempt should therefore be made to obtain them. Where it is not possible to obtain the relevant information, a *firm* should use the default rates in DISP App 4 Annex 1. These factors should be applied to the pension revalued to early/late retirement date.

Other policies in conjunction with the transfer

App4.5.9 G Any additional policies taken out in conjunction with the transfer (eg, life cover with a S.32) to replace life cover provided by the scheme should be taken into account. Consequently, where a claim arises under these policies, the amount paid offsets the loss. Where the investor has paid for this cover, the loss should be increased by the accumulated value of the premiums paid accumulated at bank base rates. This adjustment should be strictly limited both in terms of claims and premiums to that proportion of the benefits under the additional policies that replaced those under the scheme.

Contracted-out schemes

App4.5.10 G Where retirement took place following a transfer from a contracted-out scheme, the precise formula depends on whether the contracted-out pension rights were also transferred. If they were not transferred, then they should not be taken into account when assessing loss.

Adjustment for SERPS

App4.5.11 G (1) A SERPS adjustment is not needed when the *consumer* transferred out or opted out of their contracted-out *defined benefit occupational pension scheme* from 6 April 2016.

(2) Where contracted-out pension rights from the *defined benefit occupational pension scheme* were transferred into the DC pension arrangement/section 32 buyout plan before 6 April 2016, a *consumer's* state pension entitlement may differ from that which would have been payable had the transfer not taken place.

(3) Allowance should be made for this difference by making a SERPS adjustment which values the difference in the *consumer's* state pension entitlement before and after the transfer. A *firm* will need to obtain the detailed information on the *consumer's* state pension entitlement to assess the impact on their starting amount of state pension.

Pension increases in deferment (revaluation)

App4.5.12 G

(1) When the *defined benefit occupational pension scheme* provides fixed rates of revaluation, a *firm* should use fixed rates for future revaluation.

(2) When the *defined benefit occupational pension scheme* provides revaluation increases based on *RPI*, *CPI and earnings inflation*, a *firm* should try to obtain information on how the scheme applies increases. This would include the month in which each index is both sourced and applied.

(3) A *firm* should apply increases for guaranteed minimum pensions for complete tax years.

(4) Unless the *defined benefit occupational pension scheme* provides otherwise, a *firm* should treat benefits linked to inflation as increasing by inflation over the whole period of revaluation rather than on a year-by-year basis. A *firm* should not make an adjustment for an individual year of negative inflation.

(5) When the *defined benefit occupational pension scheme* provides for pre-retirement pension increases to be capped on an annual basis, the Black-Scholes model should be applied for future revaluation assumptions, consistent with the approach for pension increases in payment in DISP App 4 Annex 1 6.1G.

Pension increases in payment

App4.5.13 G Where a *firm* values income benefits with increases in payment which are:

(1) fixed, they should use those fixed rates; or

(2) dependant on *RPI* or *CPI*, they should use the relevant assumptions in DISP App 4 Annex 1.

Multiple product providers

App4.5.14 G Where the transfer value was split between 2 product providers, the loss may be assessed in 2 parts, with the occupational scheme benefits split in proportion to the transfer value.

Ongoing charges

App4.5.15 G

(1) Where the *consumer's* retirement date is after the valuation date, DISP App 4.4.6R(9) requires a *firm* to net down the pre-retirement discount

rate for the default product and *adviser charges* using the relevant assumptions in ■ DISP App 4 Annex 1. Ongoing *adviser charges* should be included in all circumstances.

(2) When netting down the pre-retirement discount rate, a *firm* should use the following formula:

[(1 + i%) x (1 - c%)] – 1

where:

(a) i% is the pre-retirement discount rate (unadjusted for charges) each year; and

(b) c% is the sum of the default product and *adviser charges* each year.

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Free standing additional voluntary contributions performance comparator

App4.5.16 G Where *firms* need to make an assumption on returns within an in-house additional voluntary contribution arrangement, they should use the relevant assumption in ■ DISP App 4 Annex 1.

Death of the consumer before the valuation date

App4.5.17 G Where the *consumer* died before the valuation date, either before or after retiring, *firms* should apply the principles of the formulae in ■ DISP App 4.4.2 to ■ 4.4.19R.

Taxation when valuing past payments

App4.5.18 G (1) When a *firm* is valuing past payments made before the valuation date where the *consumer* has died or would have retired if they had remained in their *defined benefit occupational pension scheme*, it should value the payments from the:

(a) DC pension arrangement net of any actual tax incurred; and

(b) notional payments from the *defined benefit occupational pension scheme* using the tax rate that would have applied if these payments had been made.

(2) App 4.5.18G(1) does not apply when a *firms* is rolling up past payments made from the DC pension arrangement to add back into the value of the DC pension arrangement where the *consumer* would not yet have retired from their *defined benefit occupational pension scheme*.

Assumptions for calculation of redress

This Annex belongs to DISP App 4.4.

1	**Assumption updates**				
1.1	R	(1)	A *firm* must use the following assumptions which are updated quarterly:		
			(a)	the *RPI* inflation rate;	
			(b)	the *CPI* inflation rate;	
			(c)	the post-retirement discount rate; and	
			(d)	the pre-retirement discount rate.	
		(2)	Redress calculations must be based on the new assumptions available on the first day of each new quarter, using publicly available data from the final business day of the quarter immediately before.		
		(3)	*Firms* must use the updated mortality assumptions in DISP App 4 Annex 1 at 10.1G from 1 April each year.		
2	**Alternative assumptions**				
2.1	R	A *firm* must not use assumptions that are less conservative than those specified in DISP App 4 Annex 1 . Where this appendix does not address the particular and individual circumstances of a *consumer's complaint*, a *firm* should address those circumstances in accordance with the guidance at DISP App 4.2.5G.			
2.2	G	Where a *consumer* is likely to be disadvantaged by applying a pre-retirement discount rate calculated in accordance with DISP App 4 Annex 1 8.1G, *firms* should apply an appropriate alternative discount rate which reasonably reflects the expected rate of return from the *consumer's* DC pension arrangement investments to avoid that disadvantage.			
3	**RPI inflation**				
3.1	G	(1)	A *firm* should use the *RPI* inflation rate which is based on the 'UK instantaneous implied inflation forward curve (gilts)' published by the Bank of England by taking:		
			(a)	the spot rate for the number of integer years to retirement, for a pre-retirement *RPI* inflation rate; or	
			(b)	a derived forward rate commencing from the date of retirement for the number of integer years indicated by the discounted mean term, for a post-retirement *RPI* inflation rate, using the approach set out in DISP App 4 Annex 1 7.1G.	
		(2)	A *firm* should use the 40-year rate where the number of integer years exceeds 40.		
		(3)	A *firm* should use the rate for the shortest term available on the curve (including half-years) where the number of integer years required is fewer than shown in the curve.		
		(4)	A *firm* should deduct an inflation risk premium of 0.2% from the pre-retirement *RPI* when deriving a *RPI* inflation rate for pre-retirement revaluation increases and the pre-retirement discount rate (but not for post-retirement increases).		

(5) A *firm* should round the *RPI* inflation rate to the nearest 0.05% unless it is being used to derive another assumption.

4 Consumer Price Index (CPI) inflation

4.1 G (1) A *firm* should deduct an unrounded *CPI* adjustment factor from the unrounded *RPI* inflation rate, then round the resulting *CPI* inflation to the nearest 0.05%.

(2) A *firm* should derive the pre-retirement *CPI* adjustment (to apply to the pre-retirement *RPI* rate) as follows:

(a) if 20YY + a ≤ 2030, an adjustment of 1.0%; or

(b) if 20YY + a > 2030, an adjustment determined by the result of the formula:

$$\frac{[1\% \text{ x } (2030 - 20YY)] + 0.5\%}{\text{a}}$$

where:

(i) the calculation has a valuation date in year 20YY;

(ii) the *consumer* has a term to retirement of x years where:

a ≤ x < b

(and a and b are the integer values either side of x); and

(iii) a > 0 (as the pre-retirement inflation assumptions are not required when a=0).

(3) A *firm* should derive the post-retirement *CPI* adjustment (to apply to the post-retirement *RPI* rate) as follows:

(a) if 20YY + a > 2030, a rate of 0%; or

(b) if 20YY + a ≤ 2030, a rate determined by the result of the formula:

$$\frac{[1\% \text{ x } (2030 - 20YY - \text{a})] + 0.5\%}{\text{d}}$$

where:

(i) the calculation has a valuation date in year 20YY;

(ii) the *consumer* has a term to retirement of x years where:

a ≤ x < b

(and a and b are the integer values either side of x); and

(iii) the *consumer* retires at an age with associated discounted mean term of d.

5 Earnings inflation

5.1 G A *firm* should use earnings inflation of CPI + 1% whenever they need to project benefits which are earnings related, such as those which increase in line with an order made under section 148 of the Social Security Administration Act 1992, by:

(1) taking the relevant *CPI* spot inflation rate, derived in line with the (unrounded) approach for setting the *CPI* assumption; and

		(2)	rounding the resulting earnings inflation rate to the nearest 0.05%.
6	**Pension increases in payment**		
6.1	G	(1)	Where a pension tranche increases in payment with either *RPI* or *CPI* and the scheme rules impose a cap and/or a floor, the pension increase assumption should be derived using a standard Black Scholes model with an inflation volatility of 1.0%.
		(2)	The final assumption in (5.1G(1)) should be rounded to the nearest 0.05%.
7	**Post retirement discount rate**		
7.1	G	To calculate the initial post-retirement discount rate, *firms* should:	

(1) determine the relevant rate on the Bank of England nominal government bond (gilt) yield curve, using the following formula:

$$\left(\frac{(1 + r)^{(n+d)}}{(1 + rs)^{n}}\right)^{\left(\frac{1}{d}\right)} - 1$$

where:

(a) r is the spot rate for a term equal to the sum of the integer period to retirement and the relevant discounted mean term;

(b) rs is the spot rate for the integer period to retirement;

(c) n is the integer number of years to retirement; and

(d) d is the discounted mean term;

(2) derive an 'initial rate' by deducting 0.6% from the rate in (1) above, as an allowance for annuity pricing margins.

7.2 G (1) Where the *consumer's* presumed date of retirement is after the valuation date, *firms* should use the discounted mean term in the table below based on the *consumer's* age at the presumed date of retirement; otherwise, they should use the discounted mean term based on the *consumer's* age at the valuation date:

Age	Discounted mean term
55	23
60	20
65	16
70	13
75	11

(2) Where the *consumer's* age is in between the ages shown in the tables, *firms* should use linear interpolation to derive the discounted mean term, and round the resulting figure to the nearest integer.

(3) Where the *consumer's* age is higher than the ages shown in the tables, *firms* should derive the discounted mean term by extrapolation, and round the resulting figure to the nearest integer.

7.3 G Where the consumer's date of retirement is after the valuation date, firms should derive a final post-retirement rate, as follows:

(1) (a) 75% of the initial rate, plus;

(b) 25% of the initial rate plus 1.6%; or

(2) by modifying the approach in DISP App 4 Annex 1 7.3G(1) to reflect where a *pension commencement lump sum* was payable in addition to the pension income in the *defined benefit occupational pension scheme*.

7.4	G	*Firms* should round the final post-retirement rate to the nearest 0.05%.		
8	**Pre-retirement discount rate**			
8.1	G	(1)	Where the retirement date is after the valuation date, the pre-retirement discount rate represents the assumed rate of return for the period from the valuation date to the *consumer's* retirement date and targets a rate of return of one-half of the return on equities.	
		(2)	A *firm* should round down the period of retirement to the number of integer years remaining to the retirement date.	
		(3)	A *firm* should derive the pre-retirement discount rate as follows:	
			0.5 x [(1 + *CPI* spot inflation rate) x (1+ average dividend yield) x (1 + growth in dividends) - 1]	
			where:	
			(a)	the *CPI* spot inflation rate is derived in line with the (un-rounded) approach for setting the *CPI* assumption;
			(b)	the average dividend yield is taken as the arithmetic average of the dividend yield on the FTSE All Share Index of the last business day over the last 4 quarter ends; and
			(c)	the growth in dividends is assumed to be 1.0 % each year.
		(4)	*Firms* should round the final assumption to the nearest 0.05% per annum.	
9	**Charges**			
9.1	G	(1)	Default product charges: 0.75% each year.	
		(2)	Default ongoing *adviser charges*: 0.5% each year.	
		(3)	Default initial *adviser charges*: 2.4% of investment value.	
		(4)	Minimum initial advice amount: £1,000.	
		(5)	Maximum initial advice amount: £3,000.	
10	**Demographic assumptions**			
10.1	G	A *firm* should use pre and post-retirement mortality assumptions based on:		
		(1)	the year of birth mortality 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; and	
		(2)	mortality improvements derived from 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%] in equal parts for the year commencing 1 April 20YY.	
10.2	G	A *firm* should use the actual age of a spouse or civil partner who is eligible for benefits on the *consumer's* death unless their age is unknown, in which case the *firm* should assume they are the same age as the *consumer*.		
10.3	G	(1)	Where the presumed date of retirement is after the valuation date, *firms* should use the *consumer's* current marital/civil partner status to determine which status to use at the presumed date of retirement, using the table below:	

Term to retirement (in years)	Married/Civil partner	Not married/No civil partner
0	100%	0%
5	95%	10%
10	90%	20%
15	85%	30%
20	80%	40%
25	75%	45%
30	70%	50%
35	70%	55%
40	70%	55%

(2) When deriving status rates from the table in (1), *firms* should:

(a) interpolate for terms that are not shown and round to the nearest 1%; and

(b) not apply any adjustments for mortality of the spouse/civil partner before the retirement date.

(3) Where the retirement date is prior to the valuation date, a *firm* should use the *consumer's* actual marital/civil partner status, at the valuation date, where known.

(4) Where the actual marital/civil partnership status is not known, a *firm* should use the assumption that the *consumer* is not married or in a civil partnership.

11 Default factors for early retirement, late retirement and lump sum commutation

11.1 G Where the date of retirement is at or prior to the valuation date and the actual early retirement factors are unknown, *firms* should use a default early retirement factor of 4.0% per annum compound, applied after the pension has been revalued to the assumed date of retirement, and assuming the factor is compounded for the number of years, n, to retirement as follows: $(1 – 0.04)^n$.

11.2 G Where the *consumer* has already passed their normal retirement age and the actual late retirement factors are unknown, *firms* should use a default late retirement factor of 5.0% per annum compound, applied after the pension has been revalued to the late date of retirement.

11.3 G Where the date of retirement is prior to the valuation date and the actual lump sum commutation factor is unknown and cannot be reasonably determined from other available information, *firms* should use a default lump sum commutation factor of 20.

12 Accumulation rate for rolling up past payments to the valuation date

12.1 G To calculate the accumulated value of past payments at the valuation date, a *firm* should ensure the accumulation rate from the date of payment to the valuation date reflects the cumulative return, as if each payment had been invested in line with the Bank of England Base Rate over the period.

12.2 G The cumulative return for each past payment should reflect changes in the Bank of England Base Rate over the period by compounding the relevant rates over the period, using the following approach:

$$\prod_{1}^{t}(1 + i_t)^{\left(\frac{n_t}{365}\right)}$$

where:

t is the number of different Bank of England Base Rates that applied over the period from the date of payment of a past payment to the valuation date;

it is the Bank of England Base Rate, for each t; and

		nt is the number of days that each Bank of England Base Rate applies in the period.		
13	**Cash enhancement rate of return**			
13.1	G	The cash enhancement rate of return is: 50% of the return on the FTSE 100 Total Return Index.		
14	**Additional compensation sum**			
14.1	G	Where the date of retirement is after the valuation date, *firms* should increase the redress amount using a rate equal to the pre-retirement discount rate (with an adjustment for charges) between the valuation date and the payment date.		
14.2	G	Where the date of retirement is at or prior to the valuation date, *firms* should increase the redress amount using a rate equal to the post retirement discount rate (with no adjustment for annuity pricing or *pension commencement lump sums*) between the valuation date and the payment date.		
14.3	G	To calculate the additional compensation sum, firms should derive a factor as follows:		
		$(1 + r)^{t/365}$		
		Where:		
		r is the rate in DISP App 4 Annex 1 14.1G or 14.2G, as appropriate; and		
		t is the number of days from the valuation date to the payment date, not counting the payment date itself, and where the valuation date is Day 1.		
15	**Free standing additional voluntary contributions comparator returns**			
15.1	G	The benchmark index for the rate of return within an in-house additional voluntary contribution arrangement is:		
		(1)	the CAPS 'mixed with property' fund, for returns prior to 1 January 2005; and	
		(2)	the FTSE UK Private Investor Growth Total Return Index for returns from 1 January 2005.	
16	**Correct comparator scheme**			
16.1	G	(1)	For the purpose of this appendix, the *firm* must treat a *consumer* as having a *defined benefit occupational pension scheme* if immediately before the *pension transfer* or *pension conversion* the *consumer* had rights in a *defined benefit occupational scheme* but would now be entitled to rights or benefits from any of the following if they had not been transferred or converted:	
			(a)	the Pension Protection Fund, whether during an assessment period or after the entry of the ceding *defined benefit occupational pension scheme*; or
			(b)	any registered pension scheme offering *safeguarded benefits*.
16.2	G	(2)	If there is more than one *defined benefit occupational pension scheme* that the *consumer* could have had rights in if they had not transferred to the DC pension arrangement, the *firm* should calculate the primary compensation sum using the *defined benefit occupational pension scheme* that the *consumer* would most likely have had rights in if the *firm* had provided compliant pension transfer advice.	
		(3)	When determining which *defined benefit occupational pension scheme* the *consumer* would have had rights in, the *firm* should consider all of the evidence available to it and which it could reasonably obtain.	

(4) If the *defined benefit occupational pension scheme* used by the *firm* when calculating redress is likely to produce a primary compensation sum that is lower than would be the case if another *defined benefit occupational pension scheme* had been used, the *firm* should explain:

(a) why the *firm* considers the redress offer would be higher if another *defined benefit occupational pension scheme* had been used as the comparator;

(b) why it considers the *consumer* would most likely have had rights in the *defined benefit occupational pension scheme* used over other options;

(c) the evidence and information considered by the *firm* when determining which *defined benefit occupational pension scheme* to use when calculating the primary compensation sum; and

(d) how the *consumer* can challenge the *defined benefit occupational pension scheme* used by the *firm* if they disagree with the *firm's* decision.

(5) For *consumers* who were members of the British Steel Pension Scheme, *firms* should determine the correct comparator scheme to use in accordance with CONRED 4 Annex 21 13.21R to 13.26R.

Information for redress calculation

This Annex belongs to DISP App 4.3.5G.

The following information may be relevant to the redress calculation:

Category	Information needed
Information about the *consumer*	•Date of birth (DOB) •Date of death (if applicable) •Marital or civil partnership status •Spouse or civil partner's DOB •Children's ages if the *consumer* has children who pension benefits would potentially be payable to •Whether the *consumer* is assumed to have retired and, if so, the date at which the *consumer* is assumed to have retired •Information to help determine any adjustment to take the *consumer's* tax position into account: oannual taxable income oexpected total contributions to *consumer's* DC pension in the tax year in which redress is being paid oannual allowance carry forward from previous years ocurrent lifetime allowance usage oexpected future lifetime allowance usage odetails of any lifetime allowance protections omarginal tax rate expected in retirement
Information about the *consumer's* former DB scheme	•Date of leaving active service in the DB scheme ('DOL') •Section •Annual DB pension at DOL split by tranche, as applicable to each section, including GMP splits •Automatic lump sum entitlement due at retirement at DOL split by tranche, as applicable to each section •Normal retirement age applying to each tranche •Early and later retirement factors

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Category	Information needed
	•Confirmation of any lower unreduced retirement age that applies to any tranches due to any enhanced early retirement provision •Amount of any other associated benefits (eg, bridging pension, death benefit entitlements pre- and post-retirement) •PCLS factors in force at date of retirement •Details of any adjustment applicable to the transfer as part of a pension sharing order entered into
Information about the *consumer's* current DC pension (relating to funds from the transfer)	•Date of transfer out of the DB scheme •Fund value at valuation date •Percentage-based product charges and *adviser charges*, including annual management charges •Product and adviser non-percentage charges, including ongoing *adviser charges* •Amount of any PCLS taken and dates of payment •Amount of any funds accessed flexibly and dates of payments •Date of any annuity purchased •Annuity terms (if applicable): oamount oincreases (*RPI* linked, *CPI* linked, applicable cap, applicable floor) ospouse's pension – proportion on death oremaining guarantee period from the valuation date opayment in arrears or advance opayment frequency

Redress steps in diagrammatic form

This Annex belongs to ■ DISP App 4.3.2G.

The diagram illustrates the steps to take to calculate redress and to make a redress offer.

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