YOUR WINDOW OF OPPORTUNITY

Why now could be the best time to move away from your defined benefit pension

With transfer values going through the roof, there's never been a better time to make the move. This guide helps you decide if it's the right choice for you – and what to do if it is.

We’ve been featured in:

theguardian

Money Observer

The Telegraph

YAHOO!

THE INDEPENDENT

CITYWIRE

Important Information:

In transferring your pension pot you are also transferring the risks.
These are specifically:

- Investment risk: This is the risk that your investment may not grow as you would want and may be considerably less than the amount invested. This may respond to fluctuations in the stock market.
- Longevity risk: This is the risk that you will outlive your pension pot by the rate of growth not keeping up with the rate of withdrawals.
- The risk that products may not be available or cost-effective to meet your needs in retirement as legislation can change.

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FLYING COLOURS

Who are Flying Colours?

Flying Colours is a UK-based financial planning and investment business dedicated to helping people make the most from their money.

Our independent financial advisers and investment experts have a wealth of experience helping clients achieve life-changing financial outcomes.

By combining financial advice, disciplined investment management, tax optimisation and low charges, we provide trusted financial advice to happy customers across the country on complex areas including defined benefit transfers.

Welcome to the Flying Colours guide to defined benefit transfers

"There was a time when only the very wealthy could expect to live comfortably into old age. Today – thankfully – our healthy lifestyles and access to modern healthcare mean we're all living longer than ever.

That's great news. But there's a problem. The pensions system, which we all rely on to deliver a worry-free flow of money throughout our retirement, failed to foresee life expectancy rising so dramatically.

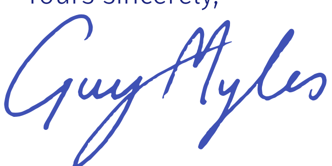
The state pension delivers a minimal income, and many people won't be able to access it until they hit 65 – if not later, given potential increases to the state pension age. Meanwhile, prized 'gold-plated' final salary pensions (also known as defined benefit pensions) have almost dried up as many companies realise these pensions schemes, while great for employees, aren't great for their own bank balances. There's a huge black hole in the UK's collective defined benefit pension fund, with a deficit estimated to be around £197bn. The final salary promise – a promise of constant annual income no matter how long you live – has become too difficult to keep.

But the biggest change to pensions is how we think of them. They're no longer untouchable funds kept away from view, only to be released once we hit a certain age. With changes from successive governments, pensions are now more accessible than ever.

Together, the defined benefit squeeze and the loosening of pension rules means it's an exciting time for those with the opportunity to transfer out of their final salary scheme. You need to be aware that DB schemes and the benefits they offer are complex areas and it is very unlikely you would be allowed to arrange a transfer without obtaining regulated advice. The risk that you make a mistake is just too high. There are more options than ever before, especially if your circumstances don't fit the prescribed pension industry norms.

If you're one of the 7.3 million UK residents who have a final salary pension scheme, it's worthwhile exploring your options. This document will guide you through the pros and cons of transferring, whether you should consider it, how to request a transfer offer, and how to make the transfer happen. We hope you find it useful."

Yours sincerely,



Guy Myles, CEO, Flying Colours

Why defined benefit pensions are fading fast

The first workplace pensions started in the 1870s, but back then, life expectancy was low. You were doing well if you lived beyond your late forties.

Fast forward to the modern day and life expectancy has clearly improved, but pensions have struggled to fund the longer and longer retirements that come with an average life expectancy of around 80 years of age.

Defined benefit pensions have been one of the main casualties: employers have realised these schemes are now financially unsustainable. Once a badge of white collar working success, a safety net of the middle classes, the funds needed to sustain a former employee through ten, twenty, thirty years or even longer of retirement have become too much.

Delivering a pension deficit

The Royal Mail is the most recent big firm to announce the withdrawal of its defined benefit pensions programme.

The country's oldest delivery service is currently running its pension scheme in surplus (when schemes have assets well in excess of the legal minimum). However, the company's scheme isn't sustainable, as its own contributions to its employees total pension fund is predicted to hit £1bn in just a few years from now. Few companies can manage that kind of financial burden.

Defined contribution pension

The most common form of pension scheme. Money paid in by you or your employer is used to invest in shares and other assets with the aim of increasing the value of your pension. The amount you get back depends on the performance of the investments over time.

Defined benefit pension (final salary)

Usually set up by your employer, a defined benefit pension will be based on your length of service, salary and the scheme's own rules and calculations. The amount you receive at retirement will be guaranteed by your employer (it is a 'defined benefit'). You can request to transfer away from a defined benefit scheme – and because employers can't sustain these schemes, they're willing to pay big sums.

Taking the same route

Unsurprisingly, defined benefit pensions are dropping like flies. Alongside Royal Mail, we can add the names like Jaguar Land Rover, BMW, Morrisons, Barclays, BP and the now defunct BHS to the list of big firms that have closed the doors to their defined benefit pension schemes.

With total deficits riding well into the billions, it's likely other big FTSE companies will follow and offer employees a "cash equivalent transfer value" (CETV) – a cash lump sum paid out to an employee in return for leaving the defined benefit pensions scheme. With so many companies following the trend, it's possible your employer will offer you a transfer too.

Companies are now desperate to avoid financial promises they simply can't keep. And that's good news for a lot of people: companies are so eager to get out of defined benefit they'll offer you a large cash lump sum. In return, you walk away. Even when your employer doesn't offer you a CETV it is your right to request it and to transfer out if you decide that is in your best interests.

Should I transfer?

Defined benefit pensions provide a sustained income throughout retirement, no matter how long you live. This income and any increases built on for inflation are guaranteed by the scheme. You are not at risk of losing income unless the scheme becomes insolvent and cannot be saved by the various compensation schemes available. For that reason alone, for many people the right thing to do is to remain in the scheme. Saying that, there are some potential drawbacks and plenty of instances in which a transfer out would be more suitable.

If you tick any of these boxes, you might want to consider transferring to a different type of scheme:

- ☐ **You're unmarried and don't have any dependants**
  Defined benefit schemes automatically payout to your spouse after your death. A defined contribution scheme would ensure the full amount is paid to you during your retirement and not held back for a dependant.

- ☐ **You want to pass on your pension fund to your family without incurring inheritance tax**
  This isn't an option with a defined benefit scheme.

- ☐ **You want to use pension funds to manage your investment portfolio**
  Transferring out of a defined benefit fund gives you, in most cases, a large tax-efficient cash lump sum. This can then be invested as you choose.

- ☐ **You have a terminal illness**
  The amount paid out in your retirement is deliberately spread out to span an average retirement. If you have reason to believe you will die sooner, you won't be getting the full wealth stored in your fund. Transferring out would give you all your money immediately.

- ☐ **You have other income streams**
  If you are lucky enough to have other sources of income that can help pay for your retirement lifestyle, then transferring out of a defined benefit scheme would reward you with a lump sum to buy that Jag or invest in property.

- ☐ **You are concerned about the financial health of your employer**
  With so many defined benefit schemes chronically underfunded and company finances being strained as a result, there's a chance your pension will not be what you expect and have been promised. Transferring out gives you the opportunity to walk away before disaster strikes.

Sounds like you? Read on to find out why transfer deals are at historic highs and why that's good news for anyone looking to transfer.

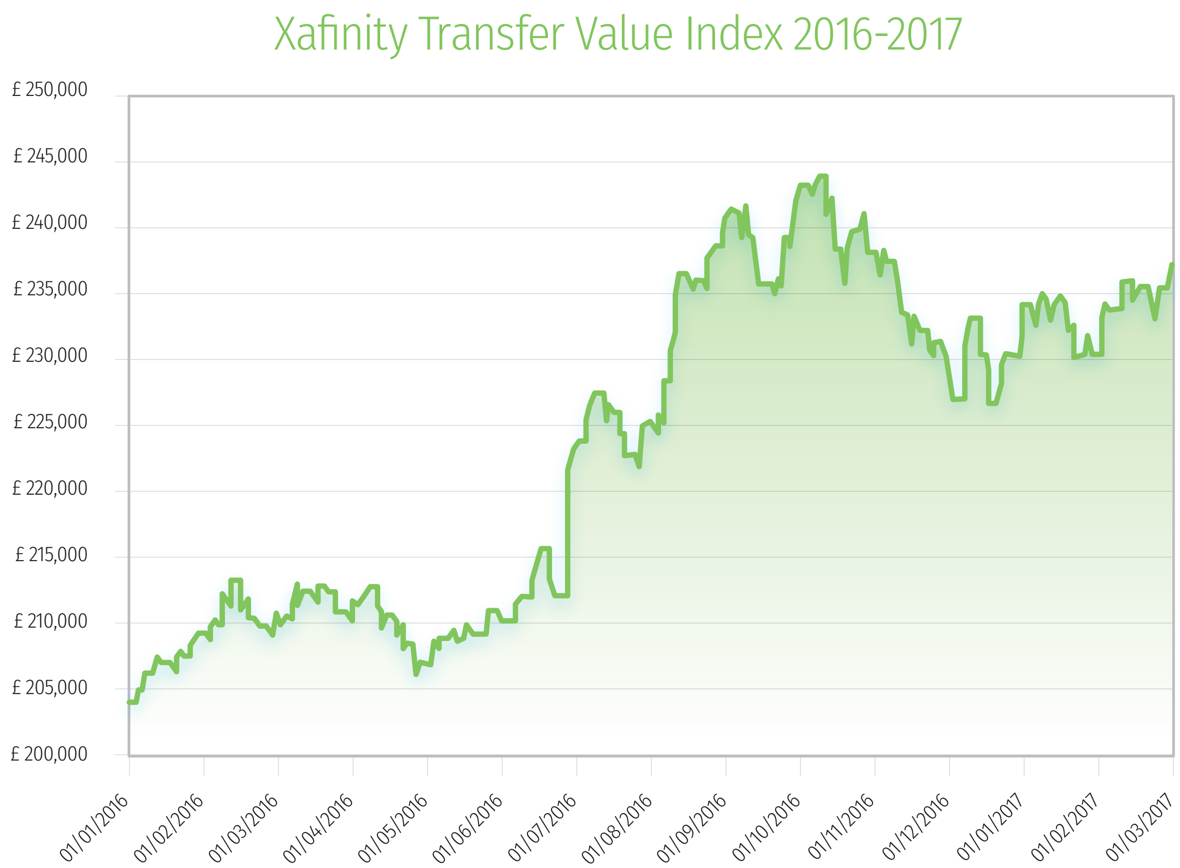
It’s the law: You must seek financial advice

If you have a defined benefit pension pot or the CETV (cash equivalent transfer value) of over £30,000, you are legally obliged to seek financial advice. This is because:

- You need to be 100% sure you are making the right decision.
- You’ll need help deciding what to do with your lump sum payment.
- You’ll probably need guidance throughout the transfer process.

All-time high: there's never been a better time to transfer

You've looked at the list of criteria and decided you want to transfer. But why now? It's likely your hand is forced by your age – you're approaching retirement age and need to make a choice, or perhaps your employer has given you a formal transfer offer (although you can also request one at any time). Whatever the reason, you're in luck: transfer values are riding high, rising over 40% in the last 18 months.



166%

The number of defined benefit transfers completed in the first three months of 2017 compared to same period of 2016*.

70%

The number of requests for transfer value quotations which, over the same three month period, has increased by 70%*.

*Source: xafinity.com, 24 April 2017

Action plan: how you can kick-start the transfer process with Flying Colours

So you've been given a transfer offer from your employer or you've requested one, and you're thinking about transferring out of your defined benefit scheme. What do you do next? This guide has the answers.

Step 1: You need to have a CETV (cash equivalent transfer value) document from your employer or defined benefit pension provider. This tells you how much you can receive in return for leaving the defined benefit scheme. These stay 'live' for three months. After that you need to request a new offer.

Step 2: Tell Flying Colours about your scheme and transfer offer by calling us on **0203 862 0547**. We'll let you know if we think a transfer is the right move for you.

Step 3: If you choose to go ahead, one of our pensions transfer specialists will discuss your circumstances and transfer in more detail over the phone or face-to-face. From this meeting, we'll produce a personalised transfer suitability report advising you of your options and our recommendations. For many people we advise we do not consider it appropriate for them to transfer their pension. Our focus is always on helping you find the right option.

Step 4: If you go ahead, Flying Colours will take care of the transfer, liaising with all third parties to ensure the transfer is smooth and successful. We will work to ensure your transfer is arranged comfortably within the allotted time-line.

Contact Flying Colours for a free no obligation consultation?

Call us today on **0203 862 0547** or email us at **hello@flyingcolourswealth.com**

Former pensions minister transfers out

Baroness Altmann – Ros Altmann – a former pensions minister, has taken the plunge and cashed in two of her defined benefit pension schemes. The cash equivalent transfer values had doubled in just two years, making it a clear choice for the former pensions reform campaigner.

The time is now

How other Flying Colours customers have done it

Cheryl, 56

Cheryl's employer offered a transfer value of £1.1m from her local authority pension scheme in return for giving up a projected pension at age 60 of £29,000 per annum. Cheryl and her husband Keith own their home, and Cheryl has £72,000 in savings. Ideally, Cheryl would like to retire in 12 months and will need a net income of £20,000 per annum.

Why Cheryl took the Transfer Value:

- The investment return required to match the projected annual pension is only 2.98% at age 60. As Cheryl will only need to withdraw £20,000 per annum, the remaining fund can remain invested, a return of 2.98% on this should easily be achievable given her attitude to risk and capacity for loss.
- Cheryl and Keith can use the tax-free cash lump sum to help her two grown-up children get on the property ladder.

Mr Jack, 40

Had been offered a CETV of £800,000 from his previous employer, where he was a fully paid up member of their defined benefit pension scheme.

We take the view that when an individual is so far from the age they will be able to access their pension it is nigh on impossible to decide whether it is the right decision to give up these rights as so many things can change. As a result we were unable to provide Mr Jack with advice.

Mr Hunter, 63

Mr Hunter is retired and has been offered a CETV of £1.5m from his previous employer in return for giving up his projected late retirement pension of £38,200 per annum. Mr Hunter currently earns £42k per annum through his buy-to-let properties and dividends.

Why Mr Hunter took the Transfer Value:

- To take tax-free cash in order to build three new properties.
- The additional death benefits entitling his spouse to receive up to 100% of the remaining fund.
- The additional death benefits enabling Mr Hunter to leave the pension to his children in the event he survives his spouse.
- He is not financially dependent on the guaranteed income to provide an income in retirement.

Mrs Smith, 65

Mrs Smith has been offered a CETV of £59,000 from her previous employer in return for giving up her guaranteed pension of £2,070 per year. Mrs Smith's retirement income requirements have a shortfall of £8,000 between now and her state retirement age of 66.

Why Mrs Smith took the Transfer Value:

- Whilst Mrs Smith could have used the 25% tax-free cash from the defined benefit scheme, this would have meant starting the guaranteed income phase, which she doesn't require.
- Instead, transferring the defined benefit scheme to a personal pension allowed her to take £8,000 tax-free cash and keep the remaining funds to draw down as income if needed in the future, or pass on as a legacy to a family member.

What to do next

The simplest way to move forward is to give us a call or drop us an email and we'll help you weigh up your options.

The Flying Colours promise

We will only ever act in your interests – if you're better off staying in your defined benefit scheme, and many people are, we will tell you that. We are regulated by the Financial Conduct Authority, which means we cannot miss-sell products you don't need.

Quality and speed

Transferring away from a defined benefit pension scheme has a time limit: there are certain things you need to do within a five month timeframe. Here at Flying Colours, we've crafted our processes to give a recommendation in as little time as possible.

The experience you need

What's more, our team of experts have a combined 100+ years of pensions and investments experience, advising on final salary schemes and transfer offers for FTSE 100 and 250 companies like Barclays, Aviva, HSBC, Tata, and Rolls-Royce. And we're highly competitive on costs.

There's never been as much value in transferring from a defined benefit pension. Call us today to see if it's the right move for your financial future.

0203 862 0547

hello@flyingcolourswealth.com