

FCA CP 17/16

Advising on Pension Transfers

The FCA published **CP17/16: Advising on Pension Transfers** on 21 June 2017. The consultation period closed on 21 September 2017 and we expect the FCA to issue the Policy Statement early in 2018. This paper is designed to summarise the key themes and issues raised in the consultation.

Background

CP 17/16 proposes changes to the regulatory framework around advice for transfers and conversion of safeguarded benefits. It aims to reflect the current environment and the increased demand for pension transfer advice since the introduction of pension freedoms.

“Providing clarity to better equip advisers to give the right advice. This will help consumers make well informed decisions which consider all relevant factors when deciding whether or not to transfer. It will also give consumers confidence in the advice that is being provided.”

(CP 17/16 Section 1.12)



Who's it for?

This FCA consultation will primarily be of interest to financial advisory firms advising on:

- ✓ Pension transfers
- ✓ Those acting as pension transfer specialists
- ✓ Pension providers receiving pension transfers and;
- ✓ Those providing software for pension transfer advice.



To find out more, take a look at our
'CP17/16 At a Glance' paper [here](#)

We've identified 4 key themes arising in the
FCA paper; these are summarised on the next page



Philip Brown,
Head of policy, LV=

At LV=, we welcome the regulator's proposed changes to pension transfer advice. We wholeheartedly agree advice on transfers should be a personal recommendation and ensures customers aren't unduly influenced into giving up valuable benefits.

As strong supporters of regulated financial advice, we welcome the FCA's objective of clarifying the guidance framework surrounding pension transfers since the introduction of pension freedoms. Although this may add to the complexities involved, particularly around the evidence requirements, we believe it has the potential to give advisers the confidence to continue offering their clients the best advice to meet their individual circumstances.

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The four key themes

1. Personal recommendation

The FCA are proposing that advice in this area must be presented as a personal recommendation. The FCA is clear that this is needed for the protection of consumers, and acknowledges that this reflects the majority of current practice.

"For advice to be meaningful, it is important it looks at the consumer's individual circumstances and provides a specific recommendation" (CP 17/16 Section 3.7)

2. Presumption of unsuitability

Proposal to remove the existing presumption that a pension transfer will be unsuitable and replace this with a statement in the Handbook highlighting that, for most people, retaining their safeguarded benefits is in their best interests and advisers should have regard for this.

The FCA has also added clarification around suitability requirements.

"An assessment of suitability should focus on whether a transaction is right for the individual and should be assessed on a case by case basis from a neutral starting position. The adviser needs to demonstrate that the transfer is in the best interests of the client."

(CP 17/16 Section 3.11)

3. Clarifying the role of the Pension Transfer Specialist (PTS)

The FCA has provided some welcome clarification on the role of the PTS stating:

"Advice on pension transfers, pension conversions and pension opt-outs must be given or checked by a pension transfer specialist, who must be a fit and proper person with specific qualifications."

(CP 17/16 Section 3.15)

The FCA note concerns that PTSs may only check Transfer Value Analysis (TVA) calculations, instead of looking at overall assessments and recommendations. The Consultation proposes guidance that checking of advice means assessing the reasonableness of the personal recommendation reached by the adviser. The glossary definition of PTS will also be amended, and the FCA has included (as an area of discussion) qualifications for a PTS, and on responsibility for advice where pension transfer advice is outsourced.

4. Introducing an Appropriate Pension Transfer Analysis (APTA)

- This will replace the Transfer Value Analysis (TVA). The FCA intend to move far beyond the existing scope of the current TVA and are proposing that an APTA should include an assessment of the client's outgoings and potential income needs in retirement, the role of the ceding and receiving scheme in meeting those needs, and consideration of death benefits on a fair basis.
- The APTA can be tailored to the client's individual needs, but one prescribed part of the APTA is the Transfer Value Comparator (TVC). This will involve calculations on the projection of the ceding scheme benefits to normal retirement age (where relevant), the estimated cost of purchasing those benefits using an annuity (the FCA note that this is a proxy for understanding what can be gained or lost), and for those more than 12 months from their scheme retirement date determining the present value needed today to fund the annuity.
- Whilst the first two elements are unchanged from the TVA, the last element requires a client appropriate discount rate to be calculated to value the amount needed to reproduce the safeguarded benefits after appropriate charges.



The FCA will issue their final Policy Statement in early 2018



Other Issues

As well as the four key issues we've highlighted, the FCA have also raised several other areas for consideration:

- Stochastic modelling, use of software for advice purposes, and revaluation and indexation assumptions.
- Opt-outs, and confirmation that they will be consulting on additional guidance around insistent clients in the coming months.
- Overseas transfers, and on applicability of "streamlined advice" to safeguarded benefits.



Feedback and comments

Do you agree with the issues raised by the FCA? Are there any areas that concern you most, or where you'd like additional support or solutions to help meet your clients' needs?

Let us know what you think – we invite you to send us your questions or comments via LV.com/adviser/insights

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