

CONDUCT OF BUSINESS SOURCEBOOK (PENSION TRANSFER VALUE ANALYSIS) (AMENDMENT) INSTRUMENT 2012

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power); and
 - (b) section 156 (General supplementary powers); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 January 2013.

Amendments to the Handbook

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Conduct of Business Sourcebook (Pension Transfer Value Analysis) (Amendment) Instrument 2012.

By order of the Board
31 October 2012

Annex A**Amendments to the Glossary of definitions**

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>CPI</i>	the Consumer Prices Index.
<i>limited price indexation</i>	in relation to transfer value analysis, benefits which increase in line with a recognised index but subject to a minimum and/or maximum rate.
<i>RPI</i>	the Retail Prices Index.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

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

19.1 Pension transfers and opt-outs

Preparing and providing a transfer analysis

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19.1.4 R When a *firm* compares the benefits likely to be paid under a *defined benefits pension scheme* with the benefits afforded by a *personal pension scheme* or *stakeholder pension scheme* (COBS 19.1.2R(1)), it must:

(1) assume that:

(a) the annuity interest rate is the intermediate rate of return appropriate for a level or fixed rate of increase annuity in (COBS 13 Annex 2 3.1R(6)) unless COBS 19.1.4BR applies or the rate for annuities in payment (if less);	
(b) the retail prices index <u>RPI</u> is	2.5%
(c) the average earnings index and the rate for section 21 orders is	4.0%
(d) <u>for benefits linked to the RPI</u> , the pre-retirement <i>limited price indexation</i> revaluation is	2.5%
(e) the annuity <u>interest rate</u> for post-retirement limited price increases <u>limited price indexation</u> based on the <u>RPI</u> with maximum <u>pension</u> increases less than or equal to 3.5% or with minimum <u>pension</u> increases more than or equal to 3.5% is the rate in (a) above <u>allowing for increases at the maximum rate of pension increase</u> ; otherwise it is the rate in (f) below;	
(f) the index linked pensions <u>annuity interest rate for pension benefits linked to the RPI</u> is the intermediate rate of return in COBS 13 Annex 2 3.1R(6) for annuities linked to the retail prices index <u>RPI</u> unless COBS 19.1.4BR applies;	
(g) the mortality rate used to determine the annuity is based on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PCMA00 and PCFA00 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;	

<u>(h) for benefits linked to the <i>CPI</i>, the pre-retirement <i>limited price indexation</i> revaluation is</u>	<u>2.0%</u>
<u>(i) the index linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the intermediate rate of return in <i>COBS 13 Annex 2 3.1R(6)</i> for annuities linked to the <i>RPI</i> plus 0.5% unless <i>COBS 19.1.4BR</i> applies in which case it is the annuity rate in <i>COBS 19.1.4BR</i> plus 0.5%;</u>	
<u>(j) the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0% or with minimum pension increases more than or equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or equal to 3% but less than 3.5% the annuity rate is the rate in (a) above allowing for increases at the minimum rate of pension increase otherwise it is the rate in (i) above;</u>	

or use more cautious assumptions;

(2) calculate the interest rate in deferment; and

(3) have regard to benefits which commence at difference times.