For financial advisers only

TRANSFER VALUE **COMPARATOR GUIDE**

This guide looks at the new transfer value comparator rules for defined benefit (DB) to defined contribution (DC) transfers.

From 1 October 2018, the rules around how you present evidence to clients when they are transferring their DB pensions have changed.

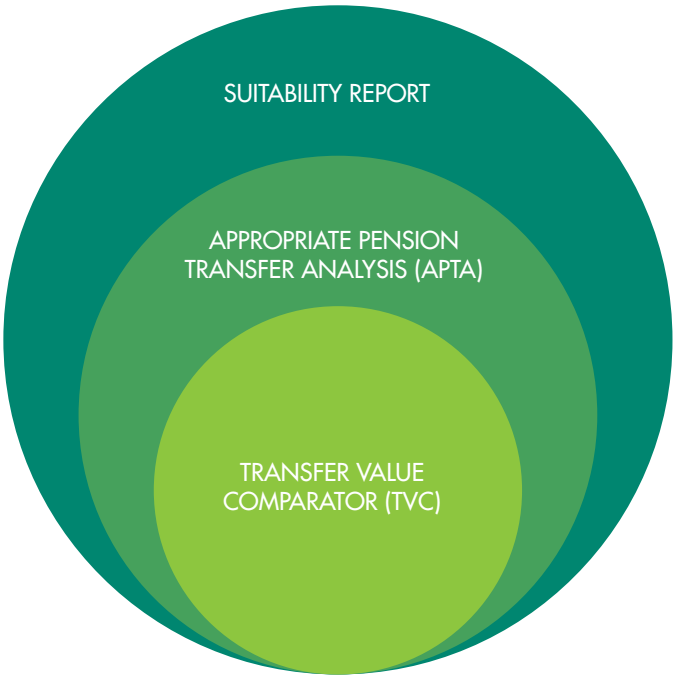
At the forefront of your presentation should be the new transfer value comparator (TVC).

The TVC is a simple comparison of benefits that forms part of your overall analysis (the appropriate pension transfer analysis, or APTA). This overall analysis forms part of your complete assessment of suitability (your suitability report).

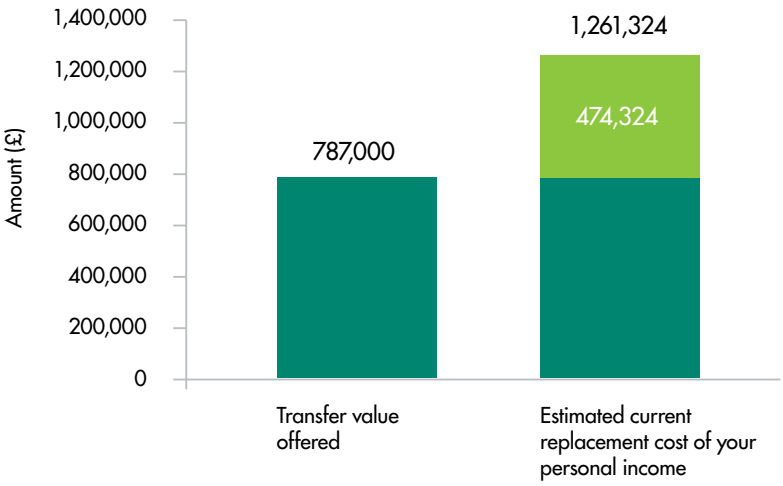
Full details about the new processes can be found in our helpful 'Transfer value analysis guide'.

The TVC is a simple, graphical comparison of benefits. It compares the cash equivalent transfer value (CETV) with how much it could cost to purchase, on the annuity market, the guaranteed income for life that the DB scheme is offering.

It is a great way to kick start a client conversation and get them engaged. The FCA rules require you to present the TVC to your clients in a 'durable medium' (in other words, paper or another method that can be stored and referred back to unaltered).



AN EXAMPLE OF WHAT THE TVC WILL LOOK LIKE



It could cost you £1,261,324 to obtain a comparable level of income from an insurer.

This means the same retirement income could cost you £474,324 more by transferring.

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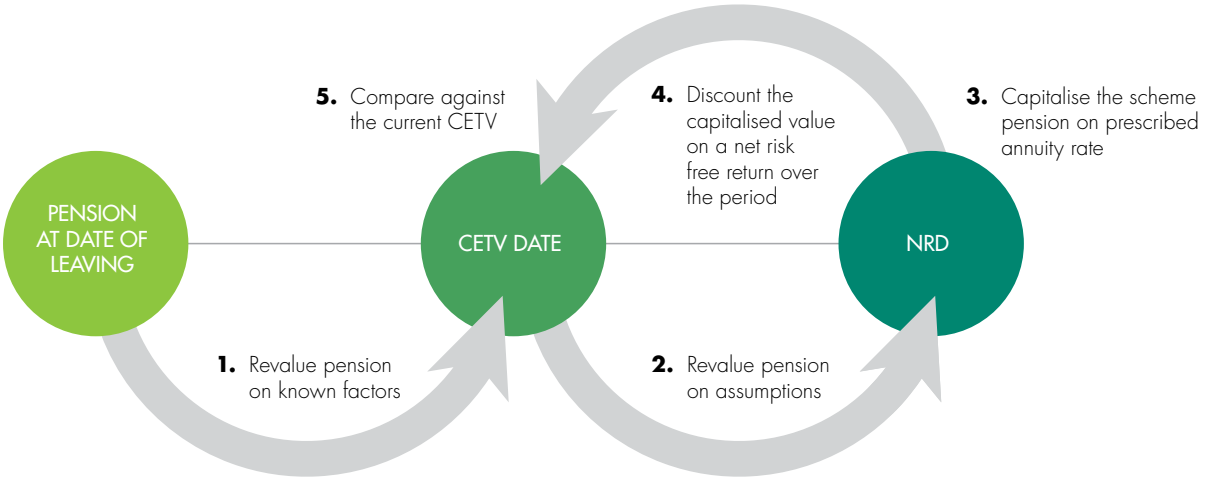
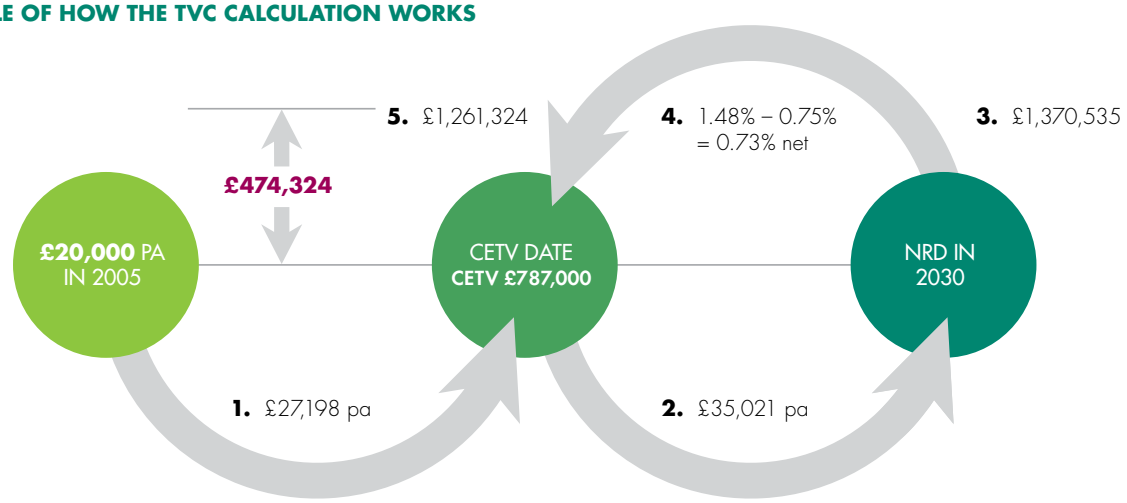
To ensure simplicity and consistency, the calculation of the TVC is undertaken on a fixed basis prescribed by the FCA. The following assumptions are used:

- No tax-free cash is withdrawn at normal retirement date (NRD).
- The annuity purchased at NRD is:
  - always produced on a joint life basis regardless of the marital status of the client
  - on the same escalation basis as the scheme pension.
- To discount the purchase price of the annuity at NRD back to the CETV calculation date, a risk-free, net rate of return is used. This reflects that the DB scheme is risk free. For this purpose it uses current gilt yield investment returns and an assumed pension product charge of 0.75% per annum.
- It is assumed that no adviser charges are deducted from the personal pension.

HOW THE TVC CALCULATIONS WORK



AN EXAMPLE OF HOW THE TVC CALCULATION WORKS



The example assumes a gross gilt yield of 1.48%.

WHAT NEXT?

The TVC is the beginning of your presentation of evidence in the DB transfer planning process. It is not the end. For more details regarding the other elements of this process, please see our helpful 'Transfer value analysis guide'. If you need any further assistance, please speak to your Old Mutual Wealth consultant.

The value of your client's investments may fall as well as rise and they may not get back what they put in.

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