Final Salary Pensions

Do I need advice?

Chartered Financial Planners

Strategic SOLUTIONS
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Final Salary Triage

Final Salary Pensions: Do I need advice?

This document & accompanying video are designed to help you decide whether you feel you need to progress with receiving financial advice regarding your options from a final salary pension transfer.

If the transfer value is more than £30,000 you are required to seek independent financial advice before deciding whether or not to proceed with the transfer. This advice must be provided by, or at least checked by, a specially-qualified pensions transfer specialist.

The question you must ask yourself is, do I need flexibility and can I afford to give up the guarantees offered from the final salary pension?

Who are Strategic Solutions

Strategic Solutions is a firm of Chartered independent financial advisers specialising, but not exclusively, in the management of investment portfolios and pensions.

Our knowledgeable independent financial advisers (IFA) cover the whole financial services market.

We are pension transfer specialists and hold the appropriate permissions for advising on pension transfers and pension opt outs.

Chartered Financial Planners

We are proud to have been awarded the prestigious title “Chartered Financial Planners” by the Chartered Insurance Institute (CII). This title is only awarded to financial planning firms committed to developing and maintaining the knowledge and capability of their advisers, so they can deliver the highest quality advice. Chartered financial planning firms must also follow a demanding code of ethical practice. This means we must work in a principled manner that places client’s interests at the heart of the advice we give. The Chartered title assures you of our commitment to the highest standard of customer excellence and professionalism.

The Financial Conduct Authority's (FCA) **Position**

You're looking at the possibility of transferring from your Final Salary pension to a personal pension, our regulator, the Financial Conduct Authority (FCA), have clarified their definition of what types of advice should be chargeable. Our document and video service are designed to give you a high-level look at what a Final Salary pension is, what a personal pension is and the advantages and disadvantages of both. You should then take those points into consideration before deciding whether you feel that getting financial advice is the right next step for you.

FCA Guidelines

"The purpose of triage is to give the customer sufficient information about safeguarded and flexible benefits to enable them to decide whether to take advice on the transfer or conversion of their pension benefits."

The FCA go on to say;

"We consider that triage should be educational and provide generic, balanced information on the advantages and disadvantages of a pension transfer. If an adviser makes a reference about how a client's personal circumstances may influence advice to transfer, then it is likely that they are providing advice."

FCA Starting point

"When a firm is making a personal recommendation for a retail client who is, or is eligible to be, a member of a pension scheme with safeguarded benefits and who is considering whether to transfer, convert or opt-out, a firm should start by assuming that a transfer, conversion or opt-out will not be suitable. A firm should only consider a transfer, conversion or opt-out to be suitable if it can clearly demonstrate, on contemporary evidence, that the transfer, conversion or opt-out is in the retail client's best"

What is a Final Salary Pension?

Final salary schemes are a type of defined benefit pension scheme that are offered by employers. The benefits you receive at retirement are based on your earnings and your length of membership of the scheme. Different schemes work in different ways – so you should check your scheme's rules.

Benefits at retirement may be provided as an income or as a tax-free cash lump sum and an income. These benefits are guaranteed to pay out for the rest of your life. Benefits may increase each year to offset the effects of inflation.

Pension benefits may also be available to dependants in the event of your death or they may be paid early if you fall ill before reaching retirement.

What is a Personal Pension?

Defined contribution pension schemes invest the contributions, made by you and/or your employer, in a range of different investments.

All contributions that are made to your personal pension are invested and you can normally choose from a wide range of funds. There can be many different funds to choose from, although a provider can restrict the number of funds they offer you. 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.

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, investment growth over this period and the level of charges.

Under current legislation, you can commence drawing retirement benefits from the age of 55 (or possibly earlier, if you're in ill-health); You don't have to stop work to draw benefits. 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.

Points to **Consider**

Defined Benefit (Final Salary)

- No risk of your income reducing or running out.
- No ongoing costs.
- No need for ongoing reviews.
- No flexibility to change the level of income you take.
- Income taxed at your marginal income tax rate.
- Will the final salary scheme provide all the income you need?

Defined Contribution (Personal Pension)

- An investment linked pension fund which can fall in value as well as rise.
- A pension fund which can reduce and run out altogether if investment returns are poor, you draw too much money or live longer than expected.
- Ongoing investment and adviser costs and the need for ongoing reviews
- Flexibility to access your money as and when required, taxed at your marginal income tax rate
- On your death any remaining funds can be passed on to your chosen beneficiary

Features	Final Salary	Personal Pension
Contributions	Your employer contributes to the scheme and is responsible for ensuring there's enough money at the time you retire, to pay your pension income. You may be able to contribute to the scheme too.	Defined contribution pensions build up a pension pot using your contributions and your employer's contributions (if applicable) plus investment returns and tax relief.
Investment Choice	The scheme trustees make all the investment choices.	With a defined contribution pension you make all the investment decisions.
Security	Defined benefit schemes are protected by the Pension Protection Fund.	Limited protection may be offered by the Financial Services Compensation Scheme.
Charges	There are no explicit charges or fees.	These will vary from scheme to scheme and often include an annual management charge, policy fee and, particularly for older schemes, a bid/offer spread. There will also be an advice charge for your financial adviser.

Features	Final Salary	Personal Pension
Tax Free Cash	Some schemes offer a tax-free lump sum in addition to a pension income, whilst others offer a reduced pension in return for the tax-free lump sum. The maximum lump sum is based on a combination of HM Revenue and Customs' rules and those of the particular scheme.	25% of the total pension fund can be taken as a tax-free lump sum. (This may be restricted if your pension fund exceeds the lifetime allowance). This can normally either be taken in one go or in stages.
Income	Your pension income is based on: the number of years you have been in the scheme, your age, the scheme's accrual rate and either your final or career average salary. The scheme will pay the pension directly to you whilst you are living, and it may increase annually e.g. in line with Retail Price Index/ Consumer Price Index but it will not reduce.	You can choose how you take your pension income, you can withdraw the entire fund in one go or take income withdrawals at your chosen level. This level of income can increase, decrease or stop as required, however when the total fund is exhausted, you will be unable to take any further
Tax	Your income will be paid to you net of tax at your marginal rate via the PAYE system.	Your income will be paid to you net of tax at your marginal rate via the PAYE system.
Retirement Age	You can usually take your pension from age 55. However, if the scheme's normal retirement date is higher, you may incur an early retirement penalty should you retire earlier than this age.	You can usually take your pension from age 55 without penalty.

Features	Final Salary	Personal Pension
Lump Sum	Depending on the rules of the scheme, should you die before taking your pension, your dependants may receive a tax free lump sum (on death before age 75) and/or a taxable pension income. If you have already left the employer your dependants may only receive a return of your contributions.	Should you die before drawing on your pension pot or if you have placed funds in a drawdown plan, your selected beneficiary(ies) can elect to take a lump sum. This will be tax free should you die before age 75 and taxed at the recipient's marginal rate should you die after 75.
Survivors Pension	If you are married or have a civil partner, a pension will normally be payable for the duration of the spouse/civil partner's life. In some cases, a pension may be paid to dependent children for a specified period of time. Each pension scheme's rules and booklet will specify the criteria it will use. Any pensions paid are taxed at the recipients' marginal rates. These pensions cannot be passed on or left to another beneficiary of your choice.	If you have a drawdown fund, any remaining benefits can be passed to a beneficiary(ies) of your choice. They can elect to take an income or a lump sum and this will be tax free if you die before age 75 or taxed at the recipient's marginal rate should you die after 75. On the recipient's death, they can pass any remaining funds to their beneficiaries

Advantages & Disadvantages: Final Salary Pension

Advantages

- Guaranteed inflation linked income for your life.
- No ongoing costs or commitments from you.
- Possibly a pension for your spouse on your death.
- Protection if the scheme goes bust.
- No investment risk for you.
- No longevity risk for you.

Disadvantages

- No flexibility on the income, you can't change anything once the income commences.
- Likely to be penalties for retiring before the scheme normal retirement date.
- Death benefits may be limited or worse dependent on your own personal circumstances.
- You may get less tax free cash than a personal pension and this is only available at the outset.

Advantages & Disadvantages: Personal Pension

Advantages

- Flexibility in how you take your income. You have the ability to tailor your withdrawals to your needs.
- Potentially higher tax free cash than that offered by the scheme pension with the ability to take ad hoc lump sums.
- Death benefits may suit you better.
- It may better suit your attitude to risk and your personal circumstances.
- It could potentially provide you with a income higher than that offered from the scheme.

Disadvantages

- Investment risk; investments can go down as well as up.
- Longevity risk; you may outlive your money.
- Ongoing charges for the products, the investments and the ongoing financial advice.
- Degree of commitment needed from you to review your pensions.
- More complicated than the final salary pension.

A key point:
No guarantees in the personal pension.

What is the process?

Next steps: What happens now?

1. Get in touch with your independent financial adviser.

2. Meet with your adviser where your adviser will:-
   a. Find out more about you & your circumstances.
   b. Find out what you want your retirement to look like, what are your income needs and wants?
   c. What are your goals for your retirement?
   d. Assess your attitude to risk and capacity for loss through a variety of questionnaires.
   e. Talk through possible options for your pension and different products that are available.
   f. Cash flow model your retirement to see if what you want is achievable.
   g. Speak to the scheme and (if not already to hand) request a cash equivalent transfer value and ask all the necessary questions needed from the scheme.
   h. Run a Transfer value comparator report to assess whether the transfer value is a good offer.

3. Your financial adviser will make the decision on whether they feel transferring is the best option for you. This decision will be detailed in a full written recommendation for you.

What are the costs for this process?

The cost of this service is £1,000 and is non-refundable.

This fee is payable either way, whether the advice is to stay in the scheme or to transfer. Either outcome your financial adviser will provide you with a written recommendation on what they think is the best outcome for you.

If you then wish to proceed with the transfer, there will be a further implementation fee payable which will be agreed in advance with your financial adviser. This is to pay for any extra work involved with the implementation and to cover the risks taken on by your financial adviser.

Your personal circumstances will determine whether transferring your final salary pension is a good idea for you.

What must we consider for a potential transfer?

- Your health
- Your marital status
- Whether you have any children or other dependents
- Ongoing financial commitments & liabilities
- Your current income and any other sources of income
- Other pension provisions
- Other assets you hold
- Your investment experience
- Your retirement plans and goals
- Your retirement income needs and wants
- Your attitude to risk and your capacity for loss

What are some of the risks?

Capital Risk – the possibility of a loss of some of the original capital. The value investments linked to the stock market can vary, and although the long-term trend tends to be upwards, at any particular time the market may dip so that the investment is worth less than was originally invested. It may be necessary to accept some form of capital risk to offset shortfall risk and inflation risk.

Shortfall Risk – the amount invested to reach a financial goal at some time in the future (e.g. retirement income) may not reach the target or required amount.

Interest Risk – the income from a variable rate account or cash fund can fall, which is bad for savers, or rise which is good. Fixed rates can lock into a return but if interest rates then rise, this can be bad for savers.

Inflation Risk – over time rising prices reduce the real buying power of an investment. This can especially be a problem once income starts being paid out. Offsetting inflation risk usually means taking some form of capital risk.

Income Risk - the risk that the income expected by an investment is not paid.

Regulatory Risk – the risk that changes in regulation may affect the profitability or usefulness of investments

Who we can't help

Our process will not be suitable for a few types of clients;

1. **Insistent clients** - this is when the outcome of the review process is to stay in the scheme, but the client wishes to transfer anyway. We will not action that transfer.
2. **Self investors** - we will only allow professional investors to self manager their pensions. We must ensure that the transfer is suitable throughout your retirement.
3. **Clients wishing to use unregulated investments** - we will only ever consider investments that are regulated.

Final thoughts and next steps

The overriding point to take away is that you must remember that you might be giving up a guaranteed inflation linked income from a Defined Benefit pension for a lump sum that must be invested to provide you an income in retirement. Although this brings flexibility and other benefits you take on all the inherent risks yourself.

The next steps for you now are for you to decide whether transferring could fit in with your retirement plans, If you think it might then the next step is to get in touch with your independent financial adviser.

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