

Defined benefit pension transfer advice

Self-triage education guide

This guide will help you understand your defined benefit (DB) pension scheme. It covers both the benefits and drawbacks. It will also help you decide if you need advice on your pension.

Before you decide about your pension transfer, please take a moment to read this guide. It's important to know that advice fees will apply regardless of the outcome, once we start the advice journey.

This guide is for **information only** and is not intended to be personalised advice.

What are the main differences between a defined benefit and defined contribution pension?

Defined **benefit** pension scheme

- ▶ Guarantees you will get a specified benefit when you reach the scheme's retirement age.
- ▶ This 'benefit' takes into account your salary and years of service.
- ▶ There is no investment risk with this type of scheme as all the investment risk is taken by the scheme, not you.

Defined **contribution** pension scheme

- ▶ Does not guarantee a specific benefit when you retire.
- ▶ The final value of your pot will depend upon the amount paid in, charges and performance.
- ▶ Offers more flexibility and control; you will need to make ongoing decisions about how your money is invested and the level of investment risk you are comfortable with.
- ▶ You can use some or all of the money to buy a guaranteed income in the future or choose a flexible income arrangement where you can withdraw the income you want. These decisions can be complex, and you might need advice due to potential tax implications and other risks.



You should understand that the financial services regulator, the Financial Conduct Authority (FCA), has stated that it will be in the interests of most people to **keep their defined benefits pensions because of the valuable guarantees** these provide. Many people underestimate how long they will live and defined benefit schemes protect you from the risk of your money running out.

Helping you to better understand the risks

You now have more flexibility in the way you can access your pension funds, although this will not necessarily be through your existing scheme.

The following table compares some of the features of a defined benefit pension scheme compared to a defined contribution scheme.

Feature	Defined Benefit	Defined Contribution
Income	The pension income is a set amount, guaranteed for life, which will usually increase automatically each year to protect against inflation. There is no investment risk for the pension member and the pension scheme has to pay the member's pension regardless of how well the scheme assets perform.	Provides an income set by the member based on how much they need. It could be more or less than that offered by a defined benefit scheme. The level of income can be increased or decreased at any time to take account of a change in circumstances. However, there is a possibility the fund could run out if the withdrawals taken are unsustainable, (i.e. are too large to be maintained), and/or investment performance is poor. A guaranteed income could be purchased at any time with some or all of the remaining money.
Tax free cash	Many schemes provide members with the option of giving up some of the income and taking it as tax free cash (known as a pension commencement lump sum) subject to a lifetime cap. This must be taken in one go.	Tax free cash (known as a Pension Commencement Lump Sum or PCLS) is normally 25% of the total amount being taken out of the pension and can be taken in stages, or all in one go subject to a lifetime cap.
Death benefits	The pension is payable for life and upon death is usually payable at a reduced rate to a partner or dependent-typically 50% - and payable for their lifetime. These payments are made regardless of how long you or your dependent live. Once you and your dependents have died no further benefits are payable.	Income is payable for as long as there is money in the pension. It's dependent upon the investment returns within the pension and whether withdrawals are sustainable. If you take too much out at an unsustainable rate, or live longer than expected, the fund may run out. Upon death any remaining fund can be passed on, in most cases, free of tax before age 75. It can be passed on after the age of 75 but will be taxed at the beneficiary's marginal rate of income tax.
Poor health	If you are in poor health, it does not alter the level of income the scheme will pay however, should you suffer a serious illness prior to the pension commencing, some schemes do pay benefits on different terms. This could include paying the pension earlier and increasing the lump sum that varies with each scheme.	If you are in poor health, it may mean you have capacity to take bigger withdrawals before death, or you could instead use the fund to secure an alternative guaranteed income by purchasing something called an annuity. A typical annuity will ensure a guaranteed income for life and if you are in poor health, or have no dependents, it may mean you receive a higher income than your defined benefit scheme is offering.
Retirement date	The normal retirement date is set by the schemes rules and a full pension is payable at that date. Accessing benefits early, from age 55, is usually permitted subject to reductions reflecting the pension being payable for a longer period. In some cases, there is an earlier protected retirement age, for example age 50. The pension age will change to 57 on April 6, 2028.	Benefits can be turned on and off from age 55 onwards but early access may impact the amount of funds available later in retirement. You can choose to secure some income at any time by buying an annuity to provide a lifetime or short term guaranteed income at the rates available at the time. The pension age will change to 57 on April 6, 2028.
Employer covenants and financial protection	The sponsoring employer of a defined benefit pension is bound by law to adequately fund a defined benefit pension. They can't walk away from their pension liabilities should a scheme be underfunded, unless they go into liquidation. In the event of an employer going into liquidation, an underfunded pension scheme would have a call against any assets remaining upon wind-up, prior to any shareholders receiving any money. Should a pension scheme not be able to meet its liabilities with no solvent sponsoring employer, the Pension Protection Fund is available to protect members of the scheme.	There is no 'employer covenant' once you have transferred your defined pension scheme. Your pension is reliant on the underlying investments and how well they perform. The Financial Services Compensation Scheme provides 100% protection in some cases should a pension provider fail.

Feature	Defined Benefit	Defined Contribution
Charges	The scheme is responsible for all the charges associated with running it. The scheme may work closely with a firm of financial advisers and any advice would typically be chargeable.	There will be product, investment management, and possibly platform charges which will reduce the size of your pension fund. After the initial advice fees, there are also likely to be ongoing advice fees. Typically, these are paid out of the pension fund but in times of poor investment performance these can have a bigger impact on your pension, which means it could run out sooner than planned.
Investment risk and performance	The responsibility for investment decisions and their consequences reside with the scheme trustees and their investment adviser/managers. The scheme pays for advice and administration and these do not affect your income.	You bear the risk of the investment decisions taken and throughout the time the funds remain invested into your later years. Poor returns in the early years of retirement and taking money out at the same time can seriously affect the amount of income you could withdraw over the long term.
Inflation protection	The scheme will usually provide a rising income to protect against some of the effects of higher inflation.	Your investment choices will determine how much inflation protection you have. Lower risk assets may not provide enough return in the long run. Higher risk assets, whilst potentially offering greater inflation protection, may suffer more losses reducing their overall returns. In short, investment returns will always be uncertain.

Before seeking advice, what should I do?

Before seeking advice, you should consider what you want your retirement to look like.

Think about the costs and your spending priorities using these three categories:



Essential spending – heating, eating, transportation, insurance and tax



Lifestyle spending – the things that bring you joy, fun and pleasure beyond just getting by



Discretionary spending – this can be fulfilling dreams or anything else after the essential and lifestyle spending are taken care of.

Once you know what you need, we can help you figure out what is possible and how best to achieve it.

Understanding the fees

If after reviewing this information, you choose to receive advice, we can offer you either a limited (abridged) or comprehensive (full) advice service on the transfer of benefits.

Please ask us for information about the fees for this if you are interested in proceeding.

The fees for advice may mean smaller transfer values are less likely to warrant the costs of taking advice. You should check with your scheme administrator for any restrictions on transfers of benefits, and if you are not a UK resident, we may not be able to provide any advice at all.

What is 'abridged' advice?

Abridged advice offers a reduced level of service compared to full advice. It can be a good first step when considering a pension transfer. This advice won't recommend a full transfer but will result in:

- ▶ A recommendation to keep your current pension, or
- ▶ A statement indicating more information is needed, requiring full advice.

Your adviser will gather comprehensive information about your circumstances but won't analyse your pension scheme in detail. Fees for abridged advice are lower than for full advice. If it's unclear whether to keep or move your pension after abridged advice, your adviser will discuss the cost of full advice.

Any fees paid for abridged advice will be deducted from the cost of full advice, except for VAT, so you won't pay twice for the same elements.



Abridged advice is optional, and you can choose to go straight to full advice if you prefer.

What is 'full' advice?

Full advice service considers your entire financial situation and retirement goals. Your adviser will:

- ▶ Gather detailed information about your finances and retirement objectives.
- ▶ Complete an in-depth analysis of your current pension scheme.

The analysis includes:

- ▶ Comparing the benefits of keeping your current scheme with your goals.
- ▶ Providing a final recommendation on whether to keep or transfer your pension.

If a transfer is the best option, potential alternatives, including any risks, and downsides will be discussed. We will not act against our advice once a recommendation is made. Your adviser will discuss how the fees for our advice can be paid, proceeding only with your agreement. Fees will become payable according to the terms agreed upon with you.



Please note that regardless of the advice given, any pre-agreed fees will still be payable. This includes a recommendation to retain your pension benefits.

Pension transfer advice service options

Having read and understood this document, if you still feel you would benefit from pension transfer advice there are two routes for you to follow:



For further information on defined benefit pensions:

Money and Pensions Service
<https://maps.org.uk/en#>

The Pension Regulator (TPR)
www.thepensionsregulator.gov.uk

Moneyhelper
www.moneyhelper.org.uk/en/pensions-and-retirement

The FCA has written guidance to help those considering a transfer and this can be found at the link below. This also describes who might typically benefit or not from a transfer:

www.fca.org.uk/consumers/pension-transfer-defined-benefit


We would strongly encourage you to watch the videos from the Financial Conduct Authority (FCA) which aims to help consumers better understand financial advice on transferring out of a defined benefit pension. This can be found at the link below:

www.fca.org.uk/consumers/pension-transfer/advice-what-expect

Your next step

When you feel ready to seek advice on your defined benefit pension or any other matter after reading this guide, please reach out to the financial adviser who can discuss your options with you.

We have taken every step to ensure the accuracy of the content and our current understanding of applicable UK tax rules but will not be liable in the event of any error.

 0191 241 0700

 www.quilter.com

Approver Quilter Wealth Limited, Quilter Financial Limited, Quilter Financial Services Limited & Quilter Mortgage Planning Limited. Quilter Financial Planning Solutions Limited. February 2025

PDF20654/Q24_0321/ February 2025/FS.DBP.QFP.07