GROVE PENSION SOLUTIONS

TRIAGE PACK

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DEFINED BENEFIT PENSION SCHEMES; AN EXPLANATION

Defined Benefit (DB) pension schemes, also known as Final Salary schemes, are considered to be one of the best types of pension you can have because of the guarantees they provide.

You should think very carefully before transferring out of one of these arrangements and make sure you don't make any rash decisions. Consider your options carefully and make sure you understand what the implication and costs are.

The following is a guide as to how these schemes work:

When you were working for your old company it was likely that you paid a fixed percentage of your income into the pension scheme, usually between 5% and 15%; your former employer also contributed into the pension although the amount they paid varied from year to year – in most cases it was significantly more than the amount you paid.

Being in the pension scheme meant you got the promise of a pension when you retired, which was dependant on how many years you worked for that employer and what your salary was.

The longer you worked for your old employer the bigger the percentage of your salary you would get as a pension in retirement.

When you stopped working for them and left the pension scheme they would have known how many years you were in the scheme and how much your salary was – from this they would be able to calculate how much pension you would be entitled to at retirement.

However; your retirement age could be many years away from when you left your employment, so the amount of pension they calculated would be increased each year from the date you left your old employer up to the date of retirement – the idea being that it would keep up with inflation so in real terms it was worth as much in retirement as it was when you left work.

Whatever the cost is for your old employer to pay you that pension in retirement, they must find the money. If there is a stock market crash or some other event that means the value of the pension fund reduces, it's not your problem. They would have to find that extra money to ensure you receive the pension you're promised at retirement.

If you transfer your pension fund away from your old company scheme, you would then miss out on all the increases you might have otherwise got had you left this pension where it was in the first place and lose the benefit of your former employer taking on all the investment risk on your behalf. This is a very valuable benefit to lose and could mean you end up with a smaller pension in retirement.

If there is anything you're unsure of or at any time you want to clarify a point, please make sure you contact us here at Grove Pension Solutions Limited.

SAFEGUARDED BENEFITS; AN EXPLANATION

A safeguarded benefit within a pension could broadly be defined as any form of guarantee or promise that could be beneficial to the member (or their survivors). The main types of safeguarded benefits are:

- Defined Benefit or Final Salary schemes
- Pension policies with Guaranteed Annuity Rates (GAR's)
- Pension policies with Guaranteed Minimum Pensions (GMP's)
- Pension policies offering a promised level of income in the future or guarantee minimum level of income.

A policy with a GAR means that the accumulated fund at retirement will be converted to a guaranteed lifetime income (or 'annuity') at a certain rate which is often, although not always, higher than that available on the 'open market'. As the underlying fund can still go up and down in value, there is no guaranteed how much income you get. In addition, the GAR might be restrictive in only allowing certain pension options. Nevertheless, this type of guarantee can be very valuable – particularly during times where pension rates are very low as is currently the case.

A policy or scheme with a GMP means that you will receive a guaranteed amount of income at retirement age, irrespective of the value of the pension. If there is a shortfall e.g. the cost of providing the GMP is more than the value of the fund, then the pension scheme / company will have to make up the difference and it is this circumstance where a GMP can be particularly valuable. This can also sometimes restrict the ability to transfer this type of pension.

Equally, if there is more in the fund than the cost of providing the GMP, then additional benefits - in the form of a tax-free lump sum and / or income - would be available. However, the GMP benefit must be secured first.

Some older personal pension policies offer a promised level of income (or guaranteed minimum level of income) calculated by reference to the contributions or premiums paid. Much like a GAR, these policies may restrict the choice of income being paid.

The advantage of these types of guarantees is that like a GMP, you know what you will receive, and the pension company carries the risk of how much it will cost them to provide this pension. Also, if the value of the pension fund at retirement is enough to purchase a higher level of income you can still do so – so this is generally not restrictive.

Transferring a pension with any of the guarantee's detailed above carries additional risk, which must be weighed up carefully.

If there is anything you're unsure of or at any time you want to clarify a point, please make sure you contact us here at Grove Pension Solutions Limited.

ALTERNATIVES TO EARLY PENSION RELEASE

There are many reasons why someone might consider transferring their old Defined Benefit (DB) pension scheme into a 'flexible' arrangement; for some being able to take a lump sum is an important reason and may even be the main priority.

If this is what interests you, it is always worth considering alternative options as well - as they may achieve your objective and allow you to preserve your pension. The following are examples of the types of alternatives that you could consider.

BORROWING

Releasing money from a DB pension early could leave you with less retirement income. It might therefore be that the cost of a loan is less than the equivalent 'cost' of the benefits being given up.

USING OTHER SAVINGS OR ASSETS

It is likely that other savings or assets are more easily accessible than transferring the pension to take a lump sum. It may well also be the case that taking money from these is financially better in the long term as well.

RESTRUCTURING DEBTS

Credit card debts could be restructured into a bank loan; this would guarantee a payment end date and the interest rate charged is likely to be significantly less than a credit card. Similarly, a credit card balance may be transferable to a 0% deal with another company.

An existing bank loan could be spread over a longer term, thus reducing the monthly repayment.

Significant debts could be restructured into a debt management plan or even an IVA to reduce repayments. For the most extreme situation it may be necessary to consider bankruptcy.

WARNING

You should be aware that if you are transferring a defined benefit / safeguarded pension, you will be losing valuable guarantees. As such, this is likely to be suitable for a very limited number of people and circumstances, and it will almost certainly reduce your pension income in retirement.

Listed below are some of the risks of this type of transfer, although please remember that this is not exhaustive. Please take time to read them and carefully consider how they may affect you:

- Defined Benefit / safeguarded pensions offer guarantees that mean your future benefits are not dependant on investment returns.
- By transferring and forfeiting these guarantees, you are taking a significant additional risk.
- If you take benefits early, you will reduce your eventual income.
- If you take a cash lump sum earlier than your normal selected retirement age, it is likely to be smaller than if you waited.
- Some state benefits (NOT the state pension) could be affected by taking a cash lump sum and / or income from your pension now.
- If you take an income now it may affect your income tax position.
- By taking a cash lump sum the remaining pension fund will be lower than it would have been had you not taken it.

PENSION TRANSFER GOLD STANDARD

Pension
TRANSFER
Gold Standard

Grove Pension Solutions has adopted the Personal Finance Society's Pension Transfer Gold Standard initiative.

Helping you recognise good practice, ethical and professional standards when seeking financial advice on pension transfers and what you should expect from financial advisers who have adopted the Pension Transfer Gold Standard

THE REQUIREMENT TO SEEK REGULATED FINANCIAL ADVICE

In the 2014 Budget the Government announced legislation (sometimes referred to as 'Pension Freedoms') that came into effect in the 2015/16 tax year. As well as introducing additional flexibility in how benefits can be taken (for example, anyone aged 55 and over can take the whole amount of their pension fund as a lump sum, the majority subject to personal taxation) it recognised the additional complexities and responsibilities such 'freedoms' introduced, by making the taking of regulated financial advice compulsory for anyone looking to transfer what it termed 'safeguarded'* benefits of more than £30,000 (*this means Defined Benefit/Final Salary Pension Schemes, Guaranteed Minimum Pensions (GMPs) and pensions with Guaranteed Annuity Rates (GARs)).

Following these changes, a significant increase in benefits being transferred from employer Defined Benefit/Final Salary Pension Schemes has and is taking place, requiring many to seek regulated financial advice for the first time.

WHAT IS THE PENSIONS ADVICE TASKFORCE?

The Pensions Advice Taskforce is an industry backed initiative from the Personal Finance Society, that has established a voluntary code of good conduct for pension transfer advice (the 'Gold Standard').

Financial advice firms can adopt and subsequently promote this standard so you can be confident that you are dealing with a firm that is going beyond minimum legal and regulatory requirements when giving you financial advice in relation to transferring your pension.

WHO ARE THE PERSONAL FINANCE SOCIETY?

The Personal Finance Society is the professional body for the financial advisory profession in the UK, whose role is to promote ethical behaviour, high standards of professionalism for technical knowledge and client service for the ultimate benefit of the profession and consumer alike.

It is part of the Chartered Insurance Institute, the world's largest professional body dedicated to insurance and personal finance that seeks to 'secure and justify the confidence of the public'.

GOING THE EXTRA MILE SO YOU KNOW YOU ARE IN GOOD HANDS

Financial advice is regulated in the UK by the Financial Conduct Authority from the starting point of 'core principles', two of which are especially significant when it comes to complex pensions advice such as Defined Benefit transfers:

1. A firm must pay due regard to the interests of its customers and treat them fairly.
2. A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading.

THE PENSION TRANSFER GOLD STANDARD - PRINCIPLES

The section below details the additional principles advice firms who adopt the Gold Standard adhere to, together with a description of what this means for you.

How financial advice firms adhering to the Pension Transfer Gold Standard will demonstrate good practice:

1. HELPING YOU UNDERSTAND WHEN ADVICE IS APPROPRIATE, BEFORE YOU TAKE IT.

The value of guaranteed benefits available to members of a Defined Benefit or Final Salary pension scheme are such that for most a transfer to a Money Purchase arrangement, where you take on the investment risk of your pension fund, is unlikely to be in your best long-term interests.

So, it is important that you have enough information about the advantages and disadvantages so that you can make an informed decision whether or not to seek professional financial advice on the transfer or conversion of your pension benefits. Firms adhering to the Gold Standard will ensure provision of this information 'at arms- length' so you are not under any undue influence in deciding whether to incur the subsequent cost of advice. You may sometimes hear this referred to as a 'triage' service.

2. ENSURING ADVICE GIVEN SUPPORTS YOUR OVERALL WELLBEING IN THE CONTEXT OF YOUR STATED OBJECTIVES, NEEDS AND WANTS.

Firms adhering to the Gold Standard will help you understand how a transfer will benefit and fit in with your stated objectives, overall retirement plan and your long-term well-being. One outcome of the advice may be to recommend staying in your existing pension scheme.

Where a transfer does not meet your stated objectives or the adviser has established that it is not in your best interests, but you decide to proceed with the transfer anyway, he/she may exercise his or her right not to facilitate the transfer, which is against their own professional advice.

3. ENSURING THE MOST APPROPRIATE TECHNICAL SKILLS ARE UTILISED ON YOUR BEHALF.

Firms adhering to the Gold Standard will ensure that their required Pension Transfer Specialist (PTS) holds qualifications applicable to both that role and for advising on investments, so they are qualified to advise on the complete end-to-end transfer process including the ultimate destination of the transfer funds.

They will also ensure their knowledge and technical expertise in respect of pension transfers is maintained and up to date via a commitment to relevant and continuing professional development every year.

4. ENSURING YOUR TRANSFER IS INVESTED APPROPRIATELY.

Firms adhering to the Gold Standard will only recommend mainstream investments from regulated investment companies (this may differ if you are an expert investor) and will not accept introductions from unregulated firms that provide, facilitate or otherwise arrange unregulated investments. This is important because firms are responsible for the suitability of the investment within the money purchase arrangement when the transfer is arranged, and the destination of the funds is known, even when the firm does not arrange the investment itself.

5. ENSURING YOUR UNDERSTANDING AND ACCEPTANCE OF ALL CHARGES.

Pension transfer advice can be complicated and can sometimes be perceived as expensive. Before you incur any costs firms that have adopted the Gold Standard will ensure you have a full understanding of exactly how much money you will be charged and when.

If you proceed with a transfer, they will ask you to confirm this understanding in writing. This will include the cost of advice in monetary amounts and cover if the advice is to transfer or not to transfer, any charges that relate to facilitating a transfer and any ongoing charges that will apply following a transfer (including any assumptions used in determining the amounts).

6. HELP YOU UNDERSTAND HOW THE ADVISER WILL MANAGE ANY CONFLICTS OF INTEREST.

Firms adhering to the Gold Standard will create, maintain and provide access to a Conflict of Interest statement specifically in respect of Safeguarded and Defined Benefit transfers, so you can clearly see any conflicts of interests to which the firm and adviser/s may be exposed, and how these are mitigated and/or remedied. For example, where a contingent charging model is used (where the fee for the advice to transfer is recovered via the fee to facilitate the transfer).

7. HELP YOU UNDERSTAND THE COST TO YOU OF TRANSFERRING YOUR BENEFITS.

Firms adhering to the Gold Standard will give prominence to the Transfer Value Comparator (TVC) within the suitability report you will receive (a TVC is a regulatory requirement that compares the transfer value being offered with how much it would cost you to buy back the guaranteed benefits you would be giving up, on the open market). They will also ensure that you understand how much you might be giving up to achieve your objectives by transferring, before a transfer takes place.

8. HELP YOU UNDERSTAND THE ADVICE PROCESSES AND RECENT CLIENT OUTCOMES.

Firms adhering to the Gold Standard will make available any reasonable requests you make about internal advice processes and Management Information. The latter will include non-personalised details in respect of all client/prospective client engagement over the past 12-month period, those referred into a triage process, those who subsequently went on to take advice and those who subsequently received a recommendation to transfer their pension.

THE PENSION PROTECTION FUND

The PPF was established in 2005 in response to concerns around Defined Benefit pensions, where the scheme is in 'deficit' e.g., there is insufficient assets in the scheme to pay member's benefits. If an employer with a defined benefit pension scheme becomes insolvent, the PPF will assess the scheme to see if members qualify for 'compensation'. This is known as the 'assessment period' and the PPF will decide whether it can accept the scheme or not.

If the scheme is admitted into the PPF, they would pay your pension benefits at the *relevant compensation levels.*. The amount of compensation you get depends on whether you had passed your normal pension age when your employer became insolvent. If you were under your normal pension age, you're entitled to receive a pension of 90% of the amount you've built up when your employer became insolvent. In addition to your pension benefits being reduced, benefits may have limited increases in payment compared to what your scheme was originally promising and lower death benefits for your spouse, whilst the pension compensation is also subject to a 'cap'. For a 65-year-old, this is capped to £41,461.07 per year (up to 31st March 2022).

You may be able to take the pension early from age 55 onwards (particularly if you have health issues) but the benefits would be reduced. Similarly, you would generally be able to take a tax-free lump sum in exchange for a reduced pension. However, options like Flexible Drawdown are not available and once your scheme is being assessed for, or enters the PPF, you cannot transfer out – meaning your only option is to take the reduced PPF benefits offered.

Nevertheless, the PPF is a potentially valuable 'lifeboat' that could still mean you get at least 90% of your pension value.

GROVE
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