Self-triage: client education leaflet

Haven Protect Limited
Protection & Wealth Management

Introduction

Following your enquiry about your defined benefit pension (DB), the purpose of this guide is to help you better understand your scheme and decide whether you want to take advice on your pension.

Your decision on whether to receive advice or not is a very important first step. You should read the following guide carefully before making a decision.

What is a defined benefit pension?

A defined benefit pension scheme is a pension which guarantees you will get a specified benefit when you reach the scheme's retirement age. The 'benefit' is usually based upon a formula that takes into account your salary and years of service. There is no investment risk with this type of scheme.

Alternatively, with a defined contribution pension scheme what you get when you retire is not specified in advance. The final value of your pot will depend upon the amount paid in, charges and performance. However, a defined contribution pension scheme may offer more flexibility and control. With this type of arrangement, you will have ongoing decisions to make about investments and income withdrawals.

We provide more information on the key differences between a defined benefit and defined contribution schemes on the following pages.

You should understand that the Financial Conduct Authority (FCA) has stated that it will be in the interests of most people to keep their defined benefits pensions because of the valuable guarantees these provide. Many people underestimate how long they will live and defined benefit schemes protect you from the risk of your money running out.

Helping you understand your pension

Following changes in legislation, known as 'Pension Freedoms', you now have more flexibility in the way you can access your pension funds, although this will not necessarily be through your existing scheme.

Transferring out a defined benefit pension scheme is unlikely to be in the best interests of most people.

You should consider the following carefully before you choose to proceed with requesting advice.

The following table compares some of the features of a defined benefit pension scheme compared to a defined contribution scheme.

Feature	*Defined Benefit*	*Defined Contribution*
Income	The pension income is a set amount, guaranteed for life, which will usually increase automatically each year to protect against inflation. There is no investment risk for the pension member and the pension scheme has to pay the member's pension regardless of how well the scheme assets perform.	Provides an income set by the member based on how much they need. It could be more or less than that offered by a defined benefit scheme. The level of income can be increased or decreased at any time to take account of a change in circumstances. However, there is a possibility the fund could run out if the withdrawals taken are unsustainable, or investment performance is poor.
Death benefits	The pension is payable for life and upon death is usually payable at a reduced rate to a partner or dependent -typically 50% - and payable for their lifetime. These payments are made regardless of how long you or your dependent lives. Once you and your dependents have died no further benefits are payable.	Income is payable for as long as there is money in the pension. It's dependent upon the investment returns within the pension and whether withdrawals are sustainable. If you take too much out at an unsustainable rate, or live longer than expected, the fund may run out. Upon death any remaining fund can be passed on free of tax before age 75. It can be passed on at the beneficiary's marginal rate of income tax after the age of 75.
Poor health	If you are in poor health, it does not alter the level of income the scheme will pay however, should you suffer a serious illness prior to the pension commencing, some schemes do pay benefits on different terms. This could include paying the pension earlier and increasing the lump sum that varies with each scheme.	If you are in poor health, it may mean you have capacity to take bigger withdrawals before death, or you could instead use the fund to secure an alternative guaranteed income by purchasing something called an annuity. An annuity will ensure a guaranteed income for life and if you are in poor health, or have no dependents, it may mean you receive a higher income.
Tax free cash	In most defined benefit schemes, the member has the option of giving up some of the income and taking it as tax free cash (known as a pension commencement lump sum). This must be taken in one go.	Tax free cash is normally 25% of the total amount being taken out of the pension and can be taken in stages, rather than in one go.
Retirement date	The scheme normal retirement date is set by the scheme rules and a full pension is payable at that date. Accessing benefits early, from age 55, is usually permitted subject to reductions reflecting the pension being payable for a longer period.	Benefits can be turned on and off from age 55 onwards but early access may impact the amount of funds available later in retirement. You can choose to secure some income at any time.
Employer covenants and financial protection	The sponsoring employer of a defined benefit pension is bound by law to adequately fund a defined benefit pension. They can't walk away from their pension liabilities should a scheme be underfunded, unless they go into liquidation. In the event of an employer going into liquidation, an underfunded pension scheme would have a call against any assets remaining upon wind-up, prior to any shareholders receiving any money. Should a pension scheme not be able to meet its liabilities with no solvent sponsoring employer, the Pension Protection Fund is available to protect members of the scheme.	There is no 'employer covenant' once you have transferred your defined pension scheme. Your pension is reliant on the underlying investments and how well they perform. The Financial Services Compensation Scheme provides 100% protection in some cases should a pension provider fail.

Charges	The scheme is responsible for all the charges associated with running it. Unless you seek advice, you will have no charges to pay.	On top of the initial charges there will be product and investment management charges which will reduce the size of your pension fund. There are also likely to be ongoing advice charges. Typically, both are paid for from the pension fund but in times of poor investment performance these can have a greater negative impact on how long your money lasts.
Investment risk and performance	The responsibility for investment decisions and their consequences resides with the scheme trustees and their investment adviser/managers. The scheme pays for advice and administration and these do not affect your income.	You bear the risk of the investment decisions taken in respect of the fund. Poor returns in the early years of retirement and taking money out at the same time can seriously affect the amount of income you could withdraw over the long term.
Inflation protection	The scheme will usually provide a rising income to protect against some of the effects of higher inflation.	Your investment choices will determine how much inflation protection you have. Lower risk assets may not provide enough return in the long-run to mitigate the effects of inflation.

What advice can you offer me?

Should you choose to receive advice, we can offer you advice on the transfer of benefits. Please ask us for information about the fees for this if you are interested in proceeding.

Please note however, we generally do not engage with customers who are under the age of 55 for this type of advice and because of the fees for advice, smaller transfer values **may** mean there is not enough benefit to you to be gained from advice. If you are not a UK resident, we may not be able to provide any advice at all.

Advice

If you choose to receive advice your adviser will discuss the cost with you and will only proceed with your express agreement to do so.

Advice will involve collecting the same information required for abridged advice but your adviser will then conduct additional detailed analysis. This will include comparing the benefits of retaining your pension scheme to meet your current and future objectives and a final recommendation stating whether it's in your best interests to retain or transfer the pension at this point in time.

We **do not** support insistent clients, therefore **if we recommend you don't transfer, we will not support or arrange a transfer should you wish to proceed against our advice.**

Your adviser will charge you a fee for advice which you will be informed of at the outset, and it will become payable once you have received the advice. Your adviser will discuss with you how the fees for advice can be paid.

Please be aware that even if the advice does not result in a positive recommendation to transfer, these pre-agreed fees may still be payable.

Next steps

Having read this guide, should you require further information on defined benefit pensions, you can find it at the following recognised sources as:

Money and Pensions Service
www.moneyandpensionsservice.org.uk

The Pension Regulator (TPR)
www.thepensionsregulator.gov.uk

The Pension Advisory Service (TPAS)
www.pensionsadvisoryservice.org.uk

You may also find the video from the FCA which aims to help consumers better understand financial advice on transferring out of a defined benefit pension.
This can be found at the website below:
FCA pension transfer video pension transfer specialist advice - YouTube

If having read this guide you feel you are now in a position to receive advice on your defined benefit pension, or any other matter, please contact the financial adviser who provided you with this guide.