A GUIDE TO PENSION TRANSFERS

2020

FINANCIAL ADVICE & WEALTH MANAGEMENT

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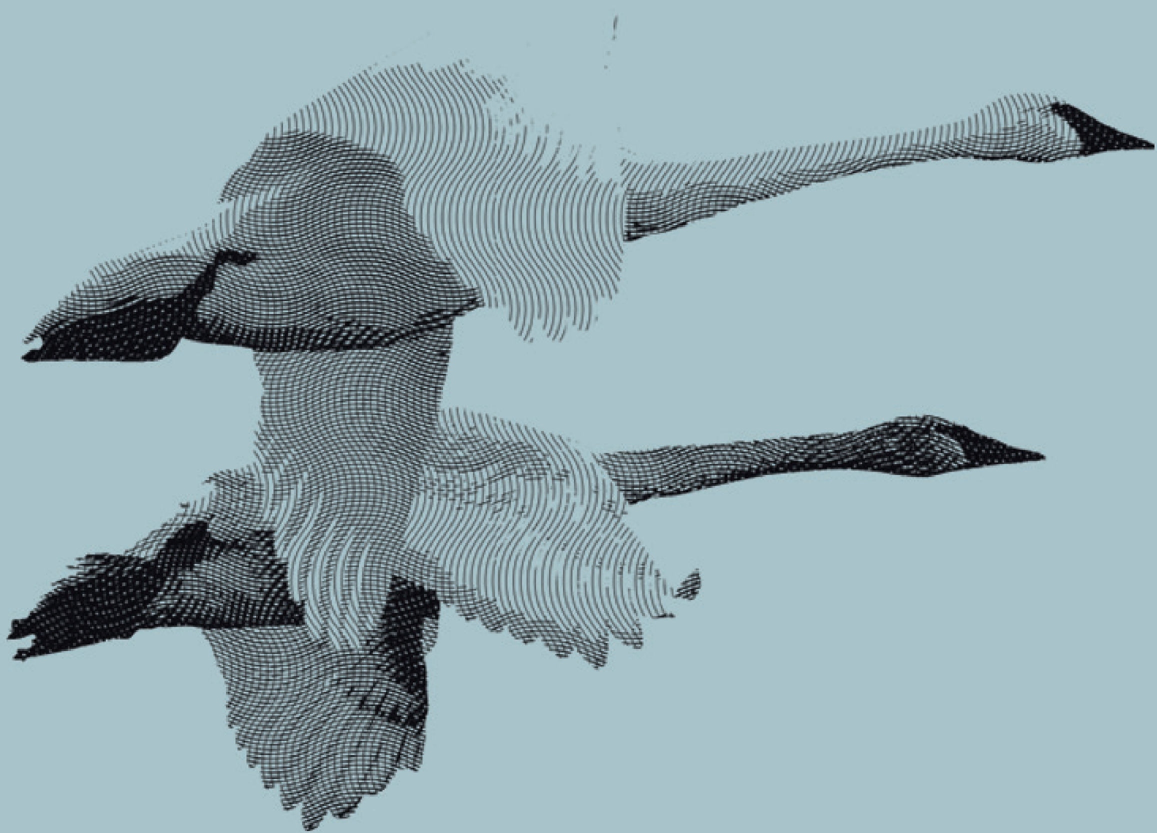
The financial challenges facing us today are varied and demanding but one that remains constant is the desire for a secure income in retirement. Average life expectancy in the UK is now around 78 years for a man and 82 years for a woman. As we live longer, the need to provide choice and security at every 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 auto enrolment schemes to final salary defined benefit schemes. People can lose contact with or understanding of 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 care must be taken so that attractive benefits are not forfeited. 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 a stakeholder pension (SHP), a personal pension (PPP), a self-invested personal pension (SIPP), a group personal pension (GPPP) or an auto enrolment scheme through your employer. Company owners or directors may access a small self-administered pension scheme (SSAS). A number of older style pension plans, such as AVCs, FSAVCs, Section 32 plans and Executive Pension Plans, are also still in existence.

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: this being a guaranteed income for life and a reduced guaranteed income for your spouse or qualifying partner on your death (subject to scheme rules).

Unfortunately, these schemes can be costly for the employers to run. Many final salary pension schemes have 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 schemes that fall into the Pension Protection Fund will have an age determined benefits cap to their guaranteed pension income.

Large private sector employers invariably 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 2015 pension freedoms have given pension plan holders far greater flexibility and access than before. With these new freedoms comes the responsibility to ensure you use wisely what is quite possibly your largest asset.

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 your fund.

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.

Stakeholder Pensions

Stakeholder Pensions are simple pension plans, often with limited fund ranges and benefit features. They are subject to minimum government standards, such as limited annual charges (1.5% pa for the first ten years and 1% thereafter), a low level of minimum contributions and flexibility to stop and start payments.

Personal Pensions

Personal pensions are a simple and easy retirement saving scheme that accepts 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 providers and an even larger choice of investment funds, so care should be taken to ensure a suitable provider and investment strategy are 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 practices who use their pension fund to acquire their office building.

Group Personal Pensions

Group personal pensions work in exactly the same way as personal pensions but are run for a group of people who work together and can often benefit from lower charges negotiated by employers for their employees.

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.

Workplace Pensions

Since October 2012, employers have had to progressively offer a pension scheme to their staff. Through automatic enrolment all employees aged between 22 and State Pension Age and earning over £10,000 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.

Workplace pensions are simple, low cost group personal pensions with a limited number of pension fund choices and retirement options but can remain suitable whilst you are growing your pension fund.

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. Large private sector employers and most nationalised companies ran schemes similar to those of the public sector. However, over time they have been closed to new joiners due to high cost. Nowadays, large private sector employers invariably 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 your service, provided you with a final salary occupational pension scheme. These schemes are highly sought after as they offer attractive and secure retirement benefits.

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.

Final salary pension scheme members are attracted to the concept of "owning" their pension fund, benefiting from it throughout life and then passing it to their spouse and then to 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 that requires specialised qualified advice, and more so with the introduction of new guidance which came into effect on 1 October 2020.

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.

Pension transfer advice must be provided by an individual who holds the relevant qualifications to be a Pension Transfer Specialist. In order to achieve this status and maintain authorisation they must undergo continual professional development.

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.

From 1st October 2020 a firm must charge the same fee for advice, whether the outcome for the client is to keep their DB pension or to transfer out, except for when advice is provided to financially vulnerable customers.

As a first step, a free, non-advised triage service is available whereby clear generic information on a client's existing protected benefits is provided to help them decide if they wish to proceed to the full advice stage.

Following triage, an option of 'abridged' advice is available. 'Abridged' analysis may suggest the recommended strategy is to retain the DB plan or the benefits of transferring are unclear.

What we will provide at this stage is:

- Collect information about the existing scheme and consider the Benefits provided;
- Consider risks of staying in the scheme;
- Consider risks of transferring and losing the benefits.

The cost of abridged advice is £1,000 (£500 can be claimed under Advice Allowance).

The above will be offset from any further fees if full advice follows.

Abridged Advice

As part of this process we will examine the following:

- Your personal and family circumstances, including health;
- Financial circumstances, including income and current and future outgoings;
- Other assets including other pension provision;
- Knowledge and experience of investing;
- Attitude to transfer risk and appetite for giving up a guaranteed safeguarded income for a flexible one with no guarantees;
- Attitude to investment risk and capacity for loss;
- Objectives and needs including any relevant dates and annual needs to achieve these.

If we can determine that you are best off keeping your DB scheme, we will write a report confirming our recommendation and the reasons for it.

If it is unclear whether you should keep your DB scheme at the end of Abridged Advice, you will then be offered the opportunity to move to Full Advice.

We will agree our charges for Full Advice with you first and will not start work until you tell us to proceed.

Full Advice

With your permission, we will undertake a comprehensive analysis of the benefits of your existing DB scheme and a new DC scheme that might be suitable for your needs. This will include cashflow modelling of possible financial outcomes allowing for all your assets. We will also consider if there are ways of meeting your objectives without giving up your DB scheme.

At the end of this we will write a report confirming whether we think you should keep your DB scheme or transfer. We will also explain why we think our recommendation is right for you and make sure you are fully aware of all the advantages and disadvantages.

The risks of proceeding with the recommendation will be expressly highlighted before any advice takes place.

In order for our firm to provide DB transfer advice, a client must meet the following criteria:

- Be a UK resident;
- Aged 50 or older (or a vulnerable client);
- Have a pension plan valued at £200,000. (For existing clients of Estate Capital, we will consider lower plan values).

If you are a member of an ‘unfunded’ public sector pension scheme (for example a Teachers’ or NHS scheme), you will not be able to transfer your plan.

For full pension transfer advice the point of significant importance is a reliance on the scheme to provide an income in retirement.

The following aspects are also relevant and important:

- 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

We will produce a cashflow model, to help you understand how you can meet your future needs and requirements.

The fee for full advice is £4,000. It is chargeable irrespective of whether our analysis shows that it is in your interest to transfer Defined Benefits or to remain within your existing Defined Benefit Scheme.

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 available from 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 entitled 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 personal pensions can provide up to 25% of a pension fund 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 Adjustment may apply. Often such schemes, if transferred or benefits are taken before the end of their original term, are subject to early surrender or transfer penalties. It is important to evaluate any such loss.

From 31st March 2017, for those aged 55 or over, a 1% penalty cap on early exit pension charges was introduced.

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.

Make better informed pension decisions that are right for you.

Transfer Value Comparator (TVC)

This is a mandatory process which is prescribed by the FCA. It is essentially a mathematical calculation which considers data regarding annuity rates for example, to determine the scheme's transfer value.

An effective TVC must show:

- The Cash Equivalent Transfer Value (CETV) offered by the current safeguarded scheme: and
- The estimated value needed to replicate the income from the DB scheme in a DC environment, where the result of a recommendation would be the purchase of an equivalent annuity using a gilt rate of 0.75% pa.

Appropriate Transfer Value Analysis Report (APTA)

An effective APTA will help to better demonstrate why a transfer may or may not be in your interest.

Unlike the TVC, the APTA isn't prescribed and is left relatively flexible, so it can be adapted to suit any client.

We believe personalised advice is best done with cash-flow modelling to demonstrate the options available to you.

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

Critical Yield

Amongst other things, the transfer analysis report will produce what is called a Critical Yield. In simple terms, this yield is the rate at which a potential new pension will need to grow in order to match the benefits of your existing defined benefit scheme.

Health

With any future planning it is important to consider your health and that of your spouse or partner. This 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 'spouse's pension' to a legally married spouse or civil partner. For single people a spouse's pension will not apply but in any transfer valuation a spouse's pension is 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 scheme that holds the pension fund has adopted these new flexibilities.

Make better informed pension decisions that are right for you.

Flexibility of Income

A defined benefit scheme will provide a guaranteed and known income throughout retirement. For many people this provides certainty and comfort. There will also be people that do not require these guarantees and more interested in control and flexibility. This 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 that 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, in addition to being free of Capital Gains Tax, 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.

Please note, however, care must be taken as, in certain circumstances, IHT may apply on death, where:

- Death benefits are paid according to a binding nomination;
- The deceased's estate is legally entitled to receive death benefits;
- Guaranteed payments continue to be paid into the deceased's estate after death;
- There have been changes to pension benefits within two years of death. An example of this would be: transferring your DB pension within two years of death with the intention to remove pension death benefits out of the estate for IHT purposes;
- There is deemed 'transfer of value' during lifetime.

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 scheme's sponsoring employer. If a company were to fall into bankruptcy when its defined benefit pension scheme was under funded to meet its pension liabilities, 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 buy with a reduced pension payment. It is important to understand the full implications of early retirement.

Pros and Cons

In summary, consolidating your pensions into one pot can potentially:

- Reduce administration and the number of providers;
- Make it easier to quantify the ongoing costs of your retirement planning;
- Help avoid any conflicting advice from multiple sources as one plan can be managed by one adviser for you;
- Help follow one coherent investment strategy in line with your retirement goals;
- Make it easier to consider your benefit options;
- Receive one stream of income from just one plan;
- In the case of DB transfers, your new pension plan would not be impacted, if your employer were to go out of business;

On the flip side, the disadvantages could be:

- Transferring your DB plan will result in you giving up guaranteed benefits such as early retirement age or a guaranteed income for life;
- Any future pension growth of a new Personal Pension plan will not be guaranteed and could potentially result in you receiving less income in retirement than that offered by the DB plan.
- Your financial security in retirement could be affected by stock market fluctuations.

As a result, carefully considering all the options is of utmost importance.

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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