Appendix 4
Handling pension transfer redress calculations

4.4   Redress calculation

App 4.4.1   G   (1) This section sets out the formula to complete the redress calculation at Step
3 (■ DISP App 4 Annex 1), using the assumptions in ■ DISP App 4 Annex 1 to
calculate the capitalised values of the *consumer's defined benefit
occupational pension scheme* pension benefits (had they remained in the
scheme) and any gains or losses arising from changes in the *consumer's*
SERPS and DC pension arrangement.

(2) The formula is set out at ■ DISP App 4.4.2R with *rules* and *guidance* for how
to calculate the components (A) to (H) at ■ DISP App 4.4.4R to ■ 4.4.18R.

(3) There is technical guidance on the calculation of the components (A) to (H)
at ■ DISP App 4.5.

App 4.4.2   R   To complete the redress calculation at Step 3 (■ DISP App 4.3.19R), a *firm* must
undertake the following computation at the valuation date:

(A) + (B) + (C) – (D) - (E) - (F) - (G) + (H)

where:

(1) A is the capitalised value of pension benefits which would not yet have
been taken from the *defined benefit occupational scheme*;

(2) B is the capitalised value of future death benefits before the *consumer's*
retirement date, to the extent not already included in A, which would have
been payable from the *defined benefit occupational pension scheme*;

(3) C is the accumulated value of past payments which would have been paid
to the *consumer* from the *defined benefit occupational pension scheme*
between the *consumer's* retirement date and the valuation date;

(4) D is the current value of the DC pension arrangement;

4

    (1)   E is the accumulated value of past benefits paid to the *consumer* or beneficiary from the *consumer's* DC pension arrangement from the retirement date to the valuation date;

    (6)   F is the capitalised value of previously secured annuity benefits which will be paid from the *consumer's* DC pension arrangement to the valuation date;

    (7)   G is the value of any increase in SERPS as a result of the transfer; and

    (8)   H is the value of any reduction in SERPS as a result of the transfer

App 4.4.3   G   The *consumer* has suffered a loss if the computation in ■ DISP App 4.4.2R is greater than zero.

Calculation of value of A

App 4.4.4   G   A is the capitalised value of pension benefits which would not yet have been taken from the *defined benefit occupational scheme*.

App 4.4.5   R   To calculate the value of A in ■ DISP App 4.4.2R(1):

    (1)   where:

       (a) the *consumer's* retirement date would have been prior to the valuation date; or

       (b) a beneficiary would have received benefits prior to the valuation date because the *consumer* is deceased,

       use the sum of $[K \times L \times M - (N/O)] \times P \times Q]$ across all pension tranches; or

       where the retirement date is after the valuation date, use the sum of $[K \times LA \times MA \times QA \times R \times S]$ across all pension tranches.

App 4.4.6   R   For the purpose of ■ DISP App 4.4.5R(1) or ■ (2):

    (1)   K is the annual value of the pension at the date on which the *consumer* left active membership, split by each pension tranche;

    (2)   L and LA are the cumulative revaluation factors for each pension tranche from the date of leaving active membership to the retirement date (including the date of the *consumer's* death), where:

       (a) L is based on known revaluation;

       (b) LA is based on known and assumed revaluation, where the assumed revaluation is based on the relevant assumptions in ■ DISP App 4 Annex 1 3.1G to 5.1G;

    (3)   M and MA are the early or late retirement factor applicable to each pension tranche at the retirement date, determined in accordance with ■ DISP App 4 Annex 1 11.1G and 11.2G;

    (4)   N is the assumed *pension commencement lump sum* which would have been taken from each pension tranche, determined in accordance with the technical guidance at ■ DISP App 4.5.4G;

(5) O is the *pension commencement lump sum* commutation factor applicable to each pension tranche, determined in accordance with ■ DISP App 4 Annex 1 11.3G;

(6) P is the cumulative known pension increases, including discretionary increases, that would have been applied to each pension tranche from the retirement date or the date beneficiary payments commenced, to the valuation date, in accordance with the scheme rules;

(7) Q is the relevant annuity factor to apply to each pension tranche at the valuation date, taking into account the guidance on relevant annuity factors in ■ DISP App 4.5.1G and made up of the assumptions at ■ DISP App 4 Annex 1, including those relating to:

(a) the initial post-retirement discount rate (which allows for the annuity pricing margin) at ■ DISP App 4 Annex 1 7.1, based on the discounted mean term at the valuation date;

(b) post-retirement pension increases, as amended by the Black Scholes model at ■ DISP App 4 Annex 1 6.1, where relevant;

(c) mortality at ■ DISP App 4 Annex 1 10.1G;

(8) QA is the relevant annuity factor to apply to each pension tranche at the retirement date, taking into account the guidance on relevant annuity factors in ■ DISP App 4.5.1G and made up of the assumptions in ■ DISP App 4 Annex 1, including those relating to:

(a) the final post-retirement discount rate (which allows for the annuity pricing margin and the adjustment for the *pension commencement lump sum*), based on the discounted mean term at the retirement date;

(b) post-retirement pension increases, as amended by the Black Scholes model, where relevant; and

(c) mortality assumptions;

(9) R is the discount factor for the period from the valuation date to the retirement date, based on the pre-retirement discount rate, netted down by product and *adviser charges*, following the technical guidance at ■ DISP App 4.5.3G and using the relevant assumptions in ■ DISP App 4 Annex 1; and

(10) S is the probability of survival for the period from the valuation date to the retirement date, using the relevant assumptions in ■ DISP App 4 Annex 1 10.1G.

Calculation of value of B

App 4.4.7 |G| B is the capitalised value of future death benefits before the *consumer's* retirement date which may have been payable from the *defined benefit occupational pension scheme*.

App 4.4.8 |R| To determine the value of B in ■ DISP App 4.4.2R(2), a *firm* must:

(1) identify the lump sum and regular pension payments that would be payable on the death of the *consumer* between the valuation date and the retirement date, based on the *defined benefit occupational scheme* rules; and

4

(2) calculate the present value of the potential payments:

    (a) using the pre-retirement discount rate, netted down for charges, from ■ DISP App 4 Annex 1 8.1G;

    (b) allowing for the probability of each payment being made, using the mortality assumptions in ■ DISP App 4 Annex 1 10.1G; and

    (c) allowing for any pension increases in payment that would be applied to regular payments, using the assumptions in ■ DISP App 4 Annex 1 6.1G.

Calculation of value of C

App 4.4.9   G   C is the accumulated value of past payments which would have been paid to the *consumer* from the *defined benefit occupational pension scheme* between the *consumer's* retirement date and the valuation date, taking into account the guidance on taxation of past payments at ■ DISP App 4.5.18G.

App 4.4.10   R   To determine the value of C in ■ DISP App 4.4.2R(3), a *firm* must, for each pension tranche:

    (1) assume the value is zero if the retirement date is after the valuation date;

    (2) if the retirement date is before the valuation date, use the factors K, L, M, N, O and P from ■ DISP App 4.4.6R to determine the level of the *pension commencement lump sum* and each scheme pension payment which would have been made to the *consumer* or their beneficiaries;

    (3) adjust each payment to reflect the tax which would have been paid, reflecting the guidance on taxation of past payments at ■ DISP App 4.5.18G;

    (4) apply an accumulation rate to each payment, at the rate specified in ■ DISP App 4 Annex 1 12.1G between the date of payment and the valuation date, allowing for changes in the rate over time; and

    (5) calculate the sum of all the accumulated payments which would have been made.

Calculation of value of D

App 4.4.11   G   D is the current value of the DC pension arrangement.

App 4.4.12   R   To determine the value of D in ■ DISP App 4.4.2R(4), a *firm* must:

    (1) use the value of all investments and holdings within the *consumer's* DC pension arrangement at the valuation date, in accordance with the technical guidance at ■ DISP App 4.5.5G;

    (2) where any payments were made from the DC pension arrangement prior to the retirement date:

        (a) identify all payments made before the retirement date;

        (b) apply an accumulation rate to each payment, at the rate specified in ■ DISP App 4 Annex 1 12G between the date of payment and the valuation date, allowing for changes in the rate over time; and

(c) add the total of all the accumulated payments in (2)(b) to the value in (1);

(3) deduct the accumulated value of any contributions and transfers to the DC pension arrangement, allowing for investment returns, not resulting from the *pension transfer* advice; and

(4) add on the present-day value of any cash enhancements paid to the *consumer* in connection with the transfer, in accordance with the technical guidance at ■ DISP App 4.5.5G and using the assumption at ■ DISP App 4 Annex 1 13.1G.

Calculation of value of E

App4.4.13 G   E is the accumulated value of past benefits paid to the *consumer* or beneficiary from the *consumer's* DC pension arrangement from the retirement date to the valuation date, taking into account the guidance on taxation of past payments at ■ DISP App 4.5.18G;

App4.4.14 R   To determine the value of E in ■ DISP App 4.4.2R(5), a *firm* must:

(1) identify all payments from the assumed retirement date to the valuation date, net of tax actually incurred, including:

(a) *pension commencement lump sums;*

(b) *uncrystallised funds pension lump sums*;

(c) *income withdrawals*; and

(d) annuity payments;

(2) apply an accumulation rate to each payment, at the rate specified in ■ DISP App 4 Annex 1 12.1G between the date of payment and the valuation date, allowing for changes in the rate over time; and

(3) calculate the sum of all the accumulated payments which would have been made.

Calculation of value of F

App4.4.15 G   F is the capitalised value of previously secured annuity benefits which will be paid from the *consumer's* DC pension arrangement after the valuation date.

App4.4.16 R   To determine the value of F in ■ DISP App 4.4.2R(6), a *firm* must calculate the value of:

(T) x (U)

where:

(1) T is the annual value of the annuity income at the valuation date;

(2) U is the relevant annuity factor to apply to the current level of the secured annuity income at the valuation date, following the guidance at ■ DISP App 4.5.1G and made up of the assumptions in ■ DISP App 4 Annex 1, including those relating to:

(a) the initial post-retirement discount rate (which allows for the annuity pricing margin) based on the discounted mean term at the valuation date;

(b) pension increases that apply to the secure annuity income, as amended by the Black Scholes model, where relevant; and

(c) mortality assumptions.

Calculation of value of G and H

App4.4.17 G   G is the value of any increase in SERPS as a result of the transfer and H is the value of any reduction in SERPS as a result of the transfer, only if the transfer took place prior to 6 April 2016.

App4.4.18 G   To determine the value of G and H a *firm* should have regard to the technical guidance in ■ DISP App 4.5.11G.

Calculation of value of initial adviser charges (consequential loss)

App4.4.19 R   To determine the value of any initial *adviser charges*, *firms* must:

(1) calculate the value of all the elements of the computation in ■ DISP App 4.4.2R;

(2) add the value in (1) to the current value of the *consumer's* DC pension arrangement;

(3) multiply the result by the relevant assumed percentage initial *adviser charges* in ■ DISP App 4 Annex 1 9.1G;

(4) where the resulting initial *adviser charges*:

(a) exceed the maximum level for the *initial adviser charges* in ■ DISP App 4 Annex 1 9.1G, set the *initial adviser charges* to the maximum level; or

(b) fall below the minimum level for the initial *adviser charges* in ■ DISP App 4 Annex 1 9.1G, set the *initial adviser charges* to the minimum level.

DISP App 4/6
www.handbook.fca.org.uk
■ Release 35 ● Apr 2024