

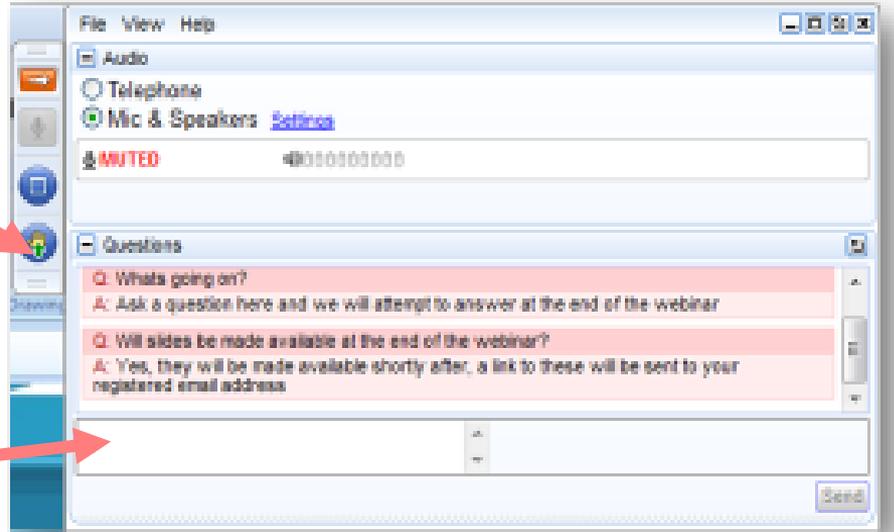
COMPLIANCE SPOTLIGHT

PENSION TRANSFERS

FCA focus and defining the benefit of advice

WELCOME

To raise your hand in the webinar, click here

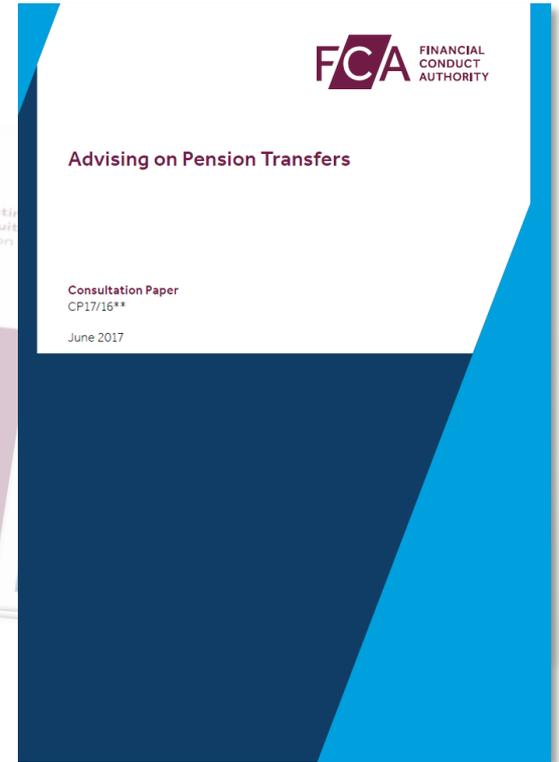


To ask a question, please type here. We will respond during the webinar or shortly afterwards

LEARNING OBJECTIVES

- 01 Discuss the key aspects of the proposed Appropriate Pension Transfer Analysis (APTA)
- 02 Understand the FCA framework for introducer advice processes and associated risks.
- 03 Recognise how to assess the security of the existing pension fund and ensure compliance with regulatory requirements.
- 04 Appreciate the far-reaching comparisons required for replacing benefits, assessing investment suitability and the importance of replacing guaranteed income.
- 05 Assess the benefits of cash-flow modelling and the common failures of suitability reports.
- 06 Deal with risks associated with insistent clients by implementing recent FCA guidance (COBS 9.5a).

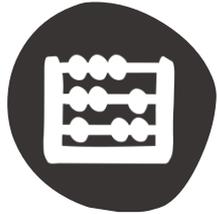
UNSCRAMBLING THE INFORMATION



ONE STEP BACK – JAN 2017



.....
Consider personal circumstances of the client before making a personal recommendation



.....
Consider likely expected return of assets clients funds will be invested in



.....
How does this relate to the critical yield?



.....
Take into account specific other factors as they apply to the client

PENSION TRANSFERS

FCA reminder:

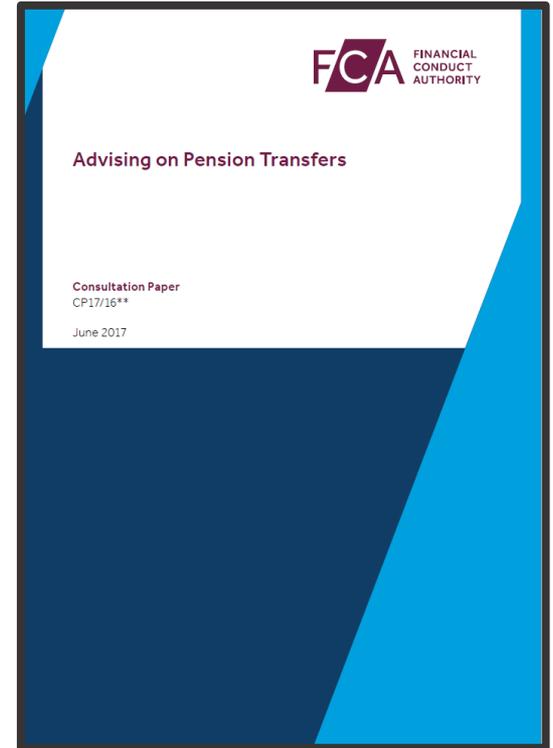
**DEFINED BENEFITS...SAFEGUARDED BENEFITS
INVOLVING GUARANTEED PENSION
INCOME...PROVIDE VALUABLE BENEFITS**

**..MOST CONSUMERS BEST ADVISED TO KEEP
THEM**

However, a change in the air?

FCA CP17/16 June 2017

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MEASURES OF SUCCESS

- Reduction in the number of complaints against advisory Firms
- Fewer interventions by FCA
- Fewer victims of pension scams
- Overall aim unchanged
 - Consumers receive good quality advice



ADVICE & SUITABILITY

Existing guidance

Assumption of transfer
unsuitable

Proposed new guidance:

“for most people retaining
safeguarded benefits will
likely be in their best
interests”

Case by case from a neutral starting point

TRANSFER SPECIALIST EXPECTATIONS

- Checking advice **means:**
 - Not just checking TVA in isolation
 - Assessing reasonableness of personal recommendation
 - Soundness of basis of advice
 - Wider circumstances
 - Destination & how funds invested
- Clearly document reasons for their view
- Glossary of Definition of PTV Specialist to be changed
- NB: Qualifications alone, not enough – current relevant experience required



Rules for outsourcing? – all of the above!

POLL QUESTION

When it comes to transfer advice do you:

1. Undertake the advice
2. Refer to an in-house specialist
3. Refer outside the firm

ADVICE & SUITABILITY

Income needs & expectations

Role of safeguarded benefits in providing income

Impact & risk if conversion or transfer made

Specific receiving scheme being Recommended

Way funds will be assessed – ongoing

Alternative ways of achieving clients objectives

Tax

Death benefits

Health

Family situation

Means tested benefits

Other income sources

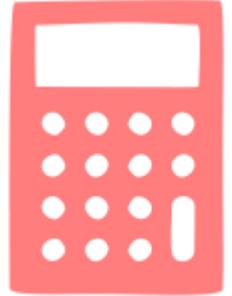
DEATH BENEFITS - PROPOSAL

Consideration of death benefits on a fair basis...

For example where the death benefit in the receiving scheme will take the form of a lump sum, then the death benefits in the ceding scheme should also be assessed on a **capitalised basis**,...

...and both should take account of expected differences over time

e.g. 2/3rd spouses v lump sum? Is it that easy?

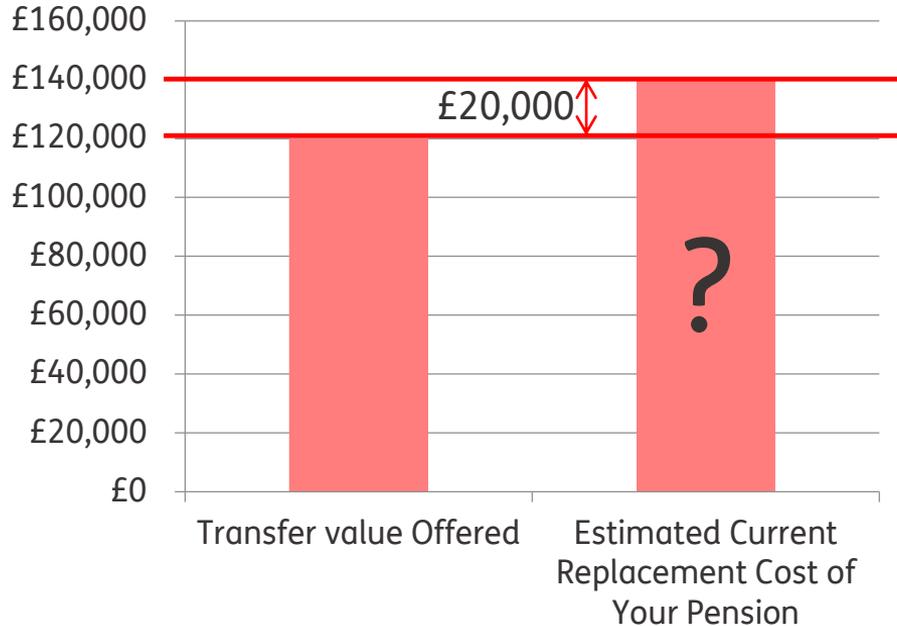


EXPECTED MINIMUM FOR CONSUMER PROTECTION

- **‘Appropriate Pension Transfer Analysis’ (APTA)**
- Assessment of outgoings & potential income needs
- Other means & cash flows
- Consideration of death benefits on a fair basis
 - Receiving scheme: lump sum = ceding scheme should be capitalised
- Benefits of PPF / actual scheme proposed as receiving scheme
- Prescribed comparator – use of annuity to allow customer to understand costs of purchasing comparable benefits elsewhere



COMPARISON OF COST FOR SAME INCOME(?)



... considered whether there should be any allowance for ..individual characteristics (such as health).

...this should be covered adequately by our proposals for appropriate analysis of the individual's options.

NB: Applies to all PPTV's & Safeguarded Benefits except in case of GAR

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APTA MUST ALSO INCLUDE.....

Ability to meet needs

- Role of ceding & receiving scheme including specific receiving scheme charges

Mode of access

- Flexi-access drawdown, uncrystallised funds pension lump sum, standard or impaired annuity etc.

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PARTIAL TO A TRANSFER?

New Model **Adviser**

Advisers back fresh call for partial DB transfers

By William Robins / 29 Aug, 2017

...60% ‘strongly supported’ the option of a partial transfer for clients. However, **only around 15% of schemes offer a partial DB transfer option.**

“...the transfer value is typically a multiple of 25 to 30 times the size of the annual pension foregone.”

<http://citywire.co.uk/new-model-adviser/news/advisers-back-fresh-call-for-partial-db-transfers/a1044716>

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CASE STUDY

- Andrew is earning £45,000, has 40 years in a 60th scheme
- Accrued pension £30,000 pa
 - 3% escalation
 - 50% spouses pension (if married/civil partnership)
- Andrew is due to retire in next 6 months, he has received transfer value from scheme of £900,000 (30 x DB income)
- Commutation factor 15:1 in scheme
- He is single with a 35 year old daughter, and has a couple of health issues

LIFETIME ALLOWANCE USED



Different bases for Lifetime Allowance

Scheme = 20 x uncommuted pension

Transfer = full transfer value

DOES IT SUIT THE CLIENT'S CIRCUMSTANCES?

Not married and doesn't want 3% escalation.....

Single life, no escalation	£56,958 pa
Single life, 2% pa escalation	£47,158 pa

Tax-free cash options:

Scheme	£138,462	reduced pension	£20,769 pa
Transfer	£225,000	reduced pension	£42,961 pa*

*based on level income and purchase price of £675,000

Just rates on 22.02.18. Based on individual aged 65, purchase price £900,000 unless shown; single, BMI 29, smoker, type 2 diabetes – 1 medication daily, high cholesterol, blood pressure under control with 1 medication daily, 7 units of alcohol weekly. Postcode RH2 7RT. Monthly in advance. No guarantee. Allows for £10,000 Adviser charge.

COMBINED APPROACH

Lump Sum	£225,000
Total Income	£35,000 pa
Including guaranteed	£12,000 pa

State Pension (plus COPE)	£8,000 pa*
Annuity (Cost £60,622)	£4,000 pa

*Does not qualify for full state pension due to period of contracting out

Drawdown fund remaining	£614,378
Flexible income required	£23,000 pa

= 3.74% pa withdrawal rate

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POLL QUESTION

Which of the following do you think will have the biggest impact on your business in 2018?

1. Brexit Planning
2. Increased Regulation
3. Resource /Recruitment
4. Consumer Perception of Financial Services

POLL QUESTION

Which of the following would you like to learn more about?

1. MiFID II
2. GDPR
3. Senior Manager & Certificate Regime
4. Conduct Risks/ Vulnerability

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