Defined benefit pension transfer advice

Self-triage education guide

Introduction

Following your enquiry about your defined benefit pension (DB), the purpose of this guide is to help you better understand your scheme, including the benefits and drawbacks it may have, and will help you decide whether you want to take advice on your pension.

Your decision on whether to receive advice or not is a very important first step as there are advice fees applicable, regardless of the outcome. You should read the following guide carefully before making a decision. This guide is for information only and is not intended to be, and should not be interpreted to be, personalised advice.

What are the main differences between a defined benefit and defined contribution pension?

A defined benefit pension scheme is a pension which guarantees you will get a specified benefit when you reach the scheme's retirement age. The 'benefit' is usually based upon a formula that reflects your salary and years of service. There is no investment risk with this type of scheme as all the investment risk is taken by the scheme, not you.

Alternatively, with a defined contribution pension scheme what you get when you retire is not specified in advance. The final value of your pot will depend upon the amount paid in, charges and performance. However, a defined contribution pension scheme may offer more flexibility and control. With this type of arrangement, you will have ongoing decisions to make about how your money is invested and the amount of investment risk you are willing to take. You could use some or all of the money to buy a guaranteed income in the future. Whether or not to do this will be one of the many decisions you will need to make. You could choose a flexible income arrangement where you can withdraw the income you want. These are complex decisions and you may need advice as there could be tax implications and other risks to consider.

We provide more information on the key differences between defined benefit and defined contribution schemes on the following pages.

You should understand that the financial services regulator, the Financial Conduct Authority (FCA), has stated that it will be in the interests of most people to **keep their defined benefits pensions because of the valuable guarantees** these provide. Many people underestimate how long they will live and defined benefit schemes protect you from the risk of your money running out.

Helping you to better understand the risks

Following changes in legislation, known as 'Pension Freedoms', you now have more flexibility in the way you can access your pension funds, although this will not necessarily be through your existing scheme.

Transferring out of a defined benefit pension scheme is unlikely to be in the best interests of most people.

You should consider the following carefully before you choose to proceed with requesting advice.

The following table compares some of the features of a defined benefit pension scheme compared to a defined contribution scheme.

Feature	*Defined Benefit*	*Defined Contribution*
Income	The pension income is a set amount, guaranteed for life, which will usually increase automatically each year to protect against inflation. There is no investment risk for the pension member and the pension scheme has to pay the member's pension regardless of how well the scheme assets perform.	Provides an income set by the member based on how much they need. It could be more or less than that offered by a defined benefit scheme. The level of income can be increased or decreased at any time to take account of a change in circumstances. However, there is a possibility the fund could run out if the withdrawals taken are unsustainable, (i.e. are too large to be maintained), and/or investment performance is poor. A guaranteed income could be purchased at any time with some or all of the remaining money.
Tax free cash	In most defined benefit schemes, the member has the option of giving up some of the income and taking it as tax free cash (known as a pension commencement lump sum) subject to a lifetime cap. This must be taken in one go.	Tax free cash (known as a Pension Commencement Lump Sum or PCLS) is normally 25% of the total amount being taken out of the pension and can be taken in stages, or all in one go subject to a lifetime cap.
Death benefits	The pension is payable for life and upon death is usually payable at a reduced rate to a partner or dependent-typically 50% - and payable for their lifetime. These payments are made regardless of how long you or your dependent lives. Once you and your dependents have died no further benefits are payable.	Income is payable for as long as there is money in the pension. It's dependent upon the investment returns within the pension and whether withdrawals are sustainable. If you take too much out at an unsustainable rate, or live longer than expected, the fund may run out. Upon death any remaining fund can be passed on free of tax before age 75. It can be passed on after the age of 75 but will be taxed at the beneficiary's marginal rate of income tax.
Poor health	If you are in poor health, it does not alter the level of income the scheme will pay however, should you suffer a serious illness prior to the pension commencing, some schemes do pay benefits on different terms. This could include paying the pension earlier and increasing the lump sum that varies with each scheme.	If you are in poor health, it may mean you have capacity to take bigger withdrawals before death, or you could instead use the fund to secure an alternative guaranteed income by purchasing something called an annuity. A typical annuity will ensure a guaranteed income for life and if you are in poor health, or have no dependents, it may mean you receive a higher income than your defined benefit scheme is offering.
Retirement date	The scheme normal retirement date is set by the scheme rules and a full pension is payable at that date. Accessing benefits early, from age 55, is usually permitted subject to reductions reflecting the pension being payable for a longer period. In some cases, there is an earlier protected retirement age, for example age 50.	Benefits can be turned on and off from age 55 onwards but early access may impact the amount of funds available later in retirement. You can choose to secure some income at any time by buying an annuity to provide a lifetime or short term guaranteed income at the rates available at the time.
Employer covenants and financial protection	The sponsoring employer of a defined benefit pension is bound by law to adequately fund a defined benefit pension. They can't walk away from their pension liabilities should a scheme be underfunded, unless they go into liquidation. In the event of an employer going into liquidation, an underfunded pension scheme would have a call against any assets remaining upon wind-up, prior to any shareholders receiving any money. Should a pension scheme not be able to meet its liabilities with no solvent sponsoring employer, the Pension Protection Fund is available to protect members of the scheme.	There is no 'employer covenant' once you have transferred your defined pension scheme. Your pension is reliant on the underlying investments and how well they perform. The Financial Services Compensation Scheme provides 100% protection in some cases should a pension provider fail.

Feature	Defined Benefit	Defined Contribution
Charges	The scheme is responsible for all the charges associated with running it. The scheme may work closely with a firm of financial advisers and any advice would typically be chargeable.	There will be product, investment management, and possibly platform charges which will reduce the size of your pension fund. After the initial advice fees, there are also likely to be ongoing advice fees. Typically, these are paid out of the pension fund but in times of poor investment performance these can have a bigger impact on your pension, which means it could run out sooner than planned.
Investment risk and performance	The responsibility for investment decisions and their consequences reside with the scheme trustees and their investment adviser/managers. The scheme pays for advice and administration and these do not affect your income.	You bear the risk of the investment decisions taken and throughout the time the funds remain invested into your later years. Poor returns in the early years of retirement and taking money out at the same time can seriously affect the amount of income you could withdraw over the long term.
Inflation protection	The scheme will usually provide a rising income to protect against some of the effects of higher inflation.	Your investment choices will determine how much inflation protection you have. Lower risk assets may not provide enough return in the long run. Higher risk assets whilst potentially offering greater inflation protection, may suffer more losses reducing their overall returns. In short, investment returns will always be uncertain.

Before seeking advice, what should I do?

Before seeking advice, you need to study all the topics listed in the table above to help inform you of the risks and impacts of the different scheme arrangements. For example, while tax free cash and the income provided may be your key areas of interest, they cannot be considered in isolation - as there will be impacts on other areas such as death benefits and inflation protection to name only two.

What advice can you offer me?

If after reviewing this information, you choose to receive advice, we can offer you either a limited (abridged) or comprehensive (full) advice service on the transfer of benefits.

Please ask us for information about the fees for this if you are interested in proceeding.

The fees for advice may mean smaller transfer values are less likely to warrant the costs of taking advice. You should check with your scheme administrator for any restrictions on transfers of benefits, and if you are not a UK resident, we may not be able to provide any advice at all.

Before seeking advice, you should consider what you want your retirement to look like.

It can then be helpful to think about the costs and your spending priorities in three categories:

- **Essential spending –** heating, eating, transportation, insurance and unfortunately tax
- **Lifestyle spending –** the things that bring you joy, fun and pleasure beyond just getting by, and
- **Discretionary spending –** this can be fulfilling dreams or anything else with what's left over after the essential and lifestyle spending are taken care of.

Once you know what you need in these areas, financial advice can help you figure out what is possible and how best to achieve it.

What is 'abridged' advice?

Abridged advice is a reduced level of service compared to full advice and only considers your circumstances and your current scheme. It is a cheaper option than full advice and is limited to two possible outcomes.

It requires your adviser to ask questions to obtain comprehensive information about you, your needs and circumstances. It does not include more detailed analysis of your pension scheme or specific alternatives.

The advice will be either a:

1. Recommendation that you should not transfer your pension, and retain the scheme you already have;

or a

2. Statement that a recommendation to retain or move your pension couldn't be made based on the information provided and in order to make a conclusive recommendation you would need to pay for full advice as this would include a detailed analysis of your scheme benefits

While abridged advice is a less comprehensive option, it still requires an adviser to gather a lot of information about you and your retirement requirements.

Your adviser will set out all the fees for abridged advice for you to consider and if agreed, your adviser can commence with the abridged advice service. The fee for carrying out this service is lower than for full advice.

If after receiving abridged advice, it's not clear whether you should retain or move your existing scheme benefits, your adviser will discuss how much it would cost to provide you with full advice should you decide to proceed further. Your adviser will only proceed to the full advice stage with your agreement. Any advice fees incurred will be discounted from the cost of full advice, except for any VAT incurred. So, you won't pay twice for the common elements.

Abridged advice is optional, and you can choose to go straight to full advice if you prefer.

What is 'full' advice?

Our 'full' advice service considers all relevant options, and undertakes a detailed analysis of your current scheme and any potential alternatives, including - if a transfer is in your best interests - where to invest your money. If you choose to receive full advice your adviser will discuss our fees and any associated costs with you and will only proceed with your express agreement to do so.

Advice will involve collecting extensive and detailed information about you. Your adviser will then conduct a detailed analysis of your pension scheme and consider the impact this will have on you and your retirement. This will include comparing the benefits of retaining your pension scheme to meet your current and future objectives and a conclusive final recommendation stating whether it is in your best interests to retain or transfer the pension at this point in time.

Please be aware that once we have made a recommendation, we will not facilitate a request to act against our advice.

Your adviser will charge you a fee for the advice which you will agree from the outset, and it will become payable in accordance with the terms agreed with you. Your adviser will discuss with you how the fees for advice can be paid.

Please be aware that regardless of the advice given, any pre-agreed fees will still be payable. This includes a recommendation to retain your pension benefits.

Pension transfer advice service options

Having read and understood this document, if you still feel you would benefit from pension transfer advice there are two routes for you to follow:

Abridged advice

A recommendation that you **should not** transfer your pension

A recommendation either way couldn't be made.

You would need to pay for full advice that would include a detailed analysis of your scheme benefits

Full advice

A recommendation that you **should not** transfer your pension

A recommendation that you **should** transfer your pension

Next steps

Having read this guide, should you require further information on defined benefit pensions, you can find it at the following recognised sources:

Money and Pensions Service
www.moneyandpensionsservice.org.uk

The Pension Regulator (TPR)
www.thepensionsregulator.gov.uk

Moneyhelper
www.moneyhelper.org.uk/en/pensions-and-retirement

The FCA has written guidance to help those considering a transfer and this can be found at the link below. This also describes who might typically benefit or not from a transfer:

www.fca.org.uk/consumers/pension-transfer-defined-benefit

We would strongly encourage you to watch the videos from the Financial Conduct Authority (FCA) which aims to help consumers better understand financial advice on transferring out of a defined benefit pension. This can be found at the link below:

www.fca.org.uk/consumers/pension-transfer/advice-what-expect

If having read this guide you feel you are in a position to ask for advice on your defined benefit pension, or any other matter, please contact the financial adviser who provided you with this guide.

We have taken every step to ensure the accuracy of the content and our current understanding of applicable UK tax rules but will not be liable in the event of any error.

Quilter Financial Advisers, Riverside House, Goldcrest Way, Newcastle upon Tyne, NE15 8NY. Tel: 0800 849 1279, Email: QFAinfo@quilter.com www.quilter.com

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