A GUIDE TO PENSION TRANSFERS

2017

FINANCIAL ADVICE & WEALTH MANAGEMENT

ESTATE CAPITAL

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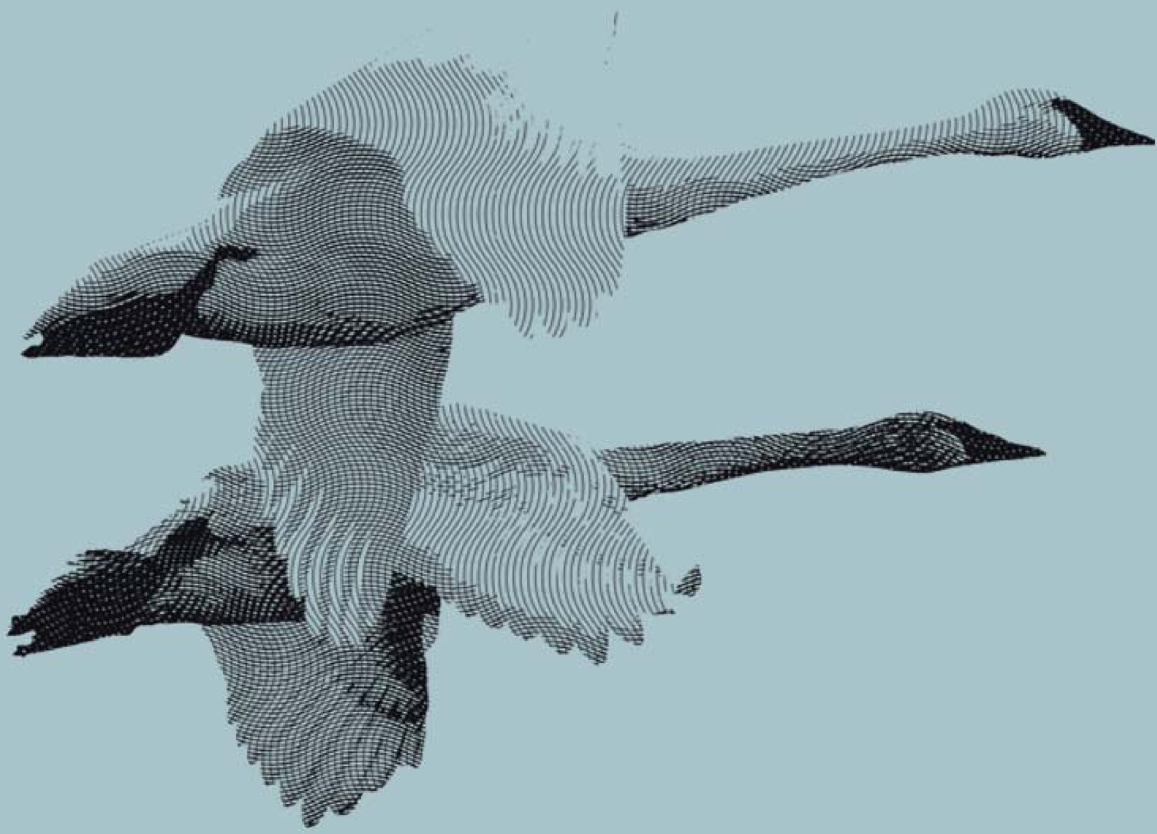
Co-ordinate your pensions, grow capital and increase your retirement income.

The financial challenges facing us today are varied and demanding but one that remains constant is the desire for a secure income in retirement. With people now living very much longer the need to provide choice and security at every stage in life has never been greater.

It is now very common within a flexible labour market for an individual to build up several pension funds from different periods of employment or self-employment. These pension funds could range from stakeholder personal pensions to final salary defined benefit schemes. People can lose contact or understanding with arrangements set up many years if not decades before.

A regular review of all your retirement benefits is important. There can be benefits in consolidating funds but also drawbacks if forgotten about attractive benefits are given up. A clear understanding of the full range of benefits and scheme features is essential in assessing the merits of pension consolidation.

Make better informed pension decisions that are right for you.



Pension Funding Options

The main pension funding options available are personal pensions (PPP) and self-invested personal pensions (SIPPs), a group personal pension (GPPP) or a workplace pension through your employer. Company owners or directors may access a small self-administered pension scheme (SSAS).

The number of people currently enjoying the full benefits of an occupational final salary pension scheme through a major employer has significantly reduced. Defined benefit schemes as they are called offer attractive guaranteed benefits.

Unfortunately the major employers see the costs and the liabilities of these schemes as more than they are willing to accept. Many final salary pension schemes are run with large funding deficits and are now closed to new members. Private sector final salary schemes operating at a deficit run the risk of falling into the Government's Pension Protection Fund (PPF) if the sponsoring employer ceases trading.

Members of those schemes who fall into the Pension Protection Fund will have an age determined benefits cap to their pension income.

Large private sector employers invariable now offer a money purchase defined contribution pension instead of a defined benefits final salary scheme. A member's retirement fund will be dependent upon the maturing fund value and the prevailing annuity rates at retirement.

Retirement Benefits

The 2016 pension freedoms have given pension plan holders far greater flexibility and access than before. With these new freedoms come responsibilities to ensure that what is quite possibly your largest asset is used wisely.

Having spent decades building your nest egg it is important to get the most benefits from your pension fund. These choices may be a guaranteed annuity from your existing plan, an open market annuity from an alternative provider or a flexible income drawdown from the fund itself.

Pension funds can be converted to cash at retirement in full or in part and can fund a guaranteed or flexible level of ongoing income.

People who elect for a flexible income drawdown arrangement are able upon death to pass their funds on to their spouse, children or even grandchildren. Pension funds once seen as retirement only assets are now legacy assets that several generations can enjoy free from inheritance tax.

Personal Pensions

Personal pensions are simple and easy retirement saving schemes that accept private and employer contributions. Contributions are made through monthly direct debit or single payments. All contributions made by the plan holder are made net of basic rate tax with 20% tax relief credited to the plan by HMRC. Personal pensions are a popular way for individuals whether employed or self-employed to build up a retirement fund.

The assets held in the pension plan are usually investment funds. There is a wide choice of pension provider and an even larger choice of investment funds so care is needed to ensure a suitable provider and investment strategy is selected.

Self-invested personal pensions (SIPPs) give the plan holder greater flexibility in the selection of investments such as stocks and shares, investment funds, investment trusts and commercial property. SIPPs can borrow money to purchase a commercial property in the same way a home owner does.
Up to 50% of the pension fund value can be used as mortgage security. This feature is popular with business owners or professional practises who use their pension fund to acquire their office building.

Group Personal Pensions

Group personal pensions work in exactly the same way as a personal pension but are run for a group of people who work together.

Employers will offer their staff access to a money purchase group personal pension. The employer and employee usually make monthly contributions as a percentage of the employee's salary.

Employer's contributions are made gross with corporation tax relief claimed later while employee's contributions paid net with HMRC tax relief claimed back by the pension scheme provider.

Work Place Pensions

Progressively since October 2012 employers have had to offer a pension scheme to their staff. Through automatic enrolment all employees aged between 22 and 65 and earning over £5,824 pa will be enrolled into the work place pension scheme of their employer. Both employer and employee are required to make modest but rising contributions until a combined contribution percentage of 8% is reached.

Work place pensions are simple low cost group personal pensions with a limited number of pension fund choices and retirement options.

Occupational Pension Schemes

People employed in the public sector have access to a defined benefit occupational pension. These final salary or career average schemes provide attractive benefits and are well funded. Typically a member will gain 1/80th of their final years' salary as a pension income for every year of contribution and service. Forty years' service would provide a 50% pension in retirement. This income is index linked and a tax free lump sum is also available. The pension is transferrable in part to your spouse upon death.

Occupational pension schemes offer members enviable benefits and are therefore heavily funded by the employer. The large private sector employees and most nationalised companies ran schemes similar to those of the public sector but over time these schemes due to cost and liability have been closed to new joiners. Large private sector employers invariably now offer only a group personal pension to their staff.

Have confidence in your pension and peace-of-mind to enjoy life now.

Pension Transfer Advice

You may be someone who has spent part or all of your life employed by a large national employer who during that service provided you with a final salary occupational pension scheme. These schemes are highly sought after as they offer attractive and secure retirement benefits.

However with the introduction in April 2015 of the new pension freedoms, members of occupational pension schemes in the private sector now have choices that were not previously available to them. The new pension freedoms give private sector final salary pension scheme members far greater flexibility and access than ever before. With these new retirement benefit freedoms comes responsibility to ensure that your largest asset is used wisely.

Final salary pension scheme members are attracted to the concept of “owning” their own pension fund, benefiting from it throughout life and then pass the fund to their spouse and then children on death. The fund can become a family legacy asset benefiting more than one generation as it does not “die with you”.

Occupational Pension Scheme transfers are a complex area requiring specialised qualified advice. In order for a firm to be able to advise on pension transfers they must hold the appropriate Financial Conduct Authority (FCA) permissions to undertake such advice.

The pension transfer must be undertaken by an individual who is deemed to be a pension transfer specialist. In order to achieve this status the adviser must have passed the relevant examinations and hold the appropriate qualifications.

For people looking to consolidate pensions, it is vital to undertake a robust comparison to evaluate the suitability of transferring one scheme or plan into another. The common features that need to be reviewed when assessing whether a transfer is at all beneficial are;

Guaranteed Annuity Rates

You may have pension benefits built up in older pension schemes like Retirement Annuity Contracts or Section 226 Contracts. These pension schemes often have valuable guaranteed annuity rates which are far more generous than the open market today. These better paying annuities would be lost if the plan was transferred.

Protected Tax Free Cash

If your pension scheme commenced prior to April 2006 you may be able to receive greater than 25% tax free cash from your pension. It is therefore important to establish exactly what type of scheme it is.

Under current legislation up to 25% of a pension fund is available as a tax free lump sum from age 55 onwards. Plans set up before April 2006 may have a protected amount of tax free cash above 25%. These attractive benefits will be lost on transfer away or at retirement if not dealt with in the appropriate manner.

Market Value Adjustments (MVR) and Transfer Penalties

Some pension schemes set up under historical rules may have a transfer penalty or if invested into a With Profits fund, a Market Value Adjuster may apply. Often such schemes if transferred or benefits taken before the end of their original term are subject to early surrender or transfer penalties. It is important to evaluate any such loss.

Protected Retirement Age

Under current pension rules you can take your pension benefits at any age from 55. However there have been certain professions that in the past enjoyed lower retirement ages. These were sports professionals with a retirement age of 35.

If you are a sports professional who had pension benefits established prior to 5th April 2006 you can protect that early retirement age of 35. Transferring the plan to a new arrangement would lose that benefit.

There are certain historical pension schemes where the scheme has a protected retirement age of 50.

Transfer Value Analysis Report (TVAS)

It is a regulatory requirement that a full transfer value analysis is carried out to properly compare the various features of a defined benefit scheme against that of any intended new pension plan.

A transfer analysis will consider;

- Your guaranteed pension at your date of leaving service.
- The projected benefits to your normal retirement age.
- The death benefits under the scheme compared to the benefits under a personal pension.
- Increases in pension payment once the benefits have commenced
- Any penalties under the scheme for retiring earlier than the normal retirement age.

The transfer value analysis should be measured against other soft facts and your individual circumstances, goals and objectives.

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Critical Yield

Amongst other things, the transfer analysis report will produce what is called a Critical Yield. This yield is the rate of growth that will be required by a potential new pension in order to match the benefits of the existing defined benefit scheme.

Whilst this is a major factor in the overall advice, other aspects are of significant importance such as;

- Health
- Marital status
- Desire to pass money down generations
- Flexibility of income
- Overall wealth and assets
- Attitude to risk
- Governance of employer
- Funding level of scheme
- Early retirement requirement

Health

With any future planning it is important to consider your health and that of your spouse or partner. Your state of health will help decide if the flexible death benefits associated with a pension fund drawdown are of significance.

If you are in poor health it is possible to obtain a higher level of guaranteed income from an enhanced or impaired life annuity. The income payments increase as the life expectancy reduces.

Marital Status

It is important to check the occupational pension scheme rules to be sure that the trustees pay a pension to your nominated beneficiary on death.

Some schemes will only pay a 'spouses pension' to legally married spouse or civil partner. For single people a spouses pension will not apply but in any transfer valuation a spouse's pension has been factored into the transfer value giving the pension value uplift.

Death Benefits

Pension funds can now be looked upon as a multi-generational Inheritance Tax free asset. People, who elect to enjoy a flexible income arrangement, after careful consideration, are able to pass their funds on their death, to their spouse, dependent and non-dependent children, grandchildren or even great grandchildren.

Prior to the changes from 6 April 2015 only a spouse or dependent of the member could receive what is deemed a drawdown pension on the member's death.

With the new rules a nominee or nominees can also receive a drawdown pension. This is called nominee flexi-access drawdown.

On the death of the nominee, a successor or successors can take a drawdown pension. This is called successor flexi access drawdown.

It is therefore imperative that the correct advice is received in making appropriate and correct death benefit nominations and keeping them up to date.

In order for this to be achieved it will need to be confirmed that the provider and scheme that holds the pension fund has adopted these new flexibilities.

These are all serious considerations to identify the suitability of any pension transfer.

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Flexibility of Income

A defined benefit scheme will provide a guaranteed and known income throughout retirement. For many people this gives certainty and comfort. There will also be people who do not require these guarantees and are more interested in control and flexibility. These could be people with other assets and sources of income. Some may wish to be flexible as they supplement their full time or part time income ahead of full retirement.

Overall Wealth and Assets

It is becoming more common for people with significant wealth, who are liable to inheritance tax, to use their non-pension estate assets such as cash and investments to provide a retirement income, ahead of withdrawing money from a pension drawdown plan.

Pension funds are free of capital gains tax and are also exempt of inheritance tax when transferred upon death from one generation to the next. For this reason pension funds are an inheritance tax planning option and are often considered worth retaining ahead of other taxable estate assets.

Attitude to Risk

A defined benefit pension will provide a high degree of certainty and security. Anyone considering a transfer to a personal pension or self-invested personal pension (SIPP) will take on a certain amount of risk. In assessing the merits of a pension fund transfer your attitude to investment risk and overall tolerance of loss is an important consideration.

Governance of Employer

One factor to consider in the assessment of risk is the financial viability of the pension schemes sponsoring employer. If a company were to fall into bankruptcy when its defined benefit pension scheme was under funded, then the pension scheme would be taken over by the Governments Pension Protection Fund (PPF).

Pension benefits paid out from the PPF can suffer from a potential age related income cap and a restriction on payment increases to the consumer prices index (CPI).

Funding Level of Scheme

Members of defined benefits pension schemes will probably receive an annual report from the pension scheme trustees showing the on-going funding level of the scheme. This report will state if the scheme is fully funded or underfunded and in deficit. if in deficit it will detail the amount and the funding recovery plan that is in place.

Early Retirement

Some defined benefit pension schemes allow for early retirement but with a reduced pension payment. It is important to understand the full implications of early retirement.

Wouldn't it just be easier for me if all my benefits were with one provider?

Yes, but it would still need to be in your financial interest to do this.

Can't I transfer my pension fund and take out all as cash?

Legislation will allow this to be done from age 55 but there are likely to be penal tax consequences.

Should I transfer my defined benefit scheme into a Personal Pension to take advantage of the pension flexibilities?

A Defined Benefit Scheme contains valuable guarantees and it may not be in your interest to transfer. It will be an individual decision based on your goals, objectives and individual circumstances. Thorough research and assessment of your situation can help make an informed assessment of the suitability of a potential transfer.

Can I pass my pension fund to my children?

You can pass your pension fund to your children providing the pension scheme you are a member of has adopted the new rules post 5th April 2015. If you are a member of a defined benefit scheme you cannot pass any fund to your children. There may be short term payments to dependent children only.

Can I retire early from my defined benefit scheme?

You will be able to take benefits before the scheme normal retirement age providing the scheme rules permit this. However there may be an early retirement penalty reducing the income if you retire early. These penalties are commonly 4% per annum.

Can I transfer my defined benefits pension scheme myself?

This can only be done if the value is below £30,000. Any pension scheme with a transfer value over £30,000 will require the transfer to be handled by a suitably qualified independent financial adviser.

Do I have to take all of my tax free cash at once?

You do not have to take your tax free cash all at once providing your pension fund is in a flexible drawdown scheme.

We take responsibility for people's life savings. A responsibility we take very seriously.

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