

Guide by **CashCalc**

Transfer Value Comparator (TVC) & Appropriate Pension Transfer Analysis (APTA)

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Introduction

- This guide has been compiled to explain the basis on which our TVC & APTA tool has been built.
- It should help to simplify the FCA's requirements detailed in their Policy Statement [PS18/6](#) and in the FCA Handbook; we recommend that you review both the Policy Statement and the Handbook, so that you are fully aware of the FCA's stance on advising on the transfer of safeguarded benefits.
- Rory Percival has put together an excellent and extremely comprehensive report entitled '*An ex-regulator's guide to ... Defined benefit transfers suitability and controls*', which can be purchased [here](#) – you may consider this to be useful for your firm.

Transfer Value Comparator (TVC)

The TVC forms a **mandatory** part of the APTA process and replaces the requirement for a Transfer Value Analysis (TVA). This is a **prescribed process** provided by the FCA.

- TVC is a very simple process as it is a series of mathematical calculations prescribed by the FCA.
- The FCA's specific requirements can be found in PS18/6 ([S 3.19 pg17](#)) as well as in the Handbook under [COBS 19 Annex 4B](#), summarised here:

1. The deferred benefits need to be revalued to normal retirement age.
2. They are then capitalised based on annuity rates.
3. This is then discounted back to the calculation date based on a risk-free return rate (gilts), an annual 0.75% product charge and a one off 4% annuity charge

(above points are all calculated in line with assumptions prescribed in [COBS 19 Annex 4C](#)).

4. This then gives the **Transfer Value Comparator** (which uses prescribed wording detailed in [COBS 19 Annex 5](#)).

Appropriate Pension Transfer Analysis (APTA)

APTA is a framework which should form part of YOUR process and it is not prescribed in detail by the FCA. This tool, alongside cashflow modelling, can support your process. However, in isolation, they do not meet the full APTA requirements.

A full APTA process will assist you in providing a suitable and **personalised** recommendation.

In PS18/6, the FCA's guidelines on APTA are detailed in a short section which will take you less than one minute to read ([S 3.10 pg14](#)). The rules can be found in [COBS 19.1.2](#).

Under [COBS 19 Annex 4A](#), there are several things that the FCA say advisers **must** consider in preparing an APTA; these are the points listed in COBS. However, we have endeavoured to write them in plain English:

1. You must use a rate of return that reflects the investment potential of the specific assets that the client would be invested in, under the proposed arrangement.
2. Where the proposed arrangement includes an annuity that is being purchased on normal terms, use the assumptions in [COBS 19 Annex 4C 1R\(2\)](#) to assess the benefits likely to be paid under the proposed arrangement.

3. Use the same assumptions to project the level of income likely to be paid under the ceding arrangement at the point of retirement, which the TVC will do for you.
4. Take into account the tax implications of a proposed transfer (e.g. crossing a tax threshold or entering a new tax band), and the impact of transferring on access to state benefits.
5. Note the likely pattern of benefits that might be taken from both the ceding arrangement and the proposed arrangement.
6. Undertake any comparisons of benefits and options consistently.
7. Plan for a reasonable period beyond average life expectancy.
8. Consider how both the ceding and proposed arrangements would help the client meet their income needs throughout retirement, and any other means they might have to meet their requirements; and
9. how they would provide death benefits, by providing comparisons on a fair and consistent basis both at present and future points in time.
10. Consider the trade-offs that may occur by prioritising differing client objectives (e.g. prioritising income needs throughout retirement over the provision of death benefits and vice-versa).

11. Use more cautious assumptions where appropriate.
12. You must also take into account all charges that may be incurred as the result of a transfer, which includes product charges, platform charges and advice charges (except where initial advice charges are paid by a third party, or where they are on a non-contingent basis).

APTA Checklist

For APTA-compliant cashflow planning, certain sections are mandatory and therefore our tool is a 'gated' version of our full Cashflow Modeller. The tool starts with a checklist as follows, to remind you what needs to be included:

- **Transfer Value Comparator completed**

The pension figure calculated as part of the TVC, and the relevant revaluation/ escalation rate, will be pre-populated into the APTA if the TVC & APTA tool has been used from the start.

- **Inflation**

This must be 2.5%, and therefore this option is "greyed out" (there are several other assumptions detailed in [COBS 19 Annex 4C](#) which have been taken in to account in the TVC).

- **Growth Rate**

You must use a rate of return that reflects the investment potential of the specific assets the client would be invested in, under your proposed recommendation. *(In PS18/6, the FCA did initially consult on using the intermediate rate of growth shown on the KFI of a receiving scheme, however decided NOT to make this an explicit requirement, and therefore the growth rate can be set by an adviser. The FCA have stressed however, that where growth rates are used that are greater than those shown in documentation for a receiving product, the adviser should explain the differences to the client.)*

- **Current and future income**

This data can be imported from a Data Capture Form OR input manually.

- **Current and future expenditure, to include:**

- Essential
- Discretionary
- Costed objective

This data can be imported from a Data Capture Form OR input manually.

- **Charges**

All charges need to be covered including the fund charges, platform charges and advice charges – this section is usually optional in the Cashflow Modeller; however, it **MUST** be completed to be APTA compliant.

The screens that follow the checklist will assist you in completing the mandatory information required to produce an APTA-compliant cashflow.

Furthermore, the FCA provide guidelines that advisers **should** consider when carrying out their APTA:

- You should include an objective PPF/ FSCS assessment, and consider employer covenants, on a fair basis.
- The APTA should consider a client's personalised situation such as their marital status, health status and any alternative methods they might have to achieve their objectives.

- It can incorporate both a behaviour and non-financial analysis.
- Cashflow modelling is something that the FCA appear to like a lot, however it cannot be used in isolation.

There are some features we have not included, such as stress testing, as this does not form part of an APTA, but this does not stop you from carrying out a full cashflow model analysis or incorporating and including it in your advice process.

As mentioned at the start of this guide, Rory Percival has put together an excellent report which you can find on his website [here](#).

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