Pension TRANSFER Gold Standard

Chartered Financial Planners

Balance: Wealth Planning

Defined Benefit Pensions
Key Considerations

Company pensions – is it time to review your options?

The schemes

You may have been employed at a company (or companies) over your working life and built up a private pension (or pensions). Based on your time at the company, the amount you earned and the scheme rules, the amount of pension you are due to receive at retirement is guaranteed, secure and you know it will last you the rest of your lifetime. These are known as Defined Benefit (DB) schemes.

Seems like a pretty good deal. For many years Defined Benefit schemes have been and still are, however the pension world is changing and many workers are being offered very large cash sums in exchange for giving up their rights to these attractive benefits. In turn, this lump sum would be transferred from a secure pension to an unsecure pension; known as a Defined Contribution (DC) scheme.

Defined Contribution schemes, although they do not provide a guaranteed income for life and are unsecure, they do provide more flexibility for the member.

It's a very difficult decision to make, the offer of a large lump sum sounds attractive, however moving it from a secure guaranteed environment to an unsecure, unguaranteed pension, has risks involved and should be carefully considered.

The guidance

Balance: Wealth Planning want to assist members of company pension schemes to make an educated decision, because even just the consideration of a transfer of this nature shouldn't be entered lightly.

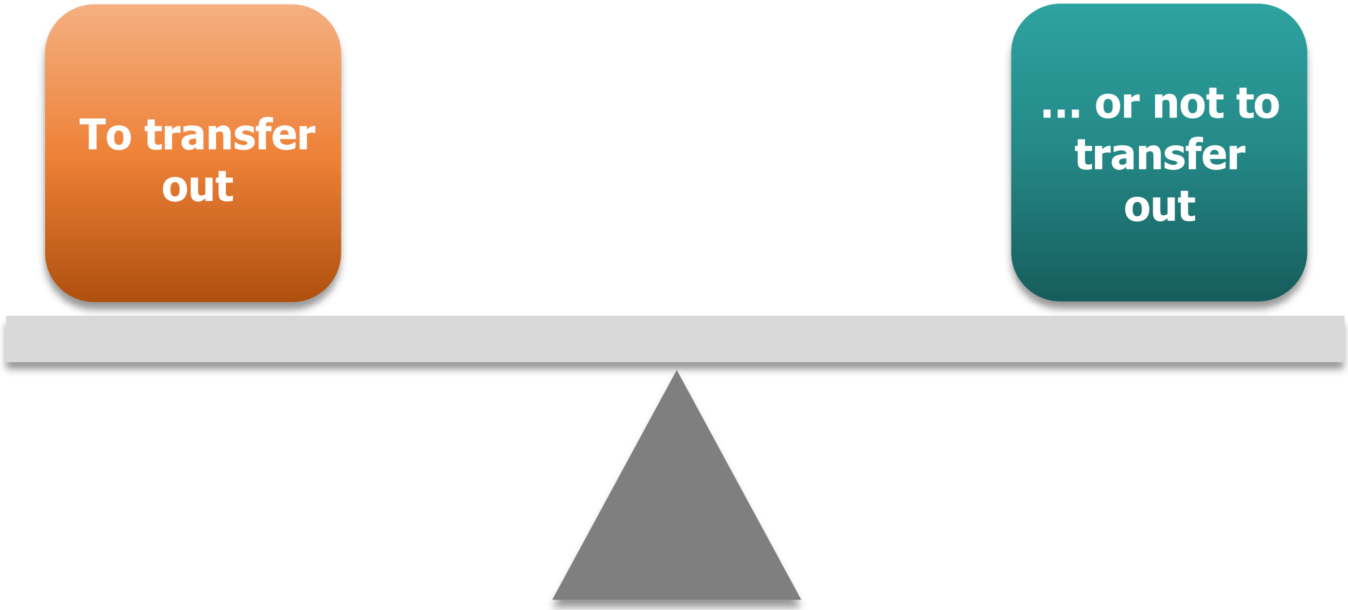
Within this guide, we want you to consider the pros and cons of both Defined Benefit schemes and Defined Contribution pensions, before you even consider Balance: Wealth Planning review your retirement position.

There are a lot of things to consider when assessing your existing pension scheme and future retirement plans, therefore each person's situation is completely unique and there is no 'one size fits all' solution.

Balance: Wealth Planning specialise in holistic financial planning, to ensure that all aspects of your financial future have been carefully mapped out and that your decision about your company pension is the right one for you.

This guide is not designed to substitute our independent financial advice and its purpose is to simply help you in the early stages of considering a Defined Benefit to Defined Contribution transfer. The guide's aim is not to encourage or discourage such transfers but provide you with a 'Balance' of positive and negatives for you to consider.

Which side do you sit on?



Which of these resonate most with you?

5 good reasons TO transfer a DB scheme		5 Good reasons NOT TO transfer a DB scheme	
Flexibility	• Income can be taken flexibly as needed from a Defined Contribution (DC) scheme • Enables you to have more income and enjoy more in early retirement and choose to have less later in life • Possible to minimise taxes by only taking the money you need	Certainty	• Guaranteed pension income, every month, for life • If you live longer than expected, it's the scheme that foots the bill and continues to pay an income to you • Financial security, so it's easy to budget and plan ahead • Guaranteed income to your spouse after your death
Tax Free Cash	• You may benefit from higher tax-free cash lump sum under a Defined Contribution pension. You can take up to 25% of the transfer value from a DC pot, which may be higher than the sum offered by your existing scheme • You can take out the tax-free lump sum element in stages. You are not forced to take it all in one go, leaving any part you don't need invested until you might need it later	Inflation	• Income usually goes up with inflation, so your buying power stays the same • You have protection against rising prices, which is valuable when your retirement could span 20 to 30 years • This provides you with the certainty that you should be able to continue to afford the things you need throughout retirement
Death Benefits	• On death, the whole Defined Contribution fund can be left to your spouse, children or others • The money is never lost on death, even if you don't have dependants. This is not always the case with a DB scheme • This money passes to your beneficiaries, typically inheritance tax free. They can choose to take these benefits, or they can be left for future generations	Death Benefits	• A Defined Benefit scheme provides a guaranteed income to your spouse after your death, so they would have financial security once you had passed away • Defined Benefit schemes have a legal duty to provide a pension to a surviving widow or widower and these benefits can be extremely valuable, so shouldn't be given up lightly
Health	• If you feel that your health is below average and your life expectancy is shorter than normal, a transfer may be attractive. You can take an income from a DC pension or use some or all of the fund to buy an annuity which provides a fixed income. As this takes your health into account, it can be more generous. You may have a pot left over for your loved ones upon your death with a Defined Contribution pension. Whereas a Defined Benefit pot could potentially die with you depending on your circumstances	Investment Risk	• You don't have to worry about how it's invested – it's all managed for you • Although the DB scheme will be invested in a range of assets, their value does not directly impact on the income you receive, as the scheme still pays you the same - the DB scheme bears the investment risk, not you • A DB scheme is backed up by the Pension Protection Fund if it fails
Solvency of the Scheme	• If the financial strength of the company who sponsors your Defined Benefit scheme is weak, then there is a chance you may not get the full amount of pension you were expecting	Taxation	• For larger pension schemes, the Lifetime Allowance (LTA) should be considered. Benefits typically have a lower value under the DB scheme calculation, so there is less tax to pay

The detailed comparison

In the table below, we look at an example case and compare the two scenarios, if they were to retain their benefits within a Defined Benefit scheme or transfer them to a Defined Contribution scheme (also called a Personal Pension).

John is 60, in good health and he was a member of a Defined Benefit scheme for a few years but left the company recently. Since then, he has been provided with a transfer value. John isn't sure exactly what he would be giving up if he transferred the money out of the scheme.

	A Defined Contribution Scheme	A Defined Benefit Scheme
Certainty	Income from a personal pension is not usually secure. It is designed to be flexible. The pension pot can go down and even run out. Withdrawals from a Defined Contribution scheme are not limited or restricted, however care must be taken as there is a risk of the money running out (unless there are other sources of wealth available). If John took the same income out of a personal pension as he would have had from his defined benefit scheme, how long would the fund last? Could he use some or all of the transfer value to buy an annuity for a fixed amount of time, or for life, to provide a certain income every month?	With a Defined Benefit scheme, the amount of income is known from outset. This income will go up roughly in line with inflation. This will be payable for life. How does the income from the defined benefit pension compare to what John could have from an annuity, which can also provide a guaranteed income for life? Does John value having certainty about his income lasting for his whole life?
Flexibility	Defined Contribution pension benefits can be taken flexibly to fit around work and spending plans. John can take any level of income he wants from a Defined Contribution scheme. He can take more income earlier in retirement, for example. Or take more income before his state pension starts, then turn the income down after that. But he must be careful not to spend too much of it in the early years, because it could run out later. Based on what he plans to spend, does John need that flexibility?	Defined Benefit pension benefits can't be changed once in payment. However, it will be paid for life. John would not be able to change his pension income, but he will always know that it is there. He might have other money he can use if he needs more income at certain times of his life. Does John plan to spend the same sort of amount every year for life, or is it likely to change? Does the lack of flexibility matter to him?

	A Defined Contribution Scheme	A Defined Benefit Scheme
Inflation	The transferred money will usually be invested in a Defined Contribution plan, so it has a chance to grow, and keep pace with inflation. Otherwise the value might stay the same, but the spending power is going down. John has no way of being sure his pension pot will grow. He can't be sure that he can afford for his monthly income to be increased every year with inflation, unless he uses some money to buy an inflation-linked annuity. He has to be careful that the fund will last him for life. Is John's fund large enough and invested in a way that will allow him to have an income increasing with inflation?	Defined Benefit pensions plans tend to have an income that is set to increase in line with inflation when in payment. Therefore, the buying power of this income stays the same overtime. John's scheme will almost certainly offer income increasing with inflation every year. So he knows his income will go up at the same sort of rate as his bills and living costs. Is an increasing income important to John?
Tax Free Cash	25% of a Defined Contribution pension pot can be accessed tax free, when needed. That can be in one big lump sum, or several smaller ones. It can even be taken out monthly. John can take some of his pension pot out tax free to pay off some debts, or pay for home improvements, for example. He can leave it to grow if he doesn't need it straight away. Does John need a lump sum in one go or in smaller pieces?	A tax-free lump sum can be taken when benefits are first accessed. It may be possible to give up some income for a larger lump sum; or take a smaller lump sum in exchange for a higher income. John can decide to have a lump sum at the start of taking his pension. But he knows if he doesn't take that option, he can't go back and ask for it later. Does John need a lump sum at all?
Death Benefits	There is no guaranteed income on death for Defined Contribution pensions. However, it is possible to leave whatever fund is remaining to anyone. It doesn't have to be a spouse or a dependent child. Those people don't even need to take it out themselves, they can leave it for future generations. John's remaining pension pot can be passed in full to his spouse, children or anyone else he chooses. They don't have to take any income out if they don't need it. They can come back to it later. What is John's personal situation? Does he have children or a partner who would need a pension pot or income when he dies?	A portion of a Defined Benefit pension may continue after death – often 50% or 66%. If the member is not married/in a relationship, the pension stops. Pension income can only continue to be paid to children if they are dependent (usually if they are under 18, under 23 and in full time education, or disabled). On John's death, some of his pension will be paid to his spouse (or dependent children) for life. The income ends when they die. Does John partner need a guaranteed income for life?

	A Defined Contribution Scheme	A Defined Benefit Scheme
Health	A Defined Contribution scheme can take health into account. If John has some serious health concerns and a limited time to live, he might prefer to have a larger income for a shorter time. He might also prefer to use the money to buy an annuity that takes account of his poor health, providing a guaranteed income that might be more than the amount offered by the DB pension. Does John have any serious health concerns?	A Defined Benefit scheme will continue to be paid until death, therefore if a member outlives the average life expectancy, they could benefit from inflation-linked income for longer than anticipated. If John is in excellent health, and expects to live a long time, he may feel the Defined Benefit pension for life is an attractive one. If John is not in good health, that's not taken into account. He gets the same pension income, regardless of his life expectancy. Is John in good health, and with a history of longevity in his family?
Taxation	It is often possible to structure pension withdrawals from a Defined Contribution pension to pay slightly less tax. Death benefits are tax free if death occurs before 75, however, after 75 they are taxed as income at the recipient's rate. With some advice, John's income withdrawals could be structured in a tax efficient way, making his pot last slightly longer. If he dies before 75, the pot is passed to his beneficiaries free of tax. Is John concerned about the level of tax he pays?	Pension income taken from a Defined Benefit scheme is always subject to income tax if it's more than the personal income allowance. Pensions paid on death are always taxable. If John is not a taxpayer at all, this doesn't have much impact on him. But if he's a basic or higher rate tax payer, he might want to try and take steps to pay less tax. What rate of tax does John pay, and how worried is he about it?
Investment Risk	A decision must be made on how the money in a Defined Contribution pension plan is invested, usually with the support of a professional adviser, which carries a cost. This allows full control of whether things go well or not, but there is personal investment risk. John would need to be prepared to take some investment risk, and see his money going up and down in value, if he transferred it. How does John feel about investing? Is this new territory for him?	The scheme member of a Defined Benefit scheme bears no investment decisions, which means they have no control over how the pension money is invested. There is no personal investment risk. This means there is no need for the support of a professional adviser and no additional costs will occur. John does not need to be concerned about investment risk at all. Does he want to have involvement in how his pension is managed?

	A Defined Contribution Scheme	A Defined Benefit Scheme
Solvency of the Scheme	The amount of money in a Defined Contribution pension purely relates to the value of the funds transferred or paid in. It is not linked to any employer having to pay money in. It is John's responsibility, along with his professional adviser to make sure the money doesn't run out. No one knows how the investments in the pension will perform in the future.	A Defined Benefit scheme has many members – hundreds or thousands sometimes. It relies on money every year from the employer to keep it operating and have enough money to pay out all the pensioners now and in the future. If the scheme doesn't have enough money it can mean that the scheme can't continue to operate and will be managed by the Pension Protection Fund instead, which is like a compensation scheme. It offers slightly different, sometimes lower, pension benefits. Does John have any concerns about the financial strength of his old employer, or the amount of money held by the scheme to pay its members?

The important points

Nothing in this document is personal advice and must not be construed as such. It contains facts about the two types of scheme and a generic benefit comparison example, which is not personal to you.

We are specialists in assessing all types of pension and operate with the Pension Transfer Gold Standard. Because we are holistic financial planners, we always assess your best option having carefully considered your whole situation; now, and for your whole life ahead. We listen carefully to your concerns, aims, plans for the future, and build a picture of your complete financial situation so we can take everything into account.

The decision to keep or transfer a Defined Benefit scheme is not clear cut and takes a lot of analysis and expertise to have confidence in the best route to take.

Which side do you sit on now?