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# Pension transfer advice: final rules

Since the introduction of the pension freedoms in 2015, significant numbers of defined benefit (DB) scheme members have transferred to defined contribution (DC) schemes. Despite this trend, the FCA believe that most consumers are best advised to stay in their DB schemes. They take the view that the proportion of consumers advised to transfer is too high.



69% of clients advised to transfer<sup>1</sup>

In order to improve the quality of DB transfer advice, the regulator issued Policy Statement PS20/6 in June 2020 which laid down a number of new rules. In this document, we summarise the key points from PS20/6, although firms should read the [full text](#) to see how they are affected. Firms should refer to our summary of the related Finalised Guidance FG21/3 (or the [full text](#) of this document), which lays out the FCA's expectations when advising on pension transfers and conversions. It also gives examples of good and poor practice.

1. Source: FCA GC 20/1, research conducted between April 2015 and September 2018.

A high-level summary of the FCA's Policy Statement PS20/6

Adviser Solutions

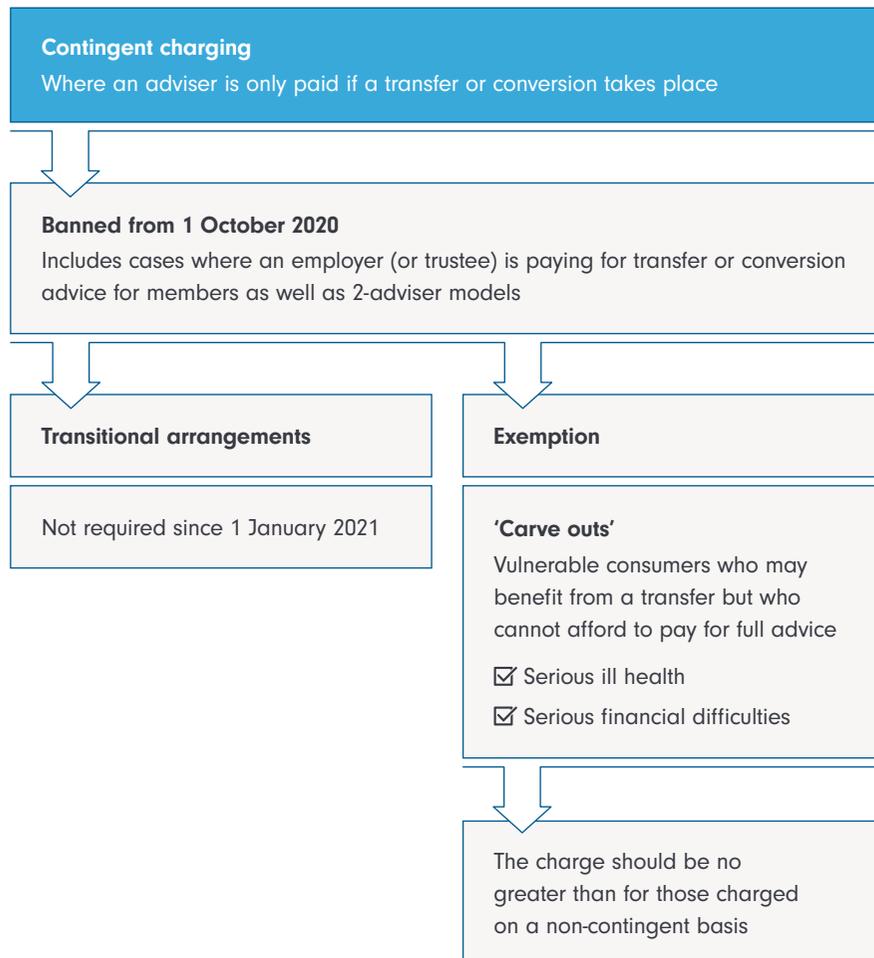


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## Contingent charging

The practice of contingent charging was banned from 1 October 2020. Advisers must charge the same amount whether or not they recommend a transfer.



## Triage services

As a non-advised service, triage should be an educational process that gives consumers enough information on safeguarded and flexible benefits to enable them to decide whether to proceed to regulated advice.

Decision trees and Red Amber Green (RAG) rated questionnaires build up personal information tailored to an individual and the FCA believe these are likely to lead to advice and so shouldn't be used within a triage service. This guidance was effective from 15 June 2020.



## Abridged advice

From 1 October 2020, firms have been able to choose to give a new short form of advice known as 'abridged advice', although a recommendation to transfer or convert can only be given if the client goes on to take full advice.

### Abridged advice

Must be given or checked by a Pension Transfer Specialist

#### Initial stages of the advice process only

- Full fact find
- Risk assessment

#### Two possible outcomes

A personal recommendation  
**NOT** to transfer or convert

Unclear whether the client would benefit from a transfer or conversion

- Does the client want to proceed to full advice?
- Do they understand the costs?

If yes, the charge for abridged advice should be offset against the charge for full advice (unless the client uses another adviser)



## Other new rules relating to advice on transfers or conversions

### Standards

Pension Transfer Specialists must undertake at least 15 hours CPD each year, focused specifically on pension transfer advice. This is in addition to other existing CPD requirements.

### Estimated transfer values

You can only use an ETV when ceding schemes are being changed or replaced by another scheme. Advice is still required on the guaranteed CETV before a transfer can be arranged. This guidance was effective from 15 June 2020.

### Advice on transfers or conversions

New rules from 1 October 2020

Personalised charges information must be provided before the advice process begins. The charges should be set out in monetary terms\*

If a transfer is deemed suitable, priority should be given to an available DC workplace pension scheme (WPS). The default fund in a WPS should be appropriate for all members without the need for ongoing advice

If a WPS isn't recommended, the alternative has to be **MORE** suitable. Analysis of the WPS needs to be included in APTA

A one-page summary needs to be included at the front of the suitability report

- Initial charges disclosure
- The recommendation
- A statement on risks
- Information on any ongoing service provided

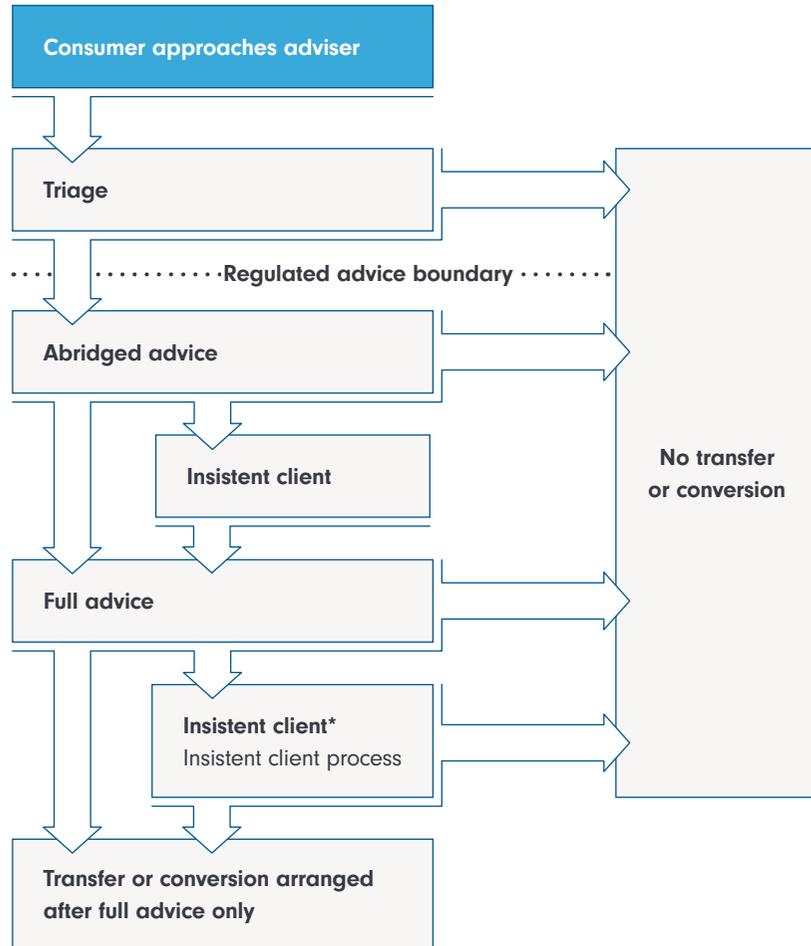
Evidence must be gained that the client understands the risks of proceeding before finalising the recommendation. A record of this evidence should be kept

### \* Insistent clients

The FCA think it is good practice to disclose up front whether you will arrange a transfer for an insistent client if you advise against it. If you will not, you should consider including an explanation that the client may incur further charges if they choose another firm to implement a transfer. Clients can then make an informed decision about whether to proceed to take advice from your firm and understand the consequences of acting against your advice, if you do not recommend a transfer.

It is also worth noting that many pension providers, including ourselves, will not accept pension transfers unless a positive recommendation to transfer has been made.

## The possible consumer journeys through guidance and advice under the FCA rules



\*While legislation permits a client to transfer after full advice where the advice is not to transfer, advisers may decide not to facilitate this type of transfer. Furthermore, many pension providers, including ourselves, will not accept pension transfers unless a positive recommendation to transfer has been made.

## Our reaction to the FCA's Policy Statement

The FCA have stated that the measures announced in PS 20/6 are designed to improve standards in the advice market. In particular, the ban on contingent charging in most circumstances will, in their view, remove a potential conflict of interest. We fully support any measures that boost standards – and the new rules will go some way to tackling some poor practices the FCA have observed in pockets of the market. However, we have a concern that access to good-quality advice will become even more restricted with DB transfers potentially becoming an option for just wealthy consumers. In our view, the lack of access to, or take-up of, financial advice needs to be addressed.

## Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. This document represents a summary of our understanding of the relevant regulations at the date of its last review (June 2023). Regulations and guidance are often subject to change and may change in future. Individuals should check that rules and regulations have not changed.



For more insights and analysis relating to pensions and the wider retirement landscape, visit our 'Technical matters' area.

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