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Defined Benefit Transfers & Triage – A Client Guide

Pension
TRANSFER
Gold Standard

The purpose of this document is to give you general information about Defined Benefits Pension Schemes and flexible benefits offered within an individual pension and drawdown plan. This has been written with the intention of highlighting whether or not you may benefit from seeking regulated advice in relation to your personal situation.

The general rule of thumb is that Defined Benefit Schemes offer very valuable guarantees, so it is usually not appropriate to transfer out unless you have valid reasons for doing so. This is the reason why the Financial Conduct Authority have made the initial assumption that “It is unlikely to be suitable to transfer safeguarded benefits offered through an occupational pension scheme in favour of flexible benefits”.

Below we present a balanced view of some of the key advantages and disadvantages of each scheme. This is aimed at helping you decide the factors which are important to you.

Potential advantages of Defined Benefit Schemes

- You will receive a secured income for life, which is likely to rise each year in line with inflation, and your spouse/civil partner can receive an income (subject to income tax) upon your death.
- There is minimal paperwork needed to start the payment of benefits and no ongoing monitoring of the scheme is required once the first payment has been made.
- Defined Benefit Schemes will place no personal investment risk on you.
- Defined Benefit Schemes have a legal duty to provide a pension for a surviving widow/widower or dependent in the event of your death.

Potential disadvantages of Defined Benefit Schemes

- A Defined Benefit Scheme is rigid in its structure. You will get a set amount of money each month until you die, therefore it cannot adapt if your needs change throughout retirement.
- The payments of your scheme pension must be selected before taking any benefits and cannot be changed at a later date.
- Many Defined Benefit Schemes have a pre-selected retirement age and taking benefits early can result in reduced pension benefits.
- Any income you receive from a Defined Benefit Scheme will be subject to income tax at your highest marginal rate.
- Any income you receive from a Defined Benefit Scheme may affect your entitlement to means tested state benefits.
- Only your spouse/civil partner and children under the age of 23 (unless legally defined as a dependent if older) will usually be entitled to a reduced pension on your death. This will mean you will not be able to leave your pension benefits on death to any other party.
- Any options (if offered by your scheme) to provide benefits on death must be selected at outset and will result in a lower initial pension payment.

Potential advantages of an individual pension or drawdown plan

- The tax-free pension commencement lump sum (usually referred to as Tax Free Cash) of an individual pension or drawdown plan can be greater than from a defined benefit scheme.
- You can choose how and when your benefits are taken. This offers greater flexibility and choice.
- When taking benefits there are no restrictions on the amount of money you can withdraw at any one time
- On your death, your nominated beneficiaries will receive the remainder of your pension fund. There is no restriction on who you choose to receive these benefits.

Potential disadvantages of an individual pension or drawdown plan

- The benefits taken from a drawdown plan will need to be carefully managed to ensure it does not run out.
- THERE IS THE POSSIBILITY IF YOU NEED REGULAR INCOME THE INVESTMENT FUND MAY NOT BE SUSTAINABLE THROUGHOUT YOUR LIFETIME. THIS COULD POTENTIALLY MEAN YOU ARE NOT ABLE TO MEET CORE INCOME REQUIREMENTS IN LATER LIFE.
- The funds you invest in will be subject to fluctuation and this can result in the value of the fund reducing even when income is not being taken. Where income is being taken this will deplete the fund to a greater degree.
- The only way to obtain a secure income through an individual pension is with the purchase of an annuity. It is unlikely you would be able to replicate the same level of income payments paid by the Defined Benefits Pension Scheme.
- Any income/lump sum payments you receive from the non-tax free element of a pension fund will be subject to income tax at your highest marginal rate.
- By taking far higher levels of income (when compared to a Defined Benefit Scheme), this may push you into a higher tax band.
- Any income/lump sum payments you receive from a pension fund may affect your entitlement to means tested state benefits.
- There will be ongoing annual charges and administration charges to pay. You will also need to monitor where the fund is invested to ensure it meets your attitude to risk and investment objectives.

Examples of where a transfer may be beneficial or harmful

- **Circumstances where a transfer may be harmful**
An individual would need to rely on the income from their pension to provide their core income requirements throughout retirement.
- **Circumstances where a transfer may be beneficial**
An individual that would not rely on their pension to provide their income throughout retirement and would like individuals to benefit on their death but who are not defined as a dependent.

This document provides you with information on generic advantages and disadvantages of a Defined Benefit Scheme and an individual pension or drawdown plan.

This document is not providing any advice on your personal circumstances or your actual Defined Benefit Scheme.

If you are unsure as to the most suitable option for your individual circumstances you should seek independent financial advice.

All references to tax free and non-tax free elements of pensions only apply to UK residents

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Print Name		

Sign		
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Date		
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