

Information Note from IAPF: Supporting Members Considering Transfer Values from Defined Benefit Pension Plans

Purpose of this Note

The purpose of this note is to provide information to trustees of defined benefit pension plans, and to employers sponsoring defined benefit pension plans. It outlines considerations around the level of financial advice members should receive when contemplating a transfer value from their DB pension plan.

Why would a member of a defined benefit pension plan take a transfer value?

There has been a trend for some members of defined benefit pension plans to take a transfer value before they retire, usually to an Approved Retirement Fund (ARF) or a Personal Retirement Bond (PRB). This can be attractive in some circumstances, for example if a member did not have an expectation of a long life and wanted their family to inherit the ARF. Or if a member is lucky enough to have a defined benefit pension that exceeds the amount they expect to spend, then a transfer value might provide them with a good inheritance planning opportunity and investment opportunity. However, transferring from a defined benefit pension plan involves risks:

- The ARF could lose value depending on investment performance.
- The member may outlive their savings, especially if they live longer than expected
- The member forfeits a known level of income for life, which is often challenging to replicate.

This may be the most important financial decision a member will make. It is essential they receive high-quality advice and clear information to support their decision.

What does good advice look like?

Trustees should encourage members to seek advice that includes:

- A comprehensive assessment of the member's financial situation, goals, and retirement needs.
- A clear explanation of the risks of giving up a known level of lifetime income.
- A starting assumption that remaining in the DB scheme is preferable, unless strong evidence supports a better outcome by transferring.
- A year-by-year comparison of projected income from the DB pension versus income from the transfer value, clearly describing investment assumptions, charges and fees, and the age at which the transferred fund is projected to be depleted.

What action can trustees and employers take?

A member with preserved benefit who left within the last 2 years is entitled to a transfer value under the Pensions Act. Trustees cannot refuse to allow transfer values to this category, even if they have concerns about whether it is in the best interest of their member.

Trustees should promote informed decision making. They could encourage any members to seek regulated financial advice if they are considering taking a transfer value. Trustees could share with members the points set out above describing what assessments should be provided by an advisor. Trustees or employers could consider offering access to financial advice as part of the package of benefits available to members. For many members, one meeting with a financial advisor might be sufficient to show them that a transfer value is not the best option for them.

Trustees should request their scheme administrator to explain the controls and checks in place to detect and prevent scams when processing transfer requests.