Reset, Refresh, Return, Revitalise.

GILSON GRAY

LAW • PROPERTY • FINANCE

Q&A Summary - Defined Benefit Transfers

GUIDANCE NOTE

1

Can you clarify the terminology around Defined Benefit, Final Salaries, Defined Contribution and Money Purchase pensions?

Defined benefit pensions are often called final salary schemes and refer to pensions that will provide a guaranteed income linked to how long you worked for an employer. Defined contribution pensions are often called money purchase pensions and refer to pensions where your contribution is invested and what you get will depend on the value of your pot at retirement. Increased life expectancy has made defined benefit pensions unaffordable for many private sector firms which is why we are seeing generous transfer values being offered. The public sector does not offer transfer busy.

2

We take a cautious approach to Defined Benefit Transfers and the Financial Conduct Authority state that the default advice should be to remain in the scheme, why would you remain when offered a generous transfer value?

Question you have to ask is, is it worth selling a guaranteed income for life? With large transfer values there is a danger of viewing them like lottery wins but it is a big decision as you are giving up a guaranteed income for life so you must take your time when deciding. Ian provided the example of his mum who is now 96 and still receiving a pension income so has had value out of a final salary scheme that nobody could have imagined.
If it is the only asset a client holds then we would always advise against transfer. A client must have the appropriate attitude to risk and capacity for loss to consider transferring. We always stress test against a market crash and recent events show the value in doing so.

3

Naturally the next question would be in what circumstances might a transfer be appropriate?

First point would be that whether you remain or leave, taking advice is absolutely key but general points we are looking for would be:

- Within 10 years of retirement
- Other assets
- Investment experience, do not want anyone to take undue risk, must be appropriate risk for the client

Being able to access a pension flexibly is often a significant driver. Increasingly clients are phasing in retirement so control over how they take their income is key to ensure they do so in the most efficient way.
Different stages of retirement produce different expenditure requirements:

- 55-75 "Go Go" – more active
- 75-85 "Go Slow" – reduced activity
- 85+ "No Go" – limited activity as health deteriorates

Each stage requires different levels of income so flexibility over their income can help planning.

Death benefits are also a consideration for many clients. Defined benefit offers a very valuable 50% guaranteed income for the spouse but limited beyond that. Clients often want to create a legacy for their children and defined contribution pensions can be left to whoever they nominate.

Clients with substantial assets and a potential inheritance tax issue may also consider a transfer as a defined contribution would be outwith their estate and they could take their retirement income from other sources.

Those with reduced life expectancy may also have concerns about getting the value out of a defined benefit scheme however it should not be forgotten the example of Ian's mum – 96 and still receiving pension income!!

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4 What companies are offering transfer values?

Financial services (RBS, HBoS, Standard Life) are particularly active but we have also seen companies such as Scottish Power and whisky companies. I would stress however it does not always mean it is right for everyone who has worked for these companies to transfer, key that they get advice.

Often we find that the best outcome is where they have other DB schemes either themselves or a spouses that can be kept then they are left with a bit of guaranteed income and a bit of flexibility.

5 Have the current conditions due to Covid-19 impacted values?

Possibly too early to say but at the moment we have not seen any changes. Values are linked to gilt yields which at the moment are very low.

6 What is the process for someone considering a defined benefit pension transfer?

First of all it is vital that they take their time, we would anticipate the process taking 3-6 months.

- We would look to establish that they are the right sort of client – risk profile etc
- Request a guaranteed transfer value from the provider
- Analyse pros and cons of each option
- Stress test possible investment solution
- Test against average life expectancy

Key that it is based on each individuals situation not one size fits all solution.

To find out more about how we can help please contact Chris Plews.

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