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Tideway Investment Partners LLP CP 19/25 Consultation

Executive Summary

Our primary views on CP 19/25:

- Whilst we are supportive of the core initiative to improve DB transfer advice standards in this paper, we are concerned by the general negative stance which ignores the economic benefits of DB pension transfers.

- Far from preventing your estimated £2bn per year of consumer harm, an estimate we think is not likely to be accurate, our calculations suggest that this generic negative stance has the propensity to do as much as £25bn of consumer harm over the next 5 years. Harm that will escalate in value materially in years to come.

- We make these assertions based on the following facts:

    - The very negative stance on the benefits of DB transfers taken in this paper is leading to negative press coverage of DB transfers, unfounded opinions as to the merits of the transaction and 'adviser bias' with advisers encouraged to recommend not to transfer.

    - Most transfers post Pensions Freedoms are forecast to create a better economic outcome for consumers using flexible drawdown in retirement versus staying in the scheme with a relatively modest level of net investment returns. This potential economic gain is completely ignored in the paper and in the approach FCA now appear to be taking to DB transfer advice.

    - We have evidence to show that across our client base these economic gains of transferring out are materialising after just 2-3 years and any compensation liability that may have existed immediately post transfer is reducing or indeed has already disappeared. Clients are materially better off as a direct result of the transfer. We see no reason to believe that we are unique in this and would expect to see and have seen that other advisers are having similar experiences.

- Our view is that banning contingent charging will not be effective in removing the conflicts of interest implicit in DB transfers because ongoing fees are far more valuable than initial fees. Furthermore, a ban has the propensity to stop clients engaging with advisers and to have the opportunity to shop around for advice. It may also put financial pressure on some clients to transfer in the latter stage of the advice process.

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Our primary suggestions to improve the quality and availability of advice to consumers are:

1. Go back to the stance that a DB pension is a valuable asset which should not be given up lightly or without reason. The default position should be to stay in the scheme, but FCA should refrain from generalising whether transfers are good or bad.

2. Make it clear to advisers what you consider to be suitable transfers. Point 50 on page 63 sets out 5 scenarios where you think a transfer could be suitable in addition to the 2 carve out scenarios. We agree with these 5 scenarios and think publishing them more prominently would be very helpful in building an industry wide view as to what a suitable transfer recommendation looks like.

3. We think you should add to these 7 scenarios an additional 8th scenario where the transfer brings significant, after-tax, economic gains with limited downside risks based on the client's specific transfer offer, their plans for the funds post transfer, financial position and objectives.

4. To better manage the inevitable conflict of interest of both initial and ongoing fees make advisers disclose, before engaging for advice, the likely 20-year earnings of the advising firm and the individual adviser (if their remuneration is directly linked to the firm's fees from that specific member) of an individual completing a pension transfer.

5. To ensure DB transfers are successful for as many consumers as possible we would suggest focusing on:

   - Identifying and closing scams as quickly as possible
   - Preventing access to unregulated investments via pensions
   - Highlight to consumers the extent of the range of transfer offers from different schemes. Ranging from those where economic harm will almost always be done unless individuals can qualify for one or other of your two carve outs, to those where economic gain is all but certain

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General Comments on DB Transfers - 2015 Onwards

Before answering your specific questions, we would like to comment on the points you make in paragraph 1.3 of your summary, specifically;

"Our supervision work shows that 69% of consumers are advised to transfer despite our view that most customers would be best advised not to transfer. We estimate that the harm created by unsuitable DB transfer advice is up to £2bn each year."

These generalist comments have shaped the opinions of journalists, politicians, professional indemnity insurers and will no doubt have influenced adviser and consumer behaviour. In our professional opinion and based on our experience in this area our view is that to generalise like this is extremely dangerous and that your assertions are fundamentally flawed and fail to take account of the changing macro factors impacting the DB transfer transaction, along with the fact that most people who transfer from DB schemes behave very sensibly with their money.

In the pre financial crisis, pre pensions freedoms world DB transfer funds generally under performed forecast returns made by advisers in the previous decades and the cost of annuities progressively rose with life expectancy and falling gilt yields. The expectation of DB transfer clients was that they would transfer, invest and then either annuitize in retirement, or do drawdown linked to annuity rates. This was obviously a toxic mix leading to poor outcomes and high compensation claims when advice standards were poor.

Against this macro back drop of falling gilt yields and falling investment returns we would agree with FCAs very negative stance on transfers.

However, post the financial crisis gilt yields fell such that transfer offers rose significantly. This in turn lowered the target returns needed to make a good out come from a transfer based on using drawdown in retirement rather than re annuitizing. Investment returns have also been positive and for most sensible investment solutions ahead of these target returns after fees. Post pensions freedoms most clients are transferring not to re annuitize but to use flexible drawdown.

Given these changes most clients who have transferred in recent years are heading towards or, have already reached, a positive outcome where they have gained economically whereby they can receive more lifetime cash after tax income than had they stayed in the scheme.

Post the financial crisis and pensions freedoms and macro factors impacting DB transfers generally have changed them to be a force for economic gain rather than detriment. This is not just speculation as we have evidence to prove that these economic gains are being delivered in practice.

Given the size of the offers and the popularity of pensions freedoms it is our view that FCA should not be surprised by the number of consumers looking to get transfer advice. Furthermore, given the persuasive maths that points heavily towards positive economic gain from a transfer at post crisis levels, then

you should not be surprised either by the number of positive recommendations by advisers. It is after all the adviser's job to look after a client's best interest, which will include improving the financial position of the client without taking excessive risks and these transfers overwhelmingly do that, even when investing on a cautious risk basis.

In terms of your harm to consumer analysis we think:

- Confusion over what constitutes a suitable transfer and the inconsistency of suitability assessments from individuals with limited understanding or indeed biased views of the DB transfer transaction is leading to an overestimate in the number of transfers that are being considered unsuitable. Noting we have seen very variable and different compliance assessments of similar cases from different bodies including the FCA over the last 3 years.

- Jumping to the conclusion that supposedly un clear or unsuitable cases will have all caused permanent consumer harm is wrong and suggests a failure to understand the shift in macro conditions and the economic benefit brought by post financial crisis and pensions freedoms transfers.

In stark contrast to your assessment, our assessment is that the positive economic impact to consumers of DB transfers over recent years will likely be far more significant than the financial harm that a minority of cases will cause.

We estimate, using the FCA prescribed compensation methodology, that your very public current guidance to consumers and advisers could do as much as £4bn of damage to consumers who are deferred members in a single large UK scheme.

Extrapolated across all UK DB schemes we estimate that the damage could be £25bn of consumer harm over the next 5 years, a figure which will only escalate if consumers fail to act or get locked out of the transfer option.

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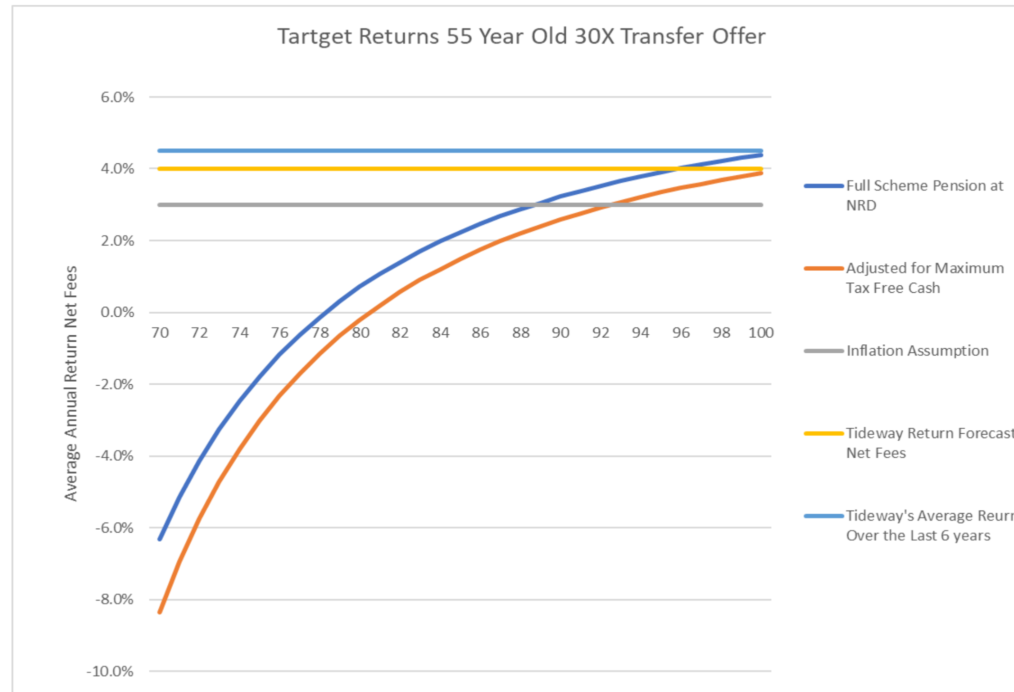
The General Case for No Permanent Harm to Most Consumers Doing DB Transfers

Our experience shows:

- That virtually all the consumers (more than 95%) we have advised to do a DB transfer in the last five years have invested most of the transfer sum post transfer. They do not cash in all their accounts and they certainly do not spend it all.
- As you have found in your analysis of DC pensions, DB pension holders find it attractive to access some of their pension fund, most usually within the tax-free cash limit, as soon as they transfer. Many do this ahead of drawing income from their fund. This is overwhelmingly the behaviour that we see.
- They are not looking to invest on a temporary basis and re-annuitise at normal retirement date (NRD) they are choosing to use flexible drawdown as a long-term retirement solution and to avoid expensive annuities.
- Individuals approaching retirement value the tax-free cash sum as well as the future income. They want access to a cash sum for example to;
    - purchase a house and avoid expensive rent
    - get debt free, or at the very least free from expensive debt
    - have access to a capital sum if needed
    - help their children or other friends and relatives financially

  We note that there is strong evidence from scheme administrators to support that most members of defined benefit schemes take the tax-free cash sum on retirement.
- That whilst most schemes have increased their transfer offers to reflect lowering gilt yields, to the extent that the average offer we see now for an age 60 pension is around 34X the accrued pension, most schemes have not amended their scheme rules to adjust cash commutation factors which tend to be around 20:1 for 60 year olds and lower at 65. This means that DB scheme cash sums are typically significantly smaller and expensive for their members in terms of the income they sacrifice to get them.
- Transfer offers from most UK DB schemes post the financial crisis and fall in gilt yields are sufficiently generous that, after accounting for the impact of taking a cash free cash sum the target returns needed for a flexible drawdown fund to generate better overall lifetime benefits are very low, by any measure. For current transfers our data suggests this return is equivalent to just inflation rates after fees to be able to match benefits to age 100, well beyond average life expectancy. A return today of around 1.7% p.a. in nominal terms.
- For transfers over the last 4 years with offers averaging around 30X still only required a return of inflation plus 1% to match benefits to age 100 (See Appendix 1 and chart below), equivalent to about 2.7% p.a. in nominal terms today.

Typical Transfer Case From the Last 4 Years

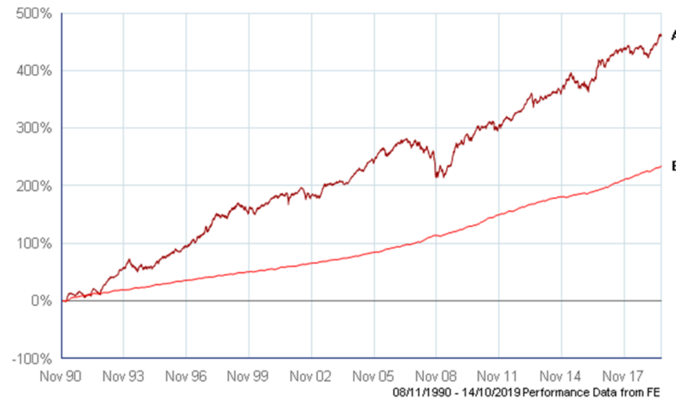


In this scenario assuming drawdown returns after all fees exceed these targets it is inevitable that consumers if not immediately, will be better off transferring in time.

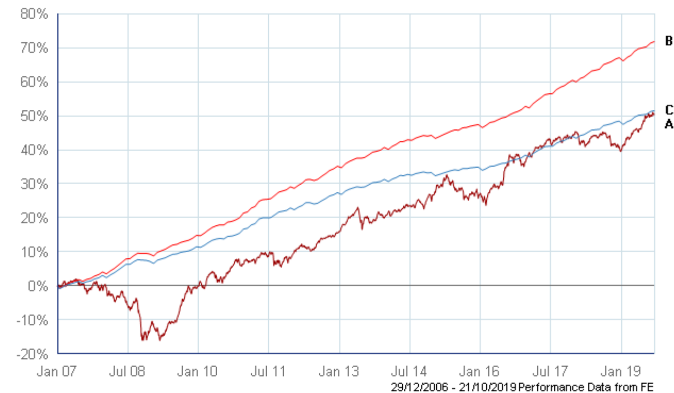
The first chart below shows that the average cautious managed collective fund in the UK has returned more than inflation plus 2% over the last 29 years, and even starting at the worst possible point in the last 30 years, a return of inflation plus 1% within in 10 years suggesting that a return

above inflation after all fees is likely to have been achieved by those who have transferred to date, post pension freedoms and should be achievable in the future, even by a cautious investor and even allowing for poor market timing.

IA Mixed Asset Less than 35% in Equities (A) VS CPI plus 2% (B) for the Last 29 Years



IA Mixed Asset Less than 35% in Equities (A) VS CPI plus 2% (B) and plus 1% (C) since 1.1.2007



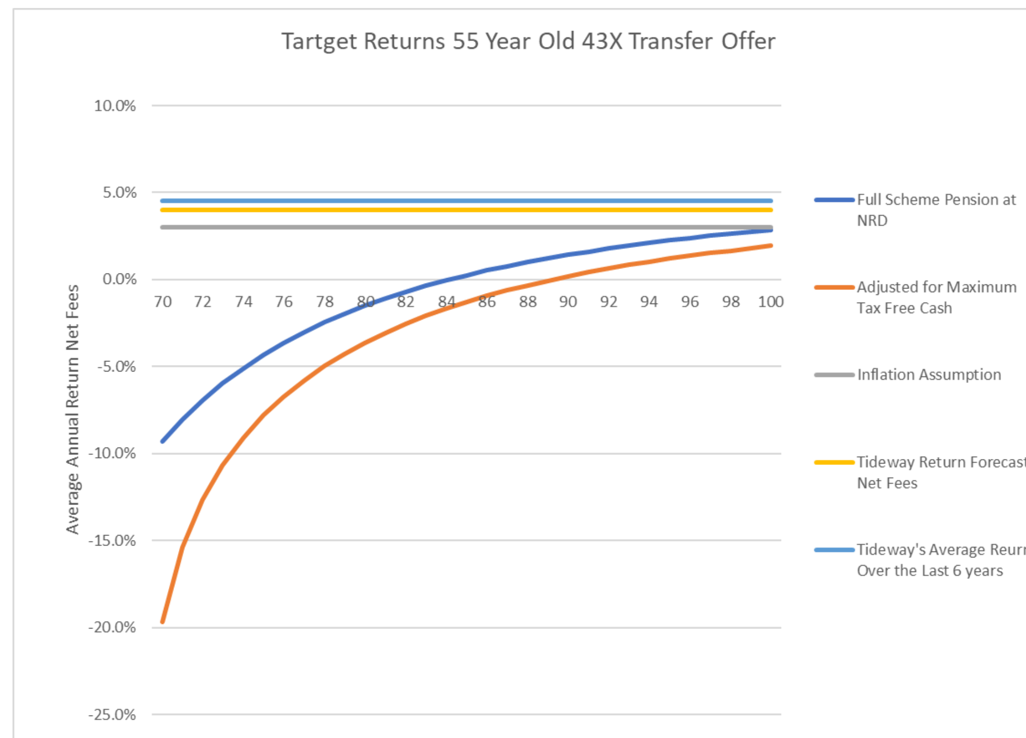
- An increasing number of firms are also ‘de risking’ their schemes with the goal of transferring the fund and liabilities to a bulk insurance company. In this scenario trustees are moving their scheme’s portfolio to reduce equity exposures and increase exposures to matching gilts and corporate bonds in anticipation of the buyout. In these cases, the trustees should be, and in most cases do, increasing transfer offers to reflect the lower return profile of the fund, this in turn is generating higher than usual transfer offers both from the scheme and often from the buyout firm post the buyout as we are currently seeing from schemes like the BAT, Asda and RBS schemes.

A Specific Current Example

The Royal Bank of Scotland (RBS) pension scheme is currently (and has been doing for some months) offering extremely generous transfer offers, around 43 times an age 60 DB pension.

At these levels and after adjusting for the tax-free cash available under the transfer route versus the scheme at NRD, we estimate the average annual target return after fees needed to match projected scheme benefits at NRD to age 90, for most members (sub the LTA), is zero and just 1.9% p.a. nominal to age 100 using a 3% inflation assumption.

See below our chart which shows target returns net fees dependent on longevity versus inflation, our forecast returns and our achieved returns in the last 6 years.



Any positive long-term return earned by an RBS scheme member who transfers and wants to take advantage of the tax-free cash sum associated with their pension will likely leave them with a significant higher lifetime net of cash income than the scheme benefits.

Indeed, the transfer is so generous that they could either annuitize in the individual annuity market post extraction of their cash sum or invest in secure cash deposits and have better lifetime net cash benefits without putting their capital at risk. These calculations will apply to most members of this scheme eligible to take a transfer.

The Case for Harm to Consumers by This Guidance Using This Example

According to a 2016 report, the RBS scheme has £45bn of assets and 123,000 deferred members.

https://rbs.tbs.aon.com/RBS/media/default/PDFs/Current%20Pension%20Plan/RBS-Group-Pension-Fund-Annual-Report-31-12-2016-SIGNED.pdf

Given the compelling case for making a transfer you would expect most deferred members in this scheme;

A. to want to seek advice on the transfer option and
B. to transfer.

The vast majority are not doing either and if the current negativity on DB transfers persists it would seem large numbers are likely to sleep walk into defined benefits missing out on a highly valuable transfers and higher future benefits.

We believe a good portion of the blame for this failure to engage with advice on a transfer is down to FCAs negative stance and associated negative press comments on DB transfers.

Our calculations go on to suggest that, taking account of the tax-free cash option (which most members will use), advising a member of the RBS scheme to transfer at present carries no significant compensation risks to advisers.

Quite the contrary, based on the prescribed calculation methodology for redress on DB transfers we estimate they would be better off on day one by a sum of approximately 3X their deferred pension at NRD in today's money escalating to 5X within 5 years. This would be £50,000 damage for a member with a deferred pension of £10,000p.a.

Put another way, an adviser recommending a member to remain and take the scheme's defined benefits and thereby closing off the route to a transfer, would be opening themselves up to these levels of compensation. This compensation number would grow materially in years to come (See Appendix 3).

If you assume,

- In keeping with your figures that the average deferred member in the RBS scheme has an accrued pension of £10,000 p.a.
- That there at least 100,000 deferred members of the RBS remain
- That at least 80% would trust themselves to look after the transfer funds

Then the potential harm to these 80,000 consumers who do not engaged for advice could be at least £4bn over the next 5 years in this one scheme alone. Extrapolating further,

- The potential harm is around 10% of the RBS scheme value
- The RBS scheme is one of the most well-funded and giving the most generous transfer offers
- On the basis that the average offer is now broadly neutral in terms of harm done on day one in either direction then it is reasonable to assume that roughly 50% of deferred members will have will have offers where harm will be done by not transferring.
- On the assumption the RBS detriment amount is near the top end of what we see it is also reasonable to assume that the 50% who will be damaged by not transferring will be damaged by roughly half the amount of the deferred RBS members i.e. by around 5% of the scheme's liabilities
- There are approximately £1trn of UK private sector liabilities to active and deferred DB pensioners.

We therefore conservatively estimate that over time there could be at least £25bn of consumer harm done to those who don't transfer in the next few years. (£1trn X 50% X 5% = £25bn)

In terms of those who transfer with offers below the current average, i.e. those where a compensation calculation would result in a meaningful payment to the member then assuming that:

1. As per our experience individuals are sensible and invest the bulk of their funds using flexible draw down in retirement
2. They continue to prioritise tax free cash sums – which are after all tax efficient
3. Investment markets work as they have done historically and deliver premium returns over inflation for longer term investors

Then any consumer harm will be temporary in nature and clients will ultimately become better off in time. Only those transferring where offers are materially lower than the current average would likely suffer long term permanent harm, without mitigating circumstances as per your two carve outs. The stand out scheme making such poor offers is the Local Government Pension Scheme LGPS where target returns to 100 are around inflation plus 4-5% net of fees.

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Specific Questions Answered

Q1: Asks for comments on the proposed start dates

We have no specific comments here other than that Tideway could make the changes in our processes and fee structure within the time frames you propose should you press ahead with these proposals.

Q2: Do you agree that a ban on contingent charging is likely to be an effective in reducing the numbers of consumers receiving unsuitable advice?

If not, (Q2.1) how would you suggest we effectively reduce the numbers of consumers receiving unsuitable advice? (Q2.2) Do you think we should address the conflict of interest issues differently?

2. No.

It won't fix the conflict of interest nor un suitable advice

It will not address the conflict of interest. Given we are already seeing competitors, including some national firms, prepared to provide DB transfer advice for free, for negligible fees, or fees that do not appear to impact the client on transfer (in the case of St James Place) we believe firms will find ways to game the non-contingent fee and that the conflict of interest of fee income will remain given that ongoing fees are generally much more valuable than initial fees.

We doubt that contingent charging is the root cause of bad advice. The news that LEBC, a major high-volume player with a decent reputation and using non contingent, fees stopped advising in this area would suggest that non contingent charges in themselves are not going to improve advice standards, something FCA admits in the paper.

The Detriment it May Cause

Banning contingent fees will undoubtedly deter more clients from engaging with advice and will be expensive to those who are recommended to stay in schemes. The 'scheme pay' arrangements are likely to be years down the line and not available from many schemes. Paying a full advice fee from net earnings will be expensive for consumers and tax inefficient. It is an upfront fee versus one which is in effect spread over a retirement when charged against a pension account and it comes from net cash rather than gross income. This is not a level playing field and makes the fee more expensive for those who are recommended to stay versus those who transfer.

It will make shopping around very expensive. We know many of our customers have gone to two or more firms for their DB transfer advice to compare the advice and ongoing investment propositions. They find this very helpful and shopping around like this is likely to be impossible or very expensive if contingent initial fees are banned.

It could force people to transfer. Given the irreversible nature of the transaction, we think it is important that consumers can change their minds late on in the advice process without financial penalty. We have strong evidence from our own experience that some consumers will go through the whole advice process but ultimately change their minds just before they submit for the transfer. This can be based on a realisation that they are getting more uncomfortable as they close in on the point of no return, or that on the final run through of the advice report they change their mind. Having to pay a large fee to do this will change the dynamic on this decision and put pressure on transferring.

2.2. On the basis that it is not possible to remove the conflict of interest that advisers and firms face in terms of the financial gain they make when someone transfers versus when they don't, we recommend FCA focuses on disclosure and the management of this conflict.

- Preliminary disclosure (prior to engagement, but part of initial guidance) when an individual first approaches a firm for could show the likely 20 year's payments to the firm and or adviser, if directly related (where the individual adviser's remuneration is directly linked to the client's fees paid) under a number of scenario's if the client transfers. Noting St James Place estimate the average life expectancy of a drawdown account from transfer is 18 years.

- FCA could also enforce RDR more effectively throughout the industry stopping product providers like St James Place from funding up front adviser charges so it feels in disclosure like the client is not paying for those fees. This feels like and has the same impact as old-style commission payments which have been banned and embraced by the vast bulk of the industry.

2.1. Suitability could be improved by having a clear communication with advisers as to what a suitable transfer case looks like.

Point 50 on page 53 sets out 5 scenarios where you think a transfer could be suitable in addition to the 2 carve out scenarios. We agree with these and this is helpful and should be published more widely to develop a consensus opinion within the industry as to what a suitable transfer recommendation looks like.

We think you should add to these 7 scenarios an additional scenario where the transfer brings significant economic after-tax gains with limited downside risks based on the client's specific transfer offer, their plans for the funds post transfer, financial position and objectives.

To ensure DB transfers are successful for as many consumers as possible we would suggest focusing on

- closing scams
- stopping access to unregulated investments particularly via pensions
- highlighting overly expensive and inappropriate pension investment solutions and products in retirement, which your proposals set out to do in part
- highlighting the range of transfer offers made and schemes where offers are very poor, for example LGPS, where indeed most people will be better off staying in the scheme in stark contrast to the RBS scheme where most members will be better of transferring out.

Q3: Do you agree that the way in which we have set out the ban should be effective and adequately reduces scope for gaming? If not, how should we amend it?

No.
See comments in 2 above.

Q4: Do you agree with the scope of the proposed carve-out and our proposals for monitoring its use? If not, how would you change it?

On the assumption that you press ahead with the ban we agree with the proposed carve outs. However, we have some concerns that unscrupulous advisers will see them as equivalent to insistent customers, encouraging clients to sign up based on the carve out and using the carve out as way to short cut proper disclosures and suitability.

Q5: Do you agree with our decision not to propose a price cap? If not, how could the shortcomings of a price cap be overcome?

We broadly agree with your decision to discount a price cap.

Q6: Do you agree that changes to our existing conflict of interest and accountability rules would not effectively address the harm to consumers occurring in this market? If not, what changes to systems and controls would be most effective?

No.

We believe that forcing a 20-year earnings disclosure of the firm and adviser, if directly linked, should a member transfer would bring the conflict of interest to centre stage forcing some education and discussion around the value of fees and ongoing advice. If this was widened to include total costs this may be helpful in allowing consumers to shop around before they engage for advice.

Noting that price should never be the only metric in buying financial services, which are no different to other services where the cheapest service will rarely be the best service.

Q7: Do you agree that separating responsibility for transfer advice potentially has unintended consequences that may not be in clients' best interests? Are there any ways in which a separation of advice or independent checking of transfer advice could work effectively?

We broadly agree if the two firms do not manage the process correctly.

Q8: Do you agree that banning percentage charging is unlikely to have a significant impact on consumer outcomes? If not, how could it be used effectively?

Yes

There is nothing wrong with percentage fees assuming the quantum is reasonable. They make better sense commercially for consumers in terms of creating economic gain than fixed fees which could be excessive given the quantum of the transaction.

Poor investment solutions post transfer and excessively high fees are likely to have more impact than whether fees are fixed or % based.

Q9: What are your views on the potential for 'scheme pays', changes to the pension advice allowance and partial transfers to improve the quality of advice or address conflicts of interest adequately, or both?

We would welcome both but see neither as a total panacea.

We would expect many smaller schemes not to be able to deal with scheme pay fees

Partial transfers might work for some members, especially where the transfer offer is less generous in creating some secure income and some flexible access. However, where transfer offers are generous it may still be better to take a 100% transfer and create some secure income post transfer by way of a very low risk investment or individual annuity purchase.

As with DB transfer transactions generally we would encourage FCA not to generalise as to their merits but encourage them on the basis that greater choice can never be a bad thing.

Q10: Given the timeframes that apply to guaranteed transfer values, what are your views on the need to provide guidance to members considering a pension transfer? Should guidance be mandatory and, if so, who should deliver it?

We are not of the view that independent guidance from an unqualified individual who has not been designated as a Pension Transfer Specialist is in the consumers best interests.

Without more information, we are unclear as to how a guidance process would benefit a consumer without straying into advice or opinion as these would likely be what the consumer would be seeking.

We do believe in giving clients free education in advance of a transfer advice via our website and its guides and calculators. We have had extremely positive consumer feedback on this.

Q11: Do you agree with our additional guidance on triage services? If not, please indicate alternative ways of addressing the issue.

Do we need guidance, triage and abridged advice all before full advice? Surely free education/guidance and abridged advice will be enough.
Our view would be that with the introduction of abridged advice the concept of triage could be withdrawn leaving free generic advice and paid for abridged and full advice.

Q12: Do you agree with that our proposed abridged advice service will enable firms to provide a low-cost alternative to full advice for those consumers that need it? If not, how would you suggest we amend it?

Yes

Q13: Do you agree that requiring firms to demonstrate that an alternative scheme is more suitable than a WPS is the most effective way to reduce the numbers of consumers being transferred into schemes that do not meet their needs and limit unnecessary charges paid? If not, how would you suggest we address this issue more effectively?

Yes, we think comparison with a work place pension is sensible and better than comparison with no fees at all, which is both impossible and potentially misleading. However, we would fall short of making it the default recommendation for individuals approaching and moving into retirement on the basis that's such schemes:

- Don't facilitate adviser charging and most clients should benefit from advice at this crucial stage of their lives
- Generally, don't have a wide enough fund selection to meet client objectives in de accumulation
- Don't facilitate the segregation of investment assets which is a good way of mitigating against the impact of decumulation on volatile assets
- Nor do they facilitate the separation of the investment portfolio yield from capital, an essential in preserving funds in decumulation

Q14: Do you agree with our proposals for requiring the disclosure of charges in engagement letters? If not, please indicate what alternatives should be considered.

Yes – we agree with this, subject to the inclusion of the 20 year earnings figure described earlier

Q15: Do you agree with our proposals to introduce a one-page summary at the front of a suitability report? If not, please indicate what alternatives should be considered to improve disclosures to consumers.

Yes – we agree with this.

Q16: Do you agree with our proposal to require that suitability reports are always provided before a transaction is undertaken?

Yes – we agree with this.

Q17: Do you agree with our approach to checking that the client has a reasonable understanding of the risks of proceeding? If not, what alternative approaches might achieve the same outcome?

Yes – we agree with the proposal to check the client understanding. However, we advocate that it is done along the way as part of the advice process but also and most importantly, is independently checked at the end of the advice process and ahead of the final submission by a different PTS to the one who provided or supervised the advice process.

We are of the opinion that this last independent, recorded 'quality assurance call' (QA) is the single most important improvement we have made to our advice processes in the last 4 years. It is popular with clients and our advisers. The call ensures they are totally happy with the transfer, have understood the key issues and know why they are transferring,

It does of course require at least 2 PTS advisers per firm to get the 4 eyes independent check. In terms of managing the 'fees earned' conflict of interest our view is that it is essential that the PTS that completes this should *not* have remuneration linked to the specific cases they QA, they should not be working on commission. Ideally, they should be salaried advisers of the firm and *not* the firm owner.

Q18: Do you agree with our proposals to introduce CPD requirements for PTSs? If not, what other approaches could be used to help PTSs maintain knowledge? Chapter 7: Effective regulation

Yes – we agree with this.

Q19: Do you agree with the data we propose to collect in RMA-M? If not, what amendments would you suggest?

Yes – we agree with this. We would also suggest that the return includes the names of ceding scheme and recommended providers **and a data point on the generosity of the offer (for example % of TVC value)**– this would provide more MI to the FCA on ceding scheme information and destination of transfers.

Q20: Do you agree with the data we propose to collect in RMA-E, FSA031, FSA032 and FIN-APF? If not, what amendments would you suggest?

Yes – we agree with this proposal.

Q21: Do you have any comments on the proposed guidance for completing RMA-M and revised guidance for completing RMA-E, FSA031, FSA032 and FIN-APF? Chapter 8: Technical amendments

No comments.

Q22: Do you agree with our proposed changes to the pension transfer definition?

Yes – we agree.

Q23: Have we identified all the protections that would be lost for some categories of pension transfer and addressed these adequately?

We broadly agree. There are some historic contracts with guaranteed bonus rates, guaranteed fund values etc so clarification on historic contacts may be of assistance.

Q24: Do you agree with our proposed changes and clarifications to the TVC rules? If not, please indicate how we should change our approach.

We agree and have no comments.

Q25: Do you agree with our proposals when cashflow modelling is used in an APTA? If not, how do you suggest we amend it?

Yes – we agree with the proposals.

Q26: Do you agree with our approach of clarifying that retirement annuity contracts should be treated in the same way as contracts with guaranteed annuity rates? If not, please state why.

Yes – we agree with the proposals.

Q27: Do you agree with our proposed guidance on how advisers should give advice when only an estimated transfer value is available? If not, how would you change it?

Yes – we agree with the proposal.

Q28: Do you agree with our proposals to amend the application of the adviser charging and inducement rules to include advice on pension transfers and conversions in all circumstances (other than the proposed exclusion of an “employer funded pension advice charge” from the application of the adviser charging rules)? If not, please state why.

Yes – we agree with the proposals.

Q29: Do you agree with the change in application of COBS 19.1 to capture arranging a transfer or conversion? If not, please explain why.

Yes – we agree with the proposals.

Q30: Do you have any comments on our cost benefit analysis?

Yes - we think they are likely to be materially wrong and fail to reflect the longer-term economic benefit of transfers. See the first 10 pages of this document.

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Appendices

1. Target returns for a typical DB transfer of the last 4 years paying 30X the accrued age 60 pension

			Multiple of Transfer Offer	Acrued Annual Pension						
			30	20,000						
	Transfer value	Forecast Pension Growing at 3% p.a.	Transfer Value less 1% Initial Fees	Annual Target Rerturn Net Fees (IRR)	Assumed Inflation Rate	Tax Free Cash From Transfer Assuming 2.6% Return Adjusted for Basic Rate Tax	Tax Free Cash From Scheme @NRD Adjusted For Basic Rate Tax	Reduced Scheme Pension at NRD after Cash Commutation	Drawdown Fund Net Fees and Tax Free Cash	Drawdown Fund Target Returns Adjusted for Extra Tax Free Cash Received 5 Years Early
55	600000	20,000	594,000			187,500			445,500	
56		20,600	-			195,000			-	
57		21,218	-			202,800			-	
58		21,855	-			210,912			-	
59		22,510	-			219,348			-	
60		23,185	- 23,185			65,824	144,909.26	- 17,389	-	
61		23,881	- 23,881			50,546		- 17,911	-	
62		24,597	- 24,597			33,412		- 18,448	-	
63		25,335	- 25,335			15,279		- 19,002	- 3,722	
64		26,095	- 26,095	-19.5%				- 19,572	- 19,572	
65		26,878	- 26,878	-16.1%				- 20,159	- 20,159	
66		27,685	- 27,685	-13.4%				- 20,764	- 20,764	
67		28,515	- 28,515	-11.1%				- 21,386	- 21,386	
68		29,371	- 29,371	-9.3%				- 22,028	- 22,028	
69		30,252	- 30,252	-7.7%				- 22,689	- 22,689	
70		31,159	- 31,159	-6.3%	3.00%	4.00%	5%	- 23,370	- 23,370	-8.4%
71		32,094	- 32,094	-5.2%	3.00%	4.00%	5%	- 24,071	- 24,071	-6.9%
72		33,057	- 33,057	-4.1%	3.00%	4.00%	5%	- 24,793	- 24,793	-5.8%
73		34,049	- 34,049	-3.3%	3.00%	4.00%	5%	- 25,536	- 25,536	-4.7%
74		35,070	- 35,070	-2.5%	3.00%	4.00%	5%	- 26,303	- 26,303	-3.8%
75		36,122	- 36,122	-1.8%	3.00%	4.00%	5%	- 27,092	- 27,092	-3.0%
76		37,206	- 37,206	-1.2%	3.00%	4.00%	5%	- 27,904	- 27,904	-2.3%
77		38,322	- 38,322	-0.6%	3.00%	4.00%	5%	- 28,742	- 28,742	-1.7%
78		39,472	- 39,472	-0.1%	3.00%	4.00%	5%	- 29,604	- 29,604	-1.2%
79		40,656	- 40,656	0.3%	3.00%	4.00%	5%	- 30,492	- 30,492	-0.7%
80		41,876	- 41,876	0.7%	3.00%	4.00%	5%	- 31,407	- 31,407	-0.2%
81		43,132	- 43,132	1.1%	3.00%	4.00%	5%	- 32,349	- 32,349	0.2%
82		44,426	- 44,426	1.4%	3.00%	4.00%	5%	- 33,319	- 33,319	0.6%
83		45,759	- 45,759	1.7%	3.00%	4.00%	5%	- 34,319	- 34,319	0.9%
84		47,131	- 47,131	2.0%	3.00%	4.00%	5%	- 35,348	- 35,348	1.2%
85		48,545	- 48,545	2.2%	3.00%	4.00%	5%	- 36,409	- 36,409	1.5%
86		50,002	- 50,002	2.5%	3.00%	4.00%	5%	- 37,501	- 37,501	1.7%
87		51,502	- 51,502	2.7%	3.00%	4.00%	5%	- 38,626	- 38,626	2.0%
88		53,047	- 53,047	2.9%	3.00%	4.00%	5%	- 39,785	- 39,785	2.2%
89		54,638	- 54,638	3.1%	3.00%	4.00%	5%	- 40,979	- 40,979	2.4%
90		56,277	- 56,277	3.2%	3.00%	4.00%	5%	- 42,208	- 42,208	2.6%
91		57,966	- 57,966	3.4%	3.00%	4.00%	5%	- 43,474	- 43,474	2.8%
92		59,705	- 59,705	3.5%	3.00%	4.00%	5%	- 44,778	- 44,778	2.9%
93		61,496	- 61,496	3.7%	3.00%	4.00%	5%	- 46,122	- 46,122	3.1%
94		63,341	- 63,341	3.8%	3.00%	4.00%	5%	- 47,505	- 47,505	3.2%
95		65,241	- 65,241	3.9%	3.00%	4.00%	5%	- 48,931	- 48,931	3.3%
96		67,198	- 67,198	4.0%	3.00%	4.00%	5%	- 50,398	- 50,398	3.5%
97		69,214	- 69,214	4.1%	3.00%	4.00%	5%	- 51,910	- 51,910	3.6%
98		71,290	- 71,290	4.2%	3.00%	4.00%	5%	- 53,468	- 53,468	3.7%
99		73,429	- 73,429	4.3%	3.00%	4.00%	5%	- 55,072	- 55,072	3.8%
100		75,632	- 75,632	4.4%	3.00%	4.00%	5%	- 56,724	- 56,724	3.9%

Tartget Returns 55 Year Old 30X Transfer Offer

Average Annual Return Net Fees

Full Scheme Pension at NRD

Adjusted for Maximum Tax Free Cash

Inflation Assumption

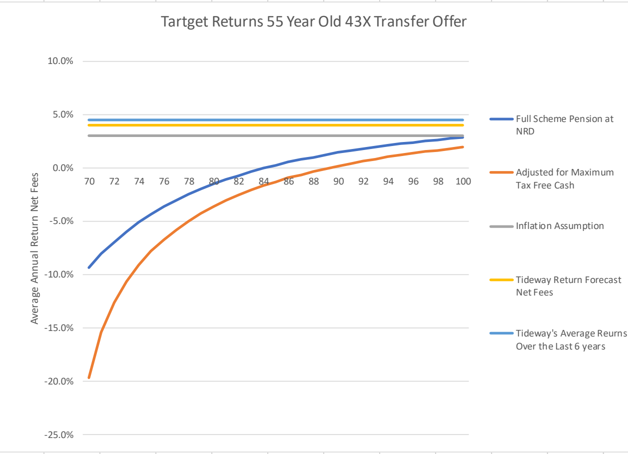
Tideway Return Forecast Net Fees

Tideway's Average Reurns Over the Last 6 years

Tideway

2. Target returns for a typical RBS transfer now paying c43X the accrued age 60 pension

			Multiple of Transfer Offer	Acrued Annual Pension							
			43	20,000							
	Transfer value	Forecast Pension Growing at 3% p.a.	Transfer Value less 1% Initial Fees	Annual Target Rerturn Net Fees (IRR)	Assumed Inflation Rate	Tax Free Cash From Transfer Assuming 2.6% Return Adjusted for Basic Rate Tax	Tax Free Cash From Scheme @NRD Adjusted For Basic Rate Tax	Reduced Scheme Pension at NRD after Cash Commutation	Drawdown Fund Net Fees and Tax Free Cash	Drawdown Fund Target Returns Adjusted for Extra Tax Free Cash Received 5 Years Early
55	860000	20,000	851,400			268,750			638,550	
56		20,600	-			279,500			-	
57		21,218	-			290,680			-	
58		21,855	-			302,307			-	
59		22,510	-			314,399			-	
60		23,185	- 23,185			164,677	144,909.26	- 17,389	-	
61		23,881	- 23,881			153,353		- 17,911	-	
62		24,597	- 24,597			141,039		- 18,448	-	
63		25,335	- 25,335			127,679		- 19,002	-	
64		26,095	- 26,095	-23.2%		113,215		- 19,572	-	
65		26,878	- 26,878	-19.7%		97,585		- 20,159	-	
66		27,685	- 27,685	-16.9%		80,725		- 20,764	-	
67		28,515	- 28,515	-14.5%		62,567		- 21,386	-	
68		29,371	- 29,371	-12.5%		43,042		- 22,028	-	
69		30,252	- 30,252	-10.8%		22,075		- 22,689	- 614	
70		31,159	- 31,159	-9.3%	3.00%	4.00%	5%	- 23,370	- 23,370	-19.7%
71		32,094	- 32,094	-8.0%	3.00%	4.00%	5%	- 24,071	- 24,071	-15.4%
72		33,057	- 33,057	-6.9%	3.00%	4.00%	5%	- 24,793	- 24,793	-12.7%
73		34,049	- 34,049	-6.0%	3.00%	4.00%	5%	- 25,536	- 25,536	-10.7%
74		35,070	- 35,070	-5.1%	3.00%	4.00%	5%	- 26,303	- 26,303	-9.1%
75		36,122	- 36,122	-4.3%	3.00%	4.00%	5%	- 27,092	- 27,092	-7.8%
76		37,206	- 37,206	-3.6%	3.00%	4.00%	5%	- 27,904	- 27,904	-6.7%
77		38,322	- 38,322	-3.0%	3.00%	4.00%	5%	- 28,742	- 28,742	-5.8%
78		39,472	- 39,472	-2.5%	3.00%	4.00%	5%	- 29,604	- 29,604	-5.0%
79		40,656	- 40,656	-2.0%	3.00%	4.00%	5%	- 30,492	- 30,492	-4.3%
80		41,876	- 41,876	-1.5%	3.00%	4.00%	5%	- 31,407	- 31,407	-3.6%
81		43,132	- 43,132	-1.1%	3.00%	4.00%	5%	- 32,349	- 32,349	-3.1%
82		44,426	- 44,426	-0.7%	3.00%	4.00%	5%	- 33,319	- 33,319	-2.6%
83		45,759	- 45,759	-0.4%	3.00%	4.00%	5%	- 34,319	- 34,319	-2.1%
84		47,131	- 47,131	0.0%	3.00%	4.00%	5%	- 35,348	- 35,348	-1.7%
85		48,545	- 48,545	0.3%	3.00%	4.00%	5%	- 36,409	- 36,409	-1.3%
86		50,002	- 50,002	0.5%	3.00%	4.00%	5%	- 37,501	- 37,501	-0.9%
87		51,502	- 51,502	0.8%	3.00%	4.00%	5%	- 38,626	- 38,626	-0.6%
88		53,047	- 53,047	1.0%	3.00%	4.00%	5%	- 39,785	- 39,785	-0.3%
89		54,638	- 54,638	1.2%	3.00%	4.00%	5%	- 40,979	- 40,979	-0.1%
90		56,277	- 56,277	1.4%	3.00%	4.00%	5%	- 42,208	- 42,208	0.2%
91		57,966	- 57,966	1.6%	3.00%	4.00%	5%	- 43,474	- 43,474	0.4%
92		59,705	- 59,705	1.8%	3.00%	4.00%	5%	- 44,778	- 44,778	0.6%
93		61,496	- 61,496	2.0%	3.00%	4.00%	5%	- 46,122	- 46,122	0.8%
94		63,341	- 63,341	2.1%	3.00%	4.00%	5%	- 47,505	- 47,505	1.0%
95		65,241	- 65,241	2.2%	3.00%	4.00%	5%	- 48,931	- 48,931	1.2%
96		67,198	- 67,198	2.4%	3.00%	4.00%	5%	- 50,398	- 50,398	1.4%
97		69,214	- 69,214	2.5%	3.00%	4.00%	5%	- 51,910	- 51,910	1.5%
98		71,290	- 71,290	2.6%	3.00%	4.00%	5%	- 53,468	- 53,468	1.7%
99		73,429	- 73,429	2.7%	3.00%	4.00%	5%	- 55,072	- 55,072	1.8%
100		75,632	- 75,632	2.8%	3.00%	4.00%	5%	- 56,724	- 56,724	1.9%



Tideway

3. Compensation estimates for a 55 year old transferring an RBS pension

			Multiple of Transfer Offer	Acrued Annual Pension							
			43	20,000							
	Transfer value	Forecast Pension Growing at 3% p.a.	Transfer Value less 1% Initial Fees Then Full pension payable	Tax Free Cash From Transfer Assuming 4.5% Return Adjusted for Basic Rate Tax	PV of Tax Free Cash From Scheme @NRD Adjusted For Basic Rate Tax Followed By Projected fund @ 4.5%	Reduced Scheme Pension at NRD after Cash Commutation plus widows pension	Drawdown Fund Net Fees and Tax Free Cash	PV of Annuity Income Using Prescribed Pre and Post NRD Discoutnt rates		Compensation Assumption based On DB Transfer Prescribed Methodology	Compensation as multiple of full pension
55	860000	20,000	851,400	268,750	119,105		638,550	734,214		- 53,981	- 3
56		20,600	-	279,500	123,869		664,092	753,304		- 66,419	- 3
57		21,218	-	290,680	128,824		690,656	772,889		- 79,622	- 4
58		21,855	-	302,307	133,977		718,282	792,985		- 93,628	- 4
59		22,510	-	314,399	139,336		747,013	813,602		- 108,474	- 5
60		23,185	- 23,185	326,975	144,909	- 17,389	759,505	834,756		- 106,815	- 5
61		23,881	- 23,881	340,054	150,706	- 17,911	771,974	820,706		- 140,617	- 6
62		24,597	- 24,597	353,657	156,734	- 18,448	784,405	806,078		- 175,250	- 7
63		25,335	- 25,335	367,803	163,003	- 19,002	796,779	790,854		- 210,725	- 8
64		26,095	- 26,095	382,515	169,523	- 19,572	809,079	775,016		- 247,055	- 9
65		26,878	- 26,878	397,816	176,304	- 20,159	821,283	758,544		- 284,250	- 11
66		27,685	- 27,685	413,728	183,356	- 20,764	833,371	741,420		- 322,323	- 12
67		28,515	- 28,515	430,277	190,691	- 21,386	845,320	723,622		- 361,284	- 13
68		29,371	- 29,371	447,489	198,318	- 22,028	857,105	705,130		- 401,145	- 14
69		30,252	- 30,252	465,388	206,251	- 22,689	868,700	685,923		- 441,914	- 15
70		31,159	- 31,159	484,004	214,501	- 23,370	880,078	665,978		- 483,603	- 16