GROVE PENSION SOLUTIONS

TRIAGE PACK

Contents

Introduction 1
The Requirement to Seek Regulated Financial Advice 1
Defined Benefit Pension Schemes, An Explanation 2
The Pension Protection Fund 2
Safeguarded Benefits 3
Warning 4
Alternatives To Transferring Your Pension and Releasing Money Early 4

Introduction

The information we are providing you here is designed to give you a "high-level" overview of the type of pension you have, the protections that pension already has built into it, the potential risks of transferring into another arrangement, and provides some alternative solutions to transferring that may be suitable for you to consider.

This is the first step in helping you decide whether you might want to consider transferring your pension or leaving it where it is.

Once you have read and understood this document, and confirmed you wish to proceed with your enquiry, we will provide you with the following:

- Comfort in knowing that we provide you with full support for your overall wellbeing in the context of your stated objectives, needs and wants.
- A full understanding of how much money you will be charged, prior to committing to any costs.
- Access to one of our fully qualified Pension Transfer Specialists who will advise you on the complete end-to-end process, including the ultimate destination of any transfer of funds.
- Confidence in knowing that we will only recommend *mainstream* investments from regulated investment companies.
- The ultimate aim of ensuring you have all the facts and understanding you need to allow you to make an informed decision about how you wish to proceed.

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 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.

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.

* An example of benefits is anyone aged 55 and over can take the whole amount of their pension fund as a lump sum, the majority subject to personal taxation.

** Safeguarded means Defined Benefit/Final Salary pension schemes, Guaranteed Minimum Pensions (GMPs) and pensions with Guaranteed Annuity Rates (GARs).

Defined Benefit Pension Schemes, An Explanation

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

You should think very carefully before transferring out of one of these arrangements; considering your options fully and ensuring that you understand what the implications and costs are.

When you were working for your old company, it was likely that you paid a percentage of your salary to the pension scheme, usually between 5% and 15% - with an even greater employer contribution.

Being in the pension scheme meant you got the promise of a pension when you retired, which was dependent 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 and from this they would have been 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 pension amount would be increased each year from the date you left the scheme, up to the scheme's retirement age. Increases are normally at least in line with inflation, so in 'real terms' it would be worth as much in retirement as when you left the scheme.

Ultimately, whatever the cost for your old employer to pay you that calculated 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 scheme pension fund reduces, it's not your problem because they must still ensure you receive the pension you're promised at retirement.

Important

If you transfer this pension entitlement away from your old company scheme, you will 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 likely to 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.

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 are insufficient assets in the scheme to pay members benefits. If an employer with a Defined Benefit pension scheme becomes insolvent, the PPF will assess the scheme and if the scheme is admitted to the PPF: They would pay your pension benefits at the relevant compensation levels.
- The amount of benefit ('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, they may have limited increases in payment compared to what your scheme was originally promising.
- You may be able to take the pension early from age 55 onwards (particularly if you have health issues) but benefits would be reduced, whilst your pension is normally reduced if you take a tax-free lump sum.
- Flexible retirement options are unavailable, and you cannot transfer out of the PPF.

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

Safeguarded Benefits

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

As outlined earlier.

Pension policies with Guaranteed Annuity Rates (GARs)

A plan with a GAR means that the accumulated fund at retirement will be converted to a guaranteed lifetime income (or 'annuity') at a specific rate which is often higher than that otherwise available on the 'open market'. As the underlying fund can still go up and down in value, there is no guarantee how much income you will get. Nevertheless, this type of guarantee can be very valuable – particularly during times where pension rates are low.

Pension plans with Guaranteed Minimum Pensions (GMPs)

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 fund shortfall e.g. the cost of providing the GMP is more than the value of your fund, then the pension scheme will have to make up the cost difference and it is this that means a GMP can be particularly valuable.

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.

Pension plans offering a promised level of income in the future or guaranteed minimum level of income.

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.

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.

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

Warning

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 dependent 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.

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.

Alternatives to Transferring your Pension and Releasing Money Early

There are many reasons why someone might consider transferring their old Defined Benefit (DB) pension scheme into a 'flexible' arrangement, including access to a lump sum.

If this is what interests you, it is always worth considering alternative options, as they may achieve your objective and allow you to preserve your pension, for example:

Borrowing

Releasing money from a Defined Benefit or Safeguarded 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 whilst this is also likely to be financially better in the long term as well.

Restructuring Debts

Credit card debts could be switched to a 0% deal with another company or 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.

An existing bank loan or mortgage 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.