Defined Benefit Advice – CP19/25

Stockport September 2019

This information is for UK financial advisers only and should
Not be distributed to or relied upon by another person.

SCOTTISH WIDOWS

KEY LEARNING OBJECTIVES

01

Understand all of the proposals contained in CP19/25

02

Understand the context and market drivers behind these proposed changes

03

Discuss and agree what best practice looks like in the context of these proposed changes

04

Awareness of ongoing work by the FCA to assess suitability of DB advice and the timelines involved

FINAL SALARY ADVICE – THE CURRENT LANDSCAPE

DB IN THE NEWS

DB transfer activity ticks up as market fails to cool

By Justin Cash | 13th June 2019 10:45 am

Pension transfer activity has ticked up over the last month, latest data suggests, bucking an impression that the market was beginning to cool.

The latest XPS Transfer Activity Index has shown a slight increase in the number of transfers that the administration business processed during May compared to the month before.

The transfers processed imply a slightly higher proportion of eligible members cashed out, at 0.94 per cent in May compared to 0.87 per cent in April.

Transfer values were also boosted by a fall in government bond yields over the month, but ended May slightly down on their figure at the end of April.

An example member would have received £241,500, compared to £242,300 at the end of the previous month.

Final salary schemes + Add to myFT

Record number of savers abandon final salary pension schemes

Amount transferred out to defined contribution plans jumps to £20.8bn in 2017

Josephine Cumbo, Pensions Correspondent MAY 18, 2018 268

The amount of money flowing out of traditional "final salary" pension schemes more than doubled last year, as record numbers of savers traded guaranteed retirement benefits for cash lump sums.

Figures released by the Financial Conduct Authority following a freedom of information request show that the amount of pension cash transferred out of final salary, or "defined benefit", schemes to riskier "defined contribution" plans jumped from £7.9bn in 2016 to £20.8bn in 2017.

Leave or Remain? The final salary pension decision

Final salary pensions may be gold-plated, but are you also sitting on a transferrable gold mine? Neil Adams of Drewberry Wealth weighs up the pros and cons of transferring to a personal pension, and offers a way to calculate your potential benefits.

Pensions Regulator continues work on DB transfer template for advisers

By Michael Klimes | 6th June 2019 11:18 am

The Pensions Regulator head of policy Fiona Frobisher speaking at the Money Marketing Retirement Summit this morning

IFAs should manage their expectations about how much a defined benefit transfers template will improve the market, The Pensions Regulator says, but a good practice guide will offer a useful "starting point".

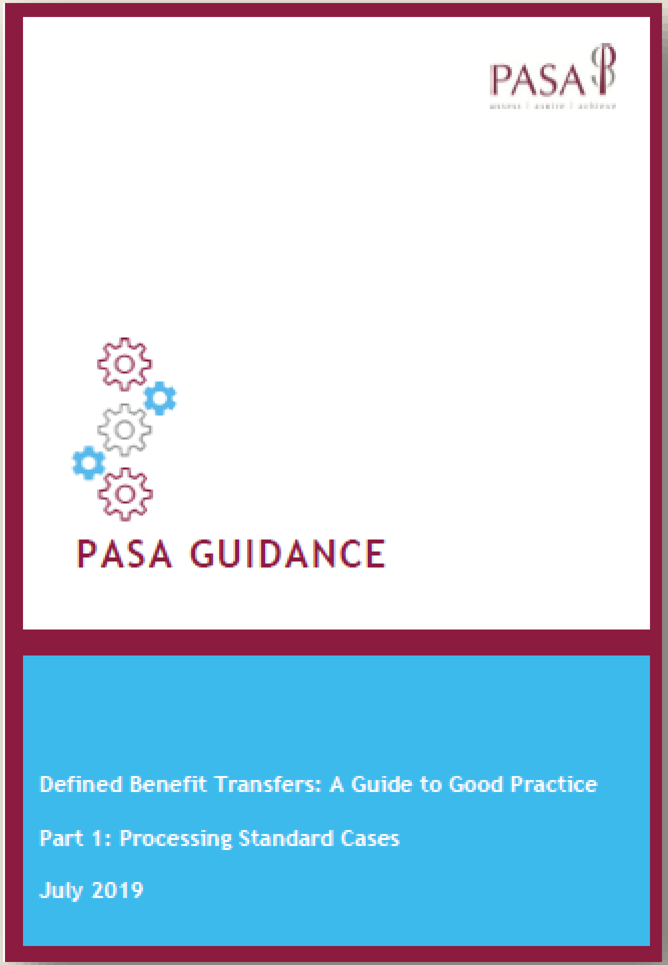
In a speech to delegates at *Money Marketing's* annual Retirement Summit today, TPR's head of policy Fiona Frobisher gave an update on a number of initiatives that are in the pipeline.

She confirmed a template designed to help scheme administrators and advisers process defined benefit transfers will be released on 8 July.

SCOTTISH WIDOWS

Source: https://www.moneymarketing.co.uk/db-transfer-activity-ticks-up-as-market-fails-to-cool/
https://www.moneymarketing.co.uk/db-template-will-be-good-starting-point-for-ifas-on-transfers/
https://www.ft.com/content/a5e8041c-59d1-11e8-b8b2-d6ceb45fa9d0

DB GUIDE TO BEST PRACTICE


PASA

PASA GUIDANCE

Defined Benefit Transfers: A Guide to Good Practice

Part 1: Processing Standard Cases

July 2019

"The time taken to process defined benefit (DB) transfers varies hugely. Some transfers take months to execute, for a number of reasons. Unfortunately, whether the criticism is fair or not, delays can damage relationships with scheme members and lead to a breakdown of trust. This can undermine the industry's objective to reinforce the value of Safeguarded rights, leaving consumers at the mercy of a sometimes dysfunctional advice market, or worse still, scams. Scammers often refer to the time taken to process a transfer to create an impression of trustees seeking to hold on to money belonging to the member.

The complex nature of safeguarded rights creates a challenge for drafting an efficient and standardised transfer administration timeframe. Strong and ever-increasing governance also legitimately adds time to the process."

Source:http://www.pasa-uk.com/system/files/PASA%20DB%20Transfers%20GUIDANCE%20P1%20-%20FINAL.pdf

PASA

PASA GUIDANCE

Defined Benefit Transfers: A Guide to Good Practice

Part 1: Processing Standard Cases

July 2019

DECLARATION AND CHECKLIST

Appendix 2 – Section 48 Declaration

We recognise many scheme administrators have built a section 48 declaration into their own discharge paperwork, however it is the responsibility of the adviser to provide this and therefore schemes should be willing to accept a separate letter covering the information below.

Private & Confidential
Trustees of the [insert scheme name]

Dear Sirs

Re: Transfer Advice: Section 48 Certificate (Pension Schemes Act 2015)

Scheme Name: [insert scheme name]

Member Name: [insert member name]
Member Reference: [insert member scheme reference number]

Financial Adviser Company: [insert company name]
Financial Adviser FCA Number: [insert firms FCA Number]

I confirm I have provided appropriate independent advice to the above-named member which is specific to the type of transaction proposed by the member or survivor, being a transfer of their subsisting rights in respect of safeguarded benefits within the above name scheme.

I confirm I have the appropriate permission under Part 4A of the Financial Services and Markets Act 2000 or otherwise resulting from any other provision of that Act to carry on the regulated activity (advising on conversion or transfer of pension benefits) in article 53E of the FCA regulated Activities Order (the Financial Services and Markets Act 2000 (Regulated Activities) Order (2001).

Signed
[Insert Signature]
[Financial Advisor Name]
[Advisor Title]

Date: [insert date]

Appendix 3 – Example settlement forms checklist

This is an example of how a checklist could look and it will depend on the particular forms and the process each administrator goes through in order to determine how this may work in practise.

A move to online ID verification can significantly reduce the requirements on members when at this stage and is strongly encouraged.

Transfer Forms Checklist

Please ensure you complete the checklist below before returning your Application forms.

To ensure the transfer of your benefits can be made as soon as possible, please take some time now to check you have enclosed all the necessary documentation for the transfer of your pension benefits to proceed. If these documents are received outside of the Guarantee date of [insert date] we are likely to have to recalculate your value and this could either go up or down.

Please use the following tick list as a guide.

	Who would provide this	Please tick box
A certified copy of birth certificate, valid passport or driving licence	You will need to arrange for this	
A certified copy of marriage or civil partnership certificate (only where you have changed name and not provided evidence to the scheme already)	You will need to arrange for this	
Transfer Out Authority Form – Part 1 of the form needs to be completed and signed by you Part 2 of the form needs to be completed and signed by your new provider	You should complete part 1 and you or your adviser will need to arrange for Part 2 to be issued to your receiving provider to complete their section	
A copy of the receiving scheme's HMRC registration letter showing the Pension Scheme Tax Reference (PSTR) number	Your receiving provider should provide this along with Part 2 above	
A print out of the HMRC website confirming the receiving scheme's HMRC tax reference number (this must be dated within the last two weeks)	Your receiving provider should provide this along with Part 2 above	
Pension Transfer Request – Member Questionnaire (please ensure contact details are completed and it is signed and dated)	You should complete this	
Where necessary (your transfer value is over £30,000), Completion of the enclosed 'Confirmation of Appropriate Financial Advice Form' signed by both the IFA and the member. If the adviser is providing their own confirmation, you should still sign any elements you are supposed to as the member and attach the adviser's own confirmation letter	You and your financial adviser should complete this	

SCOTTISH WIDOWS

Source:http://www.pasa-uk.com/system/files/PASA%20DB%20Transfers%20GUIDANCE%20P1%20-%20FINAL.pdf

FCA UPDATE JUNE 2019

FINANCIAL CONDUCT AUTHORITY

Search

About us | Firms | Markets | Consumers | News | Publications

Home / Publications / Defined benefit pension transfers – market-wide data results

Defined benefit pension transfers – market-wide data results

Multi-firm reviews | First published: 19/06/2019 | Last updated: 19/06/2019

Print page

Share page

Collected data from firms on the size and value of the Defined Benefit (DB) pension advice market.

Raising the standards on DB pension transfer advice

Deciding whether to transfer a DB pension is one of the most complex financial decisions a person may have to make. It can also have far-reaching consequences, and it's for this reason that it's important that consumers get high quality advice.

Through our work we have repeatedly made clear our expectations of advisers, arranged training and events and undertaken policy work to strengthen the rules around pension transfer advice. Where our supervision work has identified consumer harm, we have taken action against firms and advisers.

Source:https://www.fca.org.uk/publications/multi-firm-reviews/defined-benefit-pension-transfers

Firm data:

- 3,042 firms held the DB transfer advice permission.
- 3,015 responded to our data request – this is over 99% of the market. The remaining 1% have been in discussions with us.

Market data:

- 2,426 of these firms had provided DB pension transfer advice between April 2015 and September 2018.
- 1,346 firms reported data on clients who had not proceeded after receiving initial guidance ('triage').
- The total number of clients not proceeding to advice was 59,086.
- 620 firms (26%) facilitate transfers for insistent clients.
- 234,951 DB scheme members received advice on whether to transfer between April 2015 and September 2018.
- Of those receiving advice 162,047 members (69%) had been recommended to transfer out, and 72,904 members (31%) had been recommended not to transfer.
- Of those advised not to transfer, 9,534 (13%) of those clients transferred as 'insistent clients'.
- Across recommendations for and against transfer, the average transfer value was £352,303 equivalent to a total value advised upon of £82.8bn. This compares to £1.57trn in DB schemes eligible for the Pension Protection Fund as at 31 March 2018.
- At 30 September 2018, there were 6,509 Pension Transfer Specialists engaged in providing advice to DB scheme members across the 2,426 active firms.

Of the 171,581 clients who were recommended to transfer or who transferred as insistent clients, 120,735 (70%) signed up to ongoing advice from the firm recommending the transfer.

Number of transfer recommendations

We expect advisers to start from the position that a pension transfer is unlikely to be suitable for their client. As such, we are concerned that 69% of the 234,951 total members seeking advice had been recommended to transfer. What is more concerning is that 1,454 firms of the total 2,426 firms providing transfer advice during this period (60%) had recommended 75% or more of their clients to transfer.

Source:https://www.fca.org.uk/publications/multi-firm-reviews/defined-benefit-pension-transfers

FCA UPDATE JULY 2019

FINANCIAL CONDUCT AUTHORITY

Search

About us | Firms | Markets | Consumers | News | Publications

Home / Publications / CP19/25: Pension transfer advice: contingent charging and other proposed changes

CP19/25: Pension transfer advice: contingent charging and other proposed changes

Open consultation: CP19/25
30/07/2019

Consultation closes
30/10/2019

Print page | Share page

Consultation papers | First published: 30/07/2019 | Last updated: 30/07/2019

This Consultation Paper sets out our proposed measures to change how advisers manage and deliver pension transfer advice, particularly for defined benefit (DB) to defined contribution (DC) transfers. We are consulting on banning contingent charging and making other changes to our rules and guidance.

Read CP19/25

CP19/25: Pension transfer advice: contingent charging and other proposed changes

Further information

Key findings on our recent work on pension transfer advice

Source: https://www.fca.org.uk/publications/consultation-papers/cp19-25-pension-transfer-advice

FCA UPDATE JULY 2019

Initial conflicts of interest - contingent charging

We are concerned that too many advisers are delivering poor advice, much of it driven by conflicts of interest in the way they are remunerated. In particular, the practice of contingent charging creates an obvious conflict. This is where advisers only get paid if a transfer proceeds.

We are consulting on the following proposals:

- To ban contingent charging, except for groups of consumers with certain identifiable circumstances that mean a transfer is likely to be in their best interests.
- Where contingent charging is permitted, advisers will have to charge the same amount, in monetary terms, for advice to transfer as they charge when the advice is non-contingent.
- To introduce a short form of 'abridged' advice that can result in a recommendation not to transfer based on a high-level assessment of a client's circumstances. This will fall outside the proposed ban on contingent charging and should help maintain initial access to advice.

Ongoing conflicts of interest

We are proposing strengthening our existing requirements that advisers giving pension transfer advice should consider an available workplace pension as a receiving scheme for a transfer where one is available.

This is intended to address the conflicts of interest created by ongoing advice charges. It will also reduce the level of transfers involving unnecessarily complex and expensive solutions.

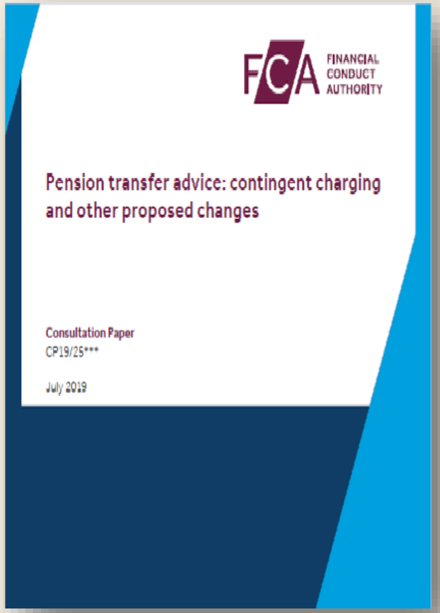
Other proposed remedies

We have concerns about advisers' overall competence and their ability or willingness to give consumers information to understand the implications of a transfer. So we are consulting on a package of proposals including:

- remedies intended to improve consumer engagement with the advice process (for example, improving charges disclosure)
- a requirement that pension transfer specialists complete 15 hours of continuing professional development (CPD) each year, on top of any other CPD they undertake
- extending the range of data that we currently collect from financial advisers to improve our ability to regulate the sector
- technical amendments to our rules, which include changes to the definition of a pension transfer

Source: https://www.fca.org.uk/publications/consultation-papers/cp19-25-pension-transfer-advice

FCA UPDATE – CONTINGENT CHARGING BAN?



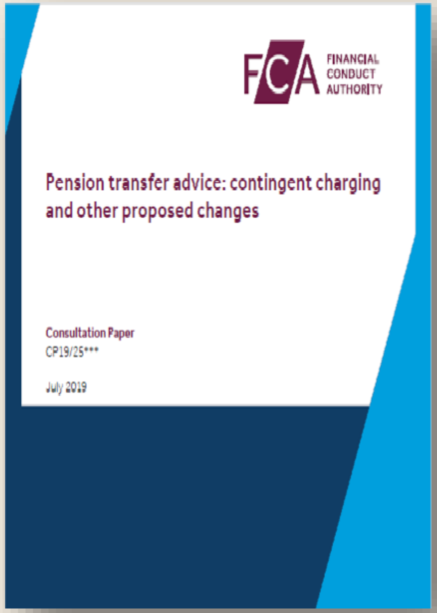
We know from our thematic work that some advice firms are failing to demonstrate competence in fact finding, risk profiling and needs assessments, with the worst of these firms acting as ‘order takers’. We also know that most firms use charging models that create potential conflicts where the advisers’ interests conflict with those of a client.

The Work and Pensions Committee (the Committee) has also expressed concerns about the use of contingent charging in DB to DC pension transfer advice. *<u>The WPC held its own inquiry into the practice of contingent charging and concluded that there were no good reasons not to ban it.</u>*

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

Classification: Public

FCA UPDATE – CONTINGENT CHARGING BAN?


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

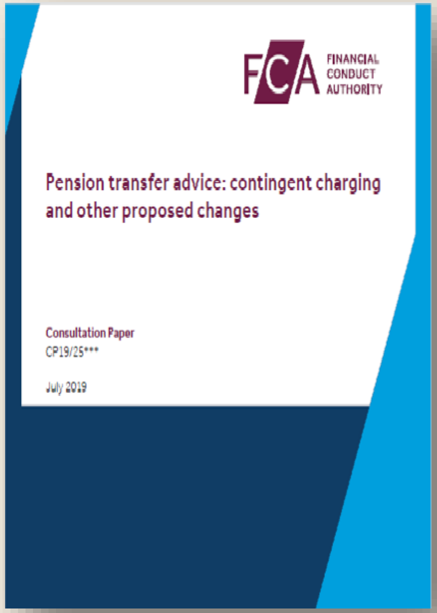
Consultation Paper
CP19/25***

July 2019

We believe the current situation is unsustainable. Too many consumers are receiving unsuitable advice, resulting in too many consumers transferring when it is not in their best interests to do so. The high level of harm is not only damaging to consumers but to the advice market itself. As PII costs increase further, firms may raise the charge for undertaking advice rather than review the quality of advice they are giving. By carrying on giving unsuitable DB transfer business, despite higher excesses and exclusions, they increase the risk of their own failure.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

FCA UPDATE – CONTINGENT CHARGING BAN?


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

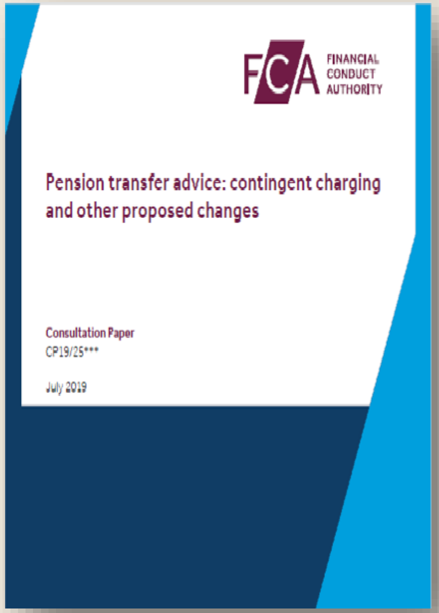
July 2019

Key proposals

- to ban contingent charging for DB pension transfers and conversions, except for specific groups of consumers with certain identifiable circumstances.
- that in the minority of cases where contingent charging is permitted, advice firms will have to charge the same amount, in monetary terms, for advice to transfer as they charge when the advice is non-contingent.
- a short form of advice that can result in a recommendation not to transfer that falls outside the proposed ban on contingent charging as we expect costs to be much lower. This should help maintain initial access to advice.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN



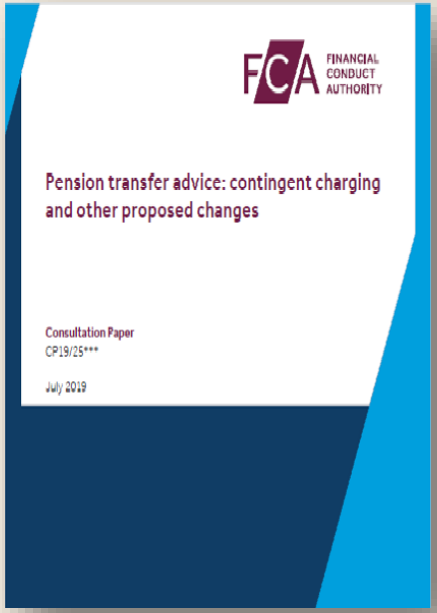
We think that the best way to reduce the scope for conflicts of interest and the potential harm caused by unsuitable advice **is to ban contingent charging.** This will require firms to charge the same amount for advice on pension transfers irrespective of whether the advice results in a recommendation to transfer or not to transfer. This also has the benefit of placing a value on advice not to transfer, and removes cross-subsidies between consumers in the interest of obtaining better outcomes.

We are not proposing to extend this to other types of investment advice or other types of advice on safeguarded benefits that do not require advice to be given or checked by a pension transfer specialist (PTS).

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

Classification: Public

CONTINGENT CHARGING BAN


FCA FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

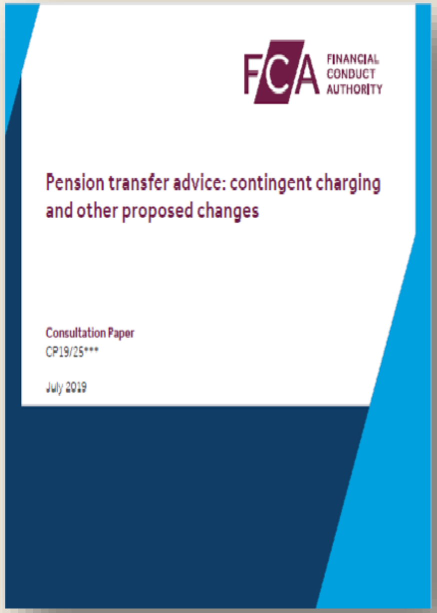
Consultation Paper
CP19/25***

July 2019

The requirement will incorporate all related and associated charges such as advice on where any transferred funds will be invested and implementation charges. To prevent gaming the ban, it will also apply across two-adviser models where one adviser advises on the transfer and another on where the fund might be transferred. No client should pay an additional amount to transfer, including if they are an insistent client.

We recognise that this results in a small cross-subsidy between those who do not transfer and those who transfer, as there is a genuine administration cost associated with transferring. But the level of the cross-subsidy is likely to be significantly less than the current cross-subsidies created by contingent charging.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

July 2019

CONTINGENT CHARGING BAN

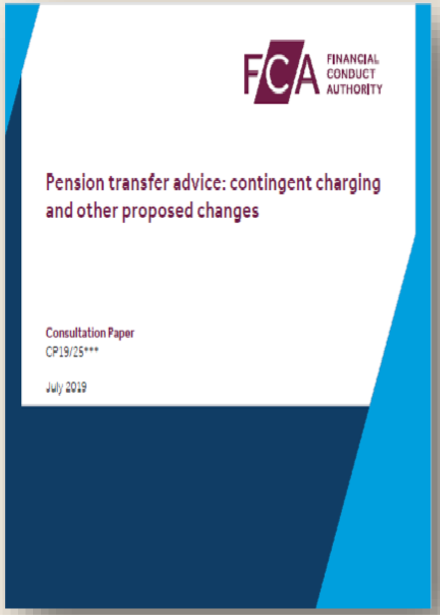
We propose to put safeguards in place so that the ban on contingent charging is not undermined. Firms will have to set up their fee arrangements in a way that does not result in contingent charging in practice, for example by collecting fees only from those that transfer. To avoid gaming, we will restrict how firms can set their charges for advice on pension transfers and conversions and ongoing advice. Our draft rules say that firms should:

• Not offset charges for advice on pension transfers and conversions against any other work they undertake for the client.

• Not charge less in total for advice on pension transfers and conversions than if they provided and transacted investment advice for the same size of (non-pension transfer or conversion) investment. This is to prevent firms from gaming the ban by charging a token fee for initial advice. We consider that advice on pension transfers and conversions is generally more complex than other investment advice, and so should typically cost the same or more than other investment advice.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN


FCA FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

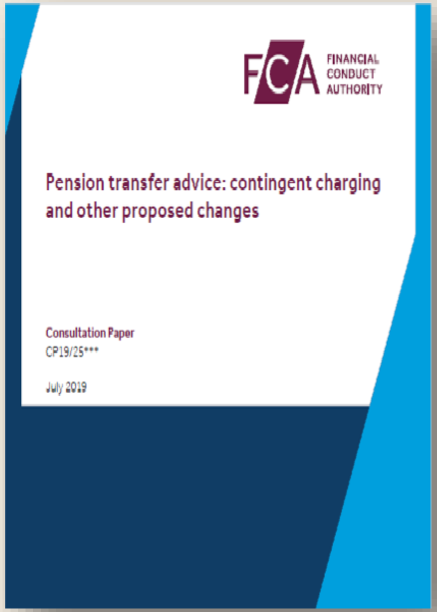
July 2019

- Limit any subsequent ongoing adviser charges on funds that are transferred. They should do this so that the ongoing advice charges are no greater than if the funds had not been the subject of a DB pension transfer. This, together with the floor on initial advice charges above, is to limit the opportunity for cross-subsidies between initial and ongoing advice on transfers.

- Charge for advice where any services related to full advice have been undertaken such as the appropriate pension transfer analysis and transfer value comparator.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

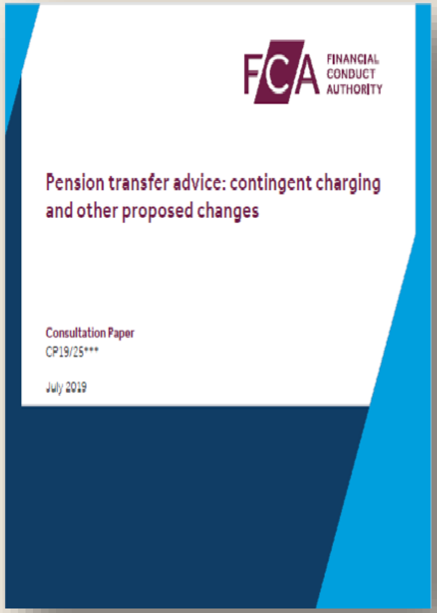
CONTINGENT CHARGING BAN – TRIAGE



It remains our view that, as a non-advised service, triage should be an educational process so that consumers can decide whether to proceed to regulated advice.
Firms can achieve this by providing factual, balanced information on the advantages and disadvantages of pension transfers and conversions, and the requirement to obtain advice. If advisers give a professional opinion, based on considering the client’s circumstances that steers the client towards keeping or giving up their safeguarded pension benefits, they are likely to be giving advice. We are not able to change the advice boundary as it is set in legislation.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – ABRIDGED ADVICE

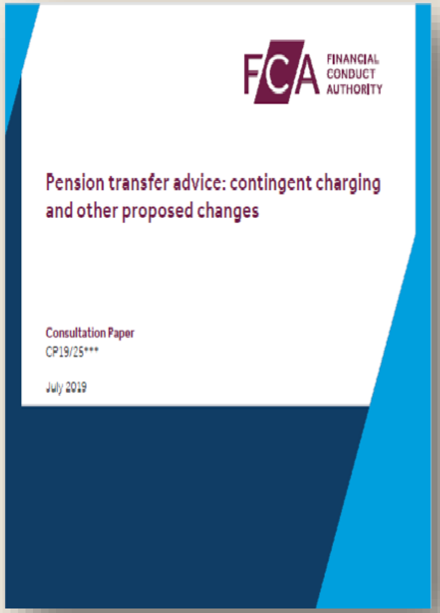


Given the limitations of triage as a non-advised service, and the implications of our proposed ban on contingent charging, we are proposing to introduce ‘abridged advice’ in relation to pension transfers and conversions. Abridged advice will act as a new mechanism to filter out those consumers for whom a pension transfer or conversion is unlikely to be suitable, before they pay for full advice.

Where firms consider it appropriate, based on the client’s circumstances, to give abridged advice, it will enable them to provide a low-cost alternative to full advice. As it cannot result in a recommendation to transfer, conflicts of interest are reduced. Abridged advice must be carried out or checked by a PTS.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – ABRIDGED ADVICE


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

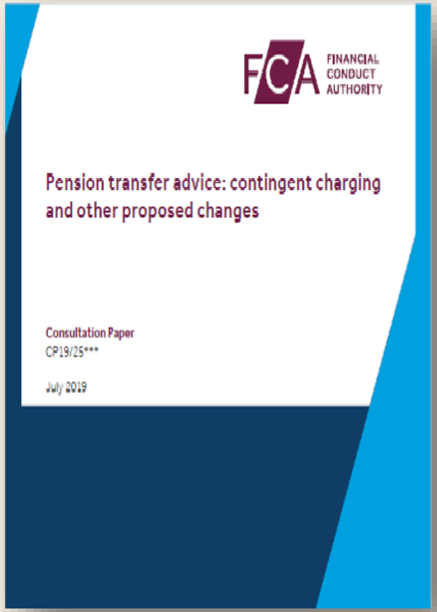
July 2019

Abridged advice includes the initial stages of the usual advice process. *Under abridged advice, we would expect the adviser to conduct a full fact-find and risk assessment, including an assessment of the client's attitude to transfer risk in line with our guidance on assessing suitability* (COBS 19.1.6G). Based on this analysis, the adviser may provide the consumer with a personal recommendation not to transfer if they can demonstrate that a pension transfer is unlikely to be suitable.

This means that some consumers may receive a personal recommendation not to transfer or convert without an adviser having to collect detailed scheme data, undertake an Appropriate Pension Transfer Analysis (APTA) or provide a Transfer Value Comparator (TVC). Removing these elements from the advice process should enable abridged advice to be provided cost-effectively.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – ABRIDGED ADVICE

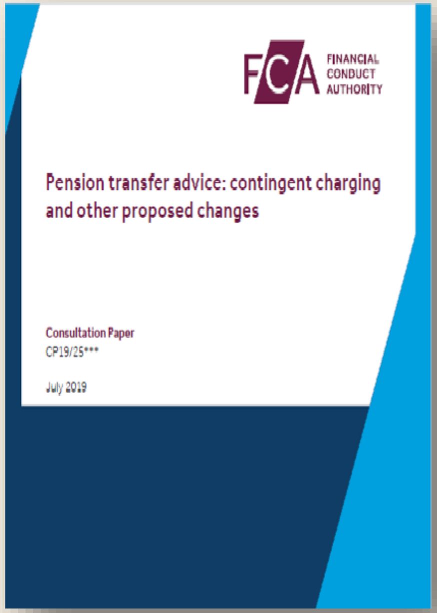


Based on the information collected through the abridged advice process, if it is unclear whether the client would benefit from a pension transfer or conversion, the adviser must check if the client wants to continue to full advice, and if they understand the associated costs.

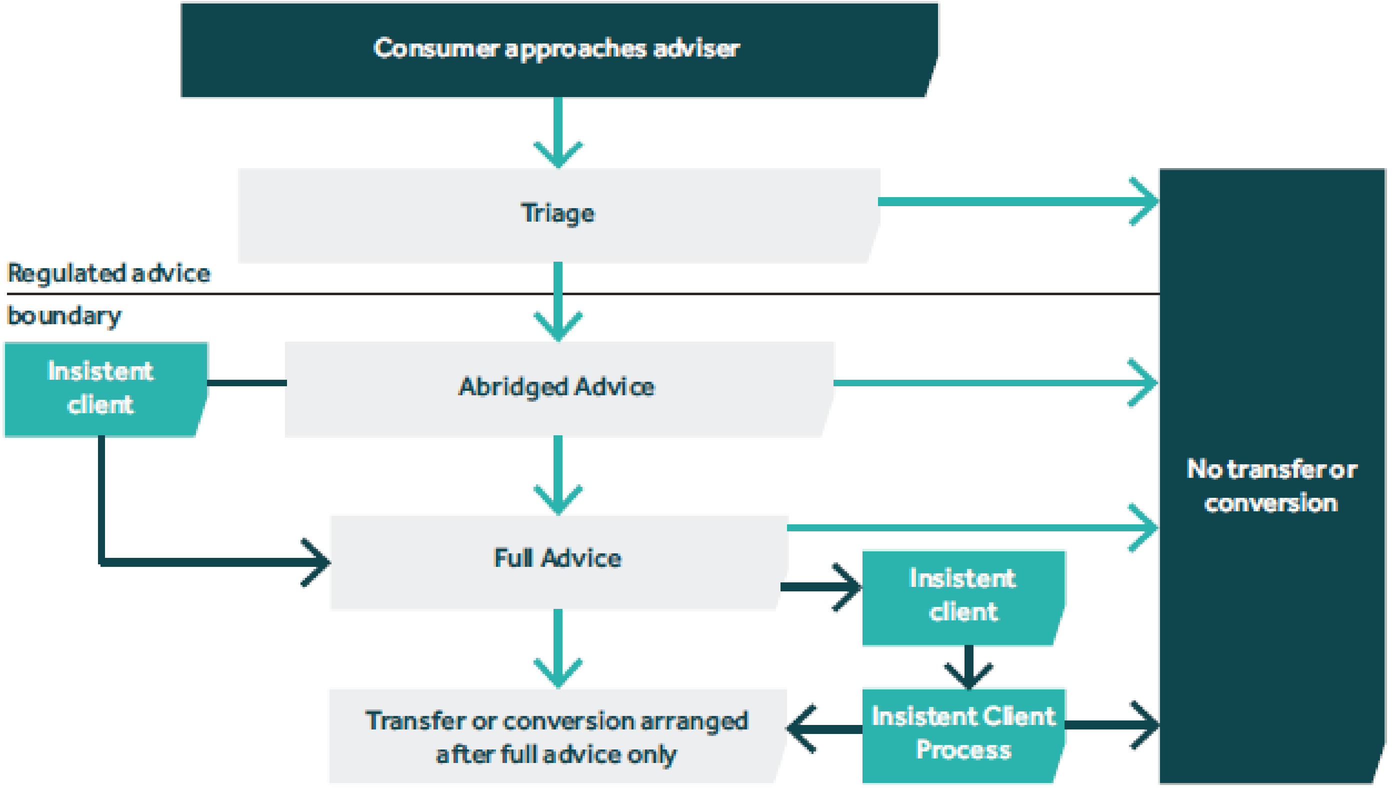
Advisers will need to prepare a suitability report, as they do for any other personal recommendation, **and they will be liable for the advice provided**. As the process does not include an APTA and a TVC, advisers will not be able to provide consumers with as much information as required on the risks of a transfer or conversion. For example, the client would not be provided with the comparison of benefits likely to be paid between ceding arrangement and proposed arrangement.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – CUSTOMER JOURNEY

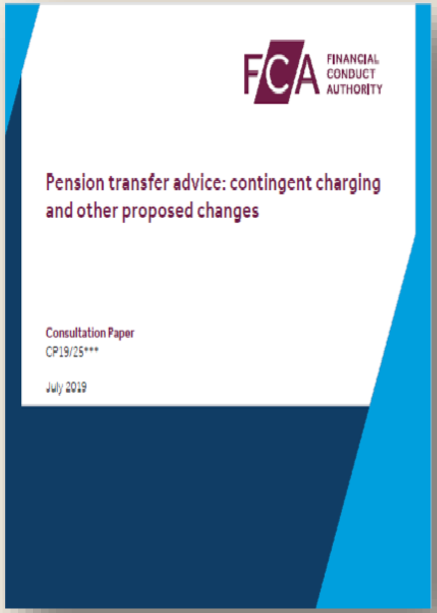


The flowchart below shows the possible consumer journeys through guidance and advice under our proposed rules.



Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

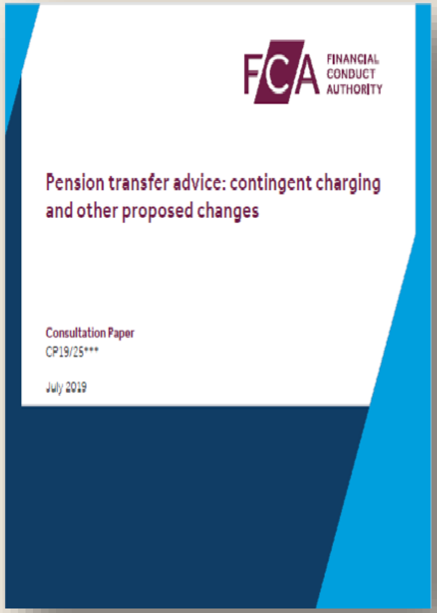
CONTINGENT CHARGING BAN – CARVE OUT



To mitigate the effect of the interventions on those who cannot afford advice, we have identified groups of customers for whom a transfer or conversion is likely to be in their best interests, due to specific personal circumstances. We propose to exempt them from the ban. Our draft rules set out that these include those who have a *specific illness or condition resulting in a materially shortened life expectancy and those who may be facing serious financial hardship such as losing their home*, for instance due to not being able to make mortgage payments.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – CARVE OUT


FCA FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

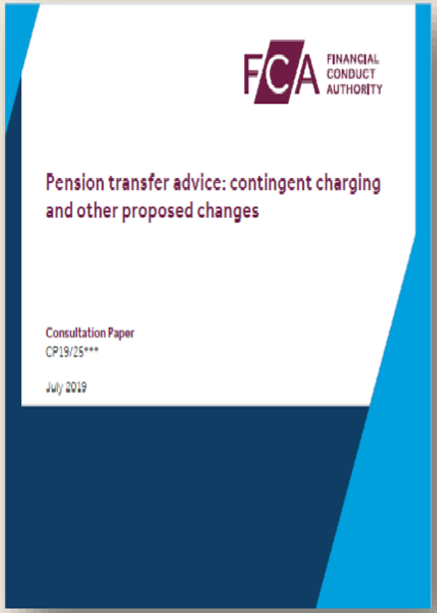
July 2019

We are proposing that, where a firm wishes to rely on the carve-out in relation to a client, a firm must satisfy itself that the requirements for serious ill-health or serious financial hardship are met in relation to a client. For serious ill-health, this includes obtaining evidence from a registered medical practitioner that the client has a medical condition that means that their life expectancy is likely to be lower than age 75.

For serious financial hardship, this includes obtaining evidence about the client's financial situation, for example evidence that the client is regularly unable to meet mortgage repayments or rent, or utility bills.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN - WPS


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

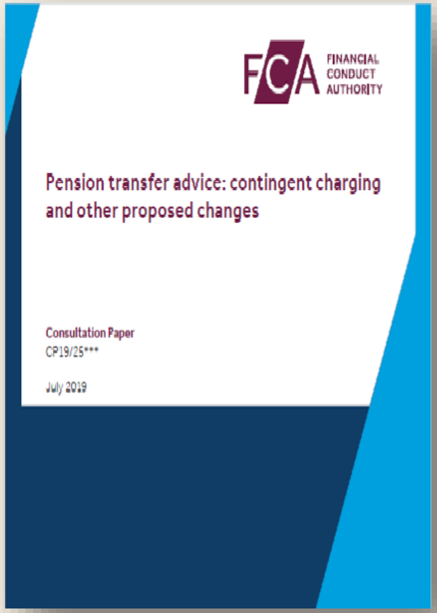
July 2019

We consider that if a transfer from safeguarded benefits to flexible benefits is suitable, **a default option within a WPS, if available, is more likely to be a suitable destination** option for many consumers. Many consumers often have no or limited prior knowledge and experience of investments. They would also receive the protections afforded by Independent Governance Committees or trustees. A WPS will also be an attractive option for many consumers who wish to consolidate their pension savings in one place.

We propose to require firms to demonstrate why the scheme they recommend is more suitable than a WPS. This is intended to make it easier for an adviser to recognise the benefits associated with recommending a transfer into a workplace pension rather than a non-workplace DC pension. Firms will also be required to include analysis of a transfer into the default arrangement of an available WPS in the APTA which provides the evidence for the suitability report.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN - WPS

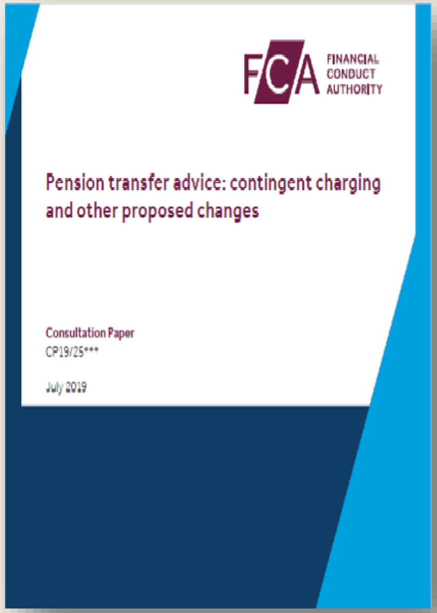


In our proposed guidance, we have set out circumstances that we consider are valid reasons for not considering a WPS:

- the client does not have access to a default fund with capped charges within a DC WPS either as an active or deferred member
- the scheme does not accept transfers in
- the advice sets out why and how the member will access the funds within 12 months of decumulating, and the WPS is incompatible with the way the pot will be accessed
- the member can demonstrate prior evidence of investment activity through an adviser or active investment choices as a self-investor (excluding investment in a mortgage endowment policy or a default fund of a WPS)

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN - WPS


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

July 2019

We have also set out guidance on circumstances that we consider **<u>are not</u>** valid reasons for considering a WPS in most cases:

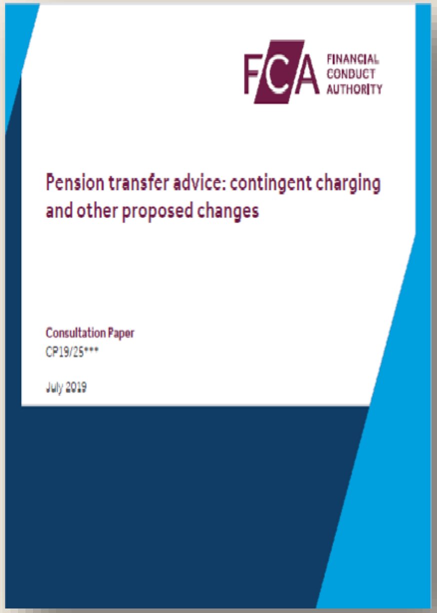
- the member is more than 12 months from starting to decumulate
- the member is within 12 months of being able to decumulate but it remains unclear if or how they will access a transferred pot at that time
- insufficient fund choices

We recognise this proposal will be controversial. But in our view, this safeguard is necessary to protect consumers from being advised to transfer into destinations that:

a. are too complex for their needs
b. perpetuate the need for unnecessary ongoing charges that ultimately reduce consumer's income in retirement

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN - CPD


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

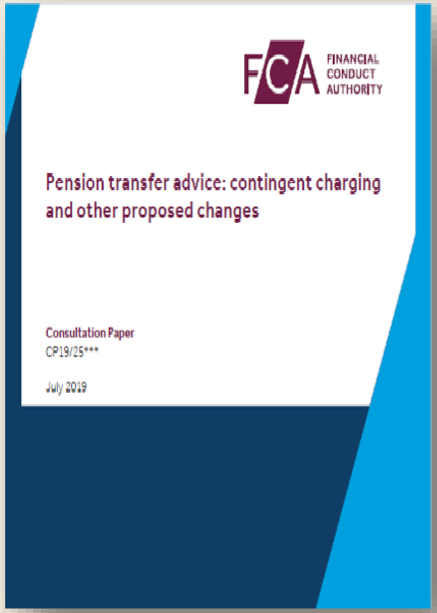
July 2019

We are proposing that PTSs must undertake a minimum of 15 hours CPD each year, focused specifically on pension transfer advice. This would be in addition to any other existing CPD requirements for other types of advice.

Further, at least 5 hours of the 15 hours must be provided by resources external to any firm that employs or contracts services from the PTS. This will ensure that a PTS is not just receiving a ‘house view’ of the market.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – CASHFLOW MODELLING


FCA FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

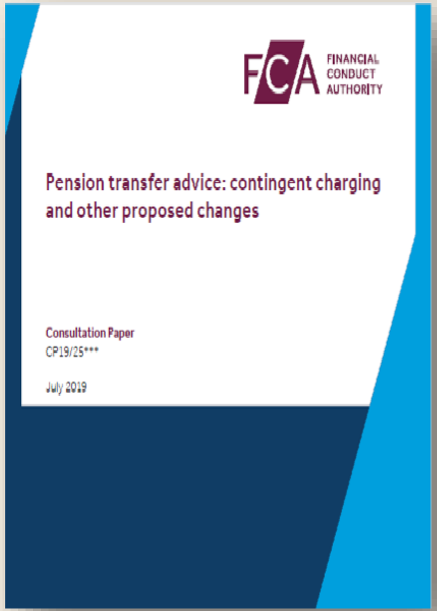
July 2019

To address the shortcomings we have seen in cashflow modelling in the APTA, we are proposing the following new rules if firms choose to use cashflow modelling:

- Firms must prepare cashflow models in real terms, ie in today's money terms. This will ensure that the models are consistent with other mandated documents such as Key Features Illustrations (KFIs).
- Firms must ensure that tax bands and tax limits are set using reasonable assumptions if they model net income from year to year. The use of real terms' modelling should facilitate appropriate indexation.
- The model should explicitly allow for taxes or constraints that are likely to arise on a transfer that would not occur if safeguarded benefits were retained, such as a Lifetime Allowance charge, any tax applicable on the death of the consumer, or the application of the money purchase annual allowance.
- The modelling ***must include 'stress testing' scenarios to illustrate the impact of less favourable future scenarios so that the consumer can see more than one potential outcome.***

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – TVC CHANGES


FCA FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

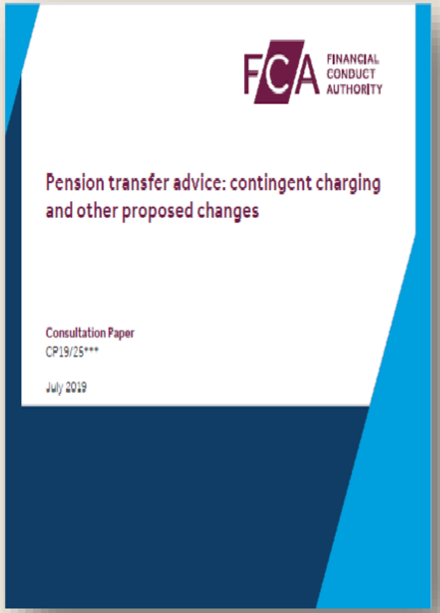
July 2019

The TVC shows a potential ‘loss’ if the cost of purchasing the DB benefits in a DC environment is greater than the transfer value offered. We have received extensive feedback that the ‘loss’ in current market conditions is significant, particularly for consumers who are still some years from retirement. We consider this to be a reasonable summary of the current high cost of securing an individual guaranteed income in the open market in current conditions. But we have reviewed some of the underlying assumptions to ensure they remain fit for purpose.

We propose that the product charge assumption that applies before future income benefits come into payment should be reduced to 0.4% (from its current 0.75%). This will more closely reflect the charges associated with a product invested solely in gilts. We consider that all other assumptions reasonably reflect our policy intention of illustrating the value of the risk-free benefits that the member would receive in their DB scheme.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – TVC CHANGES

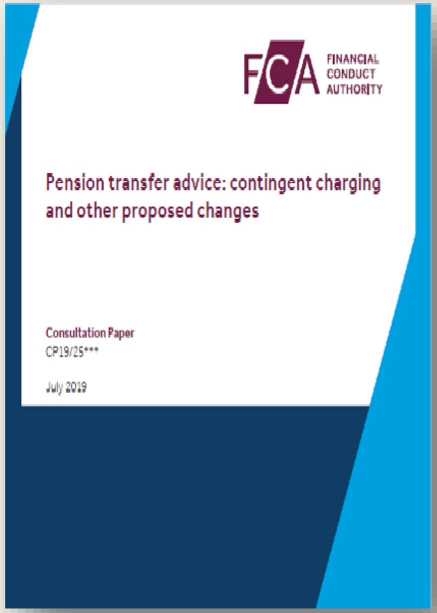


We propose to simplify the TVC basis so that the methodology for those consumers with 12 or more months to NRA is also used for those who have less than 12 months to NRA. We consider that this will still help consumers understand the value of the benefits they are considering giving up. We propose to remove the separate mandatory wording that currently applies to TVCs prepared within 12 months of retirement.

Our proposals also confirm that a TVC is required where the scheme NRA has already passed. The TVC should be based on the same age used in the Cash Equivalent Transfer Value (CETV) calculation which usually, but not always, assumes immediate retirement. Where the client has not yet reached NRA, but is planning to retire late, the TVC should be prepared in the usual way to NRA and the impact of late retirement can be illustrated in the APTA, taking into account any scheme-specific late retirement terms.

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

CONTINGENT CHARGING BAN – SAMPLE SUITABILITY REPORT



Example A: Client has available workplace pension

1. Pension transfer summary:

	Stay in my current scheme	If I transfer to my workplace pension	If I transfer to another defined contribution pension
Current value of my pension income	£833 per month	Variable	Variable
Ongoing advice charges in first year	£0	£0	-£250 per month
Product charges in first year	£0	-£250 per month	-£438 per month
Total charges in first year (excluding initial advice)	**£0**	**-£250 per month**	**-£688 per month**
% of my current scheme income spent on charges	**0%**	**30%**	**83%**

In addition, this pension transfer advice will cost me £6000 – this is equivalent to around 7 months' income from my current scheme.

2. Pension transfer risk warning:

I understand that by transferring my pension I will lose a guaranteed income, I will have to manage my funds, and my funds may run out in my lifetime:

(signature)

3. My adviser's recommendation:

My adviser has recommended that I stay in/leave XYZ Scheme (and [*if leaving and a separate adviser is advising on the destination scheme:*] DEF adviser has recommended that I transfer to ABC Scheme).

The reasons for this recommendation are set out in section X of the report.

I confirm that I intend to follow the transfer advice of my adviser:

(signature)

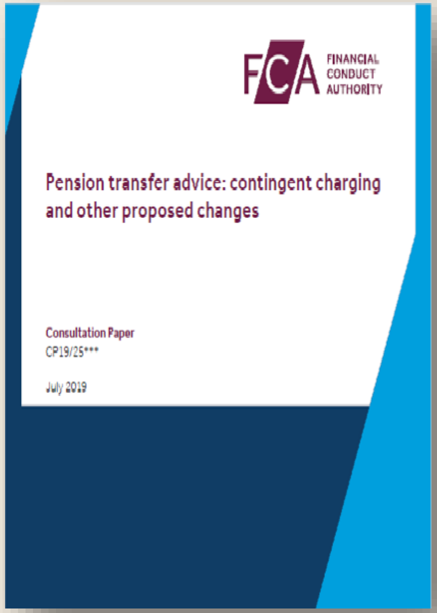
4. Ongoing pension management advice

If I transfer my pension, my adviser has offered to provide separate ongoing pension management advice. I am not required to take this service and I can cancel it at any time by contacting my adviser. I confirm that I would like to receive charged ongoing pension management advice, initially costing **£250 per month** which is **£3,000 per year (this amount will vary in the future as it is based on a % of fund size)**:

(signature)

Classification: Public

CONTINGENT CHARGING BAN – SAMPLE SUITABILITY REPORT


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

July 2019

Example B: Client does not have available workplace pension or is converting benefits

1. Pension transfer summary:

	Stay in my current scheme	If I transfer to a defined contribution pension
Current value of my pension income	£833 per month	Variable
Ongoing advice charges in first year	£0	-£250 per month
Product charges in first year	£0	-£438 per month
Total charges in first year (excluding initial advice)	**£0**	**-£688 per month**
% of my current scheme income spent on charges	**0%**	**83%**

In addition, this pension transfer advice will cost me £6000 – this is equivalent to around 7 months' income from my current scheme.

2. Pension transfer risk warning:

I understand that by transferring my pension I will lose a guaranteed income, I will have to manage my funds, and my funds may run out in my lifetime:

(signature)

3. My adviser's recommendation:

My adviser has recommended that I stay in/leave XYZ Scheme (and [*if leaving and a separate adviser is advising on the destination scheme:*] DEF adviser has recommended that I transfer to ABC Scheme)

The reasons for this recommendation are set out in section X of the report.

I confirm that I intend to follow the transfer advice of my adviser:

(signature)

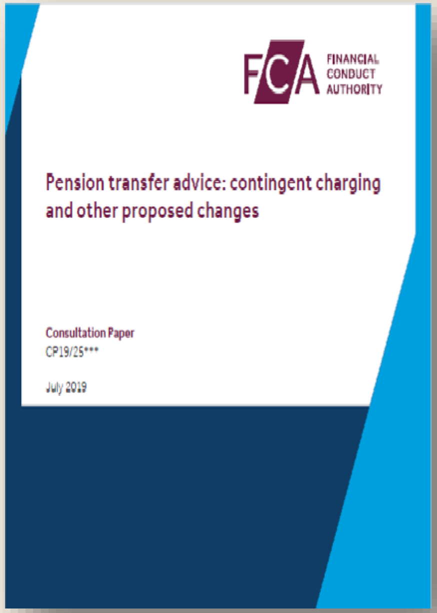
4. Ongoing pension management advice

If I transfer my pension, my adviser has offered to provide separate ongoing pension management advice. I am not required to take this service and I can cancel it at any time by contacting my adviser. I confirm that I would like to receive charged ongoing pension management advice, initially costing **£250 per month** which is **£3,000 per year (this amount will vary in the future as it is based on a % of fund size)**:

(signature)

Classification: Public

CONTINGENT CHARGING BAN – SAMPLE SUITABILITY REPORT


FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

July 2019

Example C: Abridged advice

1. Current value of my pension:

	If I stay in my current scheme
Current value of my pension income	£833 per month

2. Advice charges

	Stay in my current scheme	If I proceed to full advice
Abridged advice charge	-£X	-£X
Expected full advice charge	£0	-£4,000

3. My adviser's recommendation:

My adviser has recommended that I: stay in my current XYZ Scheme.

(or)

My adviser has concluded that there is insufficient information to make a recommendation.

The reasons for this recommendation/conclusion are set out in section X of the report.

I confirm that I intend to follow the recommendation of my adviser:

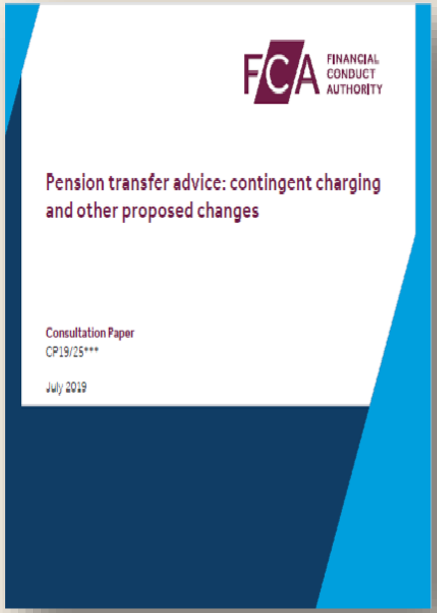
(signature)

(or)

I understand that I cannot transfer my pension unless I take full advice. Full advice will cost me £4,000 – this is equivalent to around 4 months' income from my current scheme.

(signature)

CONTINGENT CHARGING BAN – TIMELINE



Commencement of our proposals

Subject to the outcome of our consultation process, we propose that the rules and guidance should come into effect within the following timeframes after the final instrument is made by our Board:

Ban on contingent charging	Chapter 3	Within a week (with 3-month transition)
Carve out (from a ban on contingent charging)	Chapter 3	Within a week
Triage services	Chapter 3	Within a week
Abridged advice	Chapter 3	Within a week
Prioritising DC workplace pension schemes	Chapter 4	6 months
Initial charging disclosures	Chapter 5	6 months
Suitability reports: enhanced disclosures	Chapter 5	6 months
Checking customers understand the advice	Chapter 5	Within a week
CPD requirements	Chapter 6	Beginning of calendar year
RMA-M – pension transfer specialist advice	Chapter 7	6 months (reporting period begins within a week)
Data collected on PII within RMA-E – Professional indemnity insurance (PII)	Chapter 7	6 months
Pension transfer definition	Chapter 8	Within a week
Transfer Value Comparator	Chapter 8	6 months
Cashflow modelling	Chapter 8	6 months
Retirement annuity contracts	Chapter 8	Within a week
Estimated transfer values	Chapter 8	Within a week
Arranging a transfer	Chapter 8	Within a week

Source: https://www.fca.org.uk/publication/consultation/cp19-25.pdf

Classification: Public

WHAT DOES GOOD LOOK LIKE?

SCOTTISH WIDOWS

A GOOD STARTER FOR TEN?

As a first step, consider asking the client to write down their aims and objectives in their own words.

Do not use standard paragraphs or prompts

Use this as a basis for discussion when formulating your advice and recommendations

Revisit this in client reviews, regardless of the advice outcome

Helps to de-risk your advice process

ATTITUDE…..

AND

CASH FLOW MODELLING

money marketing

PENSIONS REGULATION INVESTMENTS PLATFORMS TAX BUSINESS PROTECTION TH

TECHNICAL AREA TECHNOLOGY NEWS

Percival unveils new cashflow report as tools take on fresh importance

By **Hope William-Smith** | 2nd May 2018 9:03 am

Advisers need to reassess their approach to selecting cashflow planning tools, according to consultant Rory Percival in light of new pension transfer analysis rules and Mifid II legislation.

Former FCA technical specialist Rory Percival

The former FCA technical specialist has produced a new due diligence guide to cashflow planning for advisers as pension freedoms and technological improvements have begun to increase the popularity of the practice.

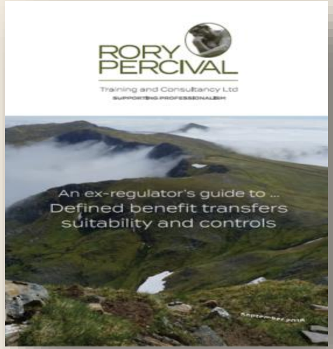
money marketing

PENSIONS REGULATION INVESTMENTS PLATFORMS TAX BUSINESS

Percival's due diligence consideration's for selecting a cashflow planning tool

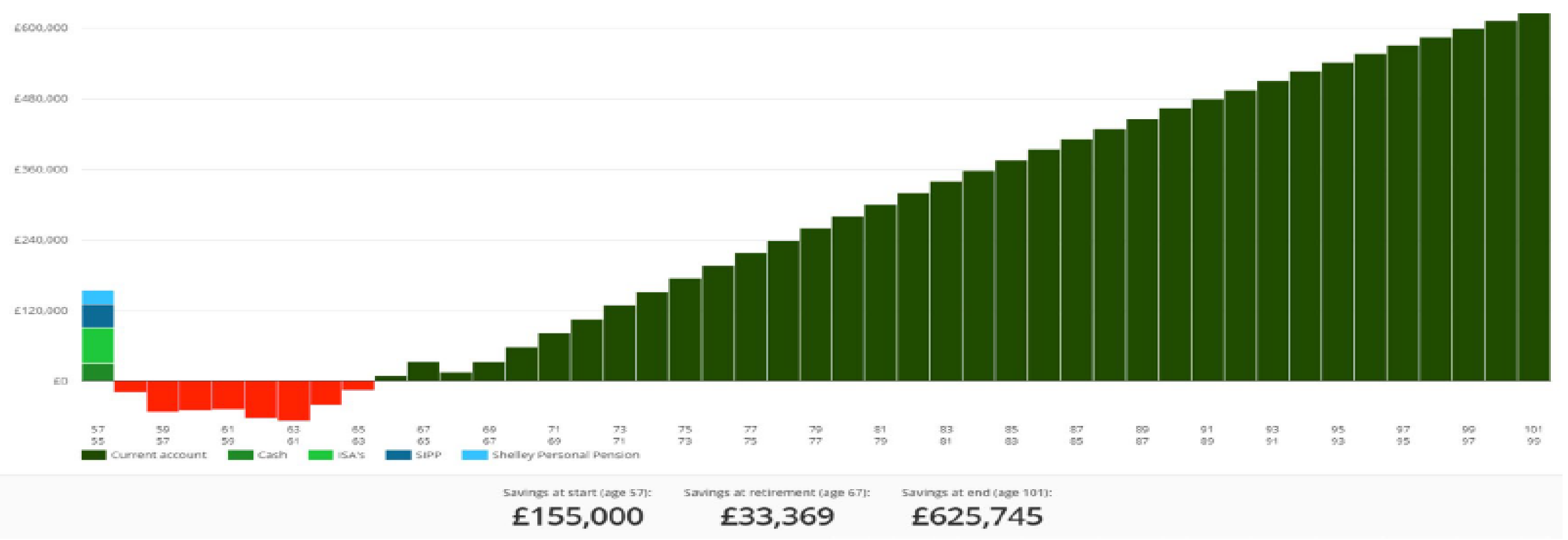
- Scope
- Deterministic or stochastic
- If stochastic, basis of modelling
- Notional or real
- Assumptions (what is built in and what is adaptable)
- How does the system use assets to provide income and withdrawals? What flexibility is there?
- What it calculates/doesn't calculate
- Planned updates
- Update process in event of legislative changes
- Input time
- Data protection
- Integrations with other tools
- Limitations
- Support/training/guides
- Cost
- Trial period

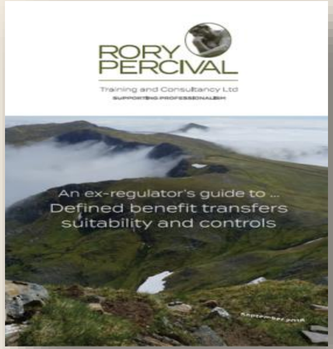
Source: https://www.moneymarketing.co.uk/percival-unveils-new-cashflow-report-tools-take-fresh-importance/



RORY PERCIVAL

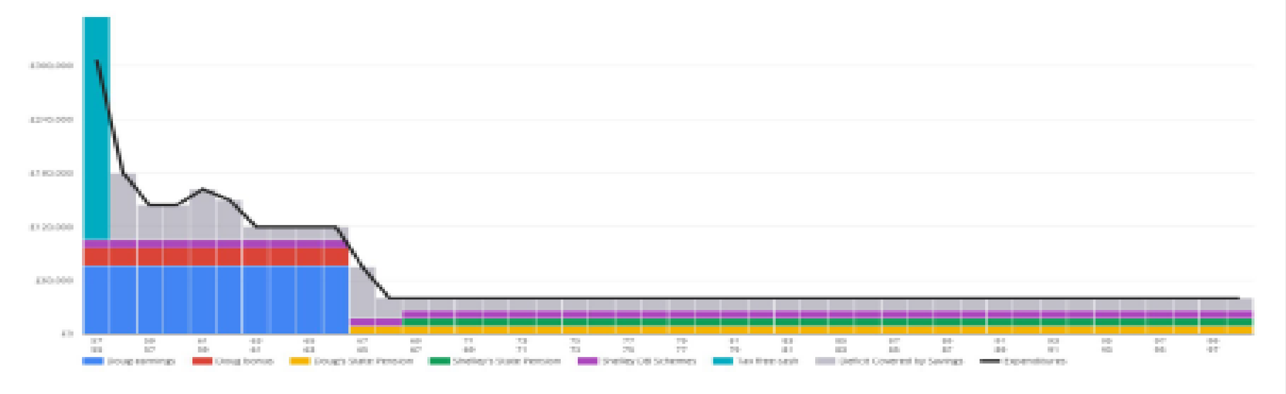
The cash-flow[15] looks like this if Doug keeps his DB scheme (in today's terms). He doesn't have the funds to help his children in the way he wants to without running up significant debts:



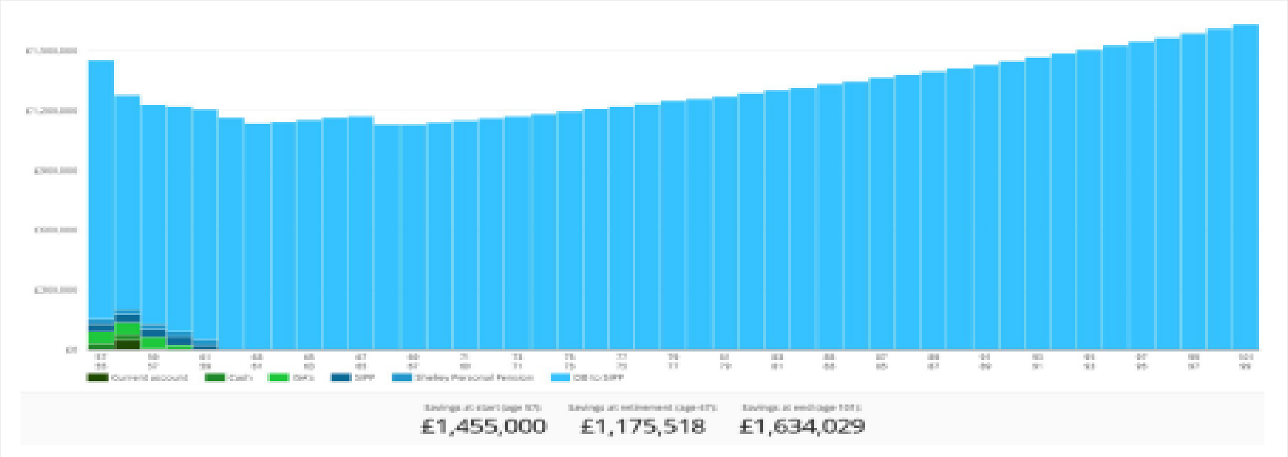


RORY PERCIVAL

If he transfers, then his income and outgoings look like this:



And his assets look like this:



This is likely to be rated a suitable transfer as it meets the client's objectives of supporting his children in the way he wants to, and also provides the level of income they need in retirement along with a significant fund. The cash-flow should also be stress-tested to ensure they can still meet their objectives in adverse market conditions. The option of taking the DB scheme early should also be explored (but was not appropriate in this case).

This case demonstrates good colour and detail about the client's objectives.

LATEST PFS UPDATE AND SUPPORT

SCOTTISH WIDOWS

THE PENSION TRANSFER GOLD STANDARD

Personal Finance Society

Log in |

Home | About | Membership | CPD | Events |

About | Inside the PFS | Consumer Confidence Campaign | Contact-us | Data Protect

Home » About » Inside the PFS » The Pension Transfer Gold Standard

The Pension Transfer Gold Standard

Pension TRANSFER Gold Standard

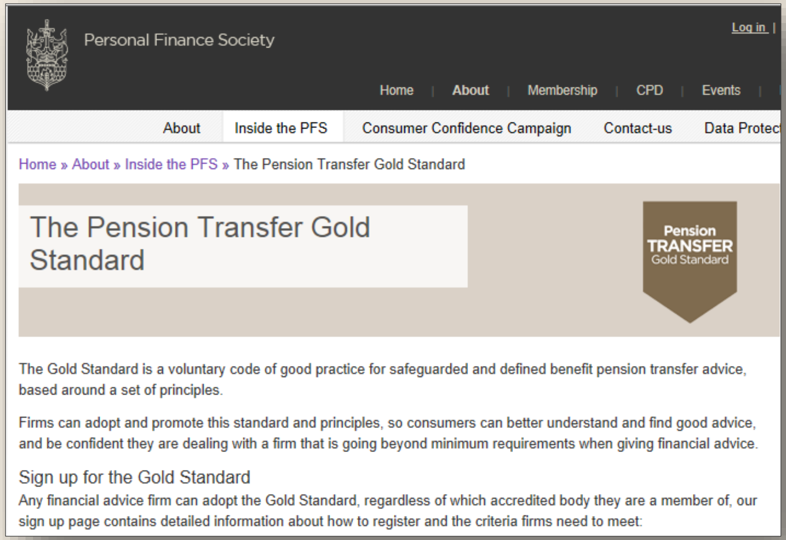
The Gold Standard is a voluntary code of good practice for safeguarded and defined benefit pension transfer advice, based around a set of principles.

Firms can adopt and promote this standard and principles, so consumers can better understand and find good advice, and be confident they are dealing with a firm that is going beyond minimum requirements when giving financial advice.

Sign up for the Gold Standard

Any financial advice firm can adopt the Gold Standard, regardless of which accredited body they are a member of, our sign up page contains detailed information about how to register and the criteria firms need to meet:

THE PENSION TRANSFER GOLD STANDARD


Personal Finance Society

Log in |

Home | About | Membership | CPD | Events

About | Inside the PFS | Consumer Confidence Campaign | Contact-us | Data Protec

Home » About » Inside the PFS » The Pension Transfer Gold Standard

The Pension Transfer Gold Standard

Pension TRANSFER Gold Standard

The Gold Standard is a voluntary code of good practice for safeguarded and defined benefit pension transfer advice, based around a set of principles.

Firms can adopt and promote this standard and principles, so consumers can better understand and find good advice, and be confident they are dealing with a firm that is going beyond minimum requirements when giving financial advice.

Sign up for the Gold Standard

Any financial advice firm can adopt the Gold Standard, regardless of which accredited body they are a member of, our sign up page contains detailed information about how to register and the criteria firms need to meet:

Below are a few statements which will explain some of the more common circumstances that cause people with safeguarded pension benefits to either leave those benefits where they are or to transfer them into a flexible pension.

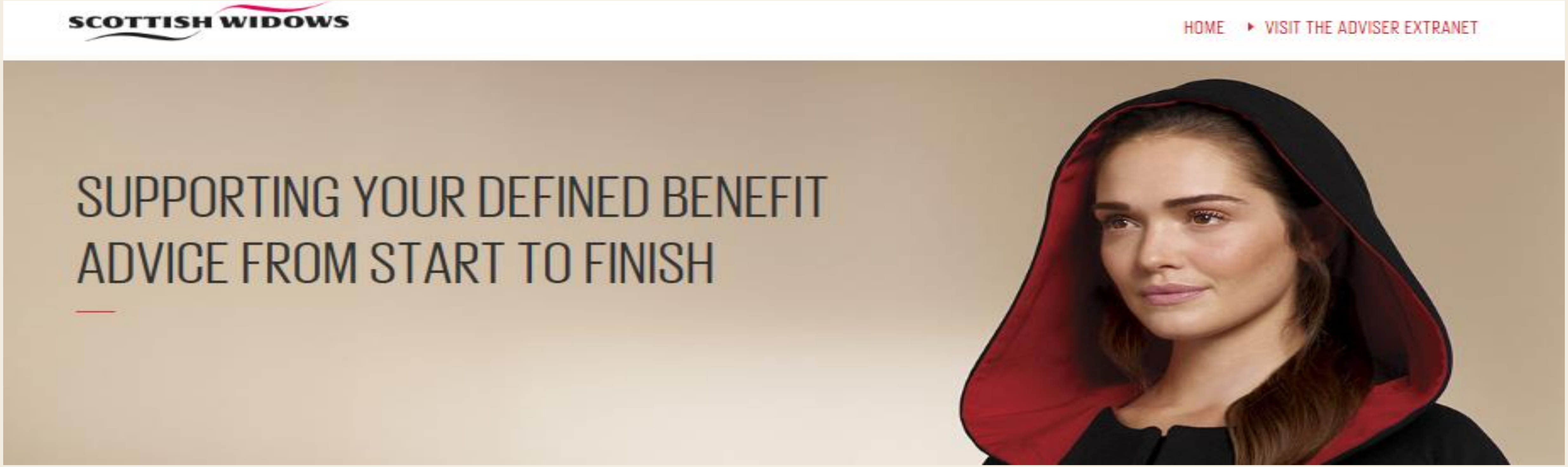
Reasons some people give to leave their benefits where they are:

1. This pension will be my sole or primary source of income in retirement and the fact that it is guaranteed and has built in indexation is reassuring to me
2. I believe that I have a normal life expectancy so the fact that the pension will pay out until I die, whenever that might be, is important to me
3. As this is my sole or primary source of income in retirement I am reassured that it will not be reduced if stock markets fall
4. I have a partner who will also be dependent on this pension income, and I am pleased that it will continue to support them if I die before they do
5. I am happy that, although this pension is a reduction in income from the level I earn in employment it is enough to meet my financial needs in retirement

Reasons some people give to transfer their benefits into a flexible pension:

1. My retirement is likely to be a gradual affair and I expect to have varying income needs from year to year, so it is important for me to be able to vary the income I receive from my pension accordingly
2. Unfortunately, I am not in good health and as a result my life expectancy is likely to be below average; I understand that a flexible pension gives greater options for my heirs and dependants
3. I am planning to take early retirement – at least partially – and value the flexibility that a flexible pension can give me in this regard
4. I have a range of financial assets at my disposal to support my retirement, so this particular pension will not be my sole source of income. The guarantees within this particular pension are therefore not important to me and flexible pensions give me more options.
5. I fully expect to manage my various pension and non-pension assets *myself and together with my adviser* decide where to take income from as appropriate

SCOTTISH WIDOWS SUPPORT



www.scottishwidows.co.uk/changehub/defined-benefit

SHARING OUR EXPERTISE

KEY LEARNING OBJECTIVES

01

Understand all of the proposals contained in CP19/25

02

Understand the context and market drivers behind these proposed changes

03

Discuss and agree what best practice looks like in the context of these proposed changes

04

Awareness of ongoing work by the FCA to assess suitability of DB advice and the timelines involved

THANK YOU FOR YOUR TIME

ANY QUESTIONS?

SCOTTISH WIDOWS

IMPORTANT NOTES

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

FCA ref: 33970

September 2019

SCOTTISH WIDOWS