Defined benefit pension transfers – An update from the FCA

The Insurance Institute of Sheffield

12th December 2018

Learning objectives

To:

- understand the key messages from Policy Statement 18/20

- gain clarity on FCA expectations of Appropriate Pension Transfer Analysis (APTA)

- understand the FCA’s expectations of firms that operate within the DB pension transfer market

Background to PS 18/20

- Reflected feedback to CP18/7 discussion questions
- Consulted on several areas:
  - Raising qualification level for PTS (Level 4)
  - Clarifying clients’ attitude to transfer risk
  - How to carry out an appropriate ‘triage’ service
  - PTS and the two adviser model
- Published October 2018

Standards to meet before giving advice

- The qualifications required to advise on or check pension transfers
- The standards that apply to the Pension Transfer Specialist (PTS) qualification
- The definition of a pension transfer

Preparing to give advice

- Taking account of the proposed destination of a client’s transfer funds
- Information sharing
- Triage services

Triage services

- The advice/ guidance boundary
- DB transfer advice different regulated activity
- Educational and balanced

Providing advice

- Suitability reports for negative recommendations
- Assessing a client’s attitude to transfer risk

Transfer Risk

Transfer risk - definition

"The retail client's attitude to, and understanding of the risk of giving up safeguarded benefits (or potential safeguarded benefits) for flexible benefits"

Transfer risk – the factors

- Risks and benefits of ceding arrangement
- Risks and benefits of transferring into an arrangement with flexible benefits
- Attitude to certainty of income in retirement
- Impact on the sustainability of the fund over time

Transfer risk – the factors (contd)

- Attitude to and experience of managing investments or paying for advice

- Attitude to any restriction on the ability to access funds in the ceding arrangement

- List not exhaustive – See PS18/20

Charging models

- A discussion chapter in CP18/7 to gather views on:
  - Impact of a contingent charging ban.
  - How could a ban be implemented?
  - What would be the effect of banning some charging models?

- Complex area – protect consumers/access to advice

What is the APTA?

- Incorporate financial **and** non-financial analysis
- Consider client's objectives and alternatives
- Can be used to illustrate other scenarios
- Not mandating cashflow modelling

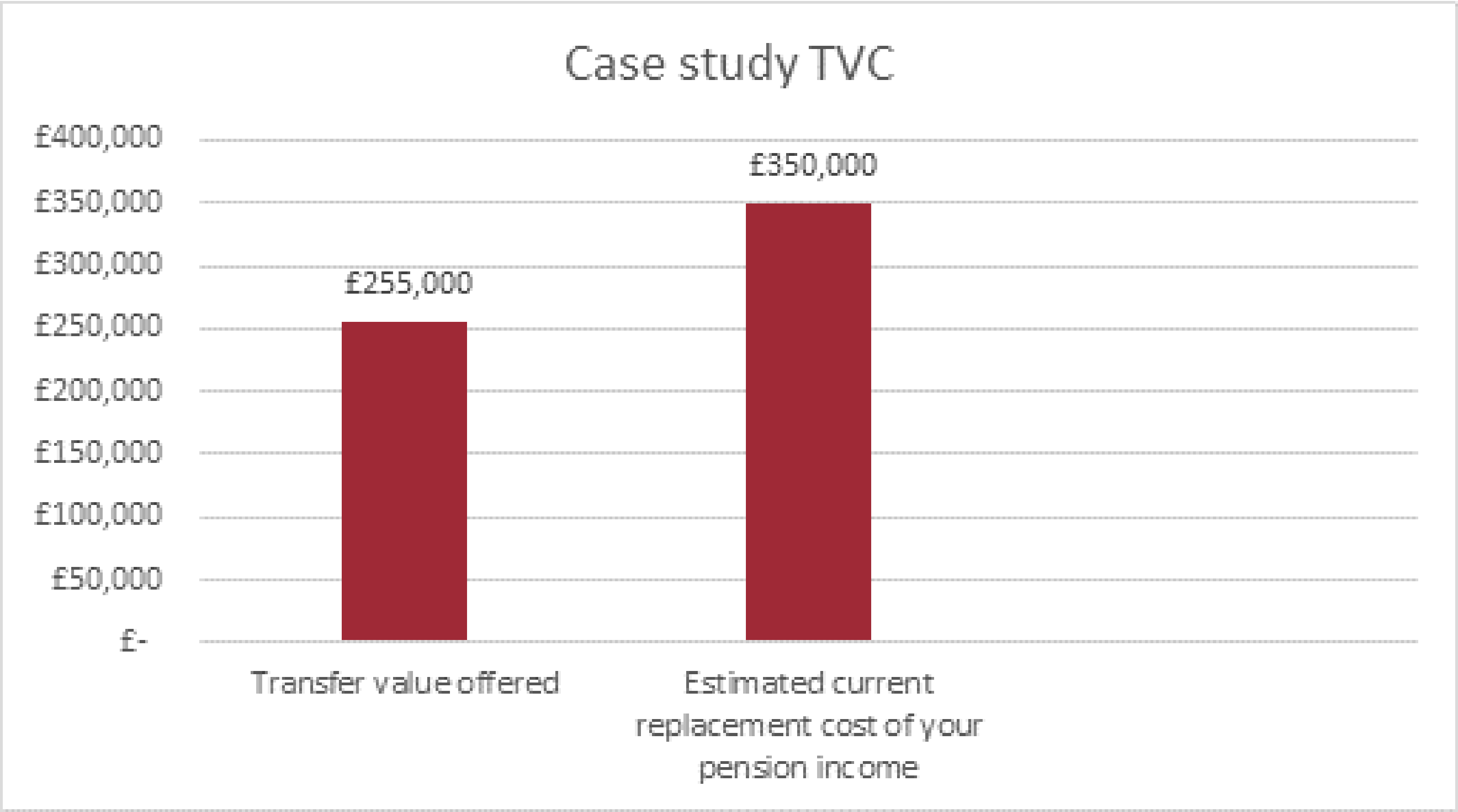
APTA – Scenario , early retirement

- Objectives v Needs
- Cash-flows
- Other options
- Need for cash?
- Early retirement penalties

What does the TVC show?

- Compares CETV with cost of lifetime income
- Annuity is the best proxy for lifetime income
- Will show client the underlying value of benefit they might give up
- Puts important context around the CETV

Example of the TVC



Summary

- Change in qualification requirements
- Information sharing
- Destination of pension assets
- Suitability reports
- Attitude to transfer risk
- Triage

- Watching brief on contingent charging

Useful Links

- https://www.fca.org.uk/publication/policy/ps18-20.pdf
- https://www.fca.org.uk/firms/assessing-suitability
- https://www.fca.org.uk/retail-investment-events-live-local
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Questions

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