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# The Final Salary transfer debate:
## 12 things to consider before you decide

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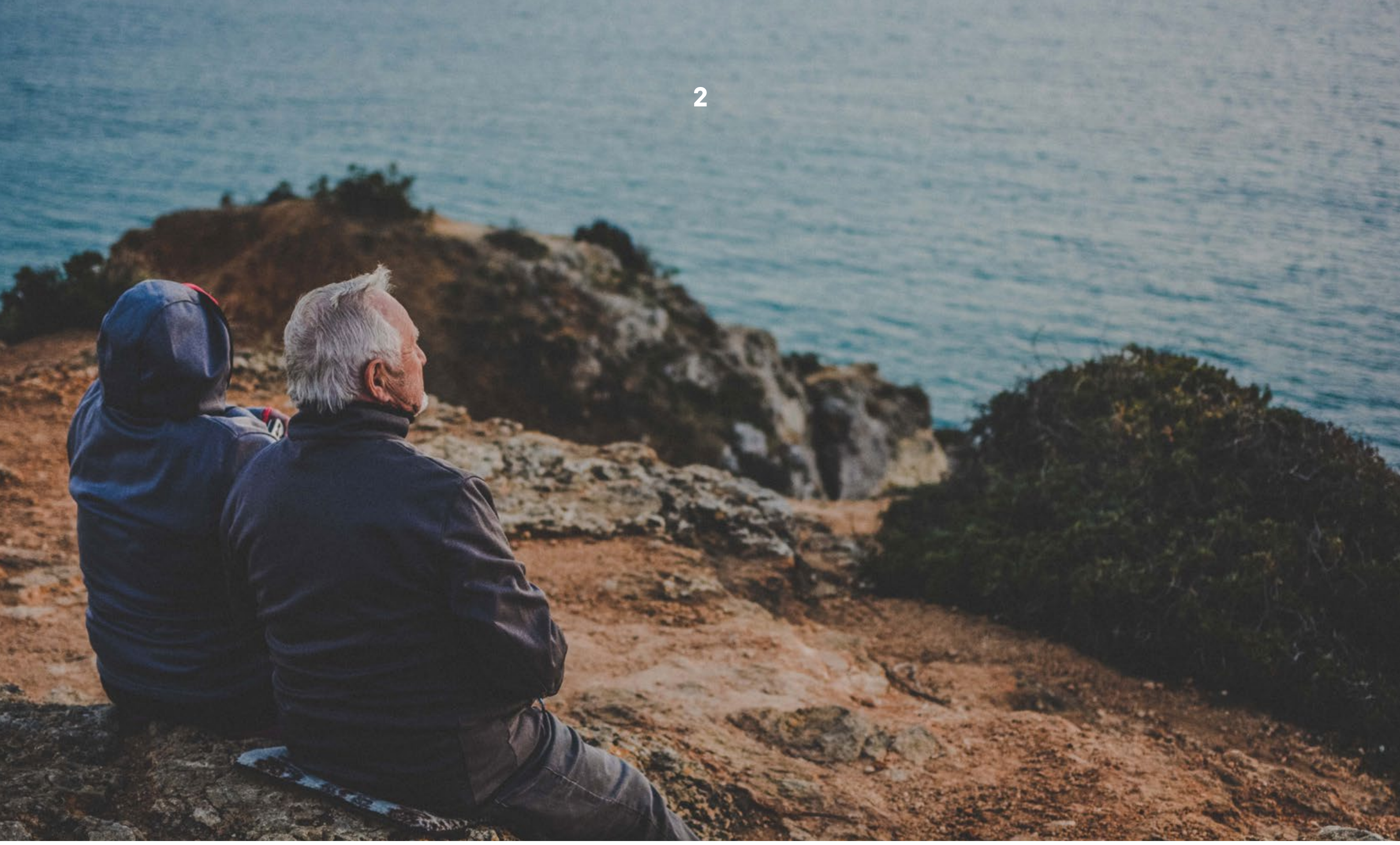

If you're lucky enough to have a Final Salary pension, you may be considering transferring out for a number of reasons. But it's a complex decision to make, with many potential financial consequences to think about.

If you transfer out of a Final Salary pension, there's no going back. It's a final decision that will affect your retirement income for the rest of your life. Taking some time to weigh up the pros and cons is essential before you proceed.

Before you start making plans on how to spend a temptingly high Final Salary transfer value, there are important steps to take. There are some essential questions you need to answer to determine if it's a course of action that's right for you, your situation, and your goals.

## What is a Final Salary pension?

First, let's start with the basics.

A Final Salary pension, also known as a Defined Benefit (DB) pension, provides you with a guaranteed income throughout retirement. The income is often inflation-linked too.

When you join a Final Salary pension, you'll have a good idea what level of income you can expect to receive from the outset. This is typically linked to how long you've been a member of the scheme and your salary when you leave the employer providing the pension, hence the name. The pension you receive is defined from the moment you leave, and meeting this obligation is the responsibility of the pension trustees, not you.

Once you reach the retirement age of your Final Salary scheme, you'll receive the predetermined income until you die.

In contrast, Defined Contribution (DC) pension schemes, which are now more common, are a savings pot that's value is dependent on how much you pay in and how well investments perform. As a result, members of DC schemes can't be certain how much income they will receive in retirement.

## Why do Final Salary members consider transferring out of their scheme?

There are many reasons that Final Salary pension members are interested in transferring out of their scheme. For some, it may be the right decision. But, in other cases, the security of a guaranteed income for life can be more appealing.

There are two key reasons it has become popular:

1) High transfer values: Many Final Salary schemes are seeking to reduce their responsibilities and the high cost associated with running them. This has led to many being closed to new members and existing members being offered high transfer values to leave. As a result, more people approaching retirement have been interested in cashing out of schemes in recent years.

2) The introduction of Pension Freedoms: Pension Freedoms were introduced in 2015 and give retirees with DC schemes more choice how they spend their pension. The increased flexibility is appealing to some retirees who want greater control over their income during retirement. If you have a Final Salary pension, transferring out means you're able to take advantage of this.

Other reasons people may choose to leave a Final Salary scheme include:

- The potential to leave a greater inheritance to their loved ones
- The opportunity to access funds flexibly to suit their lifestyle
- The ability to take 25% of your pension savings as a tax-free lump sum

However, there are drawbacks to weigh up too. Answering these 12 questions can help you understand if it's the right step for you to take.

## 1) Is the transfer value appropriate for what you're giving up?

When you approach your pension scheme provider about leaving, they will provide you with a Cash Equivalent Transfer Value (CETV). This is the amount you will receive should you leave the scheme.

Comparing it to what you're giving up is crucial to understand if you'd get a good deal if you left. Measuring it against your expected annual income is one of the first steps you should take. Remember, it's likely that the income you could receive from a Final Salary pension is linked to inflation, so you should factor this into your calculations.

You also need to consider your life expectancy. Many people underestimate how long they'll live for and it could mean you're left with an income shortfall in your later years. With a Final Salary pension scheme, this isn't an area you need to worry about, the income is guaranteed for life. If you're healthy, could your CETV realistically support you throughout a 30 or even 40-year retirement?

On top of this, you should also consider how likely you are to take advantage of the other benefits of your Final Salary scheme, such as a pension for your spouse. These can be difficult to put a monetary value on. But including them when comparing the income to your CETV is important to get a clear picture of how they compare.

## How we can help

After you've received your CETV, it can be challenging to compare it to your Final Salary pension income.

This is an area we can help you with. We'll help you gain an insight into how transferring out of your current pension scheme will impact your finances in the short, medium and long term. Our goal is to ensure you have the information to make the right decision for you.

## 2) What is your reason for thinking about transferring out of your scheme?

If you're just tempted by the large CETV that's offered, it's time to take a step back from your decision. Think about the reasons why you would want to transfer out of your Final Salary scheme.

There are many instances where it can be the right choice to leave a Final Salary pension. But, equally, there are plenty of circumstances where it's not. You should have a clear idea of how you'll use the money received from transferring out and why it's the right decision for you before you take the next step.

It's important to take a long-term view when planning your retirement finances. If your reason for considering transferring out of a Final Salary scheme is relatively short-term, and you don't have an income plan for your later retirement years, you could be placing your future financial security at risk.

## 3) What other benefit does your existing scheme provide?

Many Final Salary schemes offer additional benefits.

How valuable the benefits of your scheme are will depend on your personal circumstances and what your priorities are. As a result, taking some time to look at the benefits your existing scheme provides and factoring them into your decision is important.

Should you die before your spouse or civil partner, for example, some Final Salary pensions will continue to pay a level of pension to your loved one. Many will also provide a set level of income should you pass away while still having dependents. It's an extra benefit that can give you peace of mind that your family will be financially secure should the worst happen.

## 4) Do you have any other sources of retirement income?

As you approach retirement, what other sources of income will you be relying on? For many, the State Pension makes up the foundation of retirement income. You may also have Defined Contribution pension schemes, investments, property or other savings.

When you're planning for your retirement, it's important to understand how all your assets can provide you with the income you need. The other assets you have should influence your Final Salary decision.

If, for example, you have other sources of income that will provide you with security, giving up a guaranteed income may not be a large concern. Alternatively, if your other income is linked to investments that may experience volatility, having some level of guaranteed income can improve your financial security over the long term.

## How we can help

Bringing together different assets to calculate a projected income can be complex.

If you're struggling to understand how your retirement provisions can provide the income you want, please contact us. We'll work with you to demonstrate how receiving a Final Salary pension and transferring out will affect your income.

## 5) What are your retirement objectives?

Don't just focus on the money side of retirement when deciding what to do. Your financial decisions should be linked to your retirement and life objectives.

Some retirement plans will be better suited to the stable, guaranteed income that a Final Salary pension will pay. Others will be better matched to an income source that provides more flexibility and is linked to investment. Your retirement income should help you achieve your aspirations, as a result, they should be placed at the centre of your decision.

This is an area that financial planning can provide help with. We'll help you understand what you want to achieve throughout your retirement years and how different income sources can help you do this. Retirement income isn't a one-size-fits-all solution; it should be tailored to you and your aspirations.

## 6) Have you considered your and your spouse's health and life expectancy?

Your life expectancy will play a crucial role when you're comparing your CETV to the income that a Final Salary pension will provide.

If you're experiencing ill health, you may find that transferring out of a Final Salary pension provides you with greater value if your life expectancy is shortened. Alternatively, if ill health means your later retirement years will be less active, you may decide that using Pension Freedoms to take a greater portion of income initially is right for you.

Whether you're in good health or not, you should consider how long your retirement savings will need to support you for before making any decision about how to access and use your pensions. If you're in good health, it's not uncommon for people to spend 30 or even 40 years in retirement. Should you decide to transfer out, it's crucial that your retirement provisions can continue to support you for the rest of your life.

You should also think about the potential cost of future care needs and how this will affect your income.

If you're married or in a civil partnership, you should also consider the health and life expectancy of your partner too. We've already mentioned that many Final Salary schemes will continue to pay a portion of your pension to your spouse should you die first. Depending on their personal retirement provisions, your Final Salary pension could be important for their future financial security too.

## How we can help

If you want to see the effect inflation will have on your retirement income, please contact us.

We'll help you understand the level of returns your investments are likely to need to achieve to maintain your spending power.

## 7) How will you offset inflation if you transfer?

Inflation can eat into your spending power. At first glance, a 2% annual increase in inflation will have little impact on your finances. But when you consider this happening each year throughout a retirement that lasts decades, it can have a big effect on achieving your aspirations.

The majority of Final Salary schemes will deliver an income that keeps pace with inflation. This means your spending power is maintained throughout your retirement. However, this isn't usually the case when you transfer out.

You would have the option to purchase an inflation-linked Annuity, however, this is highly unlikely to be as competitive as your Final Salary scheme.

Most people transferring out of a Final Salary scheme will choose to invest their money, hoping to outpace inflation and grow their retirement savings. Of course, with investing there's no guarantee that your money will keep pace with inflation and the value of your savings can decrease too.

## 8) What's your view on risk?

How you view risk will be crucial to your decision to transfer out of a Final Salary pension scheme.

As a Final Salary pension provides a guaranteed income, it's a low-risk option. You don't have to worry about how underlying investments are performing; that is the responsibility of the trustees. Nor do you have to be concerned about running out of money during retirement, your scheme will continue to provide you with an income for life.

Conversely, your appetite for risk and other dependable sources of income for retirement may mean that you're in a position to take on more risk. This could allow you to grow your pension provisions further, through investing, but you should also be able to withstand potential losses too.

Following high profile collapses of Final Pension Schemes, such as the Carillion and British Steel schemes, it's natural to worry about what would happen to your pension if your scheme could not meet obligations. The Pension Protection Fund was established to address these concerns. Should your Final Salary scheme no longer be able to meet its commitments, the Pension Protection Fund will provide you with an income, although this may not be at the same level.

## 9) What tax will you be liable for?

How you take your pension will have a direct impact on the amount of tax you pay.

Pension Freedoms mean that if you transfer to a Defined Contribution pension scheme you can take all the money out as a lump sum. However, usually, only the first 25% will be tax-free. Withdrawing your whole pension is not efficient in terms of your Income Tax liability, and rarely the best course of action.

Likewise, if you plan to use Flexi-Access Drawdown to provide a greater income once transferring out, you could find that you end up paying significantly more in Income Tax if you cross a threshold.

The amount of tax you'll need to pay when collecting a pension will depend on a range of factors. We can help you understand how tax will affect your income should you choose to remain part of a Final Salary scheme or transfer out.

## 10) Will the Lifetime Allowance affect you?

If your total pension savings exceed the Lifetime Allowance you may find you face additional charges on lump sums or income that you take. The current Lifetime Allowance is £1.03 million.

It can be difficult to work out if you're likely to exceed the Lifetime Allowance when you're a member of a Final Salary scheme. The value of a Final Salary pension is usually calculated by multiplying your expected annual pension by 20. As a result, you'd need an annual income of more than £51,500 from your Final Salary pension in situ to cross the threshold.

However, as CETVs have been rising, it's not unusual to be offered a transfer value that's 30 or even 40 times your expected annual income. If your CETV is above the Lifetime Allowance you should take steps to calculate how this will affect the income you receive.

You also need to consider the value of all other pension savings you may have. It's likely you will have had several different jobs, each may have offered a Workplace Pension. You may also have forgotten about older pension schemes, so you could exceed the Lifetime Allowance without realising.

## 11) Do you want your pension to form part of your legacy?

One of the key reasons some choose to transfer out of a Final Salary scheme is to use their pension as a way to pass on wealth when they die.

Passing on wealth that's been left in your pension can be tax-efficient. Should you die before 75, your beneficiaries can inherit the money without paying any tax. After the age of 75, they will pay Income Tax on the money received but it will not be included in your estate for Inheritance Tax purposes.

If you're considering transferring out of a Final Salary pension, for this reason, there are other options to explore too. There are alternatives for reducing Inheritance Tax liability that could be better suited to your goals and circumstances.

### How we can help

If leaving an inheritance is one of the reasons you're considering leaving your Final Salary scheme, please contact us.

We'll work with you to assess the options you have and understand which best matches your goals and lifestyle.

## 12) Have you sought specialist advice?

If your CETV is greater than £30,000 you're legally obliged to seek financial advice to transfer it.

However, beyond this requirement, there are many other reasons to seek financial advice. Specialist financial advice will help you understand what all your options are and how they will affect your financial security. Having an experienced adviser talk through the advantages and drawbacks of transferring out of a Final Salary scheme with your personal situation and goals in mind can give you a clearer picture of how to proceed.

There's no one-size-fits-all approach to Final Salary schemes, financial advice helps to create a tailored solution for you.

If you have a Final Salary pension and want to understand the pros and cons of remaining a member and transferring out, please contact me. I am experienced in working with Final Salary scheme members, taking the time to understand their personal circumstances and goals. My aim is to help each client understand which option is best for them.


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