Prism Financial Advice Limited

Retirement Planning: Your Retirement Options Explained

This guide provides impartial information on the advantages and disadvantages of transferring out of a final salary pension scheme into an alternative arrangement, so that informed choices can be made.

Prism Financial Advice Ltd
Independent Financial Advisers

Where Independence Counts…

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Introduction:

Prism Financial Advice Limited (Prism) are Independent Financial Advisers with many years' experience of advising both private and corporate clients on a wide range of financial planning issues.

We fully appreciate that people prefer to engage with people they like, but more importantly, they only want to deal with people they trust. At Prism, we value the trust consumers place in us and take it as a huge compliment and responsibility.

As a business, we are committed to providing sound impartial advice and guidance on your pension/retirement options, helping you to make important decisions that will enhance your financial wellbeing.

We understand that each client's circumstances are unique, so getting to know you and understanding your financial goals and ambitions is central to the way we work. Experience has shown us that working together in this way is crucial to developing tailored solutions.

In this guide, we aim to present everything in a fair and balanced way, by outlining the advantages and disadvantages of final salary pension schemes and personal pension plans allowing you to consider and evaluate your options before committing to a course of action. The information provided is for guidance and should not be considered as advice in any form.

You may also find the retirement section on the government's Money Advice Service website useful, at www.moneyadviceservice.org.uk

Please Note:

Very often, 'final salary' pension schemes are referred to as 'defined benefit' schemes and personal pensions schemes referred to as 'defined contribution' or 'money purchase' schemes, however, for consistency and clarity we will only refer to them in this booklet as 'final salary' and 'personal pension' schemes.

Background:

In this guide we will explain the differences between a final salary pension and a personal pension, exactly what a final salary pension transfer is and what has changed to make them a viable option for an increasing number of people who are considering when and how to take their retirement benefits.

In 2014 the chancellor, George Osborne, started a pension revolution when he announced the introduction of new pension freedoms from 2015. The rule changes shone a spotlight on the traditional way to generate income in retirement leading to increased interest in a more flexible approach to retirement by many consumers.

Annuities can be an expensive and inflexible insurance policy against living beyond normal life expectancy and to receive guaranteed income payments. They lock in current interest rates and lock out further investment opportunity or control over your capital. They look increasingly outmoded for modern retirement that can extend over 30 years with periods of very different income and capital requirements.

If you have a final salary pension, you effectively own a deferred annuity. If you do not need insurance against a long life, or guaranteed income payments, then a final salary pension transfer gives you the option to opt out of these arrangements and take advantage of flexible pension freedom rules.

It is usually possible to transfer out of a final salary pension scheme and invest through an alternative pension arrangement instead. If you are interested in the idea of this, your final salary pension scheme will give you something called a cash equivalent transfer value, which is an amount of money they offer you in return for giving up your rights to your guaranteed benefits under the scheme.

In some cases, this transfer value can look very high and tempting because, in a low interest rate environment, the amount of money you need to generate an income equivalent to your guaranteed benefit under the scheme has to increase compared to when interest rates were higher. A simple rule of thumb is, if interest rates are low transfer values are increased and conversely, if interest rates are higher, transfer values are reduced.

In some cases, companies with final salary pension schemes are trying to reduce their pension liabilities and are therefore boosting transfer values.

However, you need to remember that it is likely that you will need to generate an income to support you in retirement and you will need sufficient funds invested in an alternative pension arrangement to meet your requirements.

This is why it is so important, in fact compulsory, if your cash equivalent transfer value is worth £30,000 or more to take advice from an appropriately qualified and authorised financial adviser on whether a final salary pension transfer is right for you.

Final Salary Pension Schemes Explained:

A final salary pension scheme provides a pension linked to a member's salary and years of service, regardless of the ups and downs of financial markets or the contribution they have made into the scheme over the years.

This gives final salary schemes a notable advantage over other types of pension, where your income will vary according to how much you and or your employer contribute and how much your pension investments are worth by the time you retire.

- Your final salary pension scheme will usually offer you a tax-free lump sum of up to 25% of the cash value of your total benefits, plus a guaranteed income for life. Sticking with what is already on offer to you may have several advantages.

- You will be paid a guaranteed income every month for the rest of your life. You do not have to worry whether markets are up or down, whether you live to 75 or 105.

- You may get other valuable features and benefits that can include a pension for your spouse/registered civil partner on your death and inflation-linking of your pension so that it helps to keep pace with rising prices over the years.

- You do not have to worry about how or where your money is invested, as that is the responsibility of those who manage the final salary pension scheme (the trustees).

- You are protected by the Pension Protection Fund (PPF) which was set up to pay compensation to members of final salary pension schemes should the company or the pension provider not be able to meet its liabilities. You can find out more about the PPF at www.ppf.co.uk

- There is no temptation to dip into your pension investments every time you fancy a holiday, the house needs refurbishment, you need to change the car etc.

Personal Pension Plans Explained:

Personal pensions are individual contracts between you and the pension provider and are set up by you, the member. The pension provider is often an insurance company, although there are also several independent providers.

You can have a personal pension if you are employed or self-employed. If you are employed, your employer can also contribute to your personal pension.

There are no restrictions on the number of different pension schemes that you can belong to, although there are limits on the total amounts that can be contributed across all schemes each year, if you are to receive tax relief on contributions.

This means you can have a personal pension to provide additional retirement benefits, even if you are a member of a workplace pension scheme. Most personal pensions are flexible and portable, so if you change jobs or stop working you can normally continue contributing to a scheme.

- All contributions that are made to your personal pension are invested and you can normally choose from a wide range of funds that meet with your attitude to investment risk. You should also be able to switch between funds, should you wish to although there may be a charge associated with this.

- Different funds have different risk profiles. While higher risk funds can potentially provide higher returns over the longer term, these returns can be unpredictable. Whichever fund or funds you invest money in, the value of these funds can go down as well as up. Deciding which funds to invest in can be a complicated and time-consuming process, so you may wish to seek advice.

- The value of your retirement benefits are determined by the amount of contributions that have been made, the period that each contribution has been invested, the investment growth over this period and the level of charges.

- Under current legislation, you can commence drawing retirement benefits from the age of 55 and you do not have to stop work to do so. Up to 25% of your accumulated fund can be withdrawn as a tax-free cash lump sum with the balance used to provide an income.

- When taking benefits from a personal pension, you may be able to draw down amounts up to the whole value of your remaining pension fund as taxable lump sums.

- When you decide to receive a regular income, the amount of income you receive depends on the pension options that you have selected. There are different ways that this income in retirement can be provided. These include taking out an annuity and income drawdown, or a combination of both, again advice may be required to help you choose the option that best suits your own situation.

Pensions in payment are taxed as income, but you do not pay National Insurance contributions on pension income.

Pension Transfers Explained:

A final salary pension transfer allows you to swap a future pension entitlement in a final salary pension for a cash sum that must be put into a registered, or HMRC recognised pension scheme.

The cash sum value is the 'cash equivalent' of the pension income you leave behind, or put another way the amount of money today that would be notionally set aside in the scheme to meet your specific pension liabilities as they fall due.

In practice the process of calculating a transfer value is done by the scheme actuary based on laid down guidelines. The calculation is mainly a function of:

- How far away from retirement you are
- The level of pension you were entitled to when you left the employer
- The scheme rules dictating how, when and what pension increases in deferment are applied
- The scheme rules on dependents benefits and guaranteed periods
- Actuarial assessment on how long you might live
- The expected investment returns on funds set aside to meet your pension liabilities

Importantly the calculation uses standard assumptions about how long you will live and whether you are married rather than reflecting your own personal situation and state of health. Both the life expectancy factor and the investment return factors are changed from time to time to keep them up to date.

Under the final salary pension scheme your tax-free cash lump sum and taxable pension income in retirement are guaranteed by the scheme and old employer assuming they both still exist.

In addition, the guarantees offer increases each year to help protect your pension against inflation (usually up to certain limits) and paying your pension for life, no matter how long you live.

Once you accept the transfer value and have an invested the funds in a personal pension scheme, the lump sums and income withdrawals you will be able to make will entirely depend on how you invest your fund and what investment returns are actually achieved.

If the fund does well you may end up with more net cash from the transfer value, if the fund does badly you could have less to support you in retirement and of course, if you end up living a long time you may have to cut your pension income to keep the fund from running out.

If you accept a transfer value, you will be 'discharged' from the final salary pension scheme. This means the transfer value has been paid in lieu of benefits and you have no further claim on the scheme for your retirement needs.

If you decide to transfer your benefits, the transaction is irreversible meaning you will be unable to buy your way back into the scheme in the future, so it's a transaction which needs very careful consideration before a course of action is taken.

Who Qualifies?

Final salary pension transfers are not new; they have been a legal right to deferred members since the eighties, however, the option of a transfer was often only brought to the attention of those with very big pension entitlements.

Transfers are available to those members who have left the scheme but have yet to draw their pension benefits. They can also be offered to employees at retirement or as part of an early retirement or redundancy package.

The option of a transfer is a legal right to deferred members except in the following cases:

- Where you are within 1 year of your normal scheme retirement age, in which case the transfer option will be at the discretion of the scheme trustees. In the wake of the 2015 pension freedoms legislation most schemes are now allowing transfers right up to and beyond normal retirement age as long as no scheme benefits have been taken.

- You are a deferred member of one of the public sector unfunded schemes, where transfers have been banned. These include the NHS, Civil Service, Teachers, Police and Military schemes.

Those still working for an employer providing a final salary pension scheme will, in most cases, want to stay in it and keep accruing more benefits. If your plan is to keep working for this company right up to retirement it will be worth finding out when would be the last point where a transfer value would be available.

As soon as you access benefits from a final salary pension scheme the option to transfer disappears.

Pension Transfer – Potential Benefits:

Transferring final salary pension benefits to a personal pension arrangement could transform them into a major financial asset that can provide both income and tax-efficient lump sums in retirement and any residual fund can still be passed on to your chosen beneficiaries on death.

The other great attraction of a final salary pension transfer is it provides the opportunity to bring all your pension savings together into one easy to manage portfolio with one set of reporting.

Below are a several good reasons why you may wish to consider transferring out of your final salary pension into an alternative arrangement. If one, or a number of the benefits listed applies to you, then you should seek appropriate financial advice to clearly establish if a transfer is in your best interests.

A transfer might be worth considering if, you want or need greater flexibility in your arrangements overall than your final salary pension scheme offers, for example you want to retire earlier than the schemes normal retirement age without penalty, or it offers benefits for a spouse or registered civil partner, but you are single and would like to leave benefits to another person.

A transfer might be worth considering if, you need to optimise the amount of tax-free cash you can take from your pension and be as flexible as possible around how and when you can take it

A transfer might be worth considering if, you want any remaining pension savings to be left to a range of beneficiaries of your choice, after you die. With a final salary pension scheme, this is limited to your spouse/registered civil partner and any dependent children, however, if they predecease you, or are no longer dependent, the pension will die with you.

A transfer might be worth considering if, you are in poor health that might limit your life-expectancy, in which case you might be able to get a higher income by transferring.

A transfer might be worth considering if, you have alternative, reliable sources of income for your retirement, which mean that you won't be relying on the guaranteed income for life from your final salary pension scheme to support your standard of living. An example might be if your spouse also has a defined benefit scheme and their guaranteed income for life from this is enough to support both of you.

A transfer might be worth considering if, you have good grounds to be seriously worried about the financial future of the employer who provides your scheme, wonder if that might put your future benefits at risk and are not happy to rely on the back-up of the Pension Protection Fund (PPF).

Flexibility:

Transfers from a final salary pension scheme to a personal pension scheme offers you flexibility over when and how much you draw on your pension account which is in complete contrast to a fixed monthly pension income. It is inconceivable that a 60 year old, retiring now with the prospect of potentially 30 years or more of retirement will have the same cash needs year in year out until they die.

Whilst final salary pension rights can be very valuable and attractive, they can also be rather rigid and inflexible. For example, a scheme may have a set pension age and although taking an early pension may be possible, it may not be on favourable terms. In this case, taking your final salary pension earlier may mean it is much lower than if you had waited until you reached schemes pension age. Similarly, a scheme may have generous arrangements for married members who leave behind a widow/widower or registered civil partner, but these may be of no value to unmarried members of the scheme.

If you convert your final salary pension rights into cash and put the money into a personal pension instead, then you benefit from the new pension freedoms which allow you much more choice about how you use your money. In addition, the cash amount that you are offered will generally reflect the average cost to the scheme of providing benefits to widows/ widowers or registered civil partners so if you are a single person you will get some of the value of that provision which you would not have done if you had stayed in the scheme.

In terms of flexibility, those aged 55 and over can now generally access their personal pension pot as they wish. So if you wanted to retire at 60 and live off your savings you could do this with the help of a personal pension scheme, whereas you might have had to wait until you were 65 if you had stayed in the final salary pension.

Of course, transferring the money does not mean it will last any longer and indeed if the valuation of the rights is done on a cautious basis you may be losing some value when you transfer.

So although you can take your pension earlier under a personal pension arrangement, you will be spreading the value of your pot over more years than if you had waited until the scheme pension age under the final salary pension arrangement.

Another important aspect of the increased flexibility following a transfer is that you can decide how you want to spread your income and spending through your retirement rather than having a rigid income regime throughout. For example, you may take the view that you want to spend more in earlier retirement while you are more mobile and able to travel, and spend less in later retirement, and having a personal pension pot to draw on enables you to make choices of that sort.

Access:

This flexibility extends to taking the cash as early as age 55 and deferring the taxable pension until it is needed. The potential uses of this early cash sum are extensive, from paying down mortgages early, to investing in ISAs to generate tax free income, or helping the next generation on to the property ladder.

Whilst income from a personal pension is subject to income tax, most pensions allow you to take one quarter in the form of tax-free cash. In a final salary pension this usually means you get a cash lump sum at retirement plus a lower regular pension than if you had not taken the cash. In a personal pension you can generally take one quarter of your pension pot as a tax-free cash lump sum provided you are aged 55 or over.

One reason why a transfer to a personal pension arrangement may be attractive is the potential to draw a larger tax-free cash lump sum than if you remained in the final salary pension scheme.

If you stay in a final salary pension you can generally give up a quarter of your pension rights in exchange for a tax-free lump sum. However, the value you get is generally less than a quarter of the true value of your pension fund.

This can be for several reasons. These include the fact that (1) Schemes have varying rules for how the pension you have given up is converted into an equivalent lump sum and in some cases these may not be very generous, especially in a low interest rate environment. (2) The process of converting from a regular pension to a lump sum is based on the scheme member's pension only but the rights given up include a potential pension for a widow, widower or registered civil partner. (3) Complex tax rules can mean that the size of the lump sum is reduced relative to the amount of pension given up.

One way of thinking about these rates for converting pension foregone into a lump sum is to think about how long you are likely to live. Suppose you expect to live for 20 years and are giving up a pension of £250 a month or £3,000 a year. Over the next 20 years you would receive £3,000 times 20 or £60,000 in pension (excluding the effects of inflation). So, if the final salary pension offers you a lump sum of less than £60,000 you might feel that you are not getting a good deal.

An alternative would be to withdraw your entire final salary pension and transfer it into a personal pension. Once the money is in a personal pension arrangement (and assuming you are aged 55 or over) you can then take one quarter of the whole pot as a tax-free lump sum and this is likely to be a larger figure than under the final salary pension arrangement. If tax-free cash is particularly important to you, there may be some advantages to transferring out, especially if your scheme is one which offers less generous tax-free lump sums within the scheme.

Financial Legacy/Inheritance:

Whether or not it is appropriate for you to stay in your final salary pension scheme may depend in part on who will be left behind after your death and to what extent you want to support them financially.

Recent changes in the tax rules on inheritance of certain types of pensions have made it more attractive to consider having your pension rights outside a final salary pension scheme.

If you remain a member of the final salary pension scheme, then when you die there is likely to be a pension for your surviving widow/widower or registered civil partner. If you die very early (perhaps a few years into receiving your pension) your widow/widower or registered civil partner may benefit from a guarantee period where the full pension has to be paid for a minimum of (say) five years.

If you are part of a couple but not married, those rights may be more limited, but this will vary from scheme to scheme and may be at the discretion of the scheme trustees. There may also be some pension entitlement to any surviving dependants such as children of school age.

Whilst such provision is welcome and valuable, it does mean that in many cases when you (and perhaps your widow/widower or registered civil partner die, your pension dies with you/them. In this situation there is nothing left to pass on to your successors.

One particularly important consideration is the tax treatment of such money. Under recent changes, if you die before the age of 75, then the cash balance left behind can be received by your successors completely tax free. If you die over the age of 75 then whoever inherits your pot will pay income tax, where appropriate, at their highest marginal rate when they make withdrawals.

Furthermore, if your successors do not draw on this inheritance (perhaps because they already have sufficient resources) then it can be passed on to subsequent generations.

Note: *if you die within two years of a transfer, your adviser or representatives may be expected to prove that they did not know your death was imminent. If they cannot do so, the favourable inheritance tax treatment of the remaining pension pot may be called into question.*

Pension Security:

If the employer who sponsors your final salary pension scheme is at risk of becoming insolvent, then there is a chance that you might not get the entire pension you were expecting. But if you transfer out of the scheme then your investment fund will be unaffected by what subsequently happens to your ex-employer's business.

The way the system works is that if the firm that stands behind a final salary pension scheme becomes insolvent, and if the pension scheme is well short of the money it needs to pay all of its future pension promises, then the scheme will be transferred into an insurance-type lifeboat arrangement called the Pension Protection Fund (PPF).

Under the rules of the PPF, those who have already reached the normal age for drawing a pension by the time of the insolvency will get 100% of their pension paid by the PPF, whilst those who are under the scheme's pension age will get 90%. Note that what matters is your age relative to the scheme's pension age and not whether or not you have retired.

In addition to the reduction for those under scheme pension age, there are several other reasons why the pension you get from the PPF may be lower than the pension you would have got had the employer remained in business.

The PPF only provides annual inflation protection in respect of years of service since 1997. This is because this is the minimum required by law but if your scheme had more generous rules (for example, giving you inflation protection for all your service) then you may get smaller annual increases from the PPF throughout your retirement.

The PPF uses the consumer prices index (CPI) as its measure of inflation when setting pension increases. Some schemes use the generally higher retail prices index (RPI). Over time this could make a significant difference to how much pension you get.

For those with the highest pension entitlements, the PPF applies a cap if you enter the PPF below scheme pension age. The cap is reduced further if you started to draw your scheme pension early (i.e. before normal scheme pension age).

For all of these reasons, if you think that your employer might not still be in business in a few years' time and might leave the pension fund with a significant shortfall, it might be advantageous to consider moving the cash equivalent value of your current pension rights into a pension fund of your own.

Health:

One of the advantages of a final salary pension is that it lasts as long as you do. But what about people who think, or know, that their life expectancy is likely to be on the short side?

For example, if you draw a pension at 65 and die at 71 then you will not have received much from the pension scheme compared with someone who lives well into their nineties. Final salary pension schemes work by pooling risk, and in effect those who live for the longest time are subsidised by those who live for the shortest time.

If you think you might be one of those whose life expectancy is below average, then you might consider taking a transfer out. The value you are offered should (broadly) reflect average life expectancy and this may be a bigger amount of money than the amount it would have cost the scheme to pay your pension if you had stayed in but died relatively young.

If you take your money out in this situation you could simply invest it with a view to your successors receiving the cash when you die. Alternatively, if you are not concerned about leaving anything behind after you are gone you could buy something called an enhanced annuity.

This is basically an income for life, but one which takes some account of your likelihood of dying prematurely. So, for example, someone who has been a chain smoker all their life or who has a serious medical condition might be able to get a relatively generous annuity rate because the annuity provider does not expect to be paying the annuity for very long.

One option would be to obtain a transfer value quotation from your current scheme and then find out what annuity you might be able to buy on the open market before making the transfer. You could then form a view as to which option would give you the better value.

Pension Transfer - Potential Risks:

One of the risks associated with final salary pension transfers is the uncertainty of the final level of benefits that can be obtained at your chosen retirement age once transferred to a personal pension arrangement given that you are then relying on future investment performance as opposed to guarantees.

Whilst the case for transfers has become more compelling and attractive to a wider group of people a final salary pension remains a valuable benefit to hold. So, if you are in any doubt as to the attractions of the transfer route for your particular situation then the default position should always be to stay in the scheme.

Below are several good reasons why you may wish to retain your final salary pension. If one, or a number of the benefits listed applies to you, then it is likely that a transfer of benefits may not be in your best interests.

Certainty:

If you transfer your final salary pension rights into cash and manage it yourself, you are taking on the uncertainty about how long you are going to live. There is clear evidence that people tend to under-estimate how long they will live, so there is a risk that you will run out of money prematurely. On the other hand, you may be so worried about running out of money that you draw down the money too slowly and do not enjoy the full benefit of your retirement savings.

You could overcome this uncertainty by buying an income for life (an annuity) but for various reasons this is very unlikely to be as good as the pension you have just given up in your final salary pension scheme. Indeed, if all you want is a guaranteed income for life then it is hard to see why you would have left your final salary pension scheme in the first place.

It is more likely that you will go on investing your money and drawing an income from your fund, and the big unknown is what is the safe amount to withdraw each year so that you meet your needs without exhausting the fund too rapidly.

There are, of course, things that you can do to manage this risk. For example, if you use the services of a financial adviser, they can help you to regularly review your investments and your withdrawal rate and make adjustments accordingly.

Inflation:

In these days of lower inflation, it is easy to forget that over a retirement which could last 20 or 30 years, the value of having an income which has some protection against rising prices could be considerable.

Within your final salary pension scheme, the extent of protection against inflation which you enjoy will depend on the rules of the scheme and on when you were a member of the scheme.

To give an example of the importance of inflation protection, let us assume that inflation runs at 2% a year, that your entire final salary pension rights are guaranteed to rise by this much, and that you have a 20 year retirement.

If your starting pension at retirement was £100 a week, it would be £148.59 by the end of your retirement.

Without inflation protection you would still be getting £100 a week which represents a final pension nearly one third lower. The cash transfer value that you are offered will reflect the value of the inflation protection built into your final salary pension scheme. But once you have transferred the benefits to a personal pension you will need to manage your pension to combat any inflation risk.

Whilst it is possible to insure against rising prices by, for example, turning your pension pot into an inflation-linked annuity, this is likely to be very poor value compared with the pension that you have given up. Essentially, a final salary pension scheme is able to make greater provision against the risks of inflation than an individual can do by buying an index linked annuity from an insurance company.

Of course, if you invest your personal pension successfully you may be able to achieve an above-inflation rate of return but the protection against inflation is not guaranteed in the way that it is in a final salary pension scheme.

In short, if you are concerned about the potential impact of rising prices over the course of a long retirement, and/or about the uncertainty of whether future inflation will be high or low, then it may be worth you staying in a final salary pension scheme.

Investment Risk:

When you are a member of a final salary pension scheme your money is generally invested in a range of assets such as shares, bonds, property, commodities etc which can of course, go up or down.

When you are in a final salary pension scheme, the ups and downs of these investments make no difference to the amount of pension you receive – the scheme still has to pay your pension and the employer has to bear the investment risk. You are, in effect, insulated against the ups and downs of investment.

By contrast, if you take a cash transfer and invest the money yourself, the value of your fund will go down as well as up over the period of investment, which could reduce the amount you have to live on if your investments underperform or conversely enhance your retirement income if they perform well.

A key consideration therefore is your attitude to risk. If the bulk of your non-state pension rights are in your final salary pension and you transfer them into a personal pension to be invested, then it is important that you do not take any more risk than you are willing and able to take given your retirement needs.

Obviously, there are ways in which you can reduce the risk associated with investing in a personal pension. For example, you could invest in lower-risk or in some cases guaranteed investments, but the potential returns need to match your requirements.

The key point here is that when you transfer out of a final salary pension scheme you are transferring any investment risk from your old employers to yourself.

Survivors Provision:

Final salary pension schemes have a legal duty to provide a pension for a surviving widow/widower or registered civil partner if a scheme member dies after reaching scheme pension age and many schemes will offer dependent benefits beyond the legal minimum. This is a valuable benefit and should not be disregarded lightly.

Of course, any cash transfer offer which is made to a scheme member will to some extent reflect the fact that the scheme offers benefits to survivors. But because not all scheme members will be married or have dependants, the cash value on offer will tend to reflect the average value of such benefits across all scheme members, including those who will receive no survivor benefits.

In simple terms, the amount of money you might get to reflect the fact that the final salary pension offered survivor benefits may be short of what you would need to buy equivalent benefits if you were to do so as an individual.

It is, of course, possible to turn your pot of money into an income for life with an income for your surviving partner if you were to die. But final salary pension schemes are generally able to offer benefits of this sort in a more economical way than an individual annuity purchaser is able to. In addition, depending on your surviving spouse’s circumstances, they may prefer the certainty of a pension from a final salary pension scheme rather than having the responsibility of managing an inherited personal pension pot.

Pension Retention/Transfer Decisions:

In this guide, we are neither promoting final salary pension transfers nor seeking to discourage them, we are just trying to ensure that you understand and appreciate the value of what you already have by way of pension rights in a final salary pension and provide a fair comparison with the benefits available from an alternative personal pension arrangement should you decide to transfer.

In saying that, we hope that what this guide has done is make you aware of some of the many factors which have to be considered by each individual when deciding whether to transfer or not.

For some people, the arguments in favour of transferring may be particularly compelling, for instance:

- Those who want to maximise their tax-free cash
- Those who do not expect to live long in retirement
- Those who are thinking about how best to pass on unspent pension to their successors
- Those who are willing and able to take on the investment risk associated with their pension
- Those who are worried that the employer behind their pension might not be there in years to come

On the other hand, those who value the certainty which a final salary pension provides may well wish to stay put. If they do so, they will know:

- That their pension will last as long as they do
- They have a measure of insulation against inflation
- They do not need to worry about the ups and downs of the financial markets
- There will be a pension there for a widow, widower or registered civil partner when they die

Ultimately, the decision about whether to transfer should be made after a conversation with a regulated adviser who is either a qualified pension transfer specialist or has their work checked by one. The adviser can take account of your personal circumstances and preferences.

Whilst such advice is not binding on the individual, we hope that this guide has shown that the complexity of the choice involved means that such advice should be taken very seriously. We also believe that ongoing advice through retirement is of great value, particularly if a transfer is made. With the large sums that are now being offered to many people to transfer out of final salary pension schemes, skilled and regular management of the resultant investment pot is very important.

Taking Financial Advice:

When taking financial advice, the adviser needs to take the time to understand your personal needs and financial goals pre and post retirement and provide sound advice to help you achieve them.

The first step is to get a transfer offer in writing from your scheme by submitting a request for a transfer offer to the scheme administrator. You can do this yourself or your adviser can do it for you and get copied in with the correspondence.

If you know who you are going to use for advice it makes sense to involve the adviser as early as possible as they will then be able to go to the scheme administrator directly for any information they need, not included on the transfer value offer.

Transfer offers generally come with a three-month guaranteed window during which the scheme will hold the transfer value. This gives you three months to get the advice you need, to plan what you might do and then make a final decision.

Members are generally entitled to one free transfer calculation every year. If you want more than this you will likely be charged for the actuary's time, typically a few hundred pounds.

For those with transfer offers of more than £30,000 it is a legal requirement to get appropriately qualified advice on a transfer before it is executed. Pension providers and scheme trustees are effectively policing this by refusing to accept and pay transfer requests unless there is proof the appropriately qualified advice has been received.

If you have a larger transfer value or have opted for protection against the lifetime allowance, then an explanation as to how the lifetime allowance impacts your fund and any changes to your protection caused by a transfer.

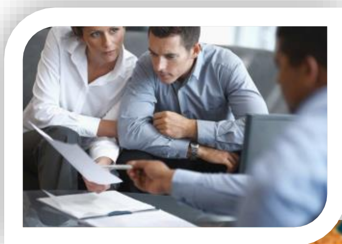
Importantly the adviser should provide advice as to whether the pension transfer is a sensible transaction for you to undertake given your specific circumstances and financial objectives.

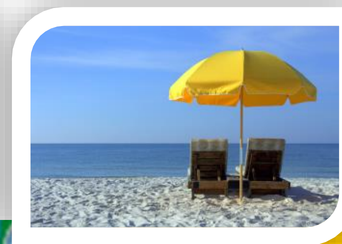
Take Your Time:

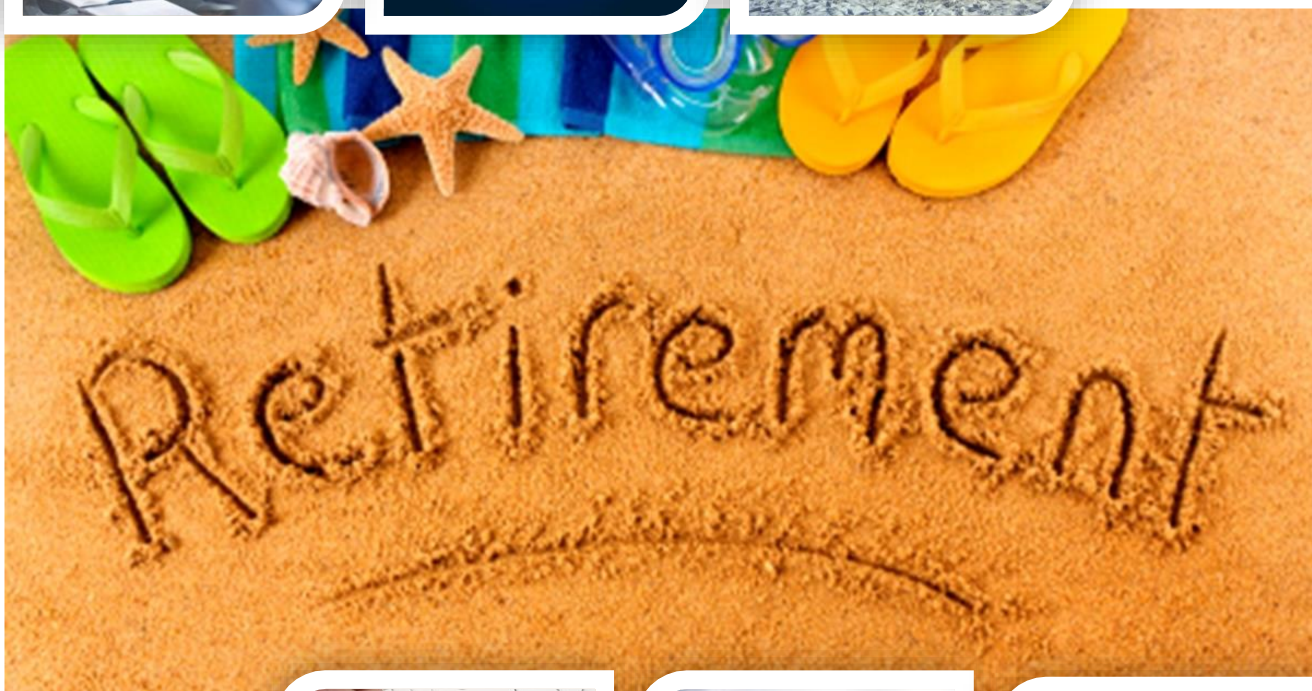
Once you have a guaranteed transfer offer you will no doubt be keen to make sure you secure it within the three-month window.

However, this does not mean you have to make all your withdrawal and investment decisions within that three-month time frame. Remember, it is important to take your time and consider all relevant facts before deciding on a course of action. The decisions you make now are likely to shape what sort of retirement you have, so taking a few months to sort it out is inconsequential in the long term.

Your Retirement Options Explained







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