

Understanding your transfer of Defined Benefits to a Defined Contribution Scheme

Transferring Your Defined Benefits Pension

Before transferring out of a Defined Benefits scheme to a Defined Contribution scheme, there are important things you should consider.

It is important to understand you will be giving up future entitlement to a guaranteed pension and other associated benefits, and replacing them with a cash value, which will be invested in a pension scheme that provides you with greater flexibility and control. This flexibility and control means that the value of your investments can go down as well as up, and you may not get back as much as you initially invested.

The Financial Conduct Authority (FCA)'s view is that in most cases you are likely to be worse off if you transfer your Defined Benefits pension. However, there are potential benefits and risks when transferring out of a Defined Benefits scheme into a Defined Contribution scheme. The FCA have provided you, the consumer, with free-to-access information about transferring your Defined Benefit pension. This can be found here: <https://www.fca.org.uk/consumers/pension-transfer>.

Features of Defined Benefit & Defined Contribution Schemes

Defined Benefit Scheme

- Pension income is based on final salary and length of employment
- You are guaranteed a certain level of pension income payable for life when you retire.
- Valuable, safeguarded / guaranteed rights and benefits are provided
- You may be able to retire early on a reduced guaranteed pension
- Your Scheme may provide for a guaranteed level of benefits to your beneficiaries in the event of your death.
- Investment performance irrelevant.
- Potential for the employer to go bust and not pay the pension as promised.
- Access to the Pension Protection Fund.

Defined Contribution Scheme

- Complete flexibility in how you receive your pension income.
- Greater control over investments.
- Ability to consolidate a number of pension funds together in one place.
- Flexibility as to when you take benefits from age 55 onwards.
- Control over the level of pension income you receive and when.
- You remain in control of your investments whilst taking pension income.
- Pension income payments can depend on the performance of the investments.
- Value of investments can go down as well as up.
- The value of your fund can erode more quickly depending on performance and surrender charges.

Retiring with a defined contribution scheme

When invested in a Defined Contribution scheme, at retirement you will need to make sure that there is sufficient liquidity within your scheme to withdraw a tax free lump sum (PCLS) and / or income.

One of the features of a Defined Contribution scheme, which is not available within a Defined Benefits scheme, is that the type of investments you select can have an impact on the availability of liquidity, as well as the overall impact on the value of your SIPP; this includes any potential surrender charges.

Transfer Advice

If the value of your Defined Benefit scheme is more than £30,000.00, you are required by law to have taken regulated financial advice before the transfer can proceed.

Information on this is provided by both the **Money Advice Service** and the **Pensions Advisory Service**.

FCA rules require firms advising on pension transfers to have specific permissions. Advice on pension transfers must be given, or checked, by a pension transfer specialist. The pension transfer specialist must follow the FCA's training and competency rules, and have the appropriate qualifications, and with that, the permission to perform the function.