

WHY TRANSFER?

MONEY PURCHASE AND FINAL SALARY

WHO ARE WE?

The Pensions Office Ltd is a directly-authorised Independent Financial Advice company, established over 10 years, providing advice to individuals with existing pension arrangements. All research about the existing scheme is carried out by The Pensions Office and we then take full responsibility and liability for our advice. If a transfer is recommended we propose a selected pension provider and suitable portfolio of funds.

WHY TRANSFER?

The Pension Office typically recommends a transfer to around 80% of enquiries from money purchase pension schemes. This figure tends to be higher where the enquiry falls into one of the categories noted in this booklet but lower where it does not.

As regards final salary pension schemes we recommend a transfer to only around 20% of enquiries which fall outside the categories outlined in this booklet, but this rises to around 75% where the enquiry meets one or more of these guidelines.

Money Purchase pensions

Past performance (including with profits)

Portfolio Planning

Charges

Consolidation (including final salary benefits)

Final Salary pensions

Low critical yield

Attitude to employer and scheme (including insistent client)

Personal circumstances

Flexibility

WHY TRANSFER?

Money Purchase pensions

Past performance (including with profits)

As with other sections of this booklet it may be useful to start with the question: “Why might someone want to transfer from one personal pension plan (or other money purchase pension) to another?”

Very often disenchantment with an existing pension arrangement is prompted by poor investment performance.

If the value of the pension fund doesn't increase as much as the member might have hoped or expected, it would be reasonable to consider a transfer to an alternative investment strategy, perhaps or probably with a different pension provider.

In particular, with profits funds have suffered extreme adverse publicity over the last couple of decades with some providers slashing annual bonus rates (indicating investment growth) as low as 'nil'.

The Pensions Office uses bespoke independent actuarial research and our own in-house expertise and experience to separate the wheat from the chaff and provide simple and solid advice to clients and prospective clients.

WHY TRANSFER?

Money Purchase pensions

Portfolio Planning ('asset allocation')

As with other sections of this booklet it is useful to start with the question: "Why might someone want to transfer from one personal pension plan (or other money purchase pension arrangement) to another?"

Most enquiries to The Pensions Office come from people whose pension scheme is invested in just a single fund. Typically this will be a with profits fund, equity fund or managed fund (the vast majority of which are invested at least 80% in equities).

It is well documented that equities have outperformed all the other major asset classes over the long term but, over shorter periods, they tend to represent a more volatile investment which can unsettle many investors.

To reduce this volatility whilst maintaining competitive rates of investment return The Pensions Office almost invariably recommends clients maintain a portfolio of funds in different asset classes – primarily commercial property, fixed interest and 'cash' as well as equities.

Higher risk investors may be directed more towards Equities whilst we may pay more attention to, say, fixed interest funds for lower risk clients.

We believe strongly in this approach to provide the best possible investment returns or a stated level of client risk or, alternatively, the lowest possible level of risk for a stated level of desired investment return.

We also regular review client portfolios to ensure that portfolios maintain their effectiveness in changing investment markets.

WHY TRANSFER?

Money Purchase Pensions

Charges

As with other sections of this booklet it is useful to start with the question: “Why might someone want to transfer from one personal pension plan (or other money purchase pension arrangement) to another?”

“Charges” is often a legitimate answer as, over the last few years, most pension providers have reduced charges within their contracts. It is now often the case that a personal pension scheme member invested within an insurance company policy transfer the fund into exactly the same type of policy with exactly the same insurance company in exactly the same investment funds with significantly lower charges than were previously being levied on their previous policy.

In other words, “there is no reason *not* to do it!”

Many pension providers are now prepared, with the minimum of fuss, to enable a smooth transition of this process, thus enabling the policyholder to make significant savings or, more to the point, add increased investment growth to their funds.

So, the question posed in the opening paragraph of “Why might someone want to transfer.....?” becomes “Why might someone *not* transfer?!”.

Add to these lower charges the almost invariably wider choice of investment funds and the ability and knowledge to construct a risk and return-efficient portfolio and it should be obvious why the greatest desire for The Pensions Office is to introduce this arvellous opportunity to as many people as possible. .

WHY TRANSFER?

Money Purchase Pensions

Consolidation

As with other sections of this booklet it is useful to start with the question: “Why might someone want to transfer from one personal pension plan (or any other money purchase pension) to another?”

The desire to consolidate a number of smaller pension funds held with different insurance companies and/or previous employers’ schemes motivates many people to transfer to a single pension arrangement.

At The Pensions Office we are frequently asked to advise clients with, say, three or four money purchase pension arrangements of different values with one or more transfer values from previous employers’ schemes. These cases are frequently complex, especially where (as usually happens) the client states that he wants to transfer all his benefits into just one policy in the interests of *consolidation*.

Often, indeed, we are told that any thoughts of a ‘stay put’ recommendation for any one or more of these separate existing arrangements would be ignored; consolidation being the over-riding factor for transferring everything.

In fact, this was the main driving factor behind my own (Keith Popplewell, Managing Director) pension transfers some years ago, so I know how powerful the desire for consolidation can be knowing, quite simply, where all of my pension fund is invested.

WHY TRANSFER?

Final Salary Pensions

Low Critical Yield

It is widely believed amongst many financial services consultants that few, if any, people should be advised to transfer their preserved (i.e. 'early leaver') benefits away from a final salary pension scheme. The truth, though, is a very different matter and in this booklet The Pensions Office outlines a few of the key indicators which may prompt a recommendation to transfer.

Perhaps the least contentious of the possible indicators arises where a transfer value analysis reveals that the annual rate of investment return required from a personal pension to match the projected benefits from the existing final salary scheme promise (i.e. the 'critical yield') is attractively low.

How low is 'low'?

This depends on a combination of factors including the risk profile of the pension scheme member and the term of years to a selected retirement age.

Many other factors subjective (or 'soft') factors must also be taken into account, which explains why so very few financial advisers – apart from The Pensions Office - are qualified, or feel willing or able, to give advice.

How and why might low critical yields arise?

Sometimes because the scheme uses certain assumptions, in calculating transfer values, which lead to relatively generous transfer values. Some schemes even offer enhanced transfer values in a quest to rid themselves of existing preserved ('early leaver') pensions.

In summary, a low critical yield can rarely be enough, on its own, to justify a transfer: it must be considered in conjunction with other factors, some of which are outlined elsewhere in this booklet.

WHY TRANSFER?

Final Salary Pensions

Attitude to previous employer and / or the scheme

Many enquiries to The Pensions Office from final salary scheme early leavers express a desire to break all ties with their previous employer and, therefore, to transfer their pension benefits regardless of the possibility or probability of a reduction in future retirement income.

As understandable as this emotion might be The Pensions Office will not agree to act for the client in his desire to transfer until we have conducted a full analysis and presented the client with a report and recommendation which identifies and quantifies the risks in such a course of action. If the client then insists on a transfer The Pensions Office will then usually effect the transfer: we are not afraid of 'insistent clients' as we pride ourselves on exceeding our ethical and regulatory responsibilities.

Some of these insistent clients have greater motivation to want a transfer than pure emotion: they fear that the financial instability of the scheme might jeopardise their future benefits. The Pensions Office investigates the latest declared funding position of the scheme for all enquiries and we then assess the degree to which we feel confident (or otherwise) the employer might be able to bring the scheme to a fully-funded position. Many factors have to be taken into account, here but, again, we are not afraid of the task and are immensely qualified and experienced to rise to this task.

In all cases we examine, assess and report upon the Pensions Protection Fund, highlighting the value of that protection and the limits to that protection for each client.

WHY TRANSFER?

Final Salary Pensions

Personal Circumstances

Elsewhere in this booklet you will note the thoughts of The Pensions Office on the importance of critical yields in a recommendation as to whether or not a client should transfer away from a preserved pension in a final salary pension scheme: it is important, we note, but only in the context of subjective ('soft') factors.

These soft factors include attitude to previous employer and scheme, client attitude to risk and desire for flexibility. Here's just a few of the other factors The Pensions Office take into account in formulating our recommendation relating to the personal circumstances of the client.

Marital status

Typically around 20% of a transfer value relates to the provision by the scheme of a surviving spouse's pension. But, especially if the client isn't married why not accept the full transfer value and therefore, in effect, take an uplift of 20% or so to personal retirement income?

Health (self and partner)

Where a client is in such a poor state of health that his or her life expectancy may be reduced the value of the promise of a lifetime income from the exiting scheme might be reduced. Similarly if the client's partner is in poor health the value of the promise of a spouse's pension might not be so great.

Need or desire for death benefits

Linked to the previous issue, of course, but also requires Consideration with regard to the level of existing death Benefit and the financial situation of dependants. A transfer of benefits usually results in higher (sometimes much Higher) death benefits.

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Final Salary Pensions

Flexibility

Critical yields must represent an important factor in arriving at a recommendation as to whether or not a transfer from a preserved pension within a final salary scheme should be recommended, as we note elsewhere in this booklet. Just as importantly, subjective ('soft') factors must also be considered. Here we look at just a few of the possible (indeed, *probable*) benefits from a transfer as regards *flexibility of benefits*.

Flexibility of retirement age

Some final salary schemes will not consider allowing a scheme member to start to draw benefits before the scheme normal retirement age (NRA). Others will allow this to happen, but only with sometimes excessive penalties. Very few permit benefits to be deferred after NRA.

Flexibility of single or joint life annuity

What's the value of the promise of a spouse's pension to a scheme member who isn't married?

Flexibility of increases to pension in retirement

If the scheme member has reduced life expectancy, the lower initial pension from an escalating annuity may never, unfortunately, reach the higher level the client could have enjoyed personally from a level pension.

Flexibility of nomination of death benefits

What if the scheme does not recognise common law partners or same sex partners for this benefit? Depends on the personal circumstances of each client, of course.

Commutation factors

If the client wants to take maximum tax free cash at retirement, the Institutes of Actuaries have openly expressed their dismay that many scheme members are made to forego ('swap' or 'commute') excessive amounts of pension for the 'privilege'. Avoidable, if the benefits are transferred.

WHY TRANSFER?

MONEY PURCHASE SCHEMES

The Pension Office typically recommends a transfer to around 80% of enquiries from money purchase pension schemes.

Although most of these are personal pensions we also Receive many enquiries relating to money purchase Occupational pension schemes, including AVCs and FSAVCs.

This percentage figure tends to be higher where the enquiry falls into one of the categories noted in this booklet, but lower where it does not.

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