



## In a nutshell

Trustees should:

- Review their communications relating to transfer values now
- In particular, introduce a new procedure to capture written statements regarding the advice to transfer, from members' financial advisers
- Consider whether to review the transfer value calculation basis
- Consider whether to commission / update an insufficiency report, to enable them to scale back transfers to the level the scheme's funding level can support
- At the least, monitor their transfer value activity in the coming months and review their decisions as necessary.

## Transfer values post April 2015

### Background

The Government's new pensions Legislation, promoting "Freedom and Choice" for members in DC schemes, is due to come into effect on 6 April 2015.

It appears likely that this will result in a large increase in the number of members in DB pension schemes enquiring about taking a transfer value to a DC scheme, to enable them greater access to cash.

To guard against members taking bad financial decisions, the Government will require almost all members seeking to transfer out of a DB scheme to seek appropriate advice from a registered IFA. (An exception applies to members with a transfer value under £30,000.)

In this bulletin we look at the demands

this will place on trustees and sponsors of DB pension schemes.

### Are trustees responsible for checking that advice has been taken?

Yes. Prior to paying a transfer value out of a DB scheme, the trustees must obtain written evidence from the member's financial adviser that advice has been given. The Trustees must obtain the adviser's FCA authorisation number and check this against the FCA register.

The Trustees are not required to review the advice and should not pass opinion on what the member should do

### Who pays for the advice?

Generally, the member must pay for his/her own advice. However, if the employer has issued any

communication, to two or more members, that could be seen to “encourage, persuade, or induce” a member to transfer, then in these circumstances the employer should pay for the advice.

### Can existing pensioners transfer to take advantage of the new flexibilities?

No. (At least not within current legislation / HMRC guidelines.)

### What about members who requested a transfer quote prior to 6 April 2015?

The new regulations will not apply to such members.

### Impact of current market conditions

Long-dated gilt yields are (at the date of writing) around 2.4%.

This is approximately 1% lower than at this time last year. As a consequence, for schemes where discount rates are set relative to gilt yields, it is likely that transfer values could be 10%-40% higher than they were a year ago (depending on a member's age).

The prospect of paying higher transfer values to potentially many more members should prompt trustees to consider:

- Whether they need to review the transfer value basis,
- Whether they need an updated assessment of the Scheme's funding position, and hence ability to pay transfer values via an “insufficiency report”.

### Member communications

The Regulator's guidance to trustees encourages provision of full and helpful information, in

particular:

- To tell members to be wary of pension liberation scams
- To be careful with their comments about the value / fairness of a full transfer value
- To point out applicable time limits
- To point out the requirement for advice, and to provide information on where to obtain that advice
- To make members aware that the advice they received will be informed by their own personal circumstances
- To tell members to check that the advice they receive compares the value of benefits being given up with their future options.

### Time extensions

Trustees have a legal obligation to provide a transfer value within 3 months of its request. This period may be delayed in exceptional circumstances, for example, if the Trustees are awaiting a new insufficiency report or if the Scheme is in wind-up.

Where a member accepts a transfer value the Legislation demands that trustees should make the payment within 3 months of the expiry of the guarantee of the original quote. However, recent Ombudsman cases have established that, unless there is good reason, trustees should make payments without delay.

The trustees need not proceed with a transfer until they have received the written statement from the member's advisor confirming advice has been taken.

### What penalties apply for non-compliance?

The draft Legislation does not

specify amounts but confirms that both trustees and scheme sponsors could be liable to civil penalties for non-compliance.

### How many members will transfer?

This is the big question. Over the last six months we have observed that the number of monthly requests for transfer value quotations has more than doubled, yet there has been no measurable change in the number of members actually proceeding.

We are aware that the financial advisers are generally reluctant to advise members to take transfers out of DB schemes, unless there are compelling individual circumstances and / or the transfer value available is more generous than usual. This perhaps reflects the stance taken by the regulator of this type of advice, the FCA, which is that to transfer from a DB pension scheme is high-risk.

We have also noticed an increase in the number of articles in the popular press advising people of the risk in cashing in their retirement income.

The experience in other countries, notably Australia, has been for pensioners to hoard their cash, rather than to spend it rashly.

Our best guess is that whilst there will be a large increase in the level of interest, this will not translate into a much higher level of completed transfers, at least while DB schemes remain under funding pressure and are unable to offer generous transfer values.

Please note that this bulletin does not constitute financial advice. You should consult your financial adviser before acting on any of the information provided within this bulletin. Quattro Pensions accept no liability for any party placing reliance on the information contained in this bulletin.



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