# Simply **Pensions**

## Stick or twist?

21 things to think about before transferring your Final Salary pension

01706 212040

info@simplypensions.co.uk

# Stick or twist?

Final Salary pensions, otherwise known as Defined Benefit pensions, are occupational schemes offered by employers. As a member of a Final Salary or Defined Benefit scheme, the income you receive in retirement is based on your earnings with the employer and the length of membership in the scheme. The exact benefits you receive in retirement will vary from one scheme to another but can be very generous.

Significantly income inflation proofed and guaranteed for life, Final Salary pensions also continue to be paid to your spouse, civil partner or other dependents should you die before they do.

A quick note before we continue: for simplicity, from now on we'll only refer to Final Salary and Defined Benefit pensions as the Final Salary throughout this guide.

Historically, Final Salary schemes were commonplace, and the benefits made them naturally attractive to employees, but, in recent years, many have closed to new members, while some have closed to existing members, forcing them in to Money Purchase arrangements which do not guarantee the pension in retirement.

In 2015 the Government introduced Pension Freedoms, allowing much more flexibility in the way people can take pension income from Defined Contribution schemes (Personal Pensions, Stakeholders and SIPPs), offering uncapped withdrawals from age 55 principally through a product known as Flexi-Access Drawdown. As a result, there has been huge interest from people with Final Salary pensions wanting to transfer to a Defined Contribution arrangement to take advantage of the newfound flexibility.

Giving up a Final Salary pension is a one-time decision; there is no going back and, once transferred, you will have left behind a guaranteed lifetime income and the security that comes with it. It's a big decision with a lot of factors to consider, so we've put together this guide to help.

## Pension Transfer Gold Standard

We're proud to be a firm that has met the criteria to achieve the Pension Transfer Gold Standard as set out by the Personal Finance Society. By working with a firm that has voluntarily committed to the Pension Transfer Gold Advice, you can be confident that you will receive the best possible advice, service and support when considering transferring out of a Defined Benefit pension scheme.

Pension TRANSFER Gold Standard

# 21 things to think about before transferring your Final Salary pension

## 1) The Transfer Value

If you decide to transfer out of a Final Salary pension, the trustees who run the scheme will convert the benefits you've built up over time into a cash sum, known as a transfer value or cash-equivalent transfer value (CETV for short).

You must transfer this to a Defined Contribution scheme, such as a Personal Pension, Stakeholder, Self-Invested Personal Pension (SIPPs) or possibly a workplace pension with another employer. You are able to make uncapped, flexible pension withdrawals from a Defined Contribution scheme from age 55.

## 2) What will you be giving up?

If you transfer out of a Final Salary pension you will be giving up a guaranteed, inflation proofed, lifetime income for you and potentially your spouse. Once you have transferred there is no going back. It's a one-time decision, so not one to be made lightly. It is important to consider any future income benefits in the context of other retirement planning you have made, as well as your personal circumstances.

## Please Note:

Transferring out of a Final Salary scheme is unlikely to be in the best interests of most people.

The value of pensions and the income they produce can fall as well as rise. You may get back less than you invested.

Simply Pensions is an appointed representative of Quilter Financial Services Limited which is authorised and regulated by the Financial Conduct Authority. You can find Simply Pensions on the FCA register by clicking here.

The information and content within this guide is subject to the UK regulatory regime, and is therefore targeted at consumers based in the UK.

Simply Pensions, Kingfisher Business Centre, Burnley Road, Rawtenstall, Rossendale, Lancashire, BB4 8EQ.

### 3) Do you really need the lump sum?

Transferring your Final Salary pension then withdrawing the lot to spend on a Lamborghini might be great fun in the short-term, but what if you can't afford the fuel bills in future? Seriously though, making an ill-informed, short-term decision could put your long-term financial future in jeopardy.

Receiving an unexpectedly high transfer value might feel like a lottery win but remember what you will be giving up; a guaranteed lifetime income for you and potentially your spouse when you die.

## 4) How long are transfer values valid for?

Transfer values have a limited lifespan and are usually guaranteed for three months. If possible, talk to a financial planner before obtaining one. If it does expire, you will need to wait 12 months for another or pay the pension scheme trustees to recalculate it.

In either respect, this isn't a decision to rush; if managed properly, three months is plenty of time to take financial advice and make an informed decision. Remember, once you've made the decision to transfer, there is no going back.

## 5) Pensions are intended for retirement

Consider what your Final Salary scheme was originally intended for; providing an income. Whether your retirement aspirations are to travel, begin a new venture or spend time with family, a reliable income post-employment will be essential.

> Once you've made the decision to transfer, there is no going back


## 6) How would an Annuity compare?

Flexible withdrawals are increasingly popular since Pension Freedoms, but purchasing an Annuity is still an option for a worry-free, lifetime income from a Defined Contribution pension. The issue is that Annuity rates are at an all-time low due to historically low interest rates.

It's worth comparing an Annuity quote to your Final Salary scheme to see if you can achieve a higher or like-for-like income, with inflation protection. An Annuity may, in some circumstances, be higher in comparison for your Final Salary scheme is providing unrequired benefits, or if you qualify for an Enhanced Annuity.

## 7) Inflation

Final Salary income is typically index-linked and increases each year to protect against the effect of inflation. This is a valuable benefit, protecting the buying power of your income throughout retirement, which may last for 20, 30 or even 40 years. If you transfer away to an alternative option, you will need to consider how you will offset the effects of inflation.

## 8) What's your tolerance of risk?

If you decide to transfer your Final Salary pension to an alternative arrangement such as a Defined Contribution scheme or Flexi-Access Drawdown, the money you transfer will be invested; it is essential you are comfortable taking on this responsibility. A financial planner will determine the level of risk you are comfortable taking and make investment recommendations accordingly. Investments must be regularly reviewed, at least annually, in order for them to remain relevant and appropriate. Remember, the value of investments can fall as well as rise; unlike having a Final Salary scheme, your Defined Contribution pension will be directly affected by stock market value variations.

## 9) Your health and life expectancy

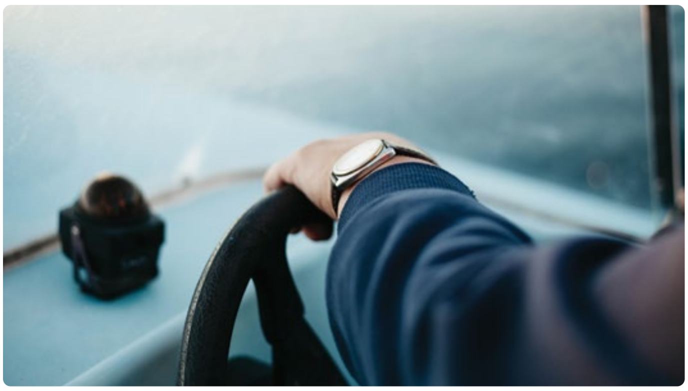
Your current state of health and future life expectancy is one of the most crucial factors to take into consideration when making decisions about your Final Salary pension.

If you are considering a transfer, you must think long term; according to the **Office for National Statistics**, the average life expectancy in England for a 65-year-old is almost 84 for men and just over 86 for women. Being able to withdraw your Final Salary scheme from age 55 is not a decision to take lightly.

It can work the other way too. For example, you may be in poor health and have a restricted life expectancy, this may lead you to consider a transfer, so you can take advantage of the newfound flexibility through Pension Freedoms or leave a financial legacy when you die; something which may not be possible with your Final Salary scheme.

As we said, your health and life expectancy are significant factors to consider when making the decision whether or not to transfer your Final Salary pension or remain in the scheme. A financial planner will take these into account when making their recommendations.

Inheritance Tax Planning is not regulated by the Financial Conduct Authority.



> “It’s worth asking a financial planner to investigate on your behalf

## 10) Would you be giving up other benefits?

The majority of Final Salary pensions have spouse benefits: for example, paying an ongoing income to them, often at a reduced level, when you die. The exact details are specific to each scheme and your membership. However, these benefits would be lost on transfer, so it’s worth checking with pensions trustees or asking a financial planner to investigate on your behalf and being sure that you, or more importantly the person who would benefit from them, are comfortable losing them.

## 11) Passing a legacy

By transferring to a Defined Contribution scheme, death benefits (how your pension can be passed on when you die) are quite different; your provider will ask you to nominate a beneficiary but, unlike a Final Salary scheme, there are no limits placed on who you can nominate to receive funds. It could be a family member, someone unrelated to you, a charity, or any organisation. Typically, passing a pension on in this way is also exempt from Inheritance Tax, however they may pay income tax. Final Salary schemes typically provide 50% of the income to your spouse when you die but cannot be passed on any further. The benefits available on death from both the Final Salary pension and any scheme you transfer it in to are very different. Care needs to be taken to ensure that this area is considered before any decision is made.

## 12) Could you exceed the Lifetime Allowance?

The Lifetime Allowance is the maximum you can tax-efficiently save in pensions. The current limit is £1,055,000 (2019-2020), and if the total value of all your pensions, including your membership of Final Salary schemes, is above this figure you will trigger an additional tax.

Due to the sometimes high transfer values Final Salary schemes provide, it's entirely possible that you could exceed the Lifetime Allowance when considering this scheme alone, or in combination with other personal and workplace pensions you may have.

Whether you remain in the Final Salary pension or act on a recommendation to transfer to an alternative arrangement, due consideration should always be given to the Lifetime Allowance, how it might affect you and the tax you may have to pay. If you are affected by the Lifetime Allowance, or believe you may be in the future, there are protections you can apply for which may help reduce or mitigate completely the tax potentially due. These protections are complex and applying may have implications for future pension contributions, however, your financial planner can help you understand these in more detail.

## 13) Tax implications

If you are considering transferring your Final Salary pension to withdraw as cash, make sure you understand the tax implications. Typically, whilst the first 25% of the fund that you withdraw is tax-free, the remainder is potentially taxable.

Any amounts above the 25% tax-free lump sum are added to your existing income in the tax year you make the withdrawals and then taxed at a rate of 20%, 40% or 45%.

This can cause nasty surprises for some people. For example, a basic rate taxpayer may assume that all withdrawals (above the 25% tax free lump sum) are taxed at 20%. However, a large withdrawal may push them into higher rate tax and see some of the money taxed at 40%.

This means that care should be taken when making large withdrawals, firstly to ensure that you are not taking too much, too soon, and potentially exposing yourself to financial hardship in the future, and secondly, to ensure you are withdrawing money as tax-efficiently as possible.


## 14) Can your scheme fulfil its liabilities?

With some Final Salary schemes being underfunded, meaning they have more liabilities than assets and could struggle to fulfil members income obligations, you may be concerned about the possibility of not receiving your full entitlement. Carillion and BHS are two recent high-profile cases of schemes getting into trouble; the Pension Protection Fund is available to protect members, but there are limitations to the protection offered.

In this circumstance, you could be left out of pocket in retirement and may have to reduce expenditure, or find a different source of income, such as continuing to work for longer than anticipated.

## 15) How protected are you?

If your employer collapses before you reach your Final Salary scheme's normal retirement age, the Pension Protection Fund covers income losses up to 90%, with a maximum cap of £35,105 a year. You could potentially lose a significant portion of your planned retirement income. That said, a lower income may still be better than the Defined Contribution alternative if you are a risk averse investor.

If you do transfer your Final Salary pension to a Defined Contribution scheme, the fund is protected by the Financial Services Compensation Scheme (FSCS). If a Personal Pension or Annuity were to fail, 100% of its value would be protected, with no upper limit, but there is a cap of £50,000 if the claim involved mis-selling from bad financial advice.

Self-Invested Personal Pensions (SIPPs) are a little more complex due to the wider variety of permitted underlying investments, so if you have any queries regarding a SIPP and the FSCS protection available, please get in touch. Understanding the financial position of your employer (or previous employer) and the Final Salary pension itself can be tricky. While the funding position of the scheme may be a contributing factor when making your decision whether or not to transfer, it should be remembered that the PPF provides an attractive 'lifeboat' for many thousands of members of Final Salary pensions which have run into difficulties.


## 16) Headlines can be misleading

There is mixed press regarding Final Salary transfers; some wildly recommending everyone should transfer immediately, others applauding their benefits and condemning employers for not maintaining them.

Remember headlines are designed to attract attention and sell papers. They shouldn't be used as the basis on which to make decisions, which will affect the next 20, 30 or even 40 years of your financial life. The only way to get personal advice tailored to your circumstances is by talking directly to a financial planner.

## 17) Information overload?

There is a wealth of information and opinion is available online, but as you may have already realised; the reality of transferring a Final Salary pension is very complex. By all means do your own research but remember that the internet is unregulated.

Background reading on government websites, such as **The Money Advice Service** and **Pension Wise**, can be both useful and informative. However, the only way to get a formal recommendation based on your own personal circumstances is to seek financial advice.

## 18) Don't act on impulse

If your Final Salary transfer value is more than £30,000 then by law, you are obliged to take financial advice to transfer it.
The £30,000 threshold was written into legislation in 2015 to protect retirees from potentially losing valuable benefits: Final Salary scheme trustees are unable to transfer any benefits above the threshold without sign-off from a regulated adviser with appropriate specialisms.

Don't expect an adviser to sign off a transfer because you want them to; there may be good reasons for and against. A planner's recommendation will be based on your personal circumstances as well as carefully analysing the terms and benefits of your existing scheme. Remember we are professionals working in your best interest.

> “ Headlines are designed to attract attention and sell papers

## 19) If it sounds too good to be true…

Then it usually is. Where there are large sums of money involved there are inevitably scammers and opportunists. Unscrupulous and poorly experienced advisers exist; **Action Fraud**, the UK's national reporting centre for fraud and cybercrime, states that victims of this kind of scam lost on average £91,000 in 2017.

Some of the tell-tale signs are an unsolicited offer of a free 'pension review' and exotic sounding investments promising huge returns. These investments are usually unregulated, very high risk and highly likely to fail. Do a little research and find a trusted financial planner.

## 20) Always ignore cold callers

Under no circumstance should you engage an individual or firm that has cold called you. Cold calling is currently the most common method used to initiate pension fraud. For this very reason there is now a ban on cold calling in relation to pensions, which came into effect January 2019.

## 21) Find a specialist

Here at Simply Pensions, we have nearly 40 years of financial planning experience and are Final Salary specialists. The clue is in our name: we secure fulfilling futures for people in their 50s and beyond.

If you have a Final Salary or Defined Benefit pension and would like to understand your options and the right course of action for your circumstances, do not hesitate to get in touch with our Financial Planners, Stuart and Gary, on **01706 212040**.