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Final Salary Pension Transfers

Transfer values from defined benefit pension schemes are hitting historic highs following further reduction in Gilt yields making it important for individuals to explore the recent pension flexibilities and whether transferring a final salary scheme is beneficial to their long term life plan.

A final salary pension scheme has long been regarded as the golden route to a comfortable retirement and for most this is still very much the case, however, since the Brexit vote some are thinking the previously unthinkable.

Deferred scheme members of traditional final salary pension schemes have been afforded the chance of a “Brexit bonus”; the opportunity that has arisen to some savers to transfer funds to more flexible pension arrangements at often favourable rates.

Swapping a guaranteed pension income for life for an invested personal pension account won’t be the right decision for many. However, for some, a transfer will make a lot of sense, effectively giving control of what is a significant asset. There are strong reasons to consider a transfer even if, ultimately, it’s right for the individual to remain in the scheme.

The advent of ‘pension freedoms’ whereby a pension holder and ultimately their beneficiaries can freely access their pension funds has seen a surge in those considering this option. This is particularly the case for those with some element of guaranteed income who would like to take advantages of the new rules for some of their other pensions.

Reasons why transfers are being considered are many but common themes are:

1. Health concerns – it may take 20 years or more to receive the transfer value in equivalent income.

2. Death benefits – transferred funds are likely to offer much better income to spouses who can take over the full fund and not see income automatically reduced. Generally with a DB Scheme no benefit is left for future generations who can again benefit from transferred funds.

3. Full access is available to the fund at any time, for some the ability to choose when to take income can have tax planning benefits.

4. Conversely for some the fund can be left untouched as a highly efficient IHT vehicle.

5. Tax free cash amounts can be higher.

6. Investment returns required to replicate the guaranteed income foregone have often fallen to acceptable levels as transfer values have increased.

Why now?

The value offered for transferring out of a final salary pension, known as the transfer value, is higher when the yields on government bonds (gilts) and UK interest rates are low, this is because falling gilt yields increase the notional cost for scheme sponsors providing benefits, in turn prompting them to offer improved transfer values to members.

The ability to access pension flexibilities may lead some members, in the light of their individual circumstances, to seek to transfer their benefits. It is, therefore, essential that they are provided with the information needed to allow them to make informed decisions about their retirement planning.

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Why TMWM?

Transferring funds from a final salary scheme is a significant step and it is essential the member understands the risks as well as the benefits. The Pension Schemes Act 2015 requires trustees to check that a member has obtained appropriate independent advice before carrying out a transfer in excess of £30,000.

TMWM provides totally independent, fee based Financial Planning advice that will assist you and your client in understanding how likely they are to achieve their financial goals, helping them to visualise the impact of these ideas to assist in their decision making.