W1 Investment Group

Pension Transfer Guide 2022

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W1 Investment Group provides unrivalled independent financial advice to British expatriates and non-UK nationals wherever they live worldwide. We guide our clients every step of the way. We remove the anxiety and complications of all aspects of financial planning. We help navigate the often-complex administration that characterises pension planning. Most importantly, this guidance persists through the entirety of your retirement years. Whether you plan on returning to the UK for your retirement or whether you plan to remain offshore, W1 will tailor all advice to your bespoke needs.

Introduction

Traditionally, it's been of the general opinion that members of defined benefits (often called final salary) pension plans should remain in their current plan. Discussions around transferring final salary pensions have been few and far between. Instead, many individuals aren't aware that a transfer option exists at all. Final salary pension plans have provided safety and security during retirement years for countless UK pensioners. They provide the peace of mind of a consistent and perpetual income stream – often the sole income stream for many individuals. In fact, a final salary pension in the UK has traditionally been referred to as a 'gold-plated' pension, but is that label still warranted? In recent years, many scheme members have sought advice on the subject of transferring their accrued benefits leading to over £34 billion of defined benefit pension funds being transferred into self-invested personal pensions (SIPPs) between 2019 and 2020.

Why are people now transferring?

In 2015 the Chancellor of the Exchequer George Osborne introduced the 'Pension Schemes Act'. In essence this Act was designed to introduce greater flexibility and guidance for pension scheme members. These new flexibilities provided retirees in Defined Contribution (also known as Money Purchase or Personal Pensions) pension schemes with the freedom to access their pension when they wished; as cash sums, by flexible drawdown, by transfers or by purchasing an annuity when previously everyone had been forced to purchase an annuity.

What were the changes?

The Pension Schemes Act meant that, in the real world, pension scheme members were treated like adults and put in charge of how much or little they could draw from their pension pot from the age of 55 onwards. Whilst the above changes applied to personal and occupational based Defined Contribution schemes, no changes were made to Final Salary schemes. A Final Salary scheme member would still only be able to take their benefits (without penalty) at the agreed scheme retirement age (often 65) and once they started taking an income, it was fixed (and index linked) for life and couldn't be varied.

Should you transfer a defined benefit pension?

For the majority, remaining in a defined benefit pension continues to be the best advice, however, as shown by the amounts being transferred out of these schemes, a growing number of people are electing to use their newfound freedoms and are exercising their rights to transfer their benefits.

Below are some of the main reasons:

✔ Very attractive transfer values

Twenty years ago, transfer values were often between 5-10 times the annual income a scheme would offer at retirement (i.e. if a member was going to retire on £10,000 per year, the transfer value would often be between £50,000 - £100,000), however due to the way defined benefit schemes calculate transfer values, coupled with low 20 year Gilt Yields, transfer values are now often 25-30 times the guaranteed income (thus the same member with a retirement income of £10,000 per year might now be offered £250,000 to £300,000 as a transfer lump sum).

✔ 100% of pension passed to your loved ones at death

100% of your SIPP can be passed down to future generations or any beneficiaries of your choice. Defined benefit pension schemes are restricted, normally allowing only 50% of the pension to be passed on to a Spouse and often children are not entitled to any pension. A SIPP gives you the freedom to decide who can receive your pension with no restrictions.

✔ Flexible Access Drawdown (As early as 55)

New rules introduced in April 2015 mean you can withdraw as little or as much as you like from the age of 55. A SIPP gives you complete flexibility as to how you use your accumulated pension savings meaning you can manage your retirement income how you like through flexible drawdown. These choices are not available to defined benefit scheme members.

✔ Flexible investment strategy

Your SIPP is under your control, you have the freedom to choose your investment strategy whether that be one individual fund or multiple funds. A suitable investment strategy that considers your appetite for risk should be able to meet and surpass the returns needed to justify the transfer.

✔ Consolidation options

If you have accumulated several pensions from your time working in the UK, consolidating them into a SIPP will allow for simpler administration and a more manageable investment strategy.

✔ Inheritance tax

Unlike a defined benefit pension, 100% of any money left in your SIPP when you die can normally be passed to your heirs free of inheritance tax. Any withdrawals they then make will usually be tax free if you died before you were 75. If you die after 75, any withdrawals your beneficiaries make will be taxed as their income.

✔ PCLS

You are entitled to take a 25% tax free lump sum when you start accessing your pension. Depending on where you are resident, your income may also be subject to tax in your country of residence as well so it's important to understand the local tax rules.

✔ Solvency Concerns

There was alarming news last year that private employer final salary pension deficits had soared from £10.9billion at the end of 2019 to £135.9billion at the end of March 2021.

There were 3,606 schemes in deficit and 1,816 in surplus, according to the figures released by the Pension Protection Fund (PPF), which rescues any that go bust.

A number of high profile defined benefit pensions scheme have been liquidated in the last 5 years and whilst the PPF has stepped in to protect the members' benefits, annual pension income is immediately reduced by 10% and capped at £35,000 per year and there is no guarantee that the PPF can continue to prop up the remainder of pension funds in deficit forevermore.

Why are so many schemes in deficit?

- Increased lifespans: Because people are living longer, schemes are required to pay out for longer periods of time than they had planned.
- Poor investment performance: Schemes invest in stocks and shares, when those investments underperform the value of the pension fund decreases.
- Low or no profitability: The business doesn't make sufficient money to fund the pension pot.
- Scheme mismanagement: Pension deficits can occur when corporates continue paying dividends rather than funding their pension schemes or when the business takes a contribution 'holiday'.
- Expensive annuities: Most employers will purchase annuities to provide their scheme members with an income for life. The cost of an annuity is determined primarily by interest rates. With interest rates currently at an all-time low, annuities cost much more than they once did.

Limitations of remaining in a defined benefit scheme

- Your Beneficiaries may not be able to receive the full value of your fund after your death.
- Subject to Lifetime Allowance (LTA)* assessment any savings in excess of the LTA limit will face an additional tax of between 25% and 55%.
- Subject to ongoing and fast paced changes in UK Pension legislation, and tax rules.
- Funds are generally held in GBP creating a potential future currency risk for those retiring abroad.
- 67% of UK Defined Benefit (Final Salary) schemes are underfunded leading to a number of high-profile closures.
- No/Limited control of investments.
- Restricted growth options, typically only inflation linked.
- No ability to vary income as required in retirement (often people would prefer to spend more when they first retire and are fit and active).
- Income Tax up to 45%.

Why a defined benefit pension may be right for you

Historically, defined benefit pensions have been seen as 'gold plated' and have always been a popular incentive to work for an employer for the following reasons;

Retirement Income is guaranteed

With a defined benefit pension, the employer guarantees to pay a set retirement income, regardless of how the underlying investments perform. This makes it a more stable benefit than defined contribution pensions, which - while they do tend to grow over the long-term - can be negatively impacted by the stock market and other investments in the short-term. If your employer goes through financial difficulties then the UK government's Pension Protector Fund (PPF) will usually step in to guarantee much of the benefits that your scheme guaranteed (up to certain limits).

Retirement income is usually guaranteed for life

Although some defined benefit pension schemes pay out retirement income for a set number of years, others pay out for the lifetime of the retiree. It means you can rest assured that - so long as the company you work for remains in good financial health - your pension will never run out, which is possible with a defined contribution pension scheme.

Retirement income is usually linked to inflation

Inflation happens when the average price of goods and services rises over time, causing your money's purchasing power to fall.

The same thing can be true of pensions that aren't inflation-linked. If you continued to receive the same amount of pension income every year, you'd be able to buy less and less with it over time because inflation will 'erode' its purchasing power.

Defined benefit pension plans are often - but not always - guaranteed to rise with inflation, or at least to a predetermined amount that makes up for inflation to some extent.

So while you may receive £15,000 in the first year of retirement, it could rise by 2% the following year - if that was the rate of inflation - to £15,300.

There are usually some death benefits for a married spouse

If you want to leave your married partner or child (usually under 21) some financial security when you die, a defined benefit pension may remove some of the uncertainty.

Often, a defined benefit pension will continue to pay out a percentage of your retirement income (typically 1/3rd to 2/3rd's) to a beneficiary when you die. But it could also pay out a lump sum, which is often calculated as a multiple of your average of final salary - if you die before you turn 75, this should be tax-free.

Pension Transfers - The Ins and Outs

There's much to consider before you decide to transfer. Are you married or single? Do you have children? How old are you? Are you in good health? When are you planning to retire? Or are you already retired or close to retirement?

Transferring a pension is as big a decision as starting one: many different factors must be taken in to account.

Transferring is not easy

It's not so much the process itself that makes pension transfers problematic; it's the conditions and the potential risks and pitfalls. That's why it's important to take independent specialist advice, otherwise you risk making an expensive mistake.

What do you have to lose?

Are you aware of the possible ramifications of transferring from an existing scheme or provider to a new scheme? Over and above giving up the benefits offered by the current scheme, here are some of the other issues that need considering prior to transfer:

1. Exit penalties—are there any?
2. Would any potential bonuses be lost?
3. The transfer value—is it more or less than expected?
4. Guaranteed benefits—if they exist, what are they worth?
5. Does transferring a pension expose it to risk?

Regarding defined benefit schemes…

Unless a strong case can be made for transferring out—the UK's Financial Conduct Authority's view is:

"Defined benefit pensions, and other safeguarded benefits involving guaranteed pension income, provide valuable benefits so most consumers will be best advised to keep them. However, we recognise that the environment has changed significantly, so we want to ensure that financial advice considers the customer's circumstances in full and recognises the various options now available to them."

The transfer options are:

- **You can transfer a personal pension from one UK pension provider to another UK pension provider**
- **You can transfer a defined benefit scheme to a UK pension provider**
- **You can transfer a personal pension or a defined benefit scheme to an overseas pension provider**
- **When you transfer, you can choose the type of personal pension you want**

What should you do and what happens next?

STEP 01

Initial discussion to assess your personal circumstances, goals and objectives with a W1 financial adviser

STEP 02

We send a letter of authority (LOA) to your pension provider/s. This is an information request and does not permit us to make any changes to your current pension/s.

STEP 03

Your pension provider will provide us with the details of your current benefits and the terms & conditions of your scheme. They will also provide a transfer value. This states the amount they would pay you to exit the scheme.

STEP 04

W1 Investment Group will prepare a comprehensive report for you that details your current schemes benefits and shows a comparison with your alternative options.

STEP 05

If you decide that a transfer is right for you, W1 Investment Group will arrange all the required paperwork to facilitate the transfer and set up the pension you wish to transfer into. Once the transfer is complete, we will then provide advice on how to best manage your assets within the new pension, in line with your preferred strategy, and help you meet your goals.

How do I get my free complimentary pension transfer report?

1. Submit your details to book an appointment

Submit your contact details on our website. Once you have done so, one of our associates will get in contact with you to book your free, no-obligation consultation.

2. Attend your free video consultation

During your consultation, your advisor will speak with you, and your spouse or partner, for about 15-20 minutes (via Zoom) to understand more about your current situation with your pension. If your pension meets certain criteria, then your advisor will walk you through what you need to do next to get your customised pension report.

3. Receive your fully customised report

Once your report is ready, your financial advisor will meet you for another (again, completely no-obligation) video consultation. During this consultation, he or she will present your report to you and explain your options available – including any fees or charges related to the pension transfer.

W1 Investment Group is a financial planning and investment management company. We specialise in helping expat professionals, and provide global financial solutions for those with a global lifestyle. We pride ourselves on the quality of advice delivered by highly qualified and exceptional individuals.

What makes us different?

Not all offshore financial planning firms are the same, and at W1 we like to think we do things differently. Our principle objective is to be the most trusted and client centric financial practitioner in the offshore market.

Only qualified advisers

All our Senior Financial Planners are qualified to at least CISI or CII Level 4 (in line with UK standards) with the majority holding Level 6 or 7 qualifications (post graduate professional level). This sets W1 apart in the international financial planning market and you can be sure to only deal with the most technically skilled advisors in the offshore market.

Advice in writing, with transparent and fair charges

All of our advice is documented in writing before the point of sale, and all fees and charges are clearly outlined before you become a client.

Annual reviews

We are interested in building long term relationships rather than short term commissions. Our commitment to our clients is at least one annual review, and access to you adviser at all times via phone or email.

Sensible Investment Management

We only use investment propositions located in regulated jurisdictions such as the UK. This means all of our clients' money is managed sensibly and responsibly by qualified and regulated professionals.

Global service

All solutions are tailored for clients with a global lifestyle in mind ensuring tax and currency efficiencies are maximised. With offices in the Middle East and Europe, and a Global Client Service team we look after clients all over the world.

More information

We hope this guide has provided you with some useful background information on the subject of transferring your pension to a SIPP. However, we would encourage everyone to take individual professional advice on their current pension arrangements and whether a transfer would be appropriate for them or not.

If you would like to find out more about the pension transfer advice service that we can provide – or just find out more about W1 Investment Group – please email us at **enquiries@w1invest.com**.

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