



OUR APPROACH

The redress calculator developed by Congruent will assist the user to determine the amount of redress that is due if a complaint (received after 3 August 2016) is upheld about advice given to a customer to transfer all or part of the cash value of the accrued benefits under a Defined Benefit (“DB”) pension scheme into a money purchase arrangement. The calculation framework follows the methodology described in the Financial Conduct Authority (“FCA”) guidance note FG17/9. Readers may wish to consult our Technical Guide which is available to subscribed users on request.

The valuation of benefits lost in the transfer requires the following basic details as user inputs:

- Member date of birth
- Member gender
- Spouse date of birth*
- Spouse gender
- Calculation date
- Transfer date
- Transfer value at calculation date
- Date of leaving the scheme (for deferred members)
- Annual pension payment at transfer date (or date of leaving scheme for deferred members)
- Normal scheme retirement age e.g 65
- Spouse benefit (% of pension) e.g 50
- Revaluation of pension amount e.g. CPI for pre-retirement indexation (CPI, RPI, Fixed, NONE or EARNINGS** are acceptable inputs)
- Revaluation cap (as a %) e.g. 5
- Revaluation floor (as a %) e.g. 0
- Escalation of pension amount e.g. RPI for post-retirement indexation (CPI, RPI, Fixed or NONE are acceptable inputs)
- Escalation cap (as a %) e.g. 5
- Escalation floor (as a %) e.g. 0
- Personal pension charges (as a %) e.g. 0.75
- Commutation Factor (“actual loss” cases only) e.g. 15

* Where no date of birth is specified for the spouse, the calculation assumes the spouse has the same age as the member

** EARNINGS applies S148 revaluation

The calculator also allows the user to enter the transfer value amount updated to the calculation date but the user must first determine that amount.

The calculator determines the present value of the retirement benefits that would have been paid to the member (and, after the death of the member while receiving the pension, to a spouse at the percentage provided by the scheme) at the normal scheme retirement date had the member not elected to transfer, derived using the following risk factors:

- Market interest rates (based on zero coupon gilt yields) published by the Bank of England. These are the discount rates that are applicable from the normal scheme retirement date i.e. market implied forward interest rates.
- Inflation rates (based on RPI inflation "linkers") published by the Bank of England. The CPI rates are taken as RPI less an FCA prescribed adjustment. The inflation rates are used to adjust the pension amount payable at each pension payment date post scheme normal retirement date. The FCA prescribed adjustment for CPI is currently 1% per annum but we are aware that FCA has been asked to review this amount as it may no longer be the appropriate figure. (RPI = Retail Prices Index; CPI = Consumer Prices Index)
- Mortality rates are taken from PMA08 (males) and PFA08 (Females) tables published by the Institute and Faculty of Actuaries using a long-term rate improvement of 1.25% per annum.
- A pre-retirement discount rate i.e. the interest rate applicable from the calculation date to the scheme normal retirement date. This is derived from FTSE All Share dividend yield with an adjustment for inflation and dividend growth i.e. a risk adjusted rate.
- A pre-retirement inflation factor that is taken as the spot rate (from calculation date to the normal scheme retirement date) derived from the inflation curve.

The determination of the present value is further adjusted as follows:

- The risk-free rate is adjusted by a spread of 0.60% to reflect charges prevalent in the annuity market.
- The member is assumed to take a Pension Commencement Lump Sum ("PCLS"). Most schemes permit the member to take 25% of the value as a lump with a reduction to the annual pension amount. The FCA methodology does not require the use of commutation factors but employs an adjustment of 1.6% to the risk-free discount rates to compensate for this factor.

Other assumptions:

- Where the scheme pension included spouse benefits it is assumed that 85% of members are married at the scheme retirement date (except that where the member

has passed the normal scheme retirement age - known as an "actual loss" calculation - actual marital status is used).

- There is no gender acknowledgement in the annuity calculation and the age specific mortality rates are determined as 50% of the male and 50% of female using the specified mortality tables noted above.
- Pre-retirement rates are adjusted to allow for charges in personal pension plans e.g. SIPPS. In this case a deduction a maximum of 0.75% is applied to the pre-retirement discount rate but the user can override that cap (this may be used also if the user wishes to take into account necessary IFA advice charges).
- Where the member has already retired i.e. an "actual loss" calculation) the above PCLS adjustment is disapplied and the present value at the Calculation date includes historical cashflows which have been revalued and adjusted for interest (using the pre-retirement discount rate). The model allows the specification of a Commutation Factor which is set as a default of 15 if the user does not enter a specific amount as an input.

WHO IS IT FOR?

The service is aimed at business clients that require an independent valuation of safeguarded benefits lost in the transfer process which may include:

- An IFA instructed by the Financial Ombudsman Service ("FOS") to pay redress to the customer who has a complaint upheld regarding a DB Pension Transfer.
- A solicitor representing a client who is contemplating litigation but requires an estimate of the quantum of redress.
- A claims management company ("CMC") looking to bring a complaint on behalf of a client to an IFA and/or the FOS.

WHAT DOES IT COST?

Registered users may obtain a limited trial without any cost or obligation to determine whether the service meets their requirements. Following a successful trial period the user will be offered a subscription package.

WHAT TO KNOW MORE?

If you would like to receive more information on the service or speak to a team member, please contact team@mycongruent.com with the subject DB Pension Transfer.