# Our Pension Transfer Process

## Pensions

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# Seeking Financial Advice on Defined Benefit Pension Transfers:

## Introduction and Background

**This document provides information to clients who are considering obtaining financial advice in relation to Defined Benefit Pension Schemes, such as Final Salary, or the more recent Career Averaged Revalued Earnings (CARE) schemes (known as safeguarded benefit schemes).**

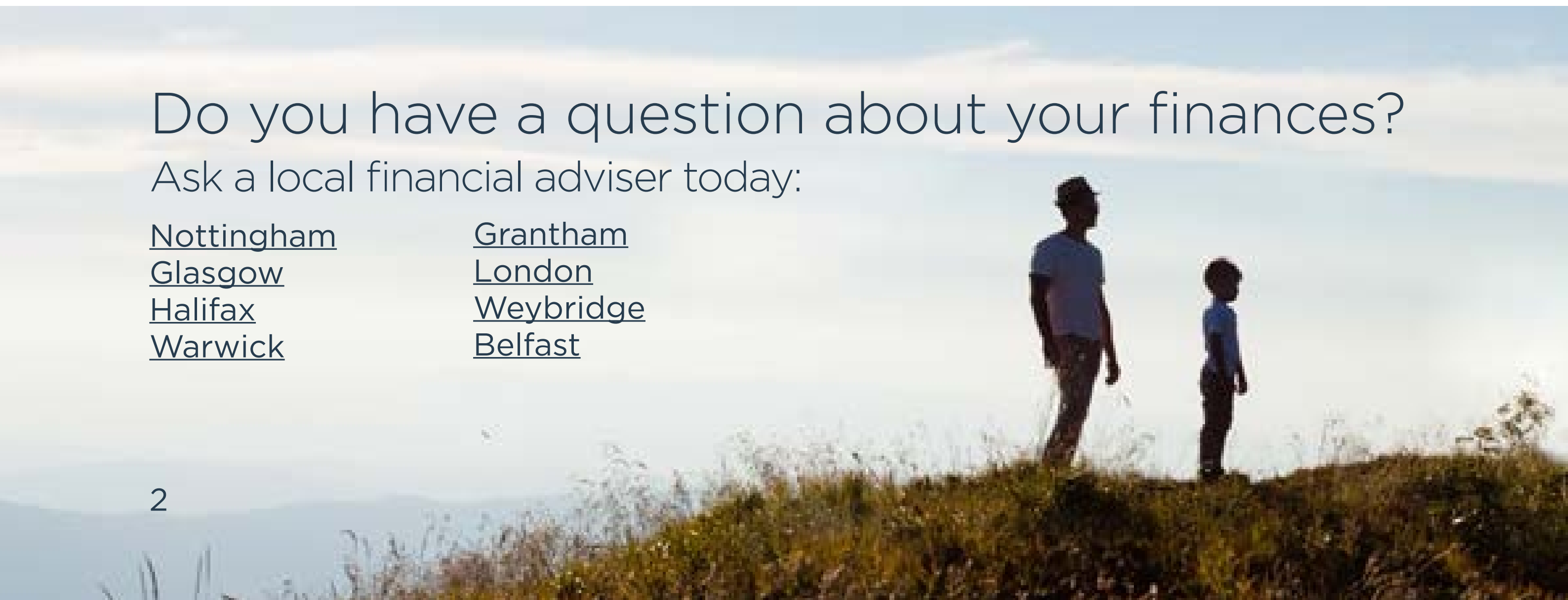
**The generic information provided within this document should not be construed as advice.**

**It should be noted that obtaining financial advice is a legal requirement when considering a transfer of a Defined Benefit pension scheme where the transfer value is £30,000 or more.**

Defined Benefit (DB) schemes provide a guarantee of income for life (for both the member and their spouse, partner and/or dependants, where applicable), which are partially or wholly inflation-proofed and therefore valuable benefits. **For the majority of people, the best advice will be to retain those benefits and there is potential for financial detriment if these benefits are given up.**

Since the introduction of pension freedoms in 2015, there has been a considerable increase in the demand for pension transfer advice and the volume of actual transfers. While it may at first seem a more attractive option to have greater control and flexibility over your pension or better death benefits, a transfer is not usually the best option. There are a number of factors which should be taken into account when taking financial advice on whether to transfer such a scheme.

**Many advice firms, including Wren Sterling, will not deal with what are known as 'insistent clients'.** An insistent client is an individual who wishes to take a different course of action from that recommended by the financial adviser and wants that adviser to facilitate the transaction to transfer against their own advice. Firms who choose to deal with 'insistent clients' who act against their advice (to stay in the Defined Benefit scheme) are party to arranging what they believe to be an unsuitable action, which is not in the best interests of the client.



# Factors to Consider

Since 2015, the demand for advice on the transfer of Defined Benefit pensions has increased and Wren Sterling is authorised to advise clients on the suitability of a transfer.

The decisions you make around your pension could be the single biggest financial decision you ever make and it's vital to make the right choice to support you and your family in retirement. These types of pensions are designed to provide an income for life and in order to move out of such a scheme, your adviser must be able to demonstrate that it is in your best interest.

It is a highly involved process that requires the creation of a specialist report and pension transfers can only be advised upon or approved by specially qualified financial advisers.

# Factors to consider in whether or not to transfer out of a Defined Benefit pension scheme:

- Planned retirement age.
- Anticipated income requirements in retirement, both regular and one off.
- All pension, investment and other assets for both yourself and partner/spouse that can be used to provide an income or capital in retirement, including state benefits.
- Any lliabilities and when and how these are likely to be repaid.
- State of health of both yourself and your partner/spouse and family history relating to health issues.
- The importance of providing dependent benefits, if applicable.
- Your current tax status and your likely tax status in retirement.
- Your attitude to investment risk and investment knowledge and experience, and your views to transferring out of a Defined Benefit pension scheme.
- The ability to forego the security of a Defined Benefit pension scheme.
- Impact of a transfer on the value of your estate and your Inheritance Tax position.
- Charges applicable for advice and investment of any funds transferred out.
- Any other relevant risk factors, whether the advice is to transfer or stay in the Defined Benefit pension scheme.

# Scheme Structures

The table below is intended to summarise the main differences between the usual structure of safeguarded rights pension scheme and a personal pension arrangement.

| Defined Benefit Scheme | | Personal Pension |
|---|---|---|
| The scheme normally provides a taxable but valuable lifetime income for a spouse or civil partner. There may also be provision for a different financial dependent. Lump sum death benefits may be lower than those under a Personal Pension. | Death Benefits | Usually, the entire fund can be paid as a tax-free lump sum (up to age 75) subject to the Lifetime Allowance limit. |
| Benefits are fixed at date of leaving and are increased from then until retirement. In retirement, benefits are indexed. | Future Annual Pension | Benefits depend on the fund value, and annuity rates available at retirement or the terms of income drawdown. Benefits are not indexed unless selected at outset. |
| A maximum of 25% of the cost of the pension determined by commutation factors. | Tax Free Cash | A maximum of 25% of the fund value, subject to the Lifetime Allowance. |
| The scheme decides when and how the member takes benefits. Although Trustees will often consider requests to retire at dates other than the Normal Retirement Age (NRA) of the scheme, there are usually penalties for doing so. | Benefit Age | Client decides when to takes benefits from age 55 onwards. There is no longer a requirement to purchase an annuity before age 75. The earlier benefits are taken the lower the amount of income which will be available if an annuity is purchased. |
| Members are required to take a fixed secure pension at retirement with some paid as a tax free cash sum at outset. | Flexibility | Tax Free Cash and income can be adjusted according to your needs using drawdown. There are no limits to the amount of income you can take from such a plan (subject to remaining balance), however there will be if you are purchasing an annuity. |
| Scheme investments chosen by the Trustees to meet benefit costs and maintain funding levels of the scheme. | Investment Choice | Client controls investment and provider choice. |
| Many non-statutory schemes are underfunded, and full benefits are not guaranteed, but are payable for life. | Longevity and Funding Levels | Benefits are directly reliant on the investment performance of the underlying assets within the fund. There is a risk that funds could run out before death and could provide a lower total retirement income, particularly where funds are withdrawn too quickly or unplanned / ad-hoc withdrawals are made. |
| Pension Protection Fund usually provides 90% of deferred benefits, subject to a pension cap, which is on an age-related scale.<br><br>The Pension Protection Fund usually pays 100% compensation if you've reached the scheme's pension age, subject to a cap. | Security | Depends on the underlying investments. If a scheme were to fail, there may be some protection through the Financial Services Compensation Scheme. |

# Our Process

Our process has three stages in order to receive a final salary pension transfer recommendation and to create a suitable investment strategy, should it be deemed in your interest to proceed.

**Stage 1** is an initial assessment of your circumstances, objectives and whether a transfer might be suitable, including the commissioning of a transfer value analysis (TVA), which is necessary to reach that judgement. If Wren Sterling's decision is to remain in the scheme, then a report will be issued outlining our reasons. At this stage, Wren Sterling would not be able to recommend moving to Stage 2.

Approval to proceed to **Stage 2** does not infer that a recommendation to transfer is suitable, purely that it is **not totally unsuitable**. Stage 2 is an exploration of this potential, culminating in the production of an Appropriate Pension Transfer Analysis (APTA), which is our Suitability Report and, if the recommendation is to transfer, a suitable investment strategy. There are costs incurred for doing this, and it is important that you're comfortable with these costs.

**Stage 3**, if the recommendation is to transfer and you accept Wren Sterling's recommendations, is the realisation and implementation of this plan.

There are no obligations to proceed at any stage and all fees will be disclosed to you in advance. For clarity, we will not proceed to provide advice without your agreement to do so.

Following Stage 3, it is imperative that your investments are reviewed on a regular basis to ensure that the investment strategy meets your needs and goals. We strongly recommend that you enter an agreement for us to provide our ongoing service package.

On the next page are some common reasons for transferring out of a final salary scheme and circumstances where an adviser will recommend remaining in the scheme.

| Reasons why a transfer may be suitable | Reasons why a transfer may not be suitable |
|---|---|
| **Reliance**: You will not be reliant on the pension income payable by the DB scheme because your DB scheme pension rights represent only a small percentage of your overall pension rights and/or you have substantial other investments. | **Reliance**: Your DB scheme pension rights represent a significant percentage of your overall pension rights and you don't have substantial other investments to fall back on. |
| **Investment choice**: Your objectives cannot be met from investment options available in your existing scheme. | **Investment choice**: If you remain a member of the DB scheme no investment decisions need to be made but if you do transfer your chosen investments will need to be regularly reviewed to manage returns and volatility. |
| **Early retirement**: You have an immediate need for income and/or a tax-free cash sum, but the DB scheme won't allow early retirement. | **Income guarantees**: You do not want to give up a secure, inflation linked, income in retirement. |
| **Tax Free Cash**: The tax-free cash sum that can be paid at retirement following a transfer to a personal scheme may be higher. | **Survivors pension**: If you are married or in a civil partnership you could be giving up a potentially valuable survivors pension, especially if your spouse or civil partner will not have sufficient pension provision of their own. |
| **Income Flexibility**: You want to take benefits via income drawdown in order to benefit from maximum flexibility in terms of how often, and how much, income you can withdraw.<br><br>The amount of income you withdraw can be made in sync with any fluctuating income you may have from other investments and / or employment or self-employment and could therefore be a useful tool for managing your liability to income tax. | **Income Flexibility**: Whilst if you do enter income drawdown the ability to draw as much or as little income as you want, whenever you want, can be a useful tax planning tool, this new 'pension freedom' brings temptation and your retirement fund could be depleted quickly if you draw too much, too soon.<br><br>You may be too cautious about making withdrawals due to the need to maintain an adequate fund for an unknown retirement term. A secure income allows you to budget, which may be more important.<br><br>You could also incur greater tax liabilities without proper financial and/or tax planning. |
| **Higher income**: In some circumstances, for example if you suffer from ill-health or are single, you may be able to get a higher income by buying an annuity with your transfer value than you can get by taking an income from your DB scheme. | **Lower income**: If the invested fund performs poorly you could be much worse off in retirement than you would have been had you not transferred. |
| **Death benefits**: Unlike pension death benefits paid from a defined contribution (DC) arrangement which can be paid to any nominated beneficiary, DB scheme pension death benefits can only be paid to a dependant (such as a surviving spouse or civil partner) and following their death there is no option for pension death benefits to be passed on to the next generation. | **Death benefits**: If the payment of death benefits is important to you, it might make more sense to review your protection policies to see if a life insurance policy could meet this objective without forgoing the security of your DB scheme pension promise. |
| **Value for money**: Transfers may appear to provide good value due to low gilt yields and other economic factors. Even if you are single the transfer value offered will still normally include allowance for a spouse's pension. | Please note, this table is not exhaustive and there may be other reasons, on both sides, for approving or rejecting a pension transfer request. |

IMPORTANT: The value of your investment can go down as well as up and you may not get the back the full amount invested.

Accessing pension benefits early may impact on the level of retirement income and your entitlement to certain means tested benefits and is not suitable for everyone. You should seek advice to understand your options at retirement.

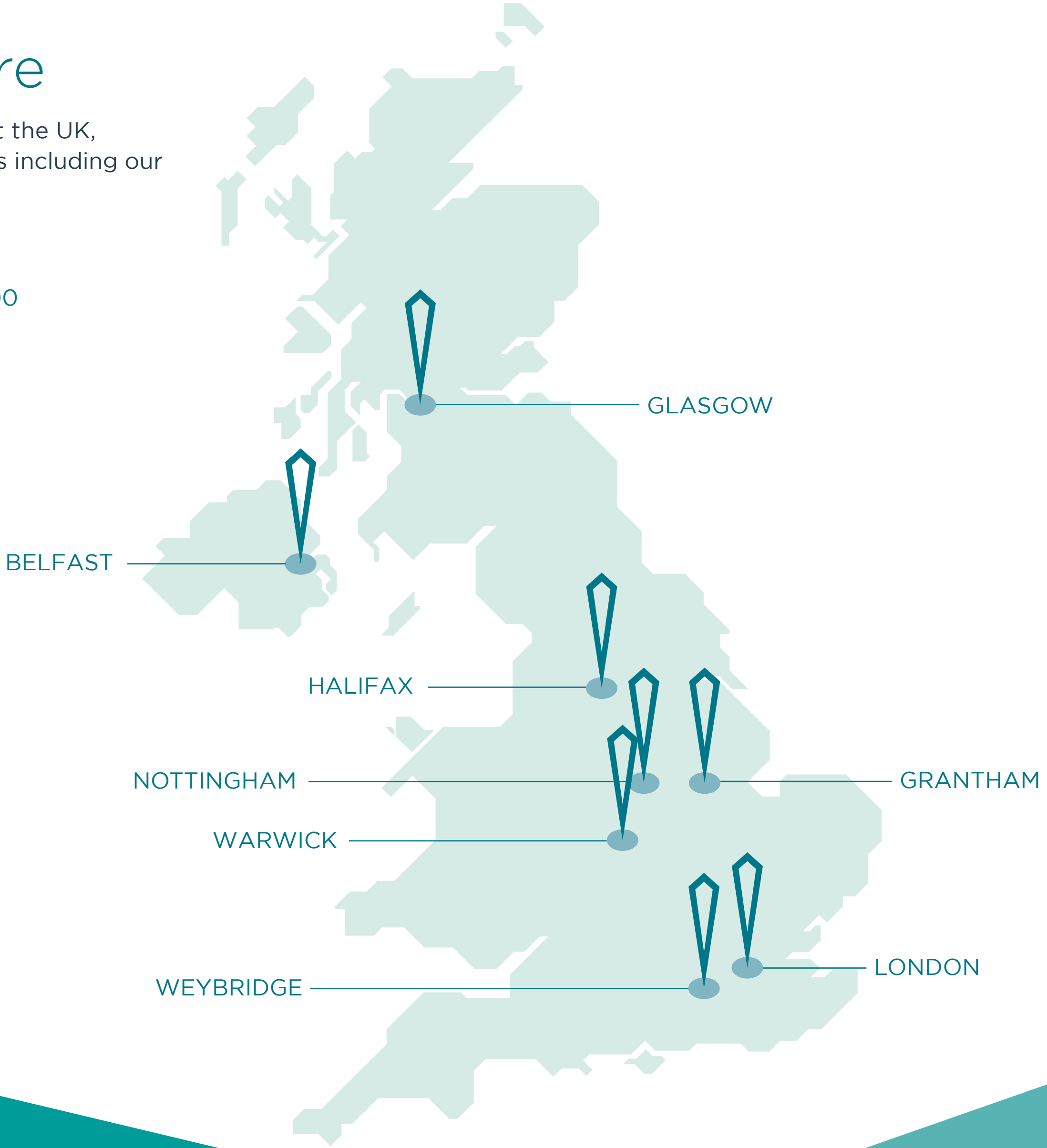
# About Wren Sterling

Wren Sterling is a nationwide independent financial planning business that specialises in all aspects of investments, protection, and retirement planning. We pride ourselves on navigating clients through their financial journey by providing uncompromised and objective advice. Our advisers are committed to developing longstanding client relationships that span generations to achieve our clients' lifetime financial goals.

# Where we are

We have advisers throughout the UK, based in eight regional offices including our head office in Nottingham.

- Glasgow 0141 341 5240
- Halifax 0333 0438 900
- Nottingham 0115 908 2500
- Warwick 0333 043 9001
- Grantham 01476 560 662
- London 0370 1432 100
- Weybridge 01932 481069
- Belfast 0370 1432 100




## Need to speak to us?

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