PENSION PROJECTIONS INSTRUMENT 2002

Powers exercised

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

(1) section 138 (General rule-making power);

(2) section 156 (General supplementary powers);

(3) section 157 (1) (Guidance).

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

Commencement

C. This instrument comes into force on 1 November 2002.

Amendment to COB and the Glossary

D. The Conduct of Business sourcebook and the Glossary are amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Pension Projections Instrument 2002.

By order of the Board
17 October 2002

Annex

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

Amendments to the Conduct of Business sourcebook

COB Transitional Rules

COB TR 1 Transitional Rules for pre-N2 and ex-Section 43 firms

1 Table

(1)	(2) Material to which the transitional provision applies: The COB provisions in Table COB TR2 with the labels indicated	(3)	(4) Transitional Provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1.0	Extra time provisions				
1.1	*ETP*1	R	Transitional Relief (1) A pre-N2 *firm* will not contravene any of the provisions labelled *ETP1* in Table *COB TR* 2 to the extent that, on or after *commencement*, it is able to demonstrate that it has complied with the *corresponding rule* of its *previous regulator* or, where applicable, the relevant former statutory requirement, subject to any modification wherever appropriate, to take account of the passing of the *Act*. (2) Paragraph (1) does not apply to the following: …	(1) *com-mencement* to 30 June 2002, except as specified in (2) and (3) below; (2) for *COB* 9.3.105R, from *commencement* to 31 December 2002;	*commencement*

			(f) (from 6 April 2003) *COB* 6.6.51 R (b) (Rate of return assumptions)), *COB* 6.6.83 R (Assumptions for pension annuities), *COB* 6.6.84 R (Assumptions for pension annuities), *COB* 6.6.90 R (3) and *COB* 6.6.91 R (Required assumptions). ~~[Further exceptions to be added, later, as described in row 1.1A]~~	(3) for *COB* 3.9.10R, *COB* 4.2.15E (7), *COB* 5.3, *COB* 5.7, *COB* 6.1 to 6.8 until a date yet to be specified.	
1.1 A	*ETP* 1 (for *COB* 6.1 – 6.8)		(1) … ~~(2) *Firms* should be aware, however, that the *FSA* proposes to make rules, before the disclosure review is complete, to deal with the following matters:~~		
			~~(b) Projections for *pension schemes* or *stakeholder pension schemes* (see CP 134).~~		
			(2) Interim changes to these *rules* may not benefit from this transitional relief. ~~(3) The *FSA* envisages that when the relevant *rules* are made, they will not benefit from the transitional arrangements set out in the *COB* Transitional Rules. For further information on the *FSA's* approach, *firms* should refer to the consultation papers mentioned above. If other interim changes to these *rules* are proposed, a similar approach is likely to be adopted.~~		

COB Miscellaneous Transitional Rules

1 Table

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional Provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
2	*COB* 6.5.18R and *COB* 6.6	R	Pension projections A *firm* will not contravene a *rule* in *COB* 6.5.18R or COB 6.6 provided it complies with the version of that *rule* in force on 31 October 2002.	From 1 November 2002 to 5 April 2003	1 November 2002

6.5.18 R (1) All *projections* included in *key features*, except a specimen *projection* in a decision tree for a *stakeholder pension scheme*, must be calculated in accordance with *COB* 6.6 (Projections), using the lower, intermediate and higher rates of return in *COB* 6.6.50 R, and followed by the appropriate statements from *COB* 6.6.15 R.

(2) In addition, if the *projection* in (1) is for a *pension scheme* or a *stakeholder pension scheme*, a *firm* may also include a *type P projection* in the *key features* (see *COB* 6.6.34 R (5)). The pension must assume increases linked to the retail prices index using the appropriate intermediate rate in *COB* 6.6.51 R.

6.6.5 R ~~The *rules* in *COB* 6.6 do~~ *COB* 6.6.4R does not apply to a *firm* when it provides a *projection*:

(6) of the benefits payable under *a* ~~*money-purchase occupational scheme* or arrangement~~ *pension scheme* or a *stakeholder pension scheme* if they were:

(a) calculated and issued in accordance with regulations made under section 113 of the Pensions Schemes Act 1993; or

(b) calculated and issued as in (a) and, in addition, includes one or more of the following benefits:

(i) the projected fund at the *projection date*; or

(ii) the cash sum and the residual pension in real terms; or

(iii) the pension in real terms calculated assuming a rate of return 1% per annum less than that prescribed in the regulations; or

(c) calculated as in (a) or (b) but where the illustration of benefits is not required to be issued under the regulations by reference to proximity to the *projection date* or the small size of the fund.

6.6.5A G (1) A revised *projection* to take account of a different marital status or *projection date* will fall within the exception in *COB* 6.6.5 R (6) as long as it meets the conditions of that *rule*.

(2) Where the exception in *COB* 6.6.5 R (6) does not apply and a *firm* provides a real value *projection* for a *pension scheme* or a *stakeholder pension scheme*, then normally it would be a *type P projection* if in terms of prices or a *type Q projection* if in terms of earnings. The calculation method is set out in *COB* 6.6.34 R (5).

6.6.8 R (3A) If the *projection* is a *type P projection* or a *type Q projection*, the basis used for increases in *premiums* or contributions must be disclosed.

(4) Other than a *type P projection* or a *type Q projection*, ~~W~~where a *projection* is given which makes allowance for increases in *premiums* or contributions, the *premium* or contribution in the final year must be shown (or, where the rate of possible future increments is based upon rates of growth in a salary or index, details of that salary or index).

6.6.9 R (1) A *firm* may provide a generic *projection* for illustrative purposes based on a single rate of investment return only in the following circumstances:

(a) in a *financial promotion* (other than a *direct offer financial promotion*) which comprises a table (or extracts from a table) published by a newspaper, magazine or other periodical publication, or by the *firm* itself, which compares illustrative *projections* from at least five *product providers*; or

(b) where the purpose is to indicate the likely cost of a proposed *transaction*; or

(c) to provide an estimate of the additional *premium* or contribution required to achieve a specified target; or

(d) when providing a *type P projection* or a *type Q projection*.

6.6.11 R A *projection* in respect of the protected rights for an *appropriate* *personal pension* must, for the purpose of comparison, include a *projection* which:

(1) is calculated to the *customer's* State retirement age, using the lower and higher real rates of return ~~of x% and y% ('x' and 'y' are the real rates of return referred to~~ specified in *COB* 6.6.52 R~~)~~, together with a statement of the benefits which the minimum contributions would secure if the *customer* did not take out an *appropriate personal pension*;

(2) ~~includes, immediately after the comparison, the statement: 'These figures are only meant to give you a rough idea how the value of the pension you might get compares with the benefit you would be giving up under the State Earnings Related *Pension scheme*. The statements made after the main illustration also apply to this comparison;~~[deleted]

…

6.6.12 G *COB* 6.6.11 R (1) to (3) require that, where the contract is in respect of contracting-out of the State ~~Earnings Related~~ Second Pension~~*Scheme*~~, there should be a comparison using real rates of return of the benefits being given up and the relevant contract. *COB* 6.6.11 R (4) permits additional *projections* provided that the differences are described.

6.6.13 R A *projection* for *income withdrawals* from a personal pension or *stakeholder pension scheme* ~~with *income withdrawals*~~:

(1) must include:

…

6.6.15 R (1) The statements in *COB* 6.6.16 R must accompany each *projection* for a *life policy* or *scheme* as indicated, except a generic *projection* given in accordance with *COB* 6.6.9 R (see *COB* 6.6.17 R), or a protected rights *annuity projection* calculated in accordance with *COB* 6.6.11 R (see *COB* 6.6.18 R).

(2) For a *pension scheme* or *stakeholder pension scheme,* the appropriate statement from item 4 of *COB* 6.6.16 R must appear immediately after the *projection.*

(3) Where a *pension scheme* or *stakeholder pension scheme projection*, using monetary rates of return in *COB* 6.6.51 R, is provided at the same time as a *type P projection* or a *type Q projection*, the appropriate statement from *COB* 6.6.16.4 R must appear immediately after the *projection*. The remainder of the appropriate statements in *COB* 6.6.16 R need only be included once, as long as the *firm* makes it clear that these statements apply to both types of *projection.*

6.6.16 R Table Statements to accompany projections of life policies, schemes or stakeholder pension schemes (excluding generic

projections and protected rights annuity projections)
This table belongs to COB 6.6.15 R

Statements to accompany projections of life policies, schemes or stakeholder pension schemes (excluding generic projections and protected rights annuity projections)
1. These figures are only examples and are not guaranteed – they are not minimum or maximum amounts. What you will get back depends on how your investment grows and on the tax treatment of the investment.
2. [You could get back] [your retirement fund could be] more or less than this.
3. All *firm*s use the same rates of growth for *projections* but their charges vary. [They also use the same rates to show how funds may be converted into pension income].
4. ~~Do not forget that inflation would reduce what you could buy in the future with the amounts shown.~~ ~~4.~~ (a) Do not forget that inflation would reduce what you could buy in the future with the amounts shown. (b) This illustration shows, in today's prices, the pension that might be payable when you retire. This means we have allowed for future inflation to give you an indication of how much you would be able to buy with your pension if it were payable today.
5. [Your pension income will depend on how your investment grows and on interest rates at the time you retire].
6. These rates of return are not necessarily appropriate [for contracts written in] [for units traded in] [for shares traded in] currencies other than sterling.
7. Benefits may also be affected by fluctuations in exchange rates.
Note: In respect of statement 4, the *firm* must include the appropriate statement (a) or (b). Statement 5 applies to *pension contracts* only and statements 6 and 7 apply to non-sterling *investments* only.

6.6.18 R Table Statements to accompany projections for protected rights contracts
This table belongs to COB 6.6.15 R

Statements to accompany projections for protected rights *contracts*
1. These figures are only meant to give you a rough idea of the amount of pension you might get compared with the benefit that you would be giving up under the State ~~Earnings Related~~ Second Pension.

6.6.34 R (5) A *type P projection* or a *type Q projection* must be calculated as follows:

(a) the relevant *premium* for the *pension scheme* or *stakeholder pension scheme* must be used;

(b) the relevant *premium,* with allowance for *premium* increases as specified in *COB* 6.6.48A R, must be accumulated to the *projection date* at the intermediate monetary rate of return detailed in *COB* 6.6.51 R subject to charges and expenses (as described in *COB* 6.6.23 R) and the cost of risk benefits;

(c) the *retirement fund* from (b) must then be converted to a real *retirement fund* by discounting from the *projection date* using the rate of increase in the retail prices index (for *type P projection*) or the rate of increase in earnings (for *type Q projection*) in *COB* 6.6.48A R;

(d) the pension must be calculated from the real retirement fund using the appropriate intermediate rate in *COB* 6.6.51 R, using the mortality tables in *COB* 6.6.84 R, the format in *COB* 6.6.82 R (7) and expenses in *COB* 6.6.83 R.

6.6.36 R (5) A *type P projection* or, a *type Q projection* must be calculated in accordance with *COB* 6.6.34 R (5) but substituting "contribution" for "*premium*" throughout.

6.6.37 R (1) A *projection* must be rounded down to not more than three significant figures.

(2) Where the *projection*, other than a *projection* in real terms of a *pension contract* or *stakeholder pension scheme*, is less than the amount guaranteed under the *life policy* or *scheme*, the *projection* must be increased to that guaranteed amount.

(3) Where a *customer* is entitled, and has expressed the intention, to increase the *premium* or contribution by an amount linked to future salary or other index increases, the relevant *premium* or contribution may be calculated:

(a) for a *type P projection* or a *type Q projection*, making allowance for increases at the relevant rate set out in *COB* 6.6.48A R; and

(b) for all other cases, by making allowance for such increases on the same basis as that used for administration charges in *COB* 6.6.47 R.

6.6.39 R (1) Any *projection* of an annuity with one or more years to maturity must show an annuity value based on the higher and lower rates of return as set out in *COB* 6.6.50 – *COB* 6.6.52, and make allowance for:

(a) mortality (as set out in *COB* 6.6.84 R) and also in the case of *life policies*, morbidity appropriate to the class of *customers*; and

…

6.6.41 R (1) The *retirement fund* for a *protected rights annuity* under as *appropriate personal pension scheme* or *stakeholder pension* *scheme* must be calculated by accumulating the relevant contribution less charges and expenses (as described in *COB* 6.6.23 R) at the ~~two~~ relevant rates of return for the period.

(a) The relevant period is either:

(i) where the relevant contribution is a minimum contribution from the 1st September following the end of the tax year to which the minimum contribution relates up to the maturity date; or

(ii) where the relevant contribution is a transfer value, from the commencement of the contract up to the maturity date.

(b) The ~~two~~ relevant rates of return are:

(i) in the case of a *protected rights annuity projection* issued in accordance with *COB* 6.6.11 R (1), the real rates of return in *COB* 6.6.52 R; or

(ii) in the case of any other *protected rights annuity projection*, ~~either~~ the ~~real or~~ monetary ~~lower and higher~~ rates of return *COB* 6.6.5~~2~~1 R.

(2) The annuity must be calculated by reference to the *retirement fund* using the ~~lower and higher~~ relevant rates of return set out in *COB* 6.6.51 R or 6.6.52 R, with allowance for mortality (as set out in *COB* 6.6.84R)~~appropriate to the class of *customers*~~, charges and expenses and the relevant increase in payment.

Pension ~~contracts~~ schemes or stakeholder pension schemes

6.6.42 R (1) An additional *projection* may be given for a *pension scheme*~~*contract*~~ or *stakeholder pension scheme* where the period to maturity is five years or less. This:

(a) may be calculated using the intermediate rates of return specified in *COB* 6.6.51 or 6.6.52 R;

(b) may use a current annuity rate calculated using a rate of return no higher than the higher rate specified in *COB* 6.6.51R or 6.6.52 R.

(2) If the *firm* providing the *projection* offers annuities, it must use its own annuity rates.

6.6.46 R In respect of *policies* with reviewable administration charges:

(1) a *firm* must make allowance for increases in administration charges which are reviewable at the *firm*'s discretion, on a basis which:

(a) is fair and reasonable; and

(b) takes into account the *firm*'s pricing *policy* as regards future levels of administration charges;

(2) increases must be assumed at the appropriate rates of increase in *COB* 6.6.48A R for *type P projections* and *type Q projections* and the rates in *COB* 6.6.47 R for other *projections*, for any contracts where:

(a) an administration charge is reviewable by the *firm* (whether or not any increases are contractually linked to an external index); or

(b) expenses in respect of future renewal or claims costs are expressed as monetary amounts.

Rate of inflation assumptions

6.6.48A R For *pension schemes* and *stakeholder pension schemes*, the following rates of inflation must be used when calculating *type P projections* or *type Q projections*:

(1) rate of increase in the Retail Prices Index (for *type P projections*): 2.5%;

(2) rate of increase in earnings (for *type Q projections*): not less than 1.5% in excess of the rate of increase in the Retail Prices Index in (1) .

6.6.51 R Table Rate of return assumptions for pension contracts and stakeholder pension schemes excluding contracts for immediate annuities and protected rights annuities issued in accordance with COB 6.6.11 R (1).
This table belongs to COB 6.6.49 R

Rate of return assumptions for pension contracts and stakeholder pension schemes excluding contracts for immediate annuities and protected rights annuities issued in accordance with COB 6.6.11R(1)	Lower Rate	Intermediate rate	Higher rate
(a) in deferment ~~– either monetary or real rates of return may be provided~~			
Monetary rates of return	5%	7%	9%
~~Real rates of return~~	~~1%~~	~~N/A~~	~~3%~~
(b) after vesting – ~~(monetary or real rates as used for period of deferment under a) above)~~			
Monetary rates of return	~~4%~~Y+1%	~~6%~~Y+3%	~~8%~~Y+5%
For annuities linked to the retail price index	~~2%~~Y-1%	~~3%~~Y%	~~4%~~Y+1%

Rate of return assumptions for pension contracts and stakeholder pension schemes excluding contracts for immediate annuities and protected rights annuities issued in accordance with COB 6.6.11R(1)	Lower Rate	Intermediate rate	Higher rate
For annuities linked to LPI (limited price indexation)	~~2%~~Y-1%	~~3.5%~~Y%	~~5%~~Y+1%
Note: For the after vesting rates of return: Y= 0.5 * (ILG5 + ILG0) and rounded to the nearest 0.2%, with an exact 0.1% rounded down where: ILG5 is the real yield on the FTSE Actuaries Government Securities Index-linked Real Yields over 5 years assuming 5% inflation, and ILG0 is the real yield on the FTSE Actuaries Government Securities Index-linked Real Yields over 5 years assuming 0% inflation. The ILG0 and ILG5 yields to be used in the calculation of Y are the yields on the 15 February, or, where necessary, the previous working day. The rate of return Y must be updated on the following 6 April each year and used up to and including 5 April of the next year.			

6.6.80 (4) ~~for a pre April 1997 *protected rights annuity*: use Factor (4);~~[deleted]

(5) For a ~~post April 1997~~ *protected rights annuity*: use Factor (5).

6.6.82 R (6) Where there are ~~*customer*s have post April 1997~~ *protected rights* funds and ~~are~~ the person is not expected to be married at retirement, an illustration of single life pensions may be provided. The factor must be calculated using the same assumptions as formula (5) in *COB* 6.6.81 R but ignoring the reversionary annuity part of the formula.

(7) For *type P projections*, the annuity should assume 50% spouse's reversionary pension unless the *firm* has evidence that a different assumption would be more appropriate.

6.6.83 R In the formulae in *COB* 6.6.81 R, the allowance for expenses (E) is 4% for all annuities.

~~(1) for index-linked annuities: 3.5%~~

~~(2) for all other annuities: 4%~~

6.6.84 R In the formulae in *COB* 6.6.81 R, mortality rates must be calculated as follows:

(1) the mortality tables to be used are ~~is P80~~ PMA92 (for males) and PFA92 (for females) appropriate to the individual's year of birth; these tables are published by the Faculty of Actuaries and Institute of Actuaries~~, amounts, with the mortality~~

~~improvements projected forward to 2010, and with one year deducted from age;~~
….

6.6.90 R (3) If an annuity interest rate different from the ~~*FSA* annuity rate~~Annuity Interest Rate (as ~~described~~specified in *COB* 6.6.91 R) is used, it must be the interest rate for annuities in payment provided that it is a multiple of 0.5% per annum and must not exceed ~~the *FSA* annuity rate for zero years to retirement~~ the Annuity Interest Rate.

6.6.91 R Table Assumptions to be made
This table belongs to COB 6.6.90 R

Annuity Interest Rate ("AIR")	~~As published by the FSA from time to time [the FSA annuity rate]~~ Formula
	The intermediate after vesting monetary rate of return in *COB* 6.6.51R(b)
Retail prices index	~~AIR – 3%~~ 2.5%
Average earnings index ("AEI") and section 21 orders	~~AIR – 1.5%~~4.0%
Pre-retirement limited price indexation revaluation	~~AIR – 3% (maximum 5%)~~ 2.5%
Post-retirement limited price indexation increases	~~AIR – 3% (maximum 5%)~~ 2.5%
Index-linked pensions	~~AIR – 3%~~ The rate of intermediate return in *COB* 6.6.51 R for annuities linked to the retail price index
Note: The interest rate in deferment must not be assumed but calculated as required by *COB* 6.6.92R.	

Amendments to the Glossary

Insert the following new definitions in the appropriate alphabetical position:

Type P projection (in relation to a *pension scheme* or a *stakeholder pension scheme*) a *projection* in real value terms based on prices where the period to the *projection date* is one year or more.

Type Q projection (in relation to *pension scheme* or a *stakeholder pension scheme*) a *projection* in real value terms based on earnings where the period to the *projection date* is one year or more.

Amend the following definition as shown (underlining indicates new text):

projection date the date to which <u>the</u> *projection* is made.