

**CONDUCT OF BUSINESS SOURCEBOOK (PROJECTIONS) (AMENDMENT No 2)
INSTRUMENT 2018**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers); and
 - (3) section 139A (Power of the FCA to give guidance).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 6 April 2019.

Amendments to the Handbook

- D. The Conduct of Business sourcebook (COBS) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Conduct of Business Sourcebook (Projections) (Amendment No 2) Instrument 2018.

By order of the Board
18 January 2018

Annex

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

13 Preparing product information

...

13 Projections

Annex 2

...

2 Assumptions to follow when calculating projections-

...

Assumptions: inflation

- 2.5 R If inflation is taken into account, the *standardised deterministic projection* must be calculated using the following rates:

	Lower rate	Inter-mediate rate	Higher rate
Price inflation	0.50% <u>0.00%</u>	2.50% <u>2.00%</u>	4.50% <u>4.00%</u>
Earnings inflation	≥2% <u>≥1.5%</u>	≥4% <u>≥3.5%</u>	≥6% <u>≥5.5%</u>

- 2.5A R If inflation is taken into account, and the level of future contributions, charges or benefits is linked to RPI, the *standardised deterministic projection* must be calculated using the following rates in respect of those future contributions, charges or benefits:

	<u>Lower rate</u>	<u>Inter-mediate rate</u>	<u>Higher rate</u>
<u>RPI price inflation</u>	<u>1.00%</u>	<u>3.00%</u>	<u>5.00%</u>

...

19 Pensions supplementary provisions

19.1 Pension transfers, conversions, and opt-outs

...

- 19.1.4 R When a *firm* compares the benefits likely to be paid under a *defined benefits pension scheme* or other pension scheme with *safeguarded benefits* with the benefits afforded by a *personal pension scheme, stakeholder pension scheme* or other pension scheme with *flexible benefits* (COBS 19.1.2R(1)), it must:

- (1) assume that:

...	...	
(b)	the <i>RPI</i> is	2.5% <u>3.0%</u>
(c)	the average earnings index and the rate for section 21 orders is	4.0% <u>3.5%</u>
(d)	for benefits linked to the <i>RPI</i> , the pre-retirement limited price indexation revaluation is	2.5% <u>3.0%</u>
...
(i)	the index linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the intermediate rate of return in COBS 13 Annex 2 3.1R(6) for annuities linked to the <i>RPI</i> plus 0.5% <u>1.0%</u> unless COBS 19.1.4BR applies in which case it is the annuity rate in COBS 19.1.4BR plus 0.5% <u>1.0%</u> ;	
(j)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0% <u>2.5%</u> or with minimum pension increases more than or equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or equal to 3% <u>2.5%</u> but less than 3.5% the annuity rate is the rate in (a) above allowing for increases at the minimum rate of pension increase otherwise it is the rate in (i) above;	

or use more cautious assumptions;

- (2) calculate the interest rate in deferment; and
- (3) have regard to benefits which commence at difference times.