Our Pension Transfer Process

Pensions

WWW.WRENSTERLING.COM

WREN STERLING

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 occupational pension schemes that include a promise or guarantee on the level of safeguarded benefits.

Our advice includes Defined Benefit (DB) schemes such as Final Salary, or Career Averaged Revalued Earnings (CARE) schemes and Money Purchase schemes where there is a benefit underpin.

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.**

While a pension transfer may seem more attractive as it offers greater flexible access to your pension, 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.

Pension TRANSFER Gold Standard

Ask the experts

As recognition for our commitment to quality advice, Wren Sterling has been awarded the Pension Transfer Gold Standard. This voluntary code of good conduct for pension transfer advice was designed to help you recognise good practice, ethical and professional standards when seeking financial advice on pension transfers.

While this accreditation emphasises the standards of service and advice we provide for Defined Benefit pension transfers, our clients can expect the same high levels of service no matter what their enquiry.

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 and lump sum requirements in retirement.
- 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 liabilities 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.
- Impact on state benefits when benefits are taken.
- Your attitude to investment risk and investment knowledge and experience.
- Your attitude to transfer risk and ability to forego the security of a Defined Benefit pension scheme.
- Your ability to absorb investment loss and the impact this could have on objectives.
- 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.
- Whether pensions will be subject to a lifetime allowance charge.

Please note: Accessing pension benefits early can have a negative impact on the level of your retirement income and your entitlement to certain means tested benefits

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 Benefits		Personal Pension
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	If there is a fund remaining and death is before age 75 it can be paid as a tax-free lump sum or as an income, subject to the Lifetime Allowance limit. Most pensioners live beyond age 75, at which time benefits are taxable.
Benefits at the date of leaving are normally increased annually until retirement to offset some of the impacts of inflation. In retirement, the level of increase in payment is clearly defined by the scheme.	Future Annual Pension	Benefits depend on the fund performance and the levels of withdrawal taken if in flexi access drawdown.
A maximum of 25% of the cost of the pension determined by commutation factors and limited by the Lifetime Allowance.	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. Trustees will often consider requests to retire at dates other than the Normal Retirement Age (NRA) of the scheme, there are usually penalties for taking benefits early.	Benefit Age	Client decides when to take benefits from age 55 onwards. There is no longer a requirement to purchase an annuity. Taking benefits early risks a lower annuity income or funds being eroded more quickly in drawdown.
Members recieve a fixed secure pension at retirement with some paid as a tax free cash sum at outset.	Flexibility	The timing and amounts of withdrawal in drawdown are flexible. An annuity provides a secure income on the basis selected at outset.
The scheme chooses the investments and pays the costs.	Investment Choice	The client has responsibility for choosing investments and meets the costs.
If a scheme is underfunded, there is a legislative requirement for the trustees to put a recovery plan in place with the aim of returning the scheme to a fully funded position.	Longevity and Funding Levels	Benefits rely on investment performance. Funds could be fully exhausted before death due to poor investment performance or due to withdrawing unsustainable levels of income or lump sums.
Pension Protection Fund usually provides 90% of deferred benefits, subject to a pension cap. The Pension Protection Fund usually pays 100% compensation for pensions in payment subject to the cap.	Security	Depends on the underlying investments. If a scheme were to fail, there may be some protection through the Financial Services Compensation Scheme.

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

Our process

Our process has two 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

'Abridged advice' is a term used to describe a shortened advice service where we look at your personal circumstances, the risks of a transfer, retirement objectives/ needs, and obtain details of your existing pension scheme.

This service would not extend to a detailed analysis or comparison of benefits that an alternative pension scheme could provide if a transfer proceeded.

Based on this information we will either be able to advise that a transfer would not be appropriate for you or that further analysis would be required before we can confirm whether a transfer would or would not be in your interests, in which case you have the option to proceed to full advice if you wished to do so.

Please note, that scheme trustees are only permitted to allow a transfer where a member has received full pension transfer advice.

Stage 2

'Full Advice' includes advice on whether you should keep your defined benefits or transfer out to a new pension that we will recommend for you.

We will undertake appropriate pension transfer analysis (APTA) which includes a Transfer Value Comparator (TVC) and will liaise with your new and old schemes to make all the necessary arrangements.

We will provide you with a report explaining our recommendation.

We will recommend a specific investment strategy and confirm the product and investment charges that apply.

We will prioritise the use of a Workplace Pension Scheme, if available.

On the next page there are some common considerations to possibly transferring out of a final salary scheme and circumstances where an adviser would possibly recommend remaining in the scheme

Individuals who *may benefit* from a safeguarded benefits review	Individuals *less likely* to be able to consider a transfer
Reliance: Those not reliant on the pension income payable by the scheme because it represents only a small percentage of overall pensions or there are substantial other investments.	**Reliance**: Regardless of how adventurous their attitude to investment risk, the DB scheme pension is the main pension provision and they don't have substantial other investments to fall back on.
Early retirement: If they have an immediate need for income and/or a tax-free cash sum, but the DB scheme won't allow early retirement.	**Income guarantees**: Those that need or do not want to give up a secure, inflation linked, income in retirement.
Tax Free Cash: If there is a specific need for tax free cash but the lump sum available from the scheme is not enough, it may be higher following transfer.	**Survivors pension**: For many, provision of valuable secure pension for a spouse, partner or civil partner is important, especially if the partner will not have sufficient pension provision of their own
Income Flexibility: The amount of income withdrawn can be made in sync with any fluctuating income the individual may have from other investments and /or employment and could therefore be a useful tool for managing your liability to income tax.	**Income Flexibility**: While the ability to draw as much or as little income as required can be a useful tax planning tool, this brings temptation and a retirement funds could be depleted quickly by drawning on these too much, too soon. Individuals may be too cautious about making withdrawals due to the need to maintain an adequate fund for an unknown retirement term. A secure income helps budgeting, which may be more important in retirement.
Higher income: If an individual suffers from ill-health or is single, they may get a higher income by buying an annuity than they can get by taking an income from the scheme.	**Lower income**: If the invested fund performs poorly the individual could be much worse off in retirement than if they had not transferred.
Death benefits: These are normally paid to a dependant (such as a surviving spouse or civil partner). Following death there is limited (if any) option for any value to be passed on to the next generation.	**Death benefits**: If the payment of death benefits is important, it might make more sense to review protection policies to see if this could meet objectives without forgoing the security of DB scheme pensions.
Please note, this table is not exhaustive and there may be other reasons, on both sides, for considering or rejecting a pension transfer following a full review of personal circumstances.	**Investment risk:** If an individual has limited investment experience or a cautious attitude to investment risk or transfer risk paying for a review may be less effective. Future retirement income would depend on investment performance after charges.

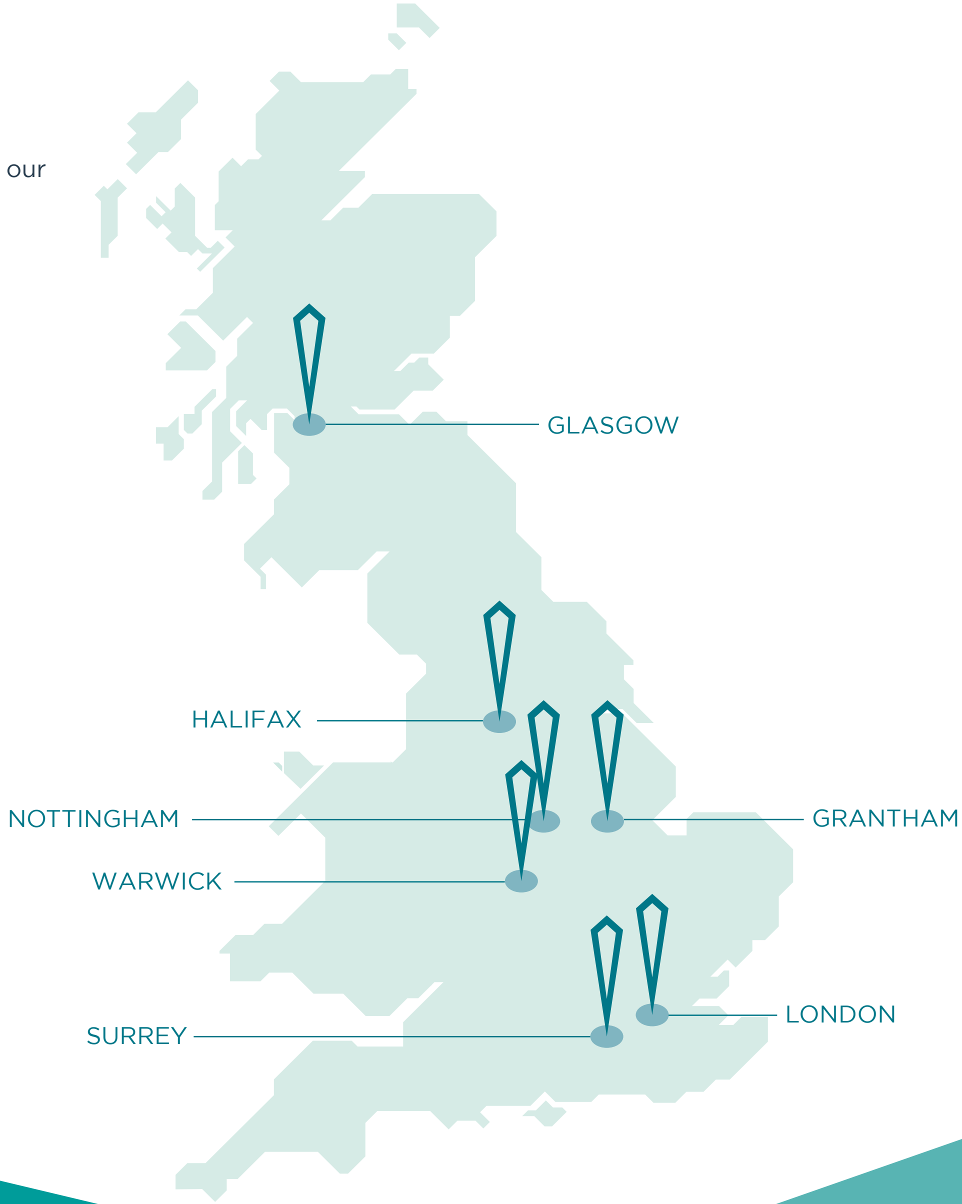
About Wren Sterling

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 seven 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
- Surrey 01932 481069



Need to speak to us?

0370 1432 100

contactus@wrensterling.com

www.wrensterling.com