iSIPP

www.isipp.co.uk

Understanding your transfer of Defined Benefit to a Defined Contribution scheme

Making an informed decision

Thinking about transferring your pension out of a defined benefit (or 'final salary') scheme to a defined contribution (or 'money purchase') scheme? There are a few things to be aware of before you make the switch.

First, it's important to understand that you'll be giving up your future right to a guaranteed pension and other related benefits. These will instead be replaced by a cash value, which will be invested in a pension scheme that gives better flexibility and control. This flexibility and control means that the value of your investments can go down as well as up, so you might not get as much back as you originally invested in return.

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 and defined contribution schemes

Defined Benefit Scheme

- Pension income is based on final salary and how long you've been employed.
- You're guaranteed a certain level of pension income for life after retirement.
- You'll receive valuable, safeguarded/ guaranteed rights and benefits.
- You may be able to retire early on a reduced guaranteed pension.
- Your scheme may offer a guaranteed level of benefits to your beneficiaries in the event of your death.
- Investment performance is irrelevant.
- If your employer ceases trading, they may not pay the pension as promised.
- You have 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.
- You'll have greater control over investments and stay in control while securing pension income.
- You have the power to combine multiple pension funds together in one single place
- Pension income can depend on investment performance.
- The value of your investments can go down as well as up.
- Your fund can lose value more quickly, depending on performance and surrender charges.

iSIPP is a trading name of iPensions Group Limited registered in England and Wales with Company Number 03683070 whose office is at 2nd Floor, Marshall House, 2 Park Avenue, Sale, M33 6HE. Authorised and regulated by the Financial Conduct Authority, Licence Number 464521.

Retiring with a defined contribution scheme

Those that retire with a defined contribution scheme need to ensure that there's enough liquidity (which means the ease with which an asset can be converted into ready cash) to withdraw a tax-free lump sum (also known as a pension commencement lump sum, or PCLS) and/or income.

One of the key features of this scheme is that your type of investment can impact on the availability of liquidity. This could influence the value of your SIPP, including any possible surrender charges. Continuing to use a defined benefit scheme avoids this.

Seeking transfer advice

Is your defined benefit scheme pension worth over £30,000? If so, you're legally obliged to seek regulated financial advice before the transfer can go ahead. You can find more information on this through the MoneyHelper site here.

Please also note that the FCA requires pension transfer advisers to hold particular permissions. Such advice must be given, or checked, by a pension transfer specialist. What's more, they're required to follow the FCA's training and competency rules, as well as have the relevant qualifications.

iSIPP is a trading name of iPensions Group Limited registered in England and Wales with Company Number 03683070 whose office is at 2nd Floor, Marshall House, 2 Park Avenue, Sale, M33 6HE. Authorised and regulated by the Financial Conduct Authority, Licence Number 464521.