REVIEWING YOUR RETIREMENT PLAN

A closer look at Defined Benefit Pension schemes

By transferring your Defined Benefit Pension scheme rights to a personal pension, you may have more flexibility in retirement and upon death.

There will be valuable guarantees included within your occupational pension, and we will be able to assess whether or not it is beneficial for you to transfer and give these up. With historically high transfer values (the Bank of England's base rate rise could impact transfer values, since an increase in rates is likely to see gilt yields rising), now is a good time to at least consider your options as part of reviewing your retirement plan.

In order to assess whether a transfer is the right option for you, we would first complete an income versus expenditure exercise. This looks at you drawing pension benefits from your expected retirement age – compared to you retaining your Defined Benefit Scheme pension rights – to what your retirement might look like upon transfer.

We suggest looking to work towards your maximum income requirement, with a low net annual investment return assumed, as investment returns are by no means guaranteed. We also factor in charges and inflation.

Our analysis will take into account all assets disclosed, and the possible impact of any Lifetime Allowance charge, in assessing how your income needs can be best met to age 100 (and beyond).

Whether a transfer is suitable is specific to each individual and is not for everyone.

Investment returns are required, and it is important to understand that consistent growth is not guaranteed and unlikely. There is also a risk that actual growth is less than inflation, which means your pension fund could run out during your lifetime. People need to be willing and able to take the financial risk of these eventualities occurring if a transfer is to be considered at all.

It is important to assess the pension rights held as part of a full retirement income plan. ■

David Tooley
david.tooley@sgwealthmanagement.co.uk

CASE STUDY

Peter, who is almost 55 and single, having been divorced since 2010, came to us for help in assessing what option was best for him. The financial cost of his divorce, alongside bringing up two children, had depleted his finance – and with a large mortgage in place, Peter was resigned to working into his late sixties.

Through a former colleague, Peter heard that Defined Benefit Pension scheme transfer values had increased significantly. He had accrued scheme rights himself through a previous employer, and his final salary pension entitled him to £12,500 a year from age 60. Peter requested a transfer value and was offered £565,000 in exchange for his benefits.

Peter's main aim was financial security. By transferring his pension, he was able to access a larger tax-free cash sum (usually 25% of the fund), which could be utilised to pay off his mortgage, with the residual fund value used to provide for his income in retirement, which we were able to demonstrate could be met through modest investment returns.

The mortgage had been a burden on Peter, and being able to pay this off from age 55 has lifted a big weight from his shoulders. The key reasons for transferring were to allow Peter to control when he retires and pass on what he can to his children both during his lifetime and after. Without the cost of servicing his mortgage, Peter can retire from age 55, but he feels he is likely to work for longer, at least part-time anyway. He now works because he wants to, not because he has to.

On Peter's death, each of his children will inherit 50% of his pension fund, as a pension. If he dies before age 75, they can draw tax-free income or lump sums; after age 75, they will be taxed at their marginal rate for Income Tax. This is a significant benefit compared to his Defined Benefit Pension, which would have ceased on death, unless he were to remarry.