Pension Benefit Transfers

Evaluating whether you should consider moving your pension

BACKGROUND

Recent pension reforms have opened up a whole range of possibilities and choices. You may be considering whether it would be to your advantage to move your pension, in order to capitalise on the new flexibility.

MPA Financial Management has four advisers with G60 Pension Transfers Qualification, so this means they can transfer your pension from a defined benefit to a defined contribution scheme.

There are two main types of pension scheme:
A Defined Benefit scheme pays out a secure income for life which increases each year. They usually pay your spouse, civil partner or dependents a pension income when you die.

A Defined Contribution pension scheme is where you build a pot of money to provide an income in retirement, rather than being guaranteed a secure income. Income depends on the amount you pay in, the fund's investment performance and the choices you make at retirement. When you retire you can access and use your pension pot as you wish, taking out money as and when you wish.

HOW IT WORKS

If you are in a private sector defined benefit pension scheme you can transfer to a defined contribution pension as long as you're not already taking your pension.

Defined contribution pensions can be accessed flexibly from age 55 so this may seem like an attractive option. However, you may be worse off in a defined contribution pension and so it is important to fully explore the options and consequences fully.

If you transfer from a **defined benefits pension scheme,** it is not the benefits themselves which are transferred but a cash sum, known as the Cash Equivalent Transfer Value (CETV). Essentially you surrender your existing benefits in return for cash which is invested elsewhere: another employer's pension scheme, a personal/stakeholder pension or a buy-out contract.

Transferring into a defined contribution scheme, the CETV tops up your pension pot and is invested in whichever funds you choose. Once you start to withdraw benefits, the value will be dependent upon the size of the CETV, length of investment, how the investments have fared and will also take into account certain charges. Because investments can go up or down, retirement benefits may be higher or lower than those you would have received had you remained in the defined benefit scheme. Therefore your future income is less predictable and this move carries more risk.

This is an extremely specialist area, where expert advice is essential - indeed, if your CETV is worth £30,000 or more, you are legally obliged to take financial advice prior to transfer. MPA are renowned experts in this field and act on behalf of many other Independent Financial Advisers and their clients.

MPA'S PROCESS

We work with sophisticated software from O&M known as the Transfer Value Analysis System (TVAS). This in-depth analysis of all relevant data enables us to compare the benefits of your existing scheme with potential benefits from an alternative scheme, and deduce whether a transfer is actually possible or indeed advisable.

We have developed the processes to report exhaustively on the options according to your particular circumstances.

Pension Benefit Transfers continued

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REASONS WHY YOU SHOULD LEAVE YOUR PENSION IN A DIRECT BENEFIT SCHEME

The default option is to leave your pension where it is and this has several benefits if it is a defined benefit scheme and these include:

- Your pension pot increases annually by the level of inflation, and this continues post retirement
- You have guaranteed death benefits

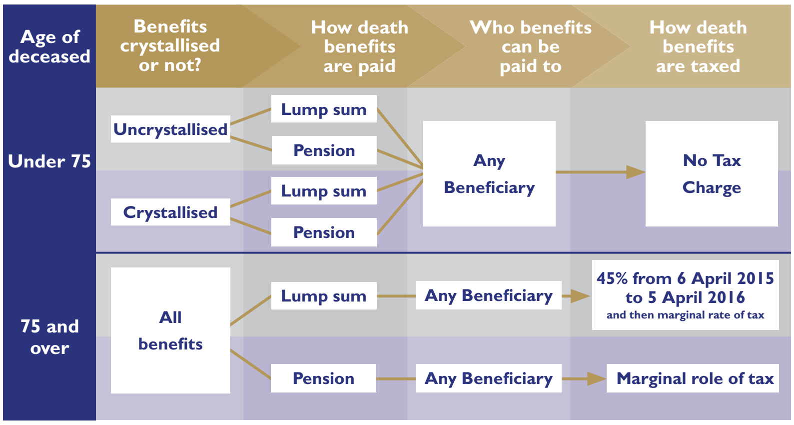
However with a Defined Benefit scheme you cannot pass down the accrued pot through the generations.

REASONS WHY YOU COULD CONSIDER A PENSION BENEFIT TRANSFER?

- Benefit from enhanced death benefits – we worked with one client who had £2.5m CETV from a Defined Benefit scheme. She was single with no dependents and on her death in the DB Scheme her estate would only receive a refund of contribution of £30,000. By transferring to a DC scheme the whole fund could be paid to selected beneficiaries and / or charity free of inheritance tax.
- Access tax-free cash which will allow you to pay off debt – we have worked with one client who had a £60k credit card debt and by transferring their pension they paid off their debt by taking the tax-free cash. Another client we worked with was just about to have their house repossessed and the pension transfer to Direct Contribution freed up enough of their assets to prevent the repossession.
- Have flexible income benefits in retirement
- Pass down pension through generations

HOW PENSION BENEFITS ARE PAID AFTER DEATH

The following diagram shows how Defined Contribution pension benefits are paid out after an individual's death.



THE COSTS

- **For the initial analysis:**
  - £300 for existing clients
  - £500 for new clients
- **To proceed with the pension transfer we require a minimum fee of:**
  - £2,500 minus the initial outlay

In short, there is a minimum charge of £2,500 regardless of the size of the transfer. Payment can be made through deduction from the pension scheme, with an ongoing fee based on which of our services you use, such as MPA Lite or MPA Wealth.

WHAT WE CAN DO FOR YOU?

From 6th April 2015 we offer a facility to:

1) Help you decide whether to transfer your pension benefits from one scheme to another

2) Take care of the complex formalities should you take that step

CONTACT US

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The information in this article can in no way be construed as advice and professional qualified advice should be sought relating to your pension options.

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