Defined Benefit Masterclass – The FCA Awakens

This information is for UK financial advisers only and should not be distributed to or relied upon by another person.

SCOTTISH WIDOWS

KEY LEARNING OUTCOMES

- Understand the changes in behaviour in pensions decumulation post pensions freedoms and the current regulatory landscape and the proposed changes from the FCA in CP 17/16
- Understand the advice considerations in comparing Defined Benefits and Defined Contribution pensions and understand the importance of the TVAS report, the need for accurate data and the analysis it provides
- Understand the Cash Equivalent Transfer Value, how to calculate it and the impact of different assumptions
- Have an awareness of the different tax charges that could apply post transfer, and any IHT implications that could apply.

HELPING CLIENTS NAVIGATE THE PENSION MAZE

Why are UK pensions so complicated?

"Frequent rule changes and a huge range of schemes have made pensions a minefield."

"There are lots of rules about what you can and cannot do

In April 2015, the government introduced "pension freedoms" which made the rules about what you can do when you retire a bit simpler….

However, before you get that far there are rules on how much you can put in each year (£40,000 unless you are a high earner), how much you can invest in total (£1m) and what happens to your fund if you die (you can leave it to someone tax-free if you die before 75, but there is a tax bill after that)…"

Hilary Osborne, The Guardian.com
19/05/2016

SCOTTISH WIDOWS

IS THE DEMAND STILL THERE?

money marketing

PENSIONS REGULATION INVESTMENTS PLATFORMS TAX BUSINESS MO

PENSIONS NEWS

Pension transfer spike set to continue on baby-boomer demand

By Justin Cash | 5th January 2018 1:03 pm

Pensions transfers are likely to continue on an upward trajectory in 2018 thanks to baby-boomer demand, Willis Towers Watson predicts.

This is despite an increase in the Bank of England base rate in November, the consultancy says, as it urges schemes to be wary of outflows that could either increase the risk or decrease the growth potential of their investment portfolios.

Source:https://www.moneymarketing.co.uk/pension-transfer-spike-set-continue-baby-boomer-demand/

PENSION TAX RELIEF AND THE CASE FOR REFORM

LATEST PENSION STATISTICS – A REMINDER

Personal Pensions Statistics September 2017

HM Revenue & Customs

Coverage:
United Kingdom

Theme:
The Economy

Last Updated:
29th September 2017

Next update:
February/March 2017

Reporting Periods:
Personal Tax Years

Updated Tables:
PEN1, PEN2, PEN2.1, PEN2.2, PEN6

Media contact:
HMRC Press Office (Individuals)
03000 585020

Out-of-hours: 07860 359544

Statistical contact:

Claire McKay
Tel: 03000 586310
Claire.McKay@hmrc.gsi.gov.uk

Philip Murfitt
Tel: 03000 586172
philip.murfitt@hmrc.gsi.gov.uk

HM Revenue and Customs
100 Parliament Street
London
SW1A 2BQ

Website:
https://www.gov.uk/government/collections/personal-pensions-statistics

Personal Pensions Statistics

NATIONAL STATISTICS

Lifetime and annual pension contribution allowances eligible for tax relief 2006-07 to 2017-18

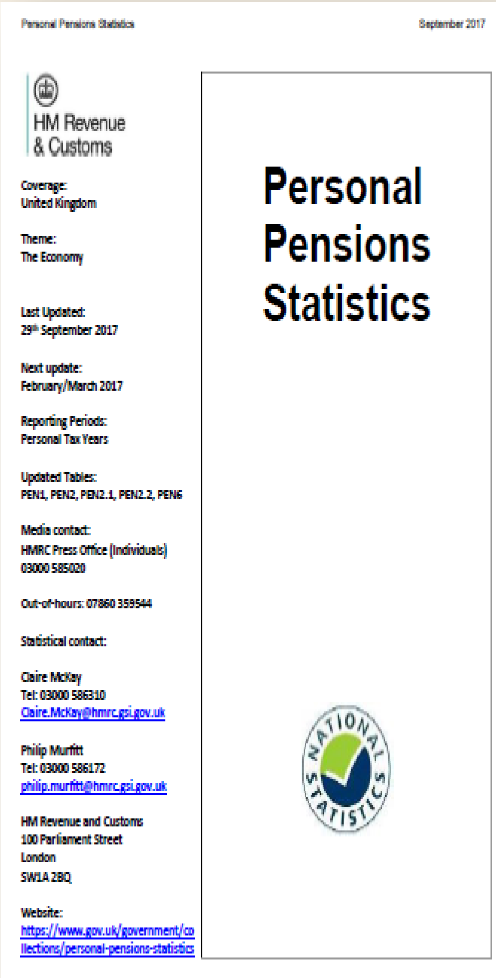
Tax Year	Annual Allowance	Tapered Annual Allowance Minimum[2]	Lifetime Allowance
2006-07	£215,000	-	£1.50 million
2007-08	£225,000	-	£1.60 million
2008-09	£235,000	-	£1.65 million
2009-10	£245,000	-	£1.75 million
2010-11	£255,000	-	£1.80 million
2011-12	£50,000	-	£1.80 million
2012-13	£50,000	-	£1.50 million
2013-14	£50,000	-	£1.50 million
2014-15	£40,000	-	£1.25 million
2015-16	£40,000	-	£1.25 million
2016-17	£40,000	£10,000	£1.00 million
2017-18	£40,000	£10,000	£1.00 million

In July 2015, the Chancellor announced that the Lifetime Allowance will be indexed annually in line with CPI from 6 April 2018.

SCOTTISH WIDOWS

Source: HMRC – Personal Pension Statistics. 29/09/2017

LATEST PENSION STATISTICS – CONTRIBUTORS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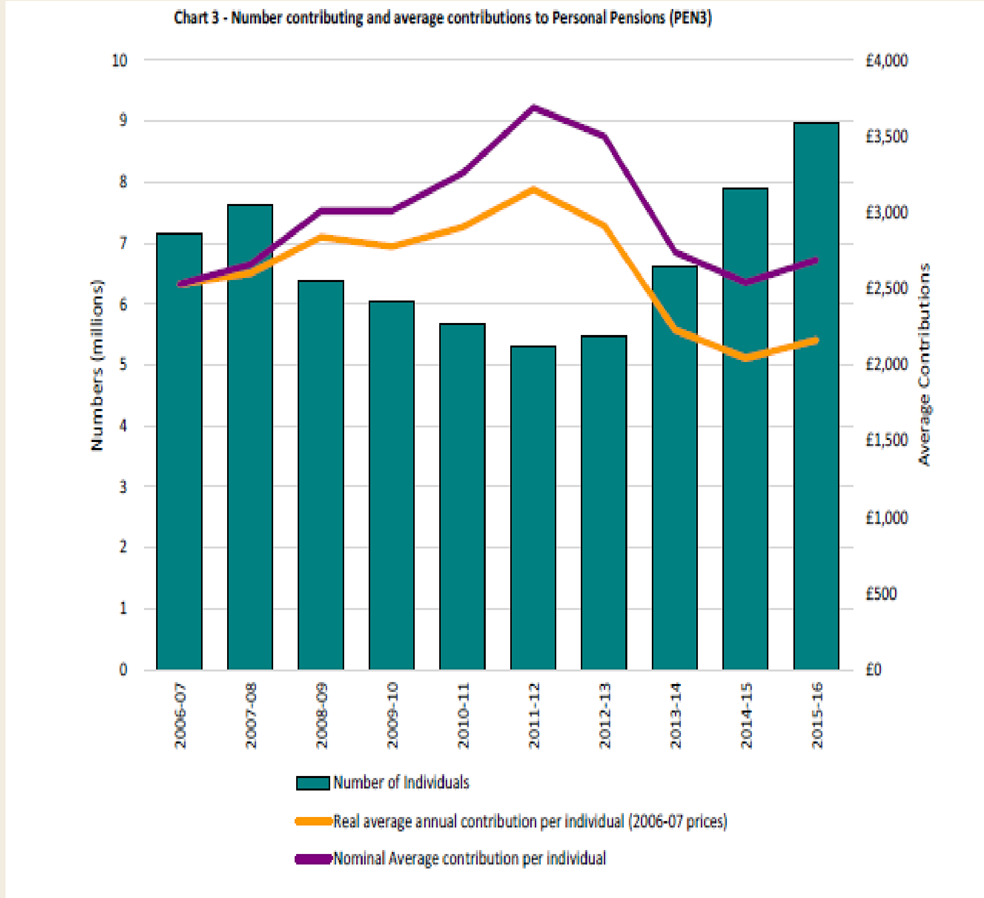
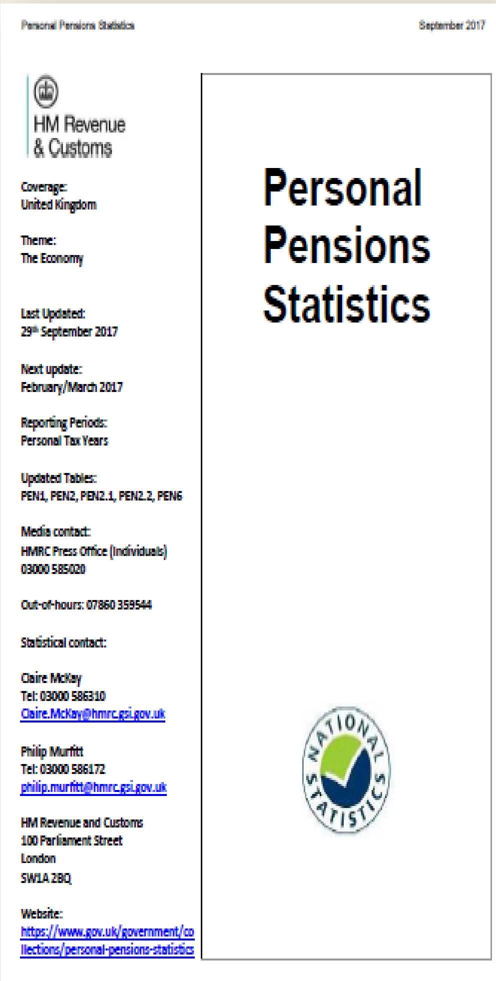
Personal Pensions Statistics

NATIONAL STATISTICS



The number of individuals contributing to a personal pension has increased to 9.0 million in 2015-16. This is the highest level since these statistics began; higher than the 7.9 million seen in 2014-15. There are currently 3.7 million more individuals contributing to personal pensions than the low of 5.3 million in 2011-12, and a 1.1 million increase from 2014-15. As with 2014-15, this increase is likely to reflect the effects of automatic enrolment.

LATEST PENSION STATISTICS – COST OF TAX RELIEF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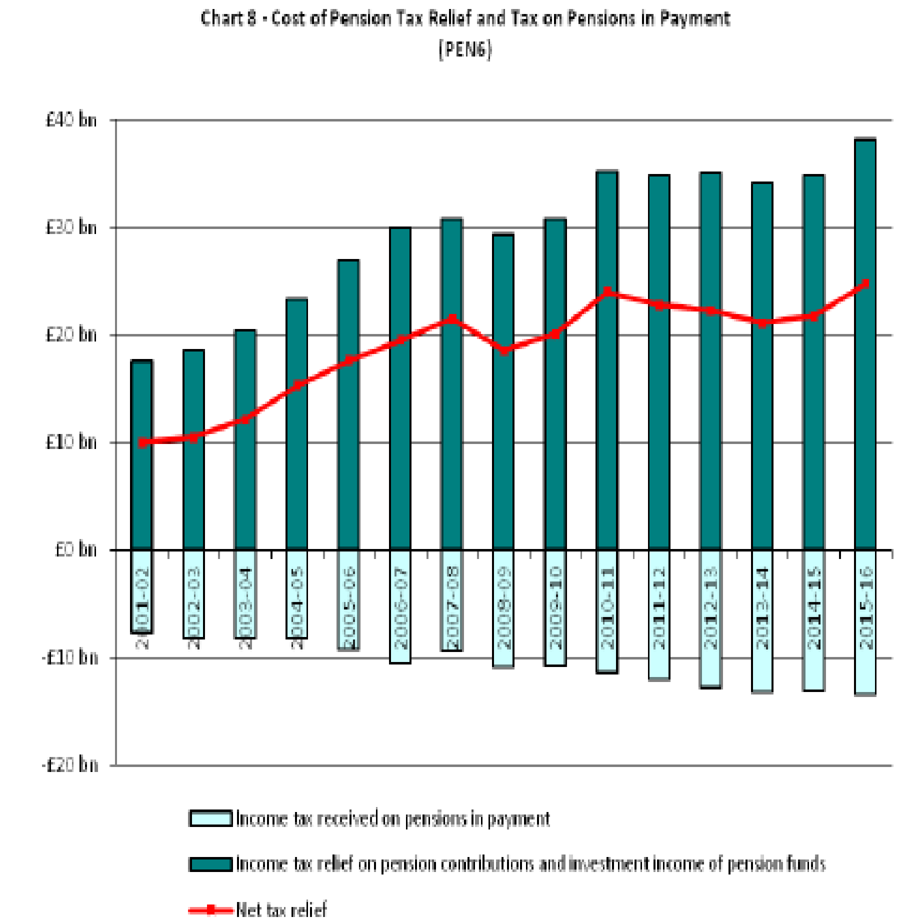
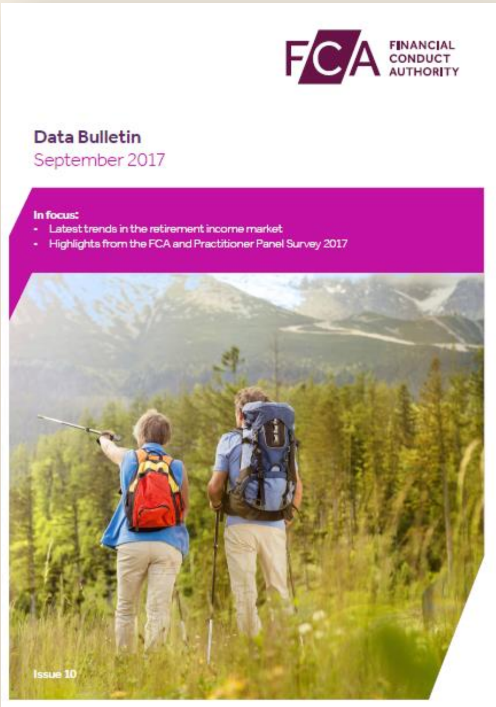


Gross pension tax relief in 2015-16 is projected to be £38.2 billion, up from £34.9 billion in 2014-15. This is expected to be partly the result of the introduction of automatic enrolment, which has increased the number of individuals saving and thus the total amount saved into workplace pensions in recent years. Reductions in the annual and lifetime pensions tax allowances were expected to be the main cause of the flattening cost of pensions tax relief between 2010-11 and 2014-15.

FREEDOM AND CHOICE – LATEST CUSTOMER TRENDS

LATEST TRENDS IN RETIREMENT INCOME MARKET



8% fall in the overall number of pension pots accessed between October 2016 and March 2017, from the previous six month period

This followed a significant peak in business at the start of the new tax year (April to September 2016)

This was driven by

21% fall in the number of annuities purchased

11% fall in the number of full cash withdrawals from the previous six month period

9% increase in the overall number of pension pots accessed compared with the same period last year (October 2015 to March 2016)

The market for **drawdown** grew by

4% from the same period last year

It remains at broadly the same level following the spike in activity in the previous six months

More than twice as many pots are moving into drawdown than annuities

Much of the growth in the overall number of pension pots accessed from a year ago is due to the number of full cash withdrawals, which grew by

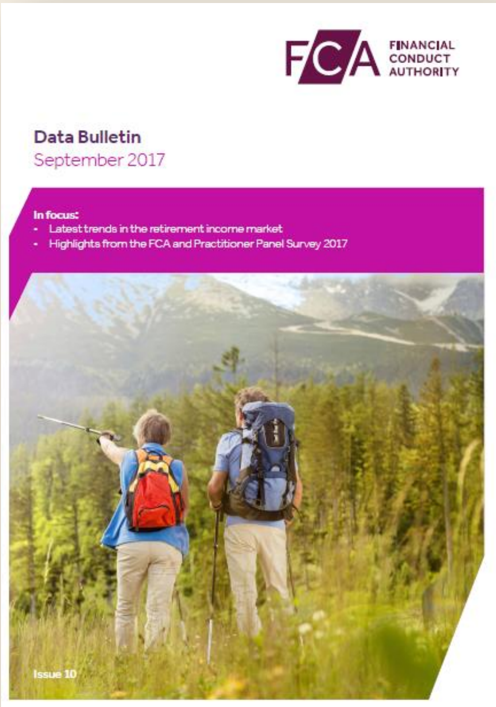
18% from the same period last year

While the number of annuity sales fell by

16% to their lowest level since the pension freedoms were introduced

SCOTTISH WIDOWS

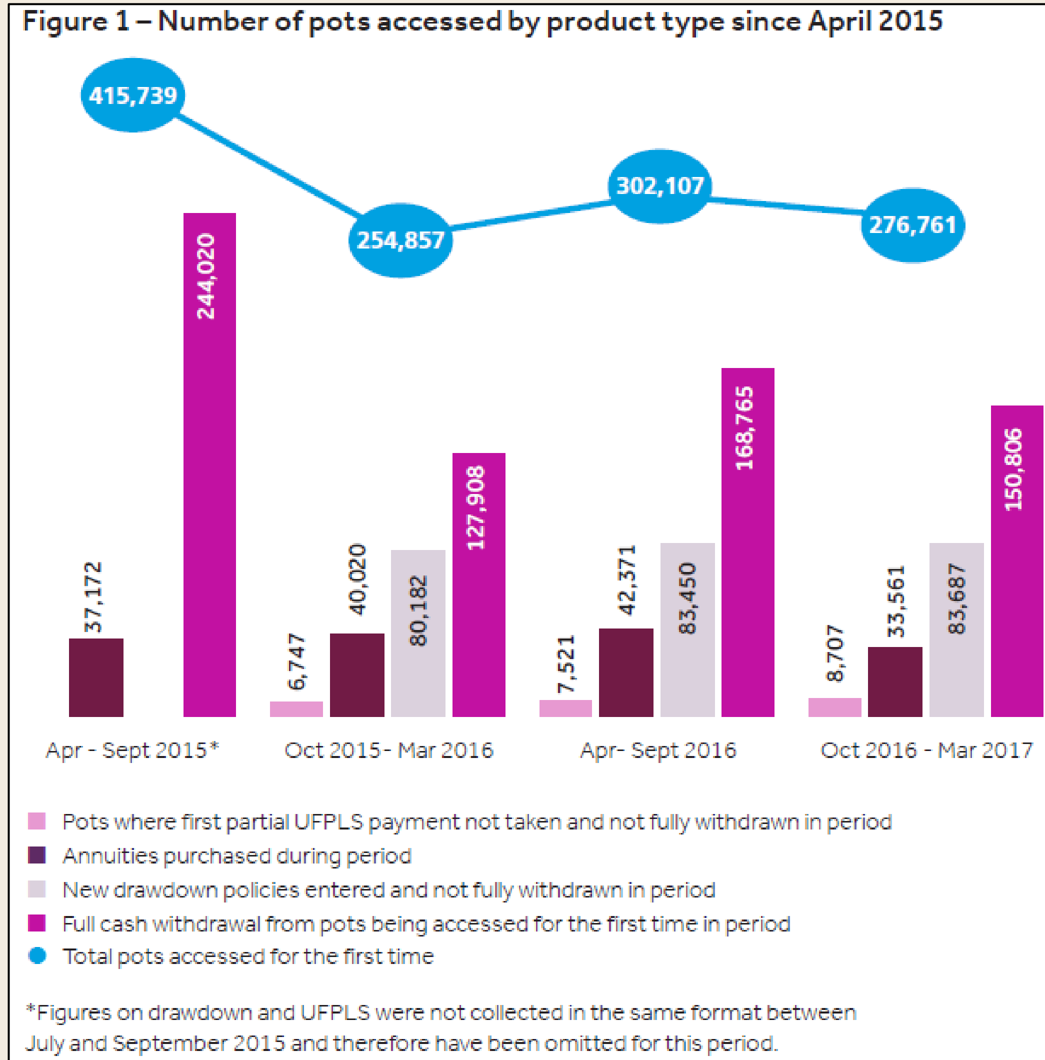
LATEST TRENDS IN RETIREMENT INCOME MARKET


FCA FINANCIAL CONDUCT AUTHORITY

Data Bulletin
September 2017

In focus:
- Latest trends in the retirement income market
- Highlights from the FCA and Practitioner Panel Survey 2017

Issue 10



SCOTTISH WIDOWS

LATEST TRENDS IN RETIREMENT INCOME MARKET

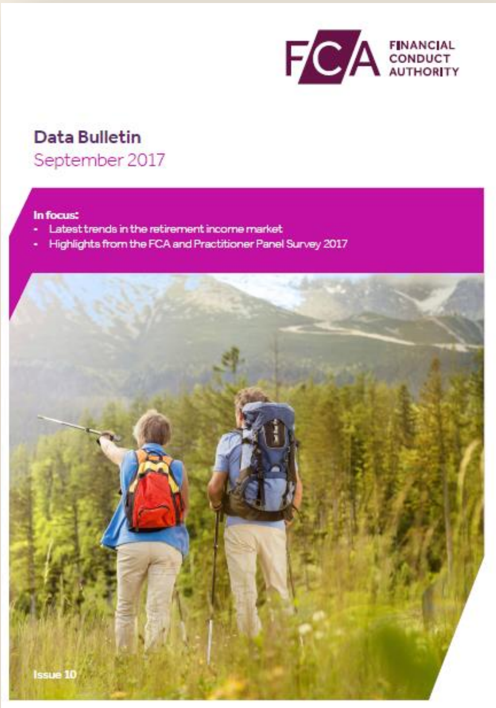
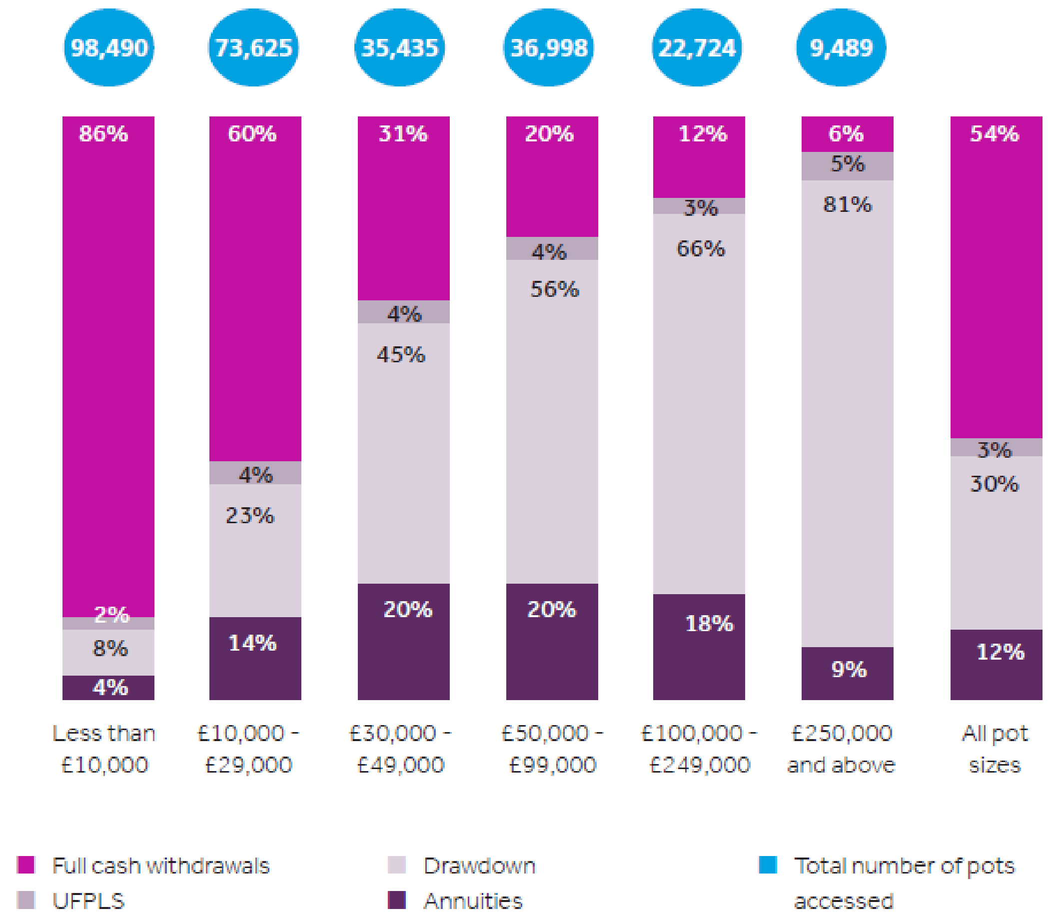


Figure 2 – Composition of product purchases made between October 2016 to March 2017 by pot size



SCOTTISH WIDOWS

LATEST TRENDS IN RETIREMENT INCOME MARKET

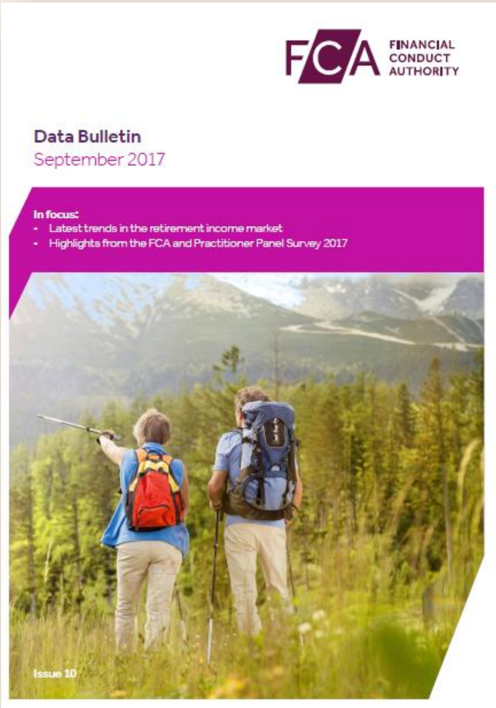
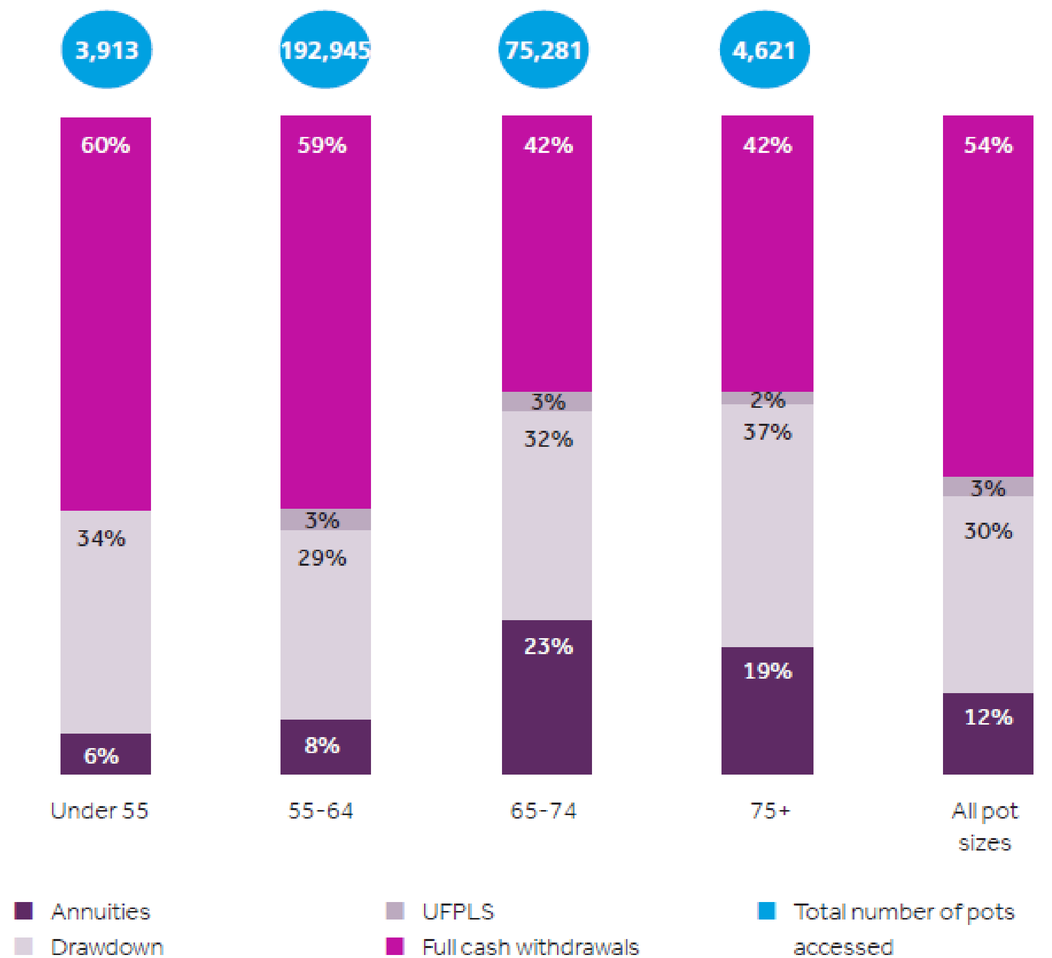


Figure 3 – Composition of product purchases made between October 2016 to March 2017 by age



SCOTTISH WIDOWS

PENSION FREEDOMS REVIEW

MPs pension freedoms probe to include DB transfer advice

By **Jack Gilbert** / 27 Sep, 2017 at 07:00

The Work and Pensions Select Committee will include defined benefit (DB) transfers as part of its inquiry into pension freedoms.

Last week the influential committee of MPs announced an inquiry into pension freedoms which will look at the support people have when making retirement decisions and specifically at scams.

FINANCIAL TIMES

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Pension drawdown + Add to myFT

MPs to probe pensions freedoms

Concerns that reforms have increased the risks of scams

Pension reforms gave those aged 55 and over full flexibility to spend defined contribution pension cash as they wished © WWPhotography/Alamy

SCOTTISH WIDOWS

FCA RETIREMENT INCOME MARKET STUDY

FINANCIAL CONDUCT AUTHORITY

Search

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Home / Publications / Retirement outcomes review: interim report

Retirement outcomes review: interim report

Terms of reference	Open consultation: Interim report	Interim report consultation closed	Final report
14/07/2016	12/07/2017	15/09/2017	Q2 2018

Market studies | First published: 12/07/2017 | Last updated: 12/07/2017

We have published the interim findings of our Retirement Outcomes Review, which looks at how the retirement income market is evolving since the pension freedoms were introduced in April 2015. The review has particularly focused on consumers who do not take advice.

- ***Over half – 52 per cent – of fully withdrawn pots were not spent but were moved into other savings or investments. Some of this is due to a lack of public trust in pensions. This can result in consumers paying too much tax, missing out on investment growth or losing out on other benefits.***

- ***Consumers who access their pots early without taking advice typically follow the 'path of least resistance', accepting drawdown from their current pension provider without shopping around.***

SCOTTISH WIDOWS

FCA RETIREMENT INCOME MARKET STUDY

- Consumers are increasingly accessing drawdown without taking advice. Before the freedoms, 5 per cent of drawdown was bought without advice compared to 30 per cent now. Drawdown is complex and these consumers may need more support and protection.

- Providers are continuing to withdraw from the open annuity market which could bring a risk of weakened competition over time.

- Product innovation has been limited to date, particularly for the mass market.

SCOTTISH WIDOWS

THE IMPORTANCE OF GOOD GUIDANCE AND ADVICE

HM Treasury

Pension wise
Your money. Your choice.

unbiased
Connecting millions to great advice

£0.9bn
Expected Tax from first 2 years of Freedoms

£2.7bn
Tax received from Freedoms since April 2015

Over 127,000
appointments between April ‘15 and March ‘17

625,000 have taken a flexible payment.

Increase in DB to DC

MPAA

Investment: Defaults and Drawdown

SCOTTISH WIDOWS

FINAL SALARY ADVICE – THE CURRENT LANDSCAPE

SCOTTISH WIDOWS

The Current Landscape

Paul Lewis: 'Don't do it' is the best advice on DB transfers

The industry is entering a dangerous phase of the growing DB transfer misselling scandal and it is advisers whose reputation is on the line

By **Paul Lewis** | 10th November 2017 10:50 am

A major misselling scandal is brewing, and for once it is financial advisers in the frame rather than the banks.

It is unlikely to reach the epic proportions of PPI claims – still pumping a quarter of a billion pounds a month into consumers' pockets like some mini quantitative easing programme – but it will be big. Advisers should be thinking very hard about what their part in it will be.

SCOTTISH WIDOWS

Source: https://www.moneymarketing.co.uk/issues/9-november-2017/30-paul-lewis-dont-best-advice-db-transfers

The Current Landscape

Three firms stop DB transfer advice after FCA British Steel probe

By **Katie Marriner** | 11th December 2017 3:30 pm

Three advice firms have stopped giving pension transfer advice following work by the FCA over the future of the British Steel Pension Scheme.

A statement this afternoon details the FCA's "information gathering exercise" to identify the firms that have been most active in advising people to transfer out of the scheme.

SCOTTISH WIDOWS

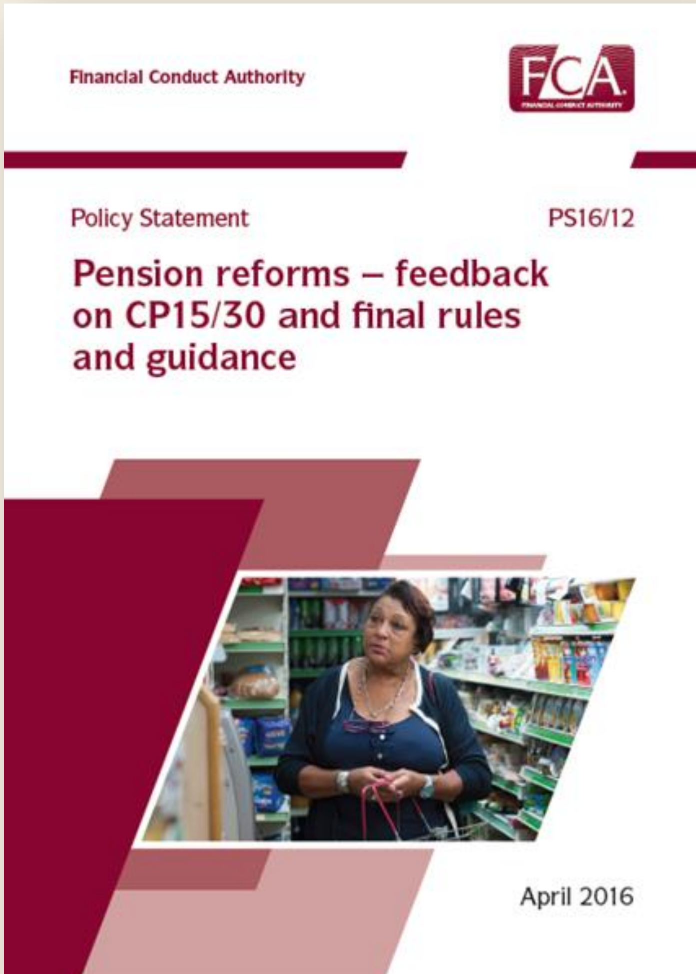
Source:Https://www.moneymarketing.co.uk/three-firms-stop-db-transfer-advice-fca-british-steel-work

CURRENT FCA REQUIREMENTS

- These are set out in COBS 19.1
- They require that a transfer value analysis is carried out
- This will compare benefits being given up with those in new plan
- Customer must be told about the loss of benefits under existing scheme
- All the risks of transferring must be explained
- The starting position must be that the transfer is not in the clients best interest

SCOTTISH WIDOWS

THE FCA VIEW – CP15/30 – THE TVAS PARADOX


Financial Conduct Authority

FCA

Policy Statement PS16/12

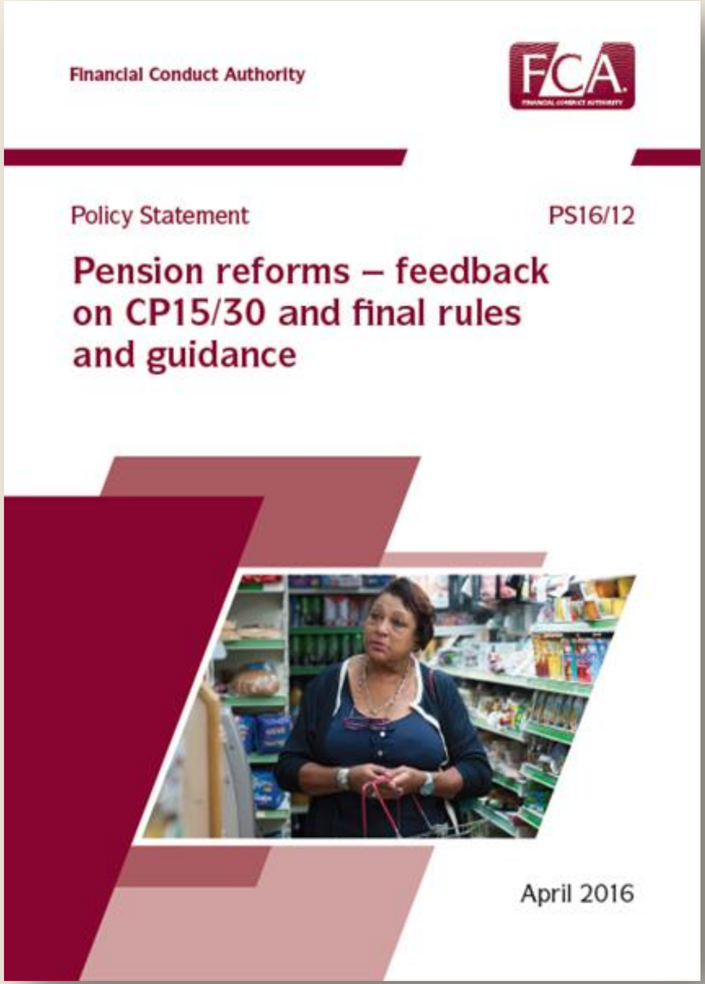
Pension reforms – feedback on CP15/30 and final rules and guidance

April 2016

“The majority of those responding thought that the TVA needed to be reconsidered following pension freedoms; it was considered that consumers will increasingly disengage with a ***TVA which only looks at an option that they are not interested in pursuing****.*

Some respondents considered that TVA is now irrelevant – that it is simply not possible for TVA to capture the wide range of considerations that need to be factored into a recommendation to transfer or not. It was suggested instead that suitability should be focussed on consumers’ needs which will vary throughout retirement”

INSISTENT CLIENTS



"Some advisers noted that they perceive that the Ombudsman makes ***inconsistent judgements*** *which consequently makes adviser nervous about trying to document a client disclaimer when a client wishes to transact against their advice in a way that is future proof. It was suggested that that there could be a greater degree of separation between the adjudicator and the Ombudsman process (this was likened to our appeal tribunal process). Some suggested that* ***greater co-operation/alignment is needed between the Ombudsman and us****."*

LATEST FCA THINKING AND CP 17/16

SCOTTISH WIDOWS

CURRENT FCA PRIORITY?

money marketing

PENSIONS REGULATION INVESTMENTS PLATFORMS TAX BUSINESS

FCA supervision chief: 'DB transfers are front and centre of my mind'

The FCA's supervision head talks DB transfers and advice charge disclosure in an exclusive interview with *Money Marketing*

By Justin Cash | 1st December 2017 6:59 am

"What is top of the priorities list for the woman charged with supervising the roughly 25,000 advisers in the UK? The answer – defined benefit pension transfers – is unlikely to surprise."

SCOTTISH WIDOWS

Source: https://www.moneymarketing.co.uk/fca-supervision-chief-db-transfers-front-centre-mind

CURRENT FCA PRIORITY

money marketing

PENSIONS REGULATION INVESTMENTS PLATFORMS TAX BUSINESS

FCA supervision chief: ‘DB transfers are front and centre of my mind’

The FCA’s supervision head talks DB transfers and advice charge disclosure in an exclusive interview with *Money Marketing*

By **Justin Cash** | 1st December 2017 6:59 am

The quest for better DB transfer advice is far from over. Alongside its outreach events, the FCA is going to continue to review the market, with firm visits and file reviews in the pipeline. The FCA originally looked at 92 firms that had done a particularly large amount of DB transfer business for its first review. How wide will the new sample be? It’s “a work in progress,” says Butler.

CURRENT FCA PRIORITY

The FCA's work on DB transfers: Key stats

2 years: The FCA has been reviewing the market

22 firms: Number asked for detailed information

12 firms: Visited afterwards

4 firms: Chose to stop advising on transfers

47 per cent: DB transfers found to be suitable

35 per cent: Of recommended products were suitable

STAR WARS THE FORCE AWAKENS

THE FCA AWAKENS

corporate adviser

FCA publishes new DB transfer rule proposals

By John Greenwood June 21, 2017 10:15 am

The transfer value analysis requirement (TVA) used to assess suitability of DB transfers should be replaced with a comparison showing the value of the benefits being given up, says the FCA.

<u>Areas Reviewed:</u>

- Role of Pension Transfer Specialist
- Personalised Recommendation - taking account of an individual’s circumstances
- Relevance of the TVAS
- Context of Pensions Freedoms behaviours

SCOTTISH WIDOWS

WHAT IS THE TI(E)ME-LINE?

FINANCIAL CONDUCT AUTHORITY

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Home / Publications / CP17/16: Advising on Pension Transfers

CP17/16: Advising on Pension Transfers

Open consultation: CP17/16	Consultation closes	Policy Statement
21/06/2017	21/09/2017	Q1 2018

Consultation papers | First published: 21/06/2017 | Last updated: 21/06/2017

Print page

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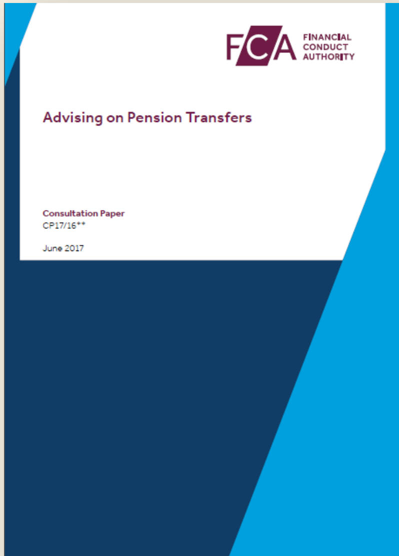
We are consulting on how advice should be provided to consumers on pension transfers where consumers have safeguarded benefits, primarily for transfers from defined benefit to defined contribution pension schemes.

CP17/16: Advising on Pension Transfers

Respond to CP17/16



FCA FINANCIAL CONDUCT AUTHORITY

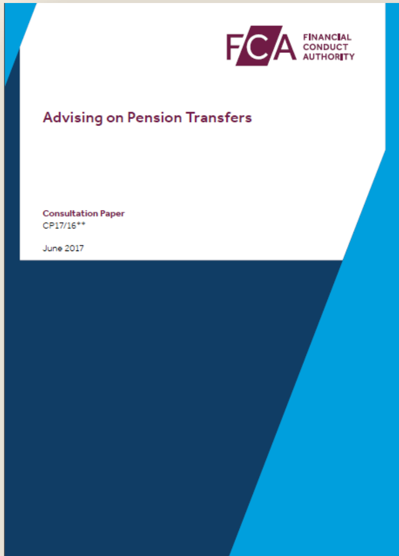
Advising on Pension Transfers

Consultation Paper
CP17/16**

June 2017

KEY POINTS

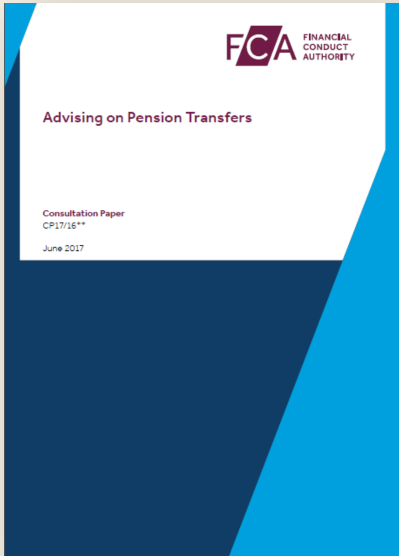
“Defined Benefit pensions, and other safeguarded benefits involving guaranteed pension income, provide valuable benefits so most consumers will be best advised to keep them. However, we recognise that the economic and legislative environment has changed significantly, so we want to ensure that financial advice considers the customer’s circumstances in full and properly considers the various options now available to them. We want to provide advisers with a framework which better enables them to give the right advice so that consumers make better informed decisions”



KEY POINTS

It remains our view that keeping safeguarded benefits will be in the best interests of most consumers. However, the introduction of the pension freedoms has altered the options available and for some consumers a transfer may now be suitable when it wasn’t previously. *<u>We therefore propose to remove the existing guidance that an adviser should start from the assumption that a transfer will be unsuitable</u>*.

SCOTTISH WIDOWS



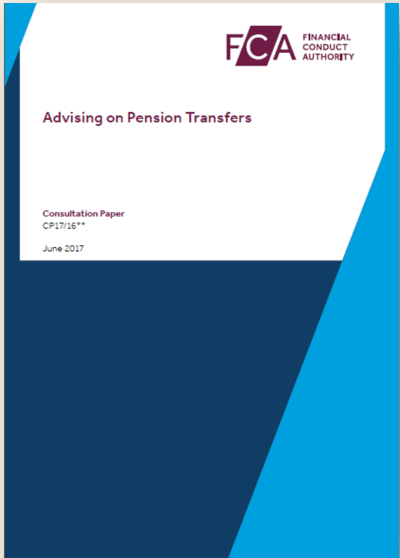
KEY POINTS

This guidance will make clear that in order to provide a suitable personal recommendation an adviser should consider the following elements:

- ✓ *the client's income needs and expectations and how these can be achieved, the role safeguarded benefits play in providing this income and the impact and risk if a conversion or transfer is made*

- ✓ *the specific receiving scheme being recommended following the transfer and the investments being recommended within that scheme to ensure that it is appropriate for the risk profile of the client*

SCOTTISH WIDOWS


FCA FINANCIAL CONDUCT AUTHORITY

Advising on Pension Transfers

Consultation Paper
CP17/16**

June 2017

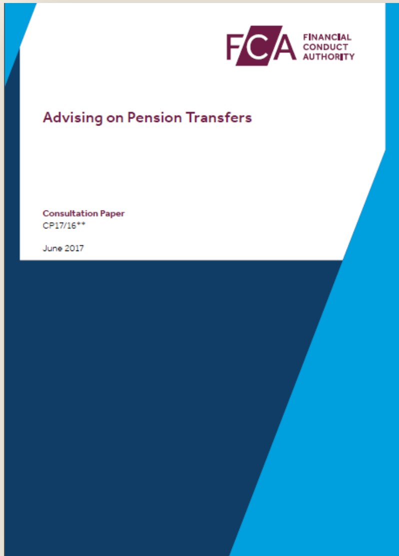
KEY POINTS

- ✓ *the way in which the funds will be accessed, either immediately or in the future, including follow-on arrangements*

- ✓ *alternative ways of achieving the client's objectives. For example, there may be ways for a client to provide death benefits which can be funded from income rather than by a lump sum funded by a pension transfer, and which does not carry so much risk*

- ✓ *the relevant wider circumstances of the individual*

SCOTTISH WIDOWS


FCA FINANCIAL CONDUCT AUTHORITY

Advising on Pension Transfers

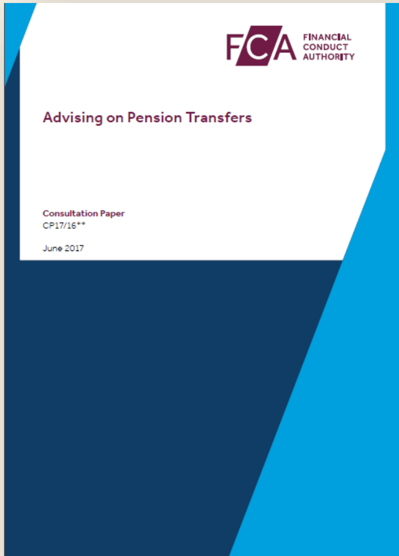
Consultation Paper
CP17/16**

June 2017

ROLE OF A TRANSFER SPECIALIST

Advice on pension transfers, pension conversions and pension opt-outs must be given or checked by a pension transfer specialist, who must be a fit and proper person with specific qualifications. The existing requirements do not specify what is intended when a pension transfer specialist checks, rather than gives, advice on the transfer or conversion of safeguarded benefits. ***We have seen cases where a pension transfer specialist simply runs the Transfer Value Analysis (TVA) calculation or checks the numbers that have been produced rather than looking at the overall assessment and recommendation made as a whole. This is not in line with our expectations.***

SCOTTISH WIDOWS


FCA FINANCIAL CONDUCT AUTHORITY

Advising on Pension Transfers

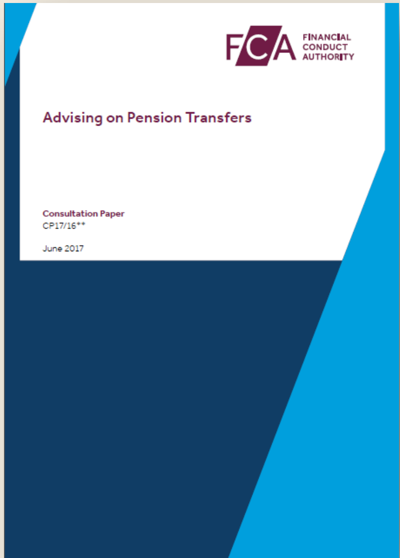
Consultation Paper
CP17/16**

June 2017

WHAT ABOUT THE TVAS?

Taking everything together, we believe that the changes in the pensions environment mean that the current TVA is no longer leading to the best outcomes for consumers, and advisers are often focusing too much on this analysis when advising in this area. We therefore propose to replace TVA with an overarching requirement to undertake appropriate analysis of the client's options. We will refer to this as the <u>'appropriate pension transfer analysis' or APTA</u>. Part of this process will be the inclusion of a prescribed comparator providing a financial indication of the value of benefits being given up.

SCOTTISH WIDOWS

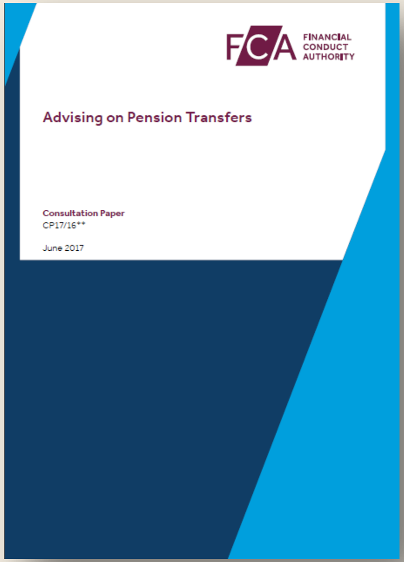


KEY POINTS

We are therefore proposing to require a prescribed transfer value comparator (TVC) as part of the APTA. The TVC will require a calculation involving:

- ✓ *where relevant, a projection of the ceding scheme benefits to normal retirement age*
- ✓ *the estimated cost of purchasing those benefits using an annuity, and*
- ✓ *for those more than 12 months from their scheme retirement date determining the present value needed today to fund the annuity*

SCOTTISH WIDOWS

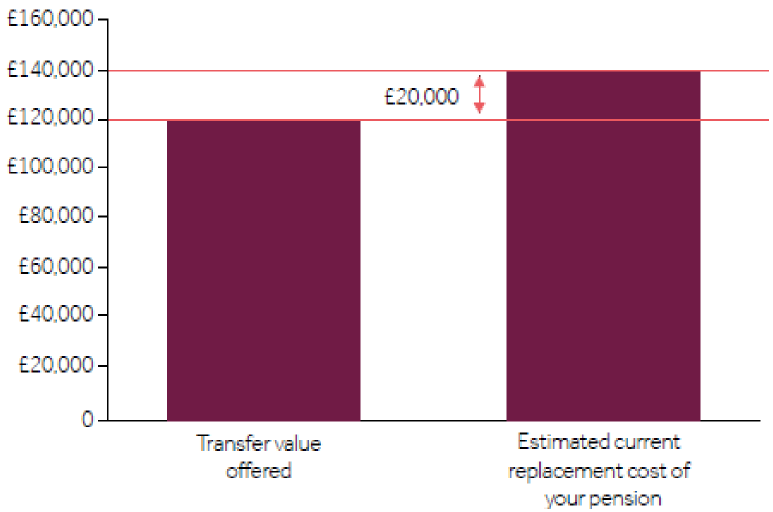


KEY POINTS

Example of transfer value comparison

The transfer value offered instead of your pension income is: £120,000

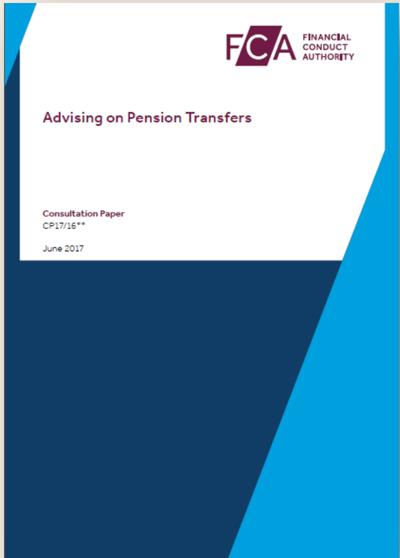
How does this compare with the amount you need to buy the same income on the open market?



It could cost you **£140,000** to obtain a comparable level of guaranteed income on the open market.

This means the same retirement income could **cost you £20,000 more** by transferring.

SCOTTISH WIDOWS



SUMMARY

What does good look like?

"A successful outcome will be measured by a ***reduction in the number of complaints*** *against advisory firms, fewer interventions by the FCA in this area, fewer customers becoming the victims of pension scams and* ***greater certainty and confidence*** *amongst advisers as to the expectations for this type of advice"*

SCOTTISH WIDOWS

HOW TO CALCULATE A CETV?

A FOUR STAGE PROCESS

1. ***Calculate the member's pension entitlement at the date of leaving, taking into account accrual rate, AVCs and any transferred-in benefits.***

2. ***Revalue the member's pension at the date of leaving through to the normal retirement date, taking into account revaluation and inflation assumptions.***

3. ***Place a capital value on the projected pension payable at retirement, taking into account dependents pensions and increases in payment.***

4. ***Discount the capital value calculated in the previous step back to the date of the calculation. At this stage, an adjustment can be made to reflect the scheme's funding position.***

A FOUR STAGE PROCESS

<u>The resultant value is the CETV</u>

The four stages of the calculation involve important assumptions about:

- ✓ *The inflation rate to the date of retirement*
- ✓ *The inflation rate after retirement*
- ✓ *Investment returns before retirement*
- ✓ *Investment returns after retirement*

HOW DO THE ASSUMPTIONS AFFECT THE CETV?

SCOTTISH WIDOWS

DISCOUNT RATES

- The discount rate is the most significant financial assumption for assessing pension obligations.

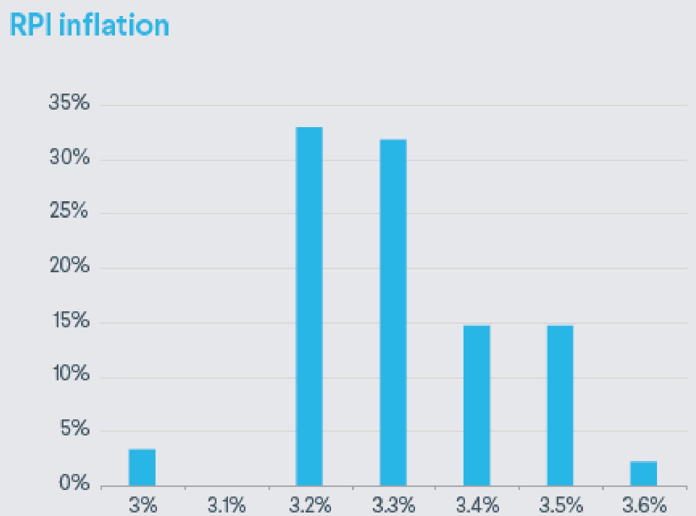
- A low discount rate leads to a high value being placed on the pension liabilities.

£10bn	-7 bps
increase in FTSE350 pension liabilities	on discount rate

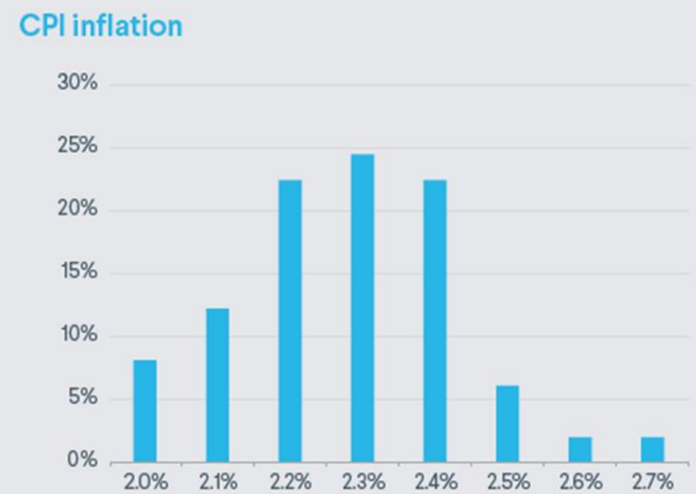
SCOTTISH WIDOWS

Hymans Robertson - ISA19 Assumption Report, June 2017

SCHEME RPI AND CPI ASSUMPTIONS



Date	31 Dec 2016
Average RPI assumption	3.3% pa

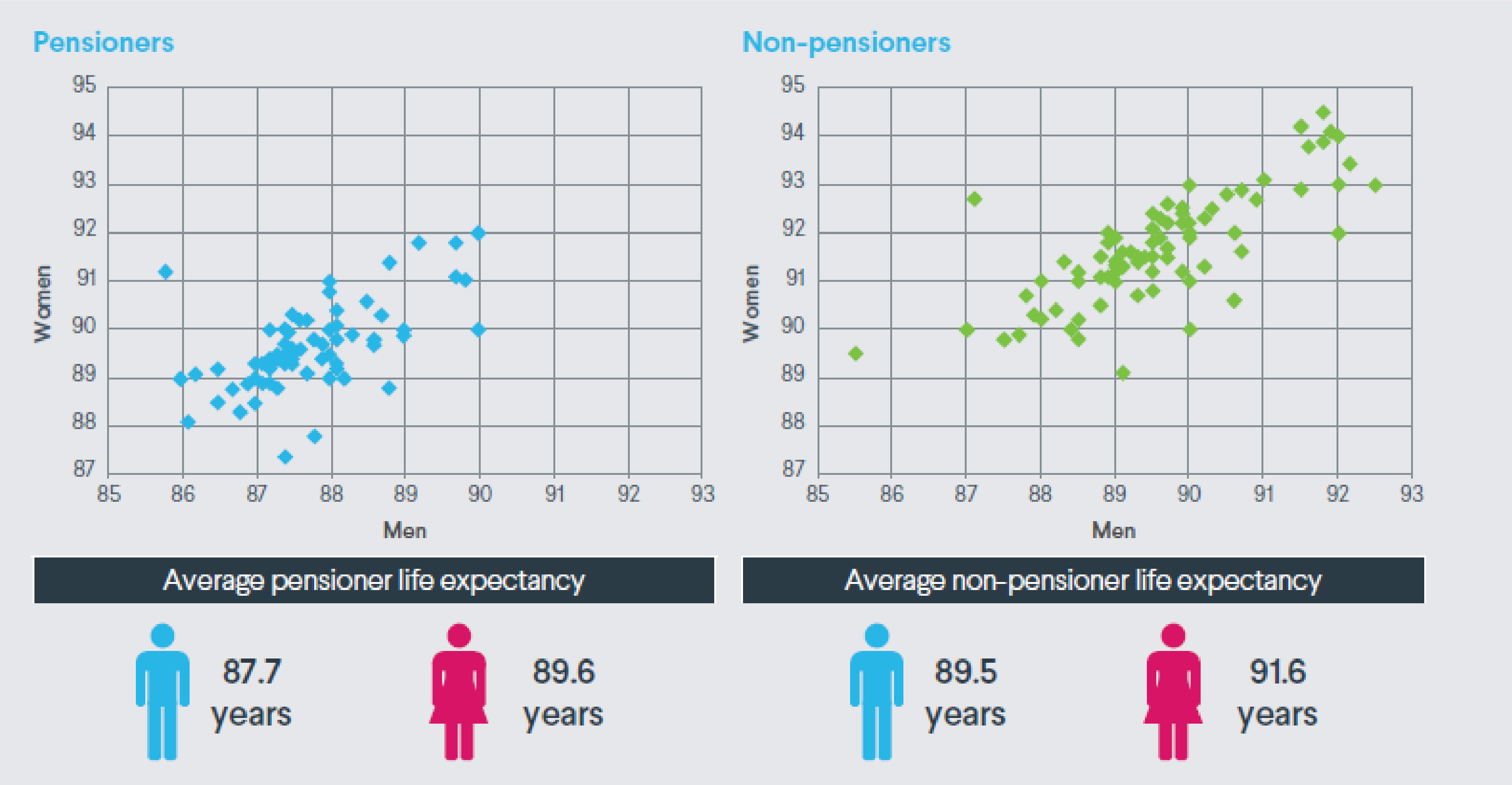


Date	31 Dec 2016
Average CPI assumption	2.3% pa

Distribution of RPI/CPI assumptions adopted by the FTSE350 at 31/12/2016

SCOTTISH WIDOWS

LONGEVITY ASSUMPTIONS BY FTSE 350



- Each additional year of life expectancy adds up to 4% Scheme liability
- Spread across the FTSE 350 of around 8 years

SCOTTISH WIDOWS

Hymans Robertson - ISA19 Assumption Report, June 2017

REVALUATION AND EQUALISATION

PRESERVED BENEFITS AND INCREASE IN DEFERMENT

2 elements of pension increase in deferment

Guaranteed Minimum Pension (GMP)

- Replaced SERPS benefits in contracted-out scheme
- No new GMP accrued since 06/04/1997

Non-GMP

- Remainder of benefits above GMP
- Includes all benefits earned since 06/04/1997

GMP REVALUATION ON LEAVING SCHEME

Normally 2 methods of GMP Revaluation

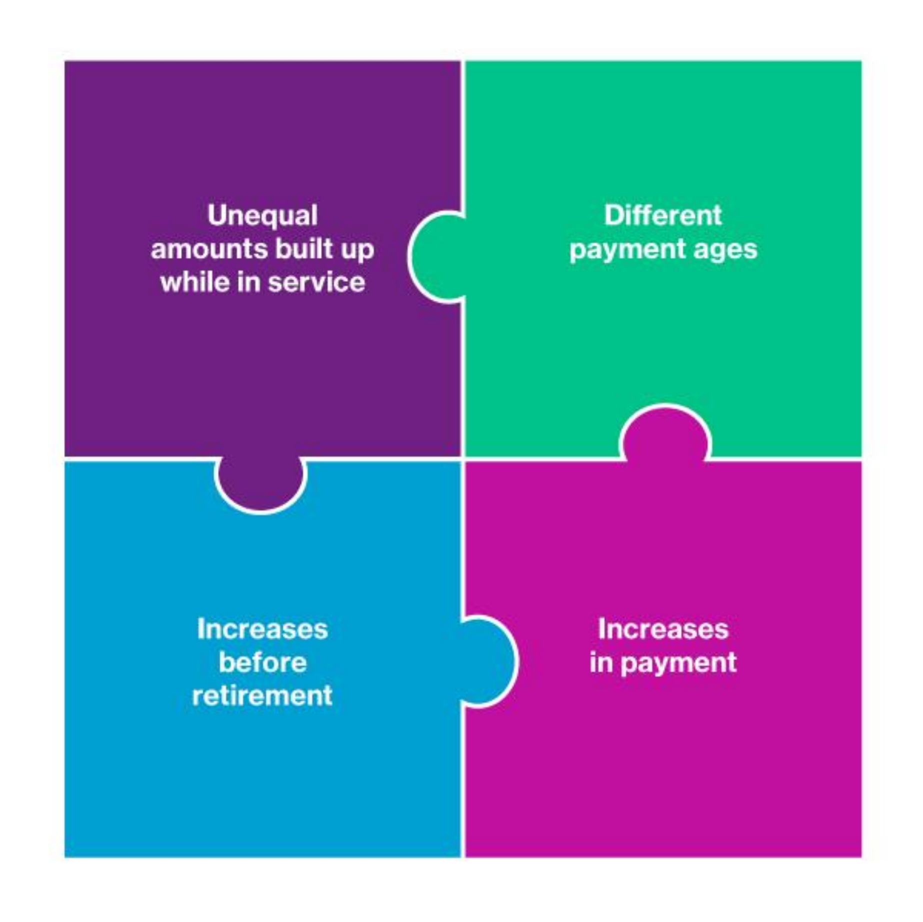
- Fixed rate – dependant on when member terminated contracted out employment, as follows:

Date of termination of c/o employment	Fixed revaluation rate %
After April 2017	3.5%
6th April 2012 – 5th April 2017	4.75%
6th April 2007 – 5th April 2012	4.0%
6th April 2002 – 5th April 2007	4.5%
6th April 1997 – 5th April 2002	6.25
6th April 1993 – 5th April 1997	7.0%
6th April 1998 – 5th April 1993	7.5%
Before April 1998	8.5%

- In line with NAE (Section 148)
  - Normally limited to Public Sector Schemes

WHAT ABOUT EQUALISATION?

Why do GMPs create inequality?



Impact on members

"In our experience, the impact on individual members' benefits can vary considerably, and will be much more significant (with benefit increases of over 10% in some cases) than at the scheme level. We have found that men are more likely to receive an increase, though women can do too."

https://www.towerswatson.com/en/Insights/Newsletters/Europe/UK-Corporate-and-Trustee-Briefing/2016/12/New-consultation-on-GMP-equalisation

LONG TERM FUTURE OF DB

FEARS OVER DB SOLVENCY

DB solvency fears driving transfers

By John Greenwood July 18, 2017 11:04 am

Fears over the future solvency of defined benefit pensions is fuelling high demand for transfer advice say advisers.

SCOTTISH WIDOWS

Source:http://click.mail.centaurmedia.com/?qs=6245c3aa239efee20ff726edd2d0202848e0725c9032d45eafd1fe2e8857921319387bb762320352e30c30c3020e57f3e7dbf69a9fe35917

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NEWS

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Sir Philip Green strikes BHS pension deal with regulator

By Kevin Peachey
Personal finance reporter

28 February 2017

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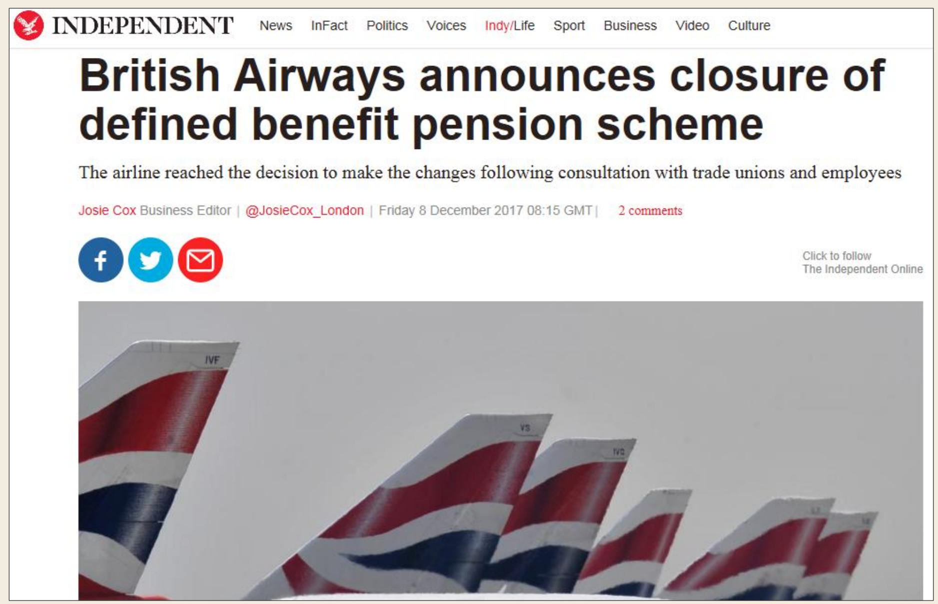
Sir Philip Green has agreed a £363m cash settlement with the Pensions Regulator to plug the gap in the BHS pension scheme.

TATA

TATA STEEL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British Airways announces closure of defined benefit pension scheme

The airline reached the decision to make the changes following consultation with trade unions and employees

Josie Cox Business Editor | @JosieCox_London | Friday 8 December 2017 08:15 GMT | 2 comments

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The Independent Online

SCOTTISH WIDOWS

DB IN THE NEWS

WELL DONE TO THE PPF FOR STANDING UP TO TOYS'R'US AND GETTING A GOOD COMPROMISE

December 21, 2017 Ros Altmann 0 Comment

- **Well done to the PPF – more money for the pension scheme and many jobs reprieved**
- **PPF Toys'R'Us tactics have sent strong signal to other scheme sponsors to take pension promises more seriously**

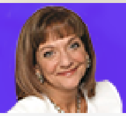
Search ...

Calculate how long a pension fund might last

SCOTTISH WIDOWS

Source:http://pensionsandsavings.com/well-done-to-the-ppf-for-standing-up-to-toysrus-and-getting-a-good-compromise

DB IN THE NEWS



pensionsandsavings.com

It is good to see the Pension Protection Fund challenging corporate sponsors at Toys'R'Us and managing to get more money into the pension scheme. Its judgment that the company could indeed afford to pay, despite its protestations that this was impossible, has proven correct.

This has sent a strong signal to other pension scheme sponsors that they must take their pension promises seriously and not ignore their pension deficits.

The PPF is underwritten by all other pension schemes, not the Government, as a mutual insurance scheme against insolvency. If employers try to walk away from an underfunded scheme, they pass the costs onto other employers, which should only happen when there is no alternative.

It seems that lessons have been learnt from the BHS debacle. Before its insolvency, BHS also restructured its business, but only to fall into bankruptcy a while later. By delaying the failure, the cost to the PPF was higher. The Lifeboat's managers had to make the difficult decision in the Toys'R'Us case to force the company to come up with money for the pension scheme.

Clearly, the owners would benefit from the CVA restructuring, so it is only right that the PPF guards against gaming the system and forces the company to allocate some funds to reduce the pension scheme's deficit.

Source:http://pensionsandsavings.com/well-done-to-the-ppf-for-standing-up-to-toysrus-and-getting-a-good-compromise

DB IN THE NEWS

FT ADVISER

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Defined Benefit November 9, 2017

Flaws in British Steel pension transfer advice uncovered

See comments (52)

By Maria Espadinha

Financial Adviser

More on Defined Benefit

- FTSE 100 pension liabilities up 17%
- MPs to produce British Steel pension report
- University staff pension talks extended

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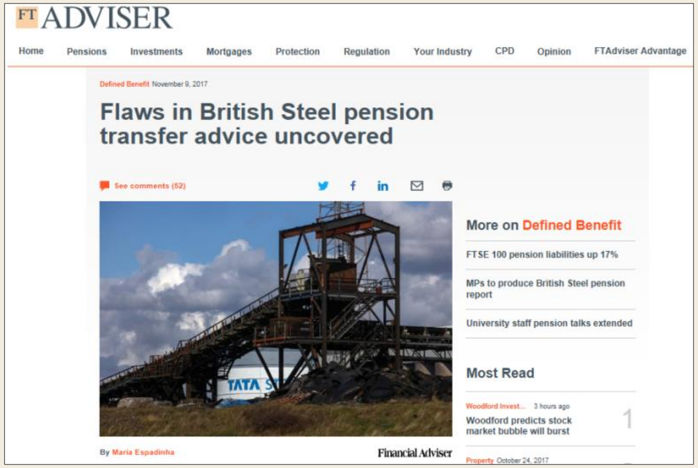
Woodford predicts stock market bubble will burst 1

Property October 24, 2017

SCOTTISH WIDOWS

Source:https://www.ftadviser.com/pensions/2017/11/09/flaws-in-british-steel-pension-transfer-advice-uncovered/

DB IN THE NEWS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Most Read

Woodford Invest... 3 hours ago

Woodford predicts stock market bubble will burst

Property October 24, 2017

More than 7,000 members of the scheme have requested a transfer value quotation between April and September this year, with more than 700 requests totalling more than £200m being concluded or processed during that period.

The BSPS members weren't able to explain the basis of the adviser's recommendation for the transfer, and the reason for this decision is that it was the cash from their pension that they wanted.

"We did not see any evidence of cash-flow modelling by advisers."

Source:https://www.ftadviser.com/pensions/2017/11/09/flaws-in-british-steel-pension-transfer-advice-uncovered/

DB IN THE NEWS

FCA urges worried steelworkers to halt pension transfers

Hannah Godfrey reports...

By **Retirement Planner** - Dec 19, 2017

The Financial Conduct Authority (FCA) has suggested steelworkers who are concerned about the suitability of the advice they have received should stop their pension transfer.

“The FCA is aware that some members may be in the process of transferring out of the British Steel Pension Scheme (BSPS), and could have concerns about whether the advice they received was suitable.

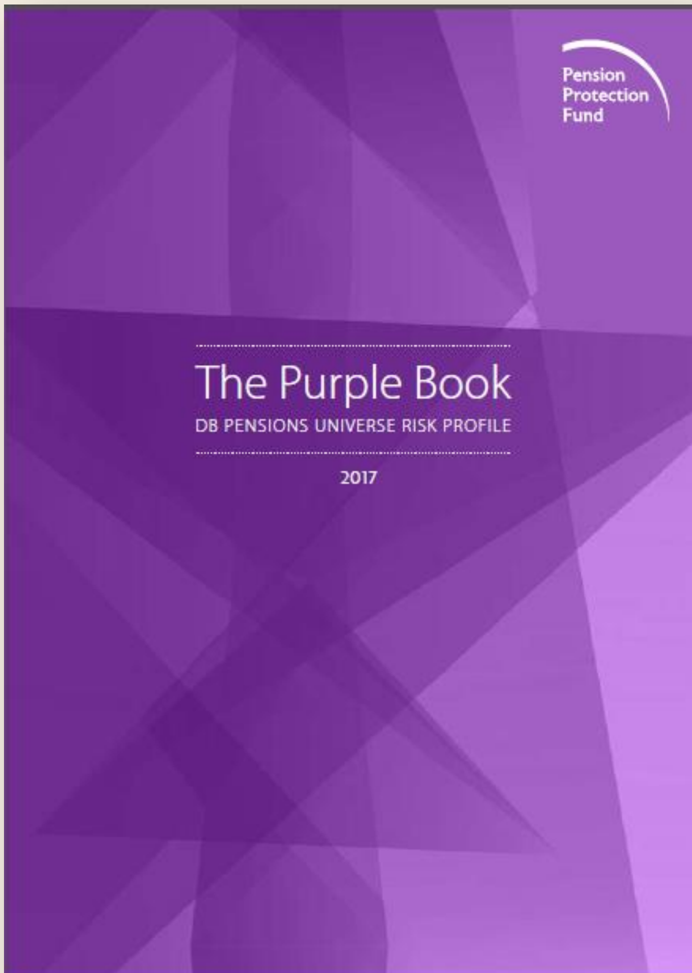
“The FCA along with The Pensions Regulator, which regulates the trustees and the BSPS, recommends that members who have a pending transfer and are concerned about their decision, contact the scheme administrators who may be able to stop the transfer.

“If a member has already transferred their pension and is concerned about the advice they have received, they should make a complaint to the firm and, if they are still not happy, speak to the Financial Ombudsman Service.”

SCOTTISH WIDOWS

Source:https://www.retirement-planner.co.uk/232481/fca-urges-worried-steelworkers-halt-pension-transfers

FUNDING POSITION OF SCHEMES



Improvements in scheme funding:

- Many members of defined benefit pension schemes are choosing to transfer out of these schemes. Recent studies suggest that both the number of requests for transfer value quotations, and subsequent transfers, have been increasing, particularly in the year 2016/17.

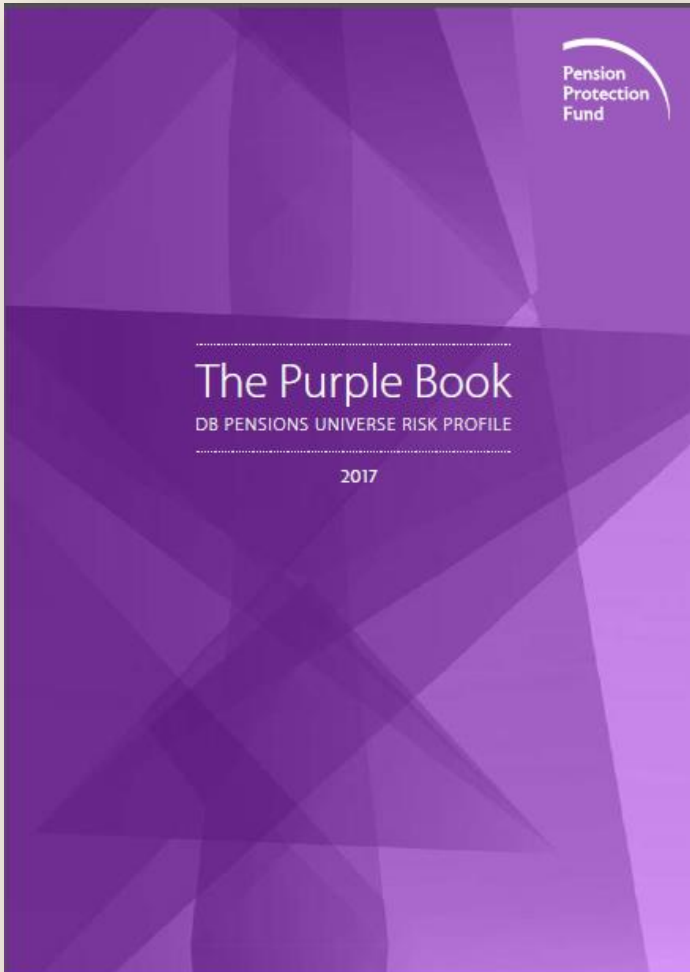
- Scheme funding improved in the year to the end of March 2017. The aggregate deficit on an s179 basis fell to £161.8 billion from £221.7 billion while the aggregate funding level improved to 90.5 per cent from 85.8 per cent.

- On a full buy-out basis, the estimated aggregate deficit fell to £736.2 billion from £779.9 billion, the funding level improving to 67.7 per cent from 63.2 per cent.

Source:http://www.pensionprotectionfund.org.uk/

FUNDING POSITION OF SCHEMES

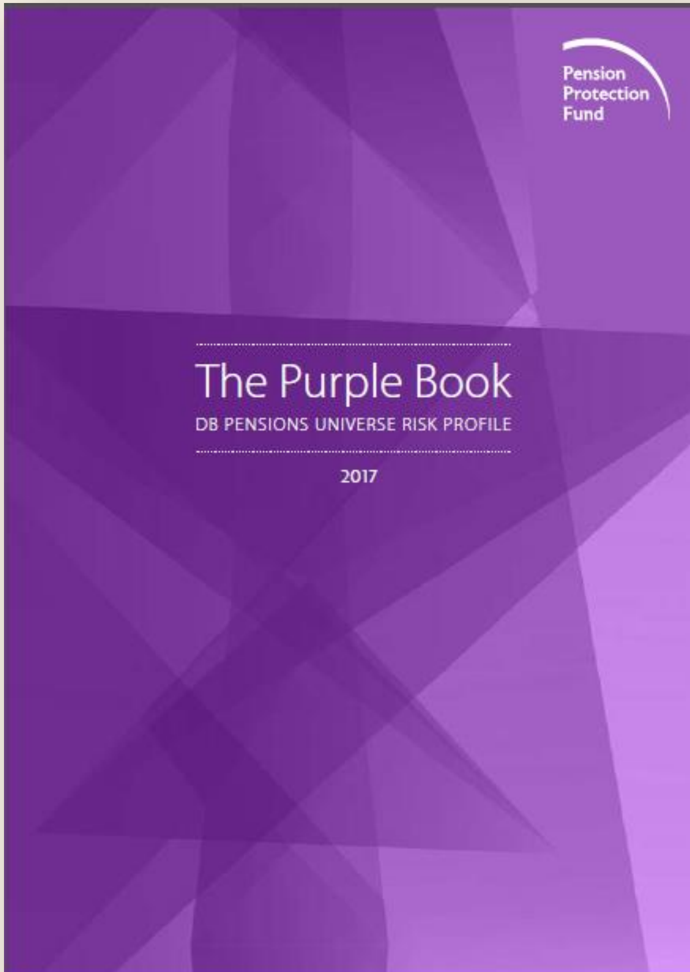
Pension Protection Fund



SCOTTISH WIDOWS

Source:http://www.pensionprotectionfund.org.uk/

FUNDING POSITION OF SCHEMES



Source:http://www.pensionprotectionfund.org.uk/

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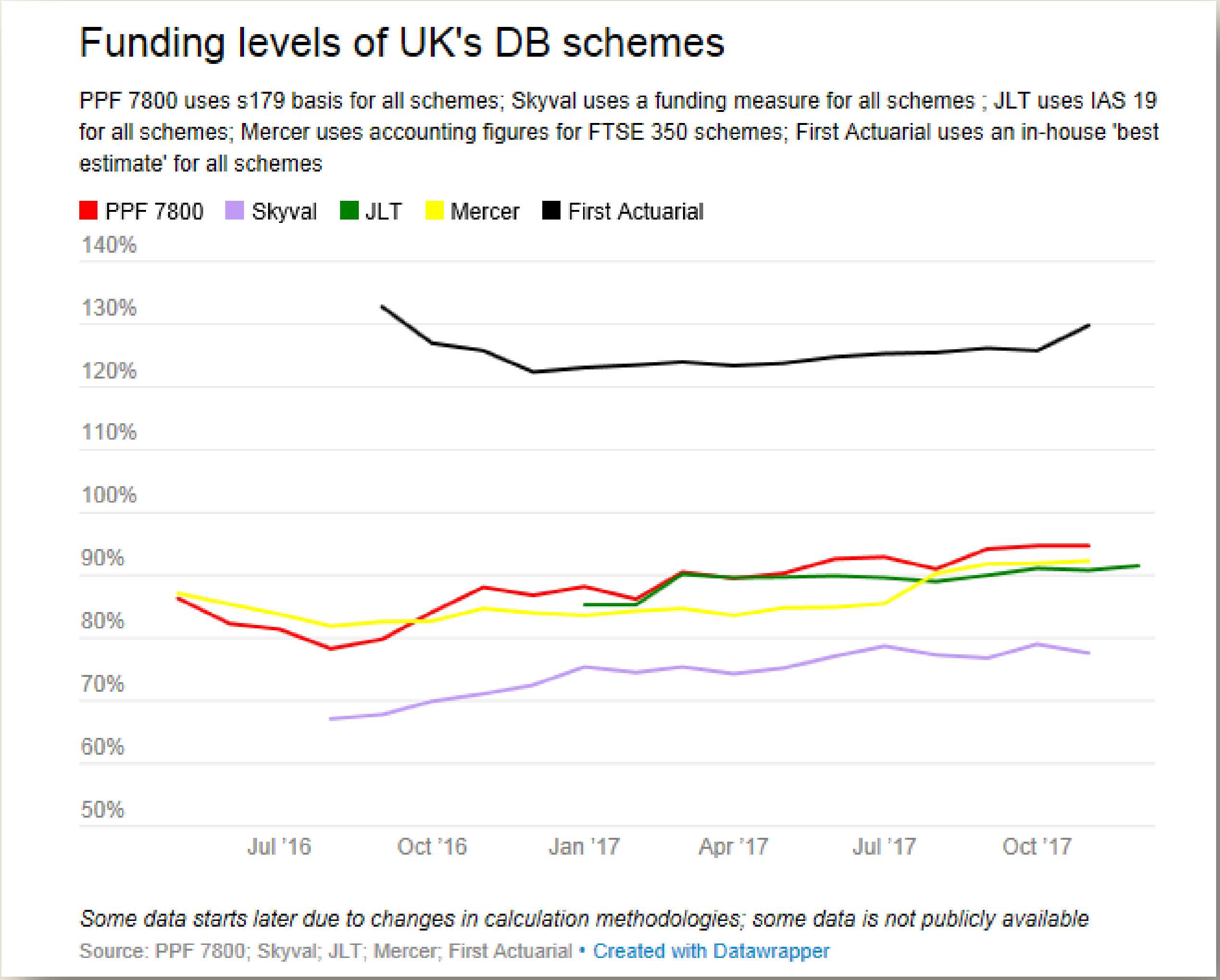

SCOTTISH WIDOWS

Source :https://www.professionalpensions.com/professional-pensions/news/3023643/db-schemes-end-2017-with-stronger-funding-positions

SCHEMES IN DEFICIT

The Pensions Regulator

Reducing cash equivalents to allow for underfunding

Insufficiency reports

34. In certain circumstances, trustees are permitted to offer transfer values which are less than the ICE under the best estimate method. One of the permitted reductions is to allow for the funding situation of the scheme. However, trustees may only reduce ICEs for this reason after obtaining an assessment by the actuary of the funding of the scheme using the transfer value assumptions and known as an 'insufficiency report'. Reductions to ICEs to take into account scheme funding must not exceed the maximum reduction identified in the insufficiency report.

35. However, although trustees may reduce ICEs to allow for underfunding, they are not obliged to do so. The fact that the actuary has prepared an insufficiency report on the instruction of the trustees should not in itself be taken to be a recommendation that cash equivalents should be reduced. Matters trustees should take into account when deciding to reduce ICEs include:

- the degree of underfunding. The worse the funding position, the more necessary it may be to reduce ICEs to protect remaining members;
- their assessment of the strength of the employer's covenant. The stronger the covenant, the less the trustees may feel it necessary to reduce transfers;
- the structure of any recovery plan in place. The sooner a funding deficiency is being addressed, the less necessary reductions may be;
- whether there are any contingent assets in place and if there are, their form. If contingent security is available to plug a funding gap if the employer were to become insolvent, reductions in transfer values may be unnecessary; and
- whether the employer has undertaken to make a compensatory payment to the scheme each time a transfer is paid at an unreduced level.

SCOTTISH WIDOWS

Source: http://www.thepensionsregulator.gov.uk/guidance/guidance-transfer-values.aspx

LONG TERM SUSTAINABILITY OF DB?

Pensions expert

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What the DB green paper might (not) change

As the deadline for the consultation on defined benefit security and sustainability approaches, what are the industry's hopes – and fears – for the DB framework?

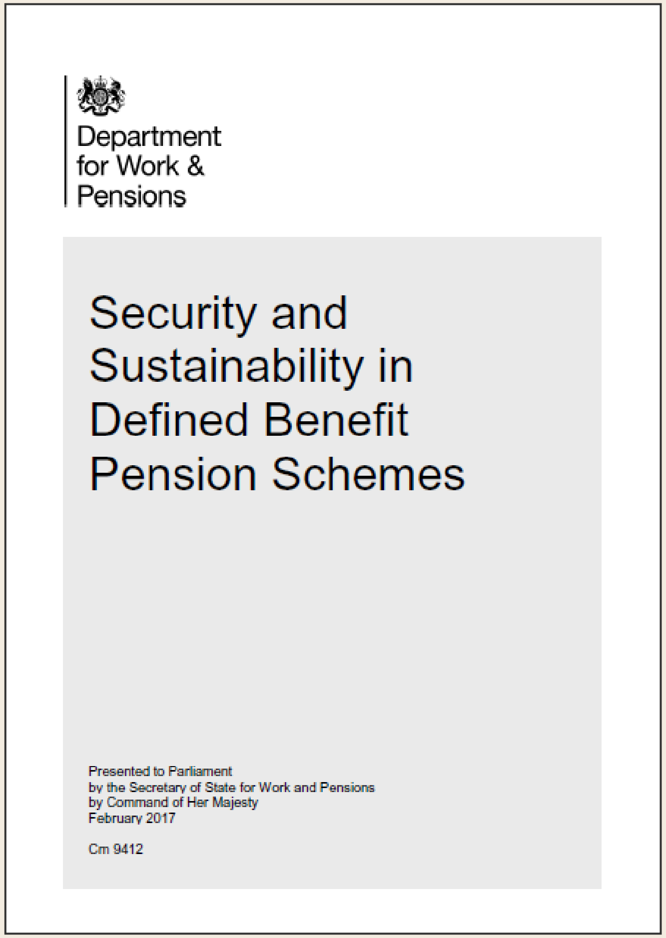
“**There are a number of schemes whose employers are never going to be in a position to pay the benefits that have been promised in full,**” Everett says.

Therefore, “**there is a need for a new facility that allows a benefit compromise to occur**” so that the employer can continue and jobs would be saved, he argues. Although members would receive lower benefits than they were originally promised, their pensions would be higher than had they been moved to the PPF

Source*: http://www.pensions-expert.com/Comment-Analysis/What-the-DB-green-paper-might-not-change?ct=true*

SCOTTISH WIDOWS

LONG TERM SUSTAINABILITY OF DB?


Department for Work & Pensions

Security and Sustainability in Defined Benefit Pension Schemes

Presented to Parliament
by the Secretary of State for Work and Pensions
by Command of Her Majesty
February 2017

Cm 9412

"The most worrying proposal is to allow certain schemes to 'suspend' annual pension increases if money is tight.

There is a significant risk that relaxing standards on inflation protection with the best of intentions for exceptional cases could be exploited and lead to millions of retired people being at risk of cuts in their real living standards."

SCOTTISH WIDOWS

Source*: https://www.employeebenefits.co.uk/issues/february-online-2017/government-consults-sustainability-private-sector-defined-benefit-pensions*/

WHO HAS CONTROL OF ASSETS?

Longer investment terms – Higher attitude to risk

Moving to Flexi-access Drawdown

Funding position of scheme – PPF (90% Deferred Pension subject to Cap - £37,420.42 (2016/17) – Members with high deferred benefits

PPF COMPENSATION CAP – AGE RELATED FACTORS

AGE	CAP
25	£17,166.55
30	£18,400.56
35	£19,826.05
40	£21,486.71
45	£23,406.74
50	£25,669.83
55	£28,427.32

PPF proposed factors from April 2017

FINAL SALARY ADVICE – FLEXIBILITY

FLEXIBILITY

A transfer from a defined benefit scheme to a defined contribution arrangement will invariably involve giving up certainty of benefits for increased flexibility.

What options are available under the two types of registered pension scheme?

Defined Benefit

- Scheme pension,
- Tax-free cash (by commutation?),
- Early retirement may be an option,
- Transfer.

- *Drawdown not available,*
- *Maximum tax-free cash may not be available.*

Defined Contribution

- Annuity,
- Flexi-access drawdown,
- UFPLS / partial pension encashment,
- Tax-free cash,
- Phased retirement,
- Retirement from NMPA.

- *Few limitations to flexibility.*

FLEXIBILITY – EXAMPLE

Fran (aged 58) has an annual pension entitlement of £20,000. Scheme retirement age is 65. She wants to access benefits now so is considering transferring to a DC scheme.

Stays within DB scheme	Transfers to DC scheme

• Receives guaranteed income via scheme pension,
• Suffers early retirement reduction as per scheme rules (e.g. 5% p.a.),
• Scheme pension indexed by the scheme,
• Limited flexibility.
	• Gives up safeguarded income, therefore advice required (> £30,000),
	• Can receive benefits immediately:
	    • Flexi-access drawdown / UFPLS,
	    • Tax-free cash and nil income,
	    • Phased retirement,
	    • Accessible from age 55.
	• Few Limitations in terms of access.

FINAL SALARY ADVICE – LTA TAX PLANNING

LTA PLANNING ISSUES

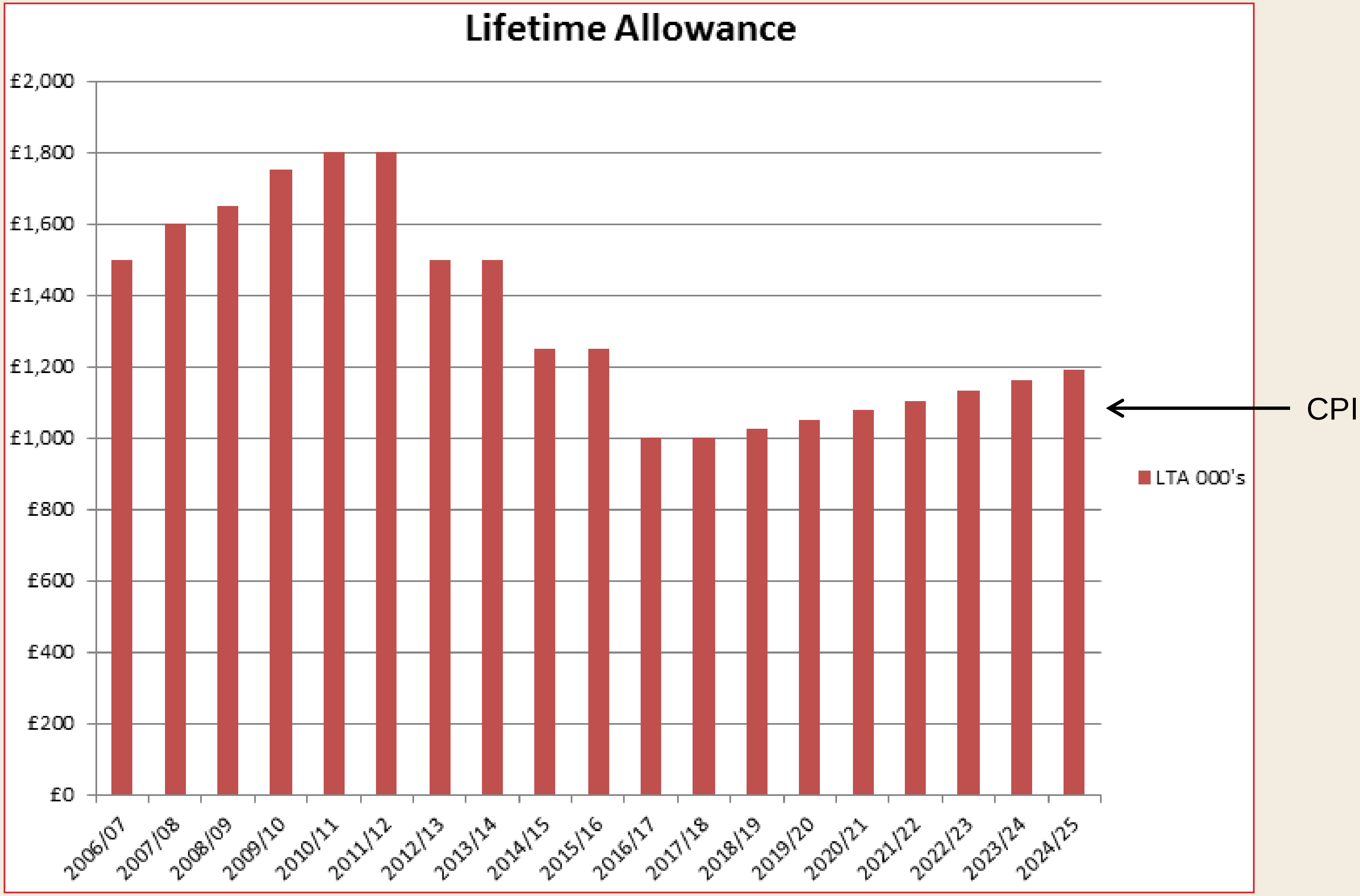
The intention of the lifetime allowance charge is to recoup the tax advantages that were given on contributions made to and the investment return generated by funds that exceed the current allowance of £1 million.

With a charge as high as 55%, few members would intentionally personally fund pensions beyond the point at which the charge becomes payable.

The LTA tests	2nd LTA test	Protection
Death Benefits	Planning	DB vs DC

SCOTTISH WIDOWS

THE LIFETIME ALLOWANCE



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LTA TAX CHARGE

The Telegraph

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£46,332: the average tax bill for people who saved too much in their pension

share

23

HMRC's figures show that the total amount of tax paid by people whose pension savings rise above the lifetime limit has jumped by 33pc in 12 months CREDIT: ROSEMARY CALVERT

HMRC's figures show that the total amount of **tax paid by people whose pension savings rise above the lifetime limit has jumped by 33pc in 12 months to £120m**.

...In the 2016-17 tax year alone, **2,590 people had to pay tax because their savings broke through the £1m limit.**

Sam Brodbeck
23 September 2017

SCOTTISH WIDOWS

http://www.telegraph.co.uk/pensions-retirement/tax-retirement/46332-average-tax-bill-people-saved-much-pension/

THE LIFETIME ALLOWANCE TESTS

- There are 13 lifetime allowance events,
- Covering payment of pension incomes, lump sums, death benefits and overseas transfers.

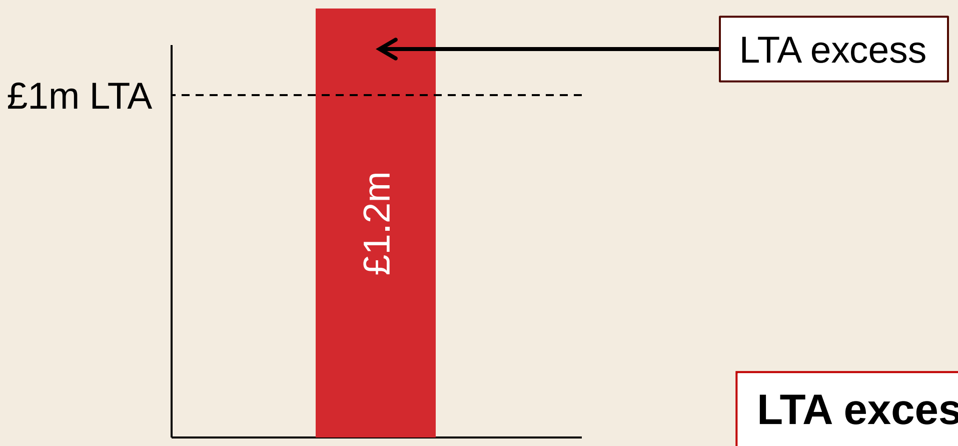
Benefit crystallisation events (BCEs):

• BCE 1, 2, 3 & 4 – pension income • BCE 5, 5A, 5B, 5C & 5D – unused funds at age 75 / earlier death • BCE 6 – lump sums • BCE 7 – death benefits • BCE 8 – QROPS transfers • BCE 9 – Miscellaneous	Uses % of LTA

- Pre-commencement schemes (pre A-day) Use 25:1 multiple.

55% v 25%?

THE LIFETIME ALLOWANCE TEST



LTA excess:

- 25% tax charge if paid as a pension,
- 55% if paid as a lump sum,
- Or a combination of the two,
- Broadly equivalent for 40% taxpayers,
- Straightforward for DC schemes; less so for DB.

DB SCHEMES – LTA TEST

Lifetime allowance test:

- LTA excess under DB more complex.
- E.g. TFC and scheme pension,
- If pension has to be given up for cash, commutation factor must be used.

Example:

- 20 x P used to calculate LTA value,
- Plus tax-free cash
- This scheme commutes at 20:1, so BCE value does not change.

Scheme pension only:

£20,000 x 20 = £400,000

Nil tax-free cash = £0

LTA value = £400,000

Pension and tax-free cash:

£15,000 x 20 = £300,000

Tax-free cash = £100,000 (£5,000 x 20)

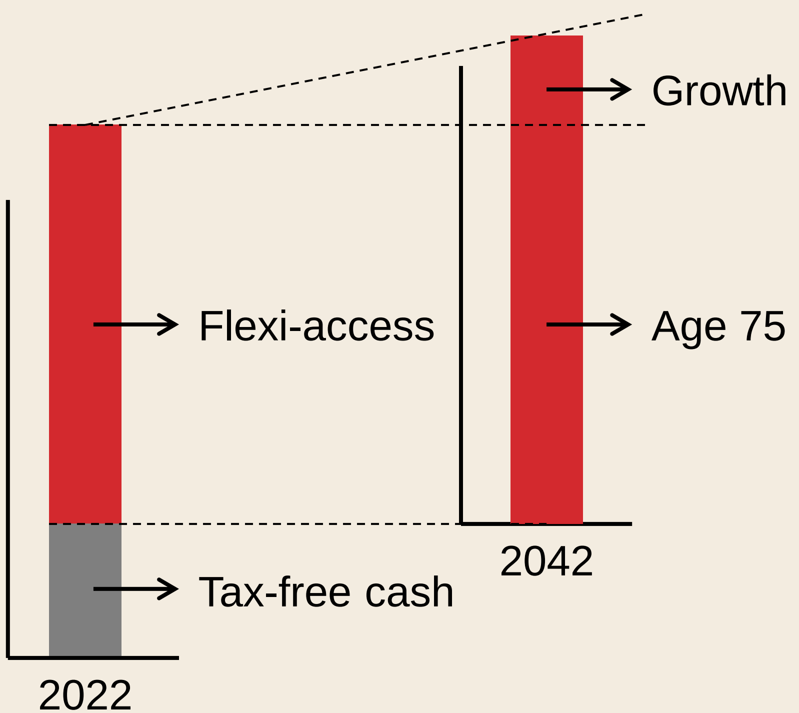
LTA value = £400,000

Age 75

THE 2ND LIFETIME ALLOWANCE TEST

Drawdown growth is tested again at age 75 or annuity purchase before then. This rule prevents drawdown being used to take investment growth outside of the LTA test.

Example 1



Planning

- The 2nd LTA test accounts for the difference in value between the:
  - amount designated to drawdown
  - value at 75 / annuity purchase.
- Withdrawals are not added back in
- The value included in the 2nd LTA test can, therefore, be controlled
- However, drawdown income is subject to income tax at the marginal rate.

TRANSITIONAL PROTECTIONS – A REMINDER

WHAT IF THE STANDARD LTA DOES NOT APPLY?

Where protection has been applied for, a different LTA applies

❖ Available at A Day

- **Primary Protection** – *£1.8m + additional factor:*
  - Based on value of benefits at A-day
  - e.g. £3m at A-day gives additional factor of 1.0. LTA, therefore, is: **£1.8m + (1.0 x £1.8m) = £3.6m.**
- **Enhanced Protection** – *no LTA test, however TFC can be limited by LTA:*
  - Relevant benefit accrual (output test),
  - Non-permitted TV/ new arrangements since A-day result in loss of EP.

WHAT IF THE STANDARD LTA DOES NOT APPLY?

Where protection has been applied for, a different LTA applies

❖ New protection introduced post A Day

- **Fixed Protection 2012, 2014 or 2016** – *LTA of £1.8m, £1.5m or £1.25m.*
  - Relevant benefit accrual (input test),
  - Non-permitted TV/ new arrangements after the relevant 5 April result in loss of Fixed Protection.
- **Individual Protection 2014 or 2016** – *IP16 gives LTA between £1m - £1.25m.*
  - *Precise LTA depends on value of benefits at relevant 5 April.*
  - *Contributions/ accrual, transfers and new arrangements allowed.*

ONLY THE STANDARD LTA IS INDEXED WITH CPI FROM APRIL 2018

WHAT LIFETIME ALLOWANCE PROTECTION OPTIONS ARE STILL AVAILABLE?

Fixed protection 2016	Individual protection 2016
• No specific application deadline, • Online applications only, • Only available if no contributions / new arrangements / accrual after 5 April 2016, • Lifetime allowance £1.25m, • No revaluation of FP16 LTA.	• No specific application deadline, • Online applications only, • Requires LTA value > £1m on 5 April 2016, • LTA equal to this value, but capped at £1.25m, • Contributions / accrual / new arrangements allowed.

- **In the vast majority of cases where total benefits on 5/4/16 were above £1.25m, IP2016 is preferable.**

LIFETIME ALLOWANCE PLANNING

There are ways to mitigate the LTA tax charge, however for funds approaching / above the LTA, it is very difficult to avoid.

Reduce funding at point that anticipated growth will take fund to LTA:

- Assumptions needed, including CPI revaluation of LTA from April 2018
- If employer funding available, then accruing above LTA may be best option.

Delay LTA charge by deferring until age 75:

- Particularly relevant for those in ill health with IHT issue,
- LTA rules may change in the future / be scrapped.

Purchase annuity / take scheme pension just before LTA is reached.

- Beware of 2nd LTA test if using drawdown.
- Careful use of withdrawals can mitigate LTA charge.

SMALL POTS

- Small lump sums available from age 55.

- No reference to total benefits, so small pots can be taken even if there are other significant benefits.

- Up to three pots of no more than £10,000 in value each can be taken.

- Funds post-deduction of adviser charges assessed against the £10,000 limit.

- Plans can be restructured to take maximum advantage of the rules.

FINAL SALARY ADVICE – WHAT’S IMPORTANT TO THE CLIENT?

A GOOD STARTER FOR TEN?

- As a first step, consider asking the client to write down their aims and objectives in their own words.
- Do not use standard paragraphs or prompts.
- Use this as a basis for discussion when formulating your advice and recommendations.
- Revisit this in client reviews, regardless of the advice outcome.
- Helps to de-risk your advice process.

CHANGING LIFE PATTERNS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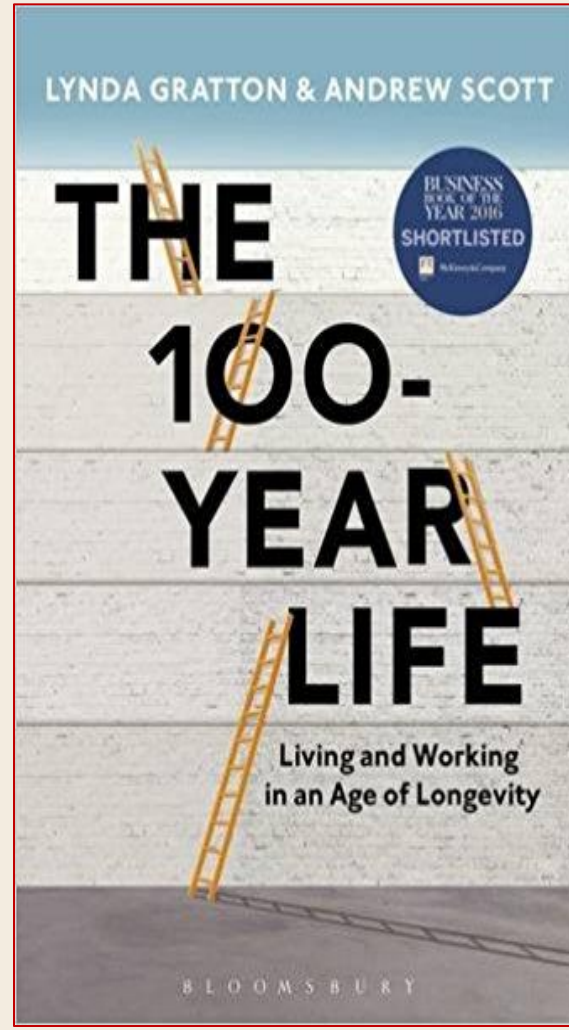
Number of women working past 70 in UK doubles in four years

ONS finds pronounced rise in women working past traditional retirement age, from 5.6% to 11.3% between 2012 and 2016



SCOTTISH WIDOWS

A BRIDGING PENSION?

Use your pension as a 'bridge' to state retirement age

The state pension is being pushed further out but that doesn't mean you have to keep working.

by Michelle McGagh on Aug 21, 2015 at 09:00

With the state pension age being pushed further away retirees can using their savings to retire before the government pays up.

State pension age increases are in motion and by 2020 it will be 66 for both men and women. Older generations are adjusting by working for longer: the latest figures from the Office of National Statistics shows there are now over a million over-65s still in work.

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NEWS

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Business | Your Money | Market Data | Markets | Companies | Economy

State pension age rise brought forward

By Brian Milligan
Personal Finance reporter

19 July 2017 | Business | 90 | Share

Six million men and women will have to wait a year longer than they expected to get their state pension, the government has announced.

The rise in the pension age to 68 will now be phased in between 2037 and 2039, rather than from 2044 as was originally proposed.

Those affected are currently between the ages of 39 and 47.

SCOTTISH WIDOWS

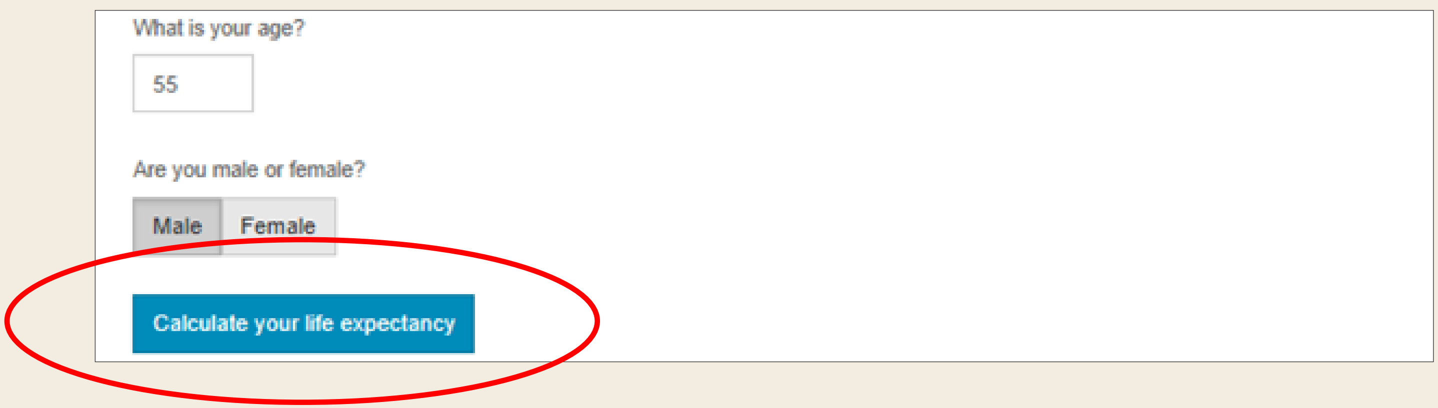
Source: http://citywire.co.uk/money/use-your-pension-as-a-bridge-to-state-retirement-age/a833531

HOW LONG WILL THE PENSION NEED TO LAST?

- People are living longer. On average, people aged 55 today will live to their mid-to-late 80s. Around 1 in 10 men and 1 in 5 women this age will live to 100 – and receive their telegram from The Queen!

- Being more informed about how much longer you potentially have to live is no bad thing, especially when it comes to financial planning.

- Enter the client details below and find out their life expectancy, their chance of living to 100…….and how long they will likely need to make their pension pot last.


What is your age?

55

Are you male or female?

Male Female

Calculate your life expectancy

SCOTTISH WIDOWS

Source: www.*ONS.Gov.UK*

HOW LONG WILL THE PENSION NEED TO LAST?

Your average life expectancy **86** years

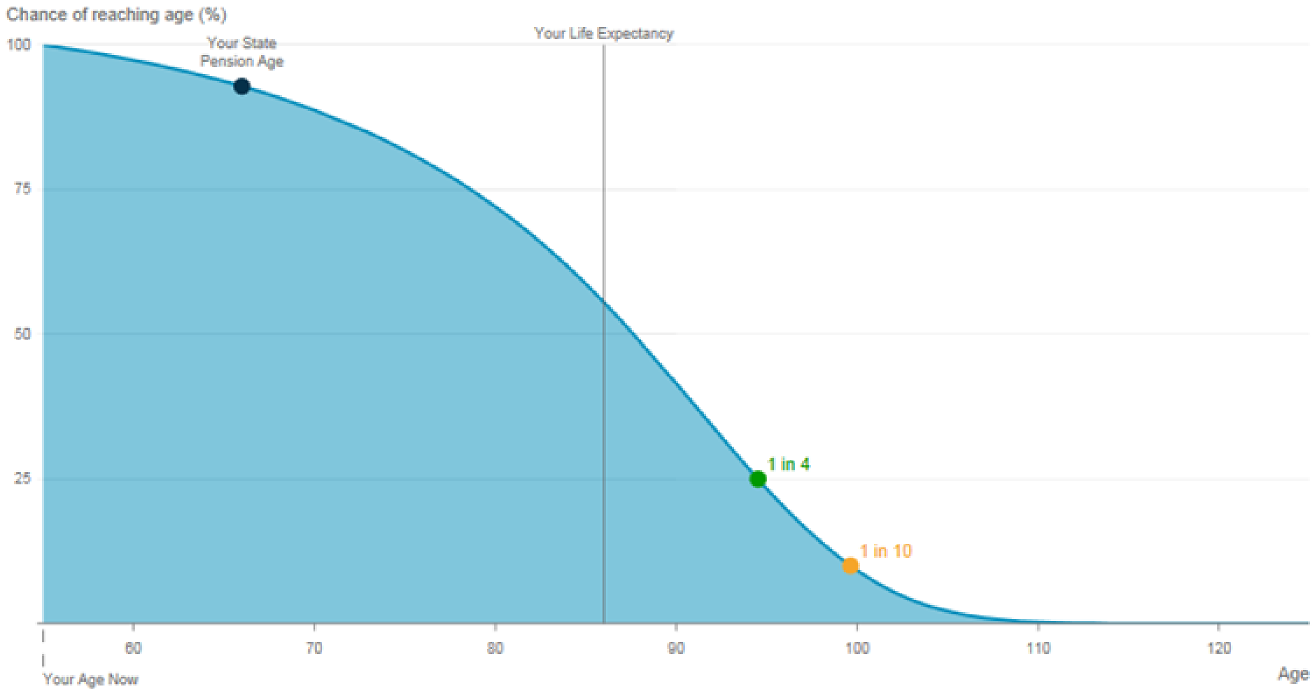
This is **31** years from now

Life expectancy is influenced by many factors (for example, your lifestyle choices and health) and can vary hugely from person to person. The graphic illustrates the chances you will reach different ages.

1 in 4 chance of reaching **95**

1 in 10 chance of reaching **100**

Chance of reaching 100 **9.2%**



SCOTTISH WIDOWS

1. Life expectancy is calculated using the 2014-based principal projection for 2016 in the UK produced by the ONS.

2. Your state pension age as of 1st January depends on your particular date of birth

HOW LONG WILL THE PENSION NEED TO LAST?

Pension Transfer Report

Defined Benefits Arrangement

Client Name:

Client Ref:

Adviser Name: Scottish Widows

Report Print Date: 06/05/2016

Analysis Results at your Proposed Retirement Age 65

Annuity Purchase

From the proposed plan you would need to obtain an estimated annual investment return as shown below, in order to purchase an annuity to provide benefits of equal value to the estimated benefits provided by the existing scheme at retirement. This return is known as the Critical Yield.

Critical Yield	
	All benefits taken as Pension
Scottish Widows Retirement Account	7.87%

From the proposed plan you would need to obtain an estimated annual investment return as shown below, in order to purchase an annuity to provide benefits of equal value to the estimated benefits provided by the existing scheme assuming no spouse's pension, no increases in payment and no guarantee. This return is known as the Hurdle Rate.

Hurdle Rate	
	All benefits taken as Pension
Scottish Widows Retirement Account	1.4%

Drawdown Income

Assuming an income of equal value to the estimated benefits provided by the existing scheme, increasing by RPI per annum is taken from a drawdown arrangement, the fund at the medium rate of return will run out at the following ages:

	All benefits taken as Pension
Scottish Widows Retirement Account	95

Please note that these results are dependent upon the assumptions used. Please see the Assumptions section for further details.

SCOTTISH WIDOWS

CASHFLOW AND INCOME MODELLING

Income Options Comparison at Retirement Age 65 - Full Pension

The below table shows the income options that could be available if the transfer was to go ahead to the proposed pension plan.

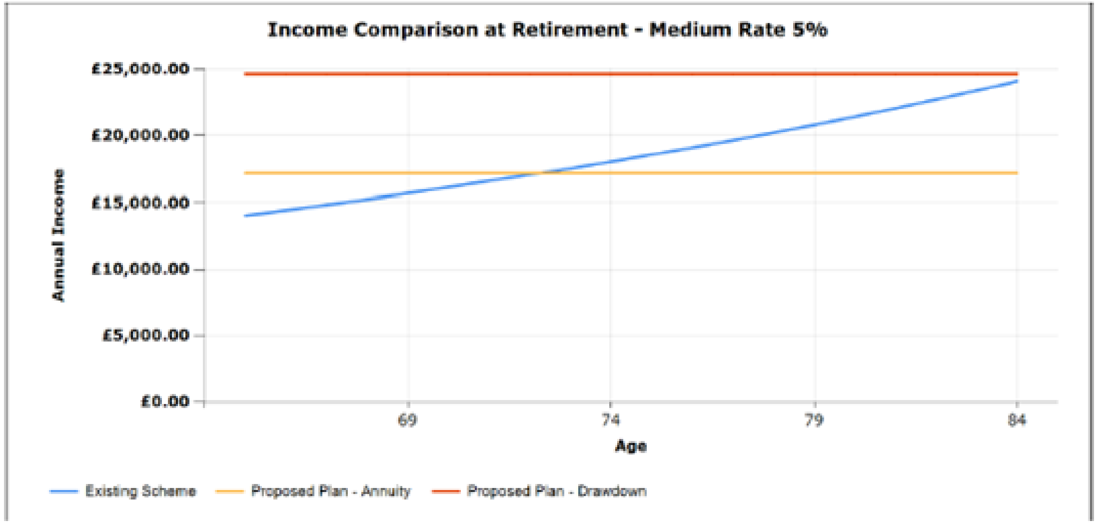
Estimated benefits from the existing scheme, calculated to be **£14,106.75** per annum

In Scottish Widows Retirement Account, your fund value at retirement could provide an income of:

Growth Rate	Low (2%)	Mid (5%)	High (8%)
Fund	£260,337.70	£365,860.23	£508,409.22
Annuity	£12,230.75	£17,188.23	£23,885.23
Age that drawdown fund will run out, assuming same income as an annuity is taken.	87	101	120+
Drawdown amount available to maintain a level income to age 85*	£13,355.04	£24,649.13	£43,389.69

The below graph shows the projected pension benefits for the existing scheme with the income options that could be available if the transfer was to go ahead to the proposed pension plan.

The existing scheme pension and annuity from the proposed plan would provide a guaranteed income for life. The drawdown income from the proposed plan is not guaranteed and will be dependent on future investment returns.



*Target age calculated using ONS National Life Tables, Great Britain (2012-2014)

THE ROLE OF ANNUITY

Income drawdown, annuity - or both?

Ceri Jones examines three factors you need to consider carefully if you are to enjoy a successful retirement under the new pension regime.

One strategy might be to take drawdown in early retirement to maximise your pension pot, and switch to an annuity at around age 75 to avoid the hassle of having to manage your money and deal with the risk of outliving your funds. This is the model that pensions experts say they would recommend to their loved ones: moving from drawdown to annuity before things start to get difficult, which is more likely to be around age 70 or 75 rather than 80.

https://www.moneywise.co.uk/pensions/income-retirement/income-drawdown-annuity-or-both

SCOTTISH WIDOWS

WHAT ABOUT ENHANCED ANNUITIES?

FT ADVISER

Home Pensions Investments Mortgages Protection Regulation

Defined Benefit March 10, 2017

One in three DB transfers still buys an annuity

If you were to transfer to a DC arrangement then you could take advantage of an enhanced annuity which could provide an attractive alternative for those who are not in good health and could provide a higher income than if you took the income available from your DB scheme.

One in three defined benefit transfers is still going directly into an annuity even though buying this product is no longer compulsory, pensions consultancy Aon Hewitt has revealed.

Ben Roe, the firm's head of liability management, told FTAdviser around a third of the transfers from schemes his team advises are going into non-indexed annuities.

He said "around a third" of the transfers involved "people swapping their inflation-linked pension through the pension scheme for a higher level of non-increasing pension".

"Nobody is going out and buying an annuity that is inflation-linked, because they would just be trying to beat what they have got in a pension scheme," he said.

"But what we do find is that people are swapping the pension protection for a higher level of starting pension."

SCOTTISH WIDOWS

https://www.ftadviser.com/pensions/2017/03/10/one-in-three-db-transfers-still-buys-an-annuity/

TAX FREE CASH

- TFC from DB can be lower – depends on Scheme rules and commutation factor
- Can get immediate uplift from PP
- Tax efficient use with phasing TFC

TAX FREE CASH COMPARISON

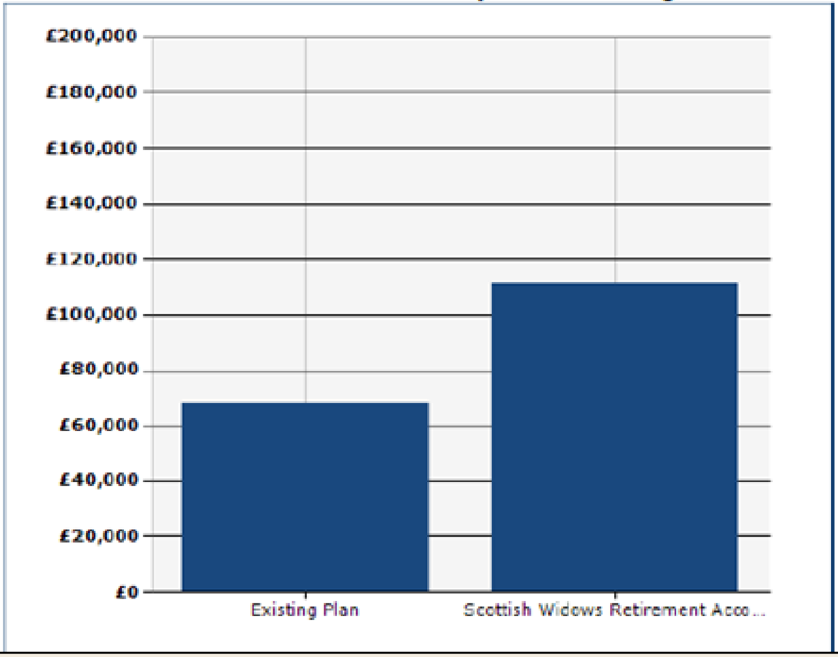
Lump Sum At Proposed Retirement Age - 25/12/2023

Set out below is a comparison of the estimated Pension Commencement Lump Sum that may be provided on retirement at proposed age of 60 based on the Inland Revenue Maximum

Existing Plan	Scottish Widows Retirement Account
£68,500	£111,000

Where the scheme PCLS is greater than that normally allowed under a personal arrangement, the higher amount may still be available where protection is in place subject to various conditions being met.

Value of Pension Commencement Lump Sum Assuming 5% Growth



SCOTTISH WIDOWS

BLOCK/BUDDY TRANSFERS

THE BLOCK/BUDDY TRANSFER RULES AFFECT MEMBERS WITH EITHER OR BOTH THE FOLLOWING PROTECTED ENTITLEMENTS:

- SCHEME LEVEL PROTECTED TAX FREE CASH GREATER THAN 25%
- A PROTECTED PENSION AGE ALLOWING THEM TO TAKE THEIR BENEFITS BEFORE THE NORMAL MINIMUM PENSION AGE OF 55.

THE BUDDY/BLOCK TRANSFER OPTION APPLIES WHETHER OR NOT THE EXISTING SCHEME IS WINDING UP

BLOCK TRANSFER RULES – A REMINDER

The transfer in a single transaction of all the sums and assets representing accrued rights under the scheme from which the transfer is made which relate to the member and at least one other member of that pension scheme.

The transfer must be to the same receiving scheme. For example a group personal pension plan or even individual personal pension plans under the provider's umbrella personal pension scheme. A further condition is that the member with the protected entitlement cannot have been a member of the receiving scheme for more than 12 months before the transfer-in date.

The buddy can also have a protected entitlement but does not need to do so. HMRC accepts that for practical and legal reasons, all the funds might not actually be transferred on the same day, but the transfers must be completed in a reasonable timescale.

SPLIT/PARTIAL TRANSFERS?

TheActuary

The magazine of the actuarial profession

LIFE PENSIONS GI INVESTMENT RISK & ERM HEALTH REINSURANCE ENVIRONMENT REGULATION MOD

HOME NEWS FEATURES INTERVIEWS OPINION INTERNATIONAL EVENTS

Partial transfers for defined benefit schemes offer freedom and security

Pension freedoms and high transfer values lead to more interest in transferring defined benefits to defined contribution (DC) flexi-access drawdown.

"DB members have the statutory right to transfer their pension scheme up to a year before their normal pension age, including to flexi-access drawdown, but not to partial transfers.

These have been permitted since 2006, but most schemes prefer to get rid of the liability entirely by having members transfer the full amount".

Source:http://www.theactuary.com/news/2016/10/partial-transfers-for-defined-benefit-schemes-offer-freedom-and-security/

DEATH BENEFITS AND IHT

LTA & DEATH BENEFITS

This is MONEY.co.uk
FINANCIAL WEBSITE OF THE YEAR

Grieving families face shock tax bills due to 'ridiculous' death benefit rules when losing loved ones, experts warn

Grieving families can be caught unawares by heavy tax penalties, as in the case of a 59-year-old widow who wishes only to be known as Mrs B, who had to pay an extra £50,000 after her husband died last year aged 51.

http://www.thisismoney.co.uk/money/pensions/article-4522702/Grieving-families-face-death-benefit-tax-blow.html

SCOTTISH WIDOWS

THE INHERITANCE TAX RULES

A 'loss to the estate' made during lifetime can be included in the death estate:

Section 3 of the Inheritance Tax Act 1984 (IHTA84) states:

There is a loss to the estate

3 Transfers of value.

(1) Subject to the following provisions of this Part of this Act, a transfer of value is a disposition made by a person (the transferor) as a result of which the value of his estate immediately after the disposition is less than it would be but for the disposition; and the amount by which it is less is the value transferred by the transfer.

This is subject to section 10 of the Act:

There was intent to make a gift

10 Dispositions not intended to confer gratuitous benefit.

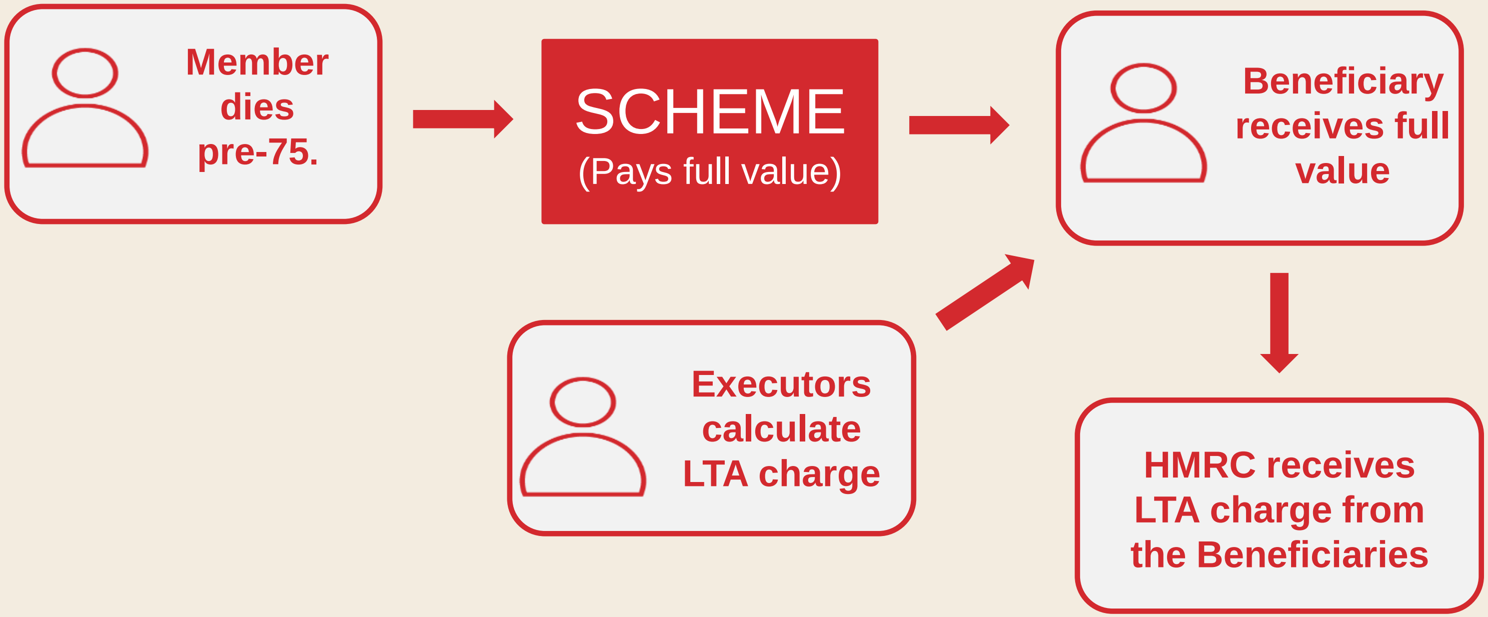
(1) A disposition is not a transfer of value if it is shown that it was not indented, and was not made in a transaction intended, to confer any gratuitous benefit on any person and either—

(a) that it was made in a transaction at arm's length between persons not connected with each other, or

(b) that it was such as might be expected to be made in a transaction at arm's length between persons not connected with each other.

DC SCHEMES – DEATH BENEFITS

- DC death benefits (death pre-75) are free from income tax if paid out within 2 years,
- Usually avoid IHT for the member,
- They may, however, be subject to an LTA charge.



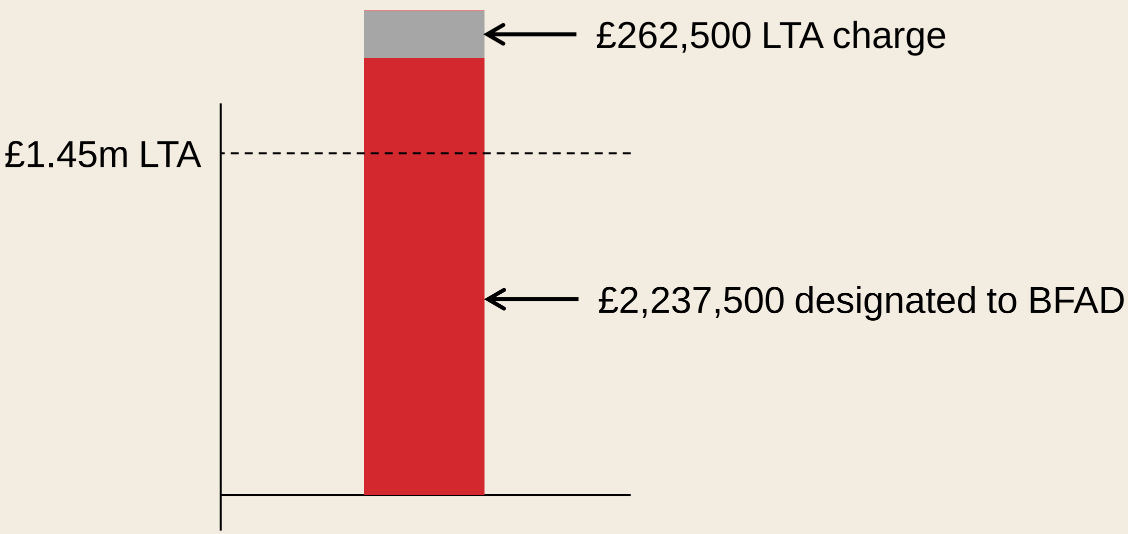
DC SCHEMES – BENEFICIARY FAD

Payment to beneficiary:

- Full value designated (BCE 5C),
- No TFC payable,
- Fund has grown to £2.5m
- Standard LTA = £1.45m (in 15 years).

Accounting for LTA charge:

- £2.5m to beneficiary FAD,
- LTA excess is £1,050,000
- LTA tax charge @ 25% = £262,500



- Beneficiary must meet LTA charge
- Could do this by drawing down funds
- Based on the value designated, not the value at death..

SCOTTISH WIDOWS

DC SCHEMES – DEATH BENEFITS

- DC death benefits (death post-75) are subject to income tax at the member's marginal rate,
- Usually avoid IHT for the member,
- Any lifetime allowance charge would have been accounted for at age 75.

- The recipient pays income tax at their marginal rate,
- If the recipient dies under age 75 with beneficiary drawdown in place, the successor receives the death benefits tax-free,
- No LTA charge needs to be paid.

IHT AND PENSIONS – 3 SCENARIOS

Generally, pensions are free of IHT …..

….. however, if the death benefits are paid to the estate they will be aggregated with other assets and assessed for IHT. This can easily be avoided with some forward planning:

- Leave the estate to an exempt beneficiary e.g. the spouse / a charity,
- Choose a scheme that pays death benefits under a discretionary rule,
- Execute a trust over death benefits.

Outside of this there are 3 situations where pension benefits can be subject to IHT:

Contributions	Assignments	Transfers

… where death benefits have a value, activity is close to death and 'intent' can be proved.

IHT AND PENSIONS – 3 SCENARIOS

1) Pension Contributions – IHT treatment depends partly on health status:

Good health

- Contributions paid whilst in good health are not transfers of value for IHT purposes:
  - The death benefits have no value in these circumstances,
  - Contributions, therefore, are enhancing retirement benefits rather than the death benefits.

Serious Ill-health

- Contributions paid whilst in serious ill-health may be transfers of value for IHT purposes:
  - If member dies within two years of the contribution, HMRC may try to add them to the estate value,
  - HMRC might have to prove member was aware of ill health (section 10 IHTA 1984)

IHT AND PENSIONS – 3 SCENARIOS

2) Assignments

Good health

- Assignments of death benefits are not transfers of value for IHT purposes:
  - again, the death benefits have no value at this time,
  - there is, therefore, no transfer of value away from the estate.

Serious Ill-health

- Assignments of death benefits may be transfers of value for IHT purposes:
  - If the member was aware and dies within two years,
  - HMRC must still prove intent to reduce estate value (section 10 IHTA 1984)
  - E.g. an appointment of death benefits away from the estate.

IHT AND PENSIONS – 3 SCENARIOS

3) Transfers

Good health

- Transfers made whilst in good health are not transfers of value for IHT purposes:
  - Again, the death benefits have no value in these circumstances,
  - Transfers may improve the death benefits but there is no monetary increase that can be measured.

Serious Ill-health

- Transfers made whilst in serious ill-health may be transfers of value for IHT purposes:
  - If member dies within two years of the transfer and was aware of ill health, HMRC may try to add include a value in the estate,
  - HMRC must be still prove intent to reduce estate value as demonstrated by 'Staveley'.

IHT AND PENSIONS – STAVELEY

The Staveley case centred on a disputed IHT charge following a pension transfer.

Case history

Mr and Mrs Staveley owned a company, to which was attached an EPP. Following an acrimonious divorce, her benefits were transferred to a section 32. However, under pre A-day rules, it was possible excess benefits could have been returned by the employer (her ex-husband). So, capitalising on A-day changes, she transferred on to a PPP to fully sever the link between her benefits and her ex-husband's company. She was in ill-health when she transferred and died shortly afterwards.

HMRC included a value for the death benefits in her estate, but the Staveley family took to the case to the first-tier tribunal (FTT) and won. The subsequent appeal to the upper tax tribunal also found in favour of Mrs Staveley's family.

There was a clear transfer of value, whilst the member was aware of serious ill-health, thus HMRC tried to include the death benefit value in her estate.

However, there was no intent to reduce the estate for IHT purposes, so HMRC's decision was overturned.

IHT AND DEATH BENEFITS

Death benefits not paid from a discretionary trust may be IHT-inefficient

- Some schemes do not hold death benefits in discretionary trust (e.g. NEST / NHS Scheme), but allow the member to nominate a beneficiary:
  - *the member should nominate a beneficiary, but this could be a transfer of value for IHT purposes (e.g. if the member was in ill-health at the time),*
  - *no nomination and the death benefits will be paid to the estate.*

- Some older schemes (e.g. section 226 contracts) pay death benefits direct to the estate.
  - *If IHT is a concern, a trust should be executed to direct death benefits elsewhere. Again, this will be a transfer of value and could have IHT consequences,*

- Schemes that pay death benefits under a discretionary rule should be paid IHT-free for the member.
  - *Members should not negate this benefit by making an irrevocable appointment of benefits.*

IHT AND DEATH BENEFITS

Death benefits paid from a discretionary trust are usually IHT-efficient

- The nomination of beneficiary should be kept up to date
- This should take account of the legislation around who can receive beneficiary drawdown:
  - *If there are dependants and/or nominees the scheme can only set up beneficiary drawdown for those individuals*
  - *If there are no dependants or nominees the scheme can set up beneficiary drawdown for anyone.*
- Schemes can pay lump sum death benefits to anyone
- Any beneficiary that the member would like to receive beneficiary drawdown that is not a dependant (e.g. adult children) should be nominated.
- This could be on a 98% + 1% + 1% (for spouse / child / chid) basis.

TRANSFER VALUE ANALYSIS SYSTEM

WHAT'S IN A TVAS REPORT?

Personal Information

Introduction & types of scheme

Assumptions

Benefits under the scheme

Estimated benefits at NRD

Proposed pension plan

Early transfer analysis

The analysis…

CRITICAL YIELDS AND HURDLE RATES

These are key outputs in the analysis

CRITICAL YIELD	The rate of return needed under the receiving plan to be able to match the benefits of the DB plan
HURDLE RATE	The rate of return needed under the receiving plan to be able to provide a non escalating single life pension at the same level as the DB plan

The difference between the two shows the cost of escalation and spouse's pension

BEWARE OF ASSUMPTIONS USED IN REPORT

Existing Scheme Assumptions

In order to make the above comparisons it has been necessary to make the following assumptions, as prescribed by the Financial Conduct Authority (FCA). Where actual historical figures are available these have been used instead.

1.	**Annuity Interest Rate**	**2.10% p.a.**

An annuity rate is needed to calculate the capital (lump sum) value of the pension benefits at retirement, provided by the existing scheme.

The Annuity Interest Rate is the assumed interest rate on which the annuity rates are based. If a higher rate had been assumed then the required investment return (Critical Yield) would have been lower and conversely if a lower rate applied then the required investment return (Critical Yield) would have been higher.

2.	**Retail Price Index**	**2.50% p.a.**

Some or all of your pension benefits provided by the existing scheme may increase before and/or after retirement in line with the increase in the Retail Price Index. If a higher increase had been assumed then the required investment return (Critical Yield) would have been higher and if a lower rate of increase had been assumed then the required investment return (Critical Yield) would have been lower.

Where some benefits increase in line with the Retail Price Index (up to a maximum), the assumptions that apply are as follows:

RPI increase limited to	Pre Retirement	Post Retirement
2.50%	2.50%	2.50%
3.00%	2.50%	3.00%
5.00%	2.50%	3.55%

3.	**Consumer Price Index**	**2.00% p.a.**

Some or all of your pension benefits provided by the existing scheme may increase before and/or after retirement in line with the increase in the Consumer Price Index. If a higher increase had been assumed then the required investment return (Critical Yield) would have been higher and if a lower rate of increase had been assumed then the required investment return (Critical Yield) would have been lower.

Where some benefits increase in line with the Consumer Price Index, the assumptions that apply are as follows:

Transfer Value Information

Transfer Total Value	£1,007,820.28
Money Purchase AVC (included in transfer value)	£0.00
Assumed Rebate to be received in relation to Limited Revaluation Premium	£0.00
GMP Cash Equivalent / Pre 97 Protected Rights Transfer Value	£64,983.37
Post 97 S9(2b) / Protected Rights Transfer Value	£531,344.99

PCLS by Commutations

Pension Commencement Lump Sum as at A-Day	£0.00
Total Pension as at A-Day	£0.00
Analysis based on commuting pension for Pension Commencement Lump Sum?	Yes
Scheme Factor as at NRA	15:1

Primary Group

Benefit Type	Amount	As At	Revaluation	Escalation	Spouse % DAR	G'tee Yrs
Pre 88 GMP*	£1,872.00 per annum	08/02/2016	S.148 to age 63	0%	50%	5
Post 88 GMP*	£1,314.04 per annum	08/02/2016	S.148 to age 63	CPI, max 3% p.a.	50%	5
Pre 97 Non GMP	£13,714.35 per annum	08/02/2016	RPI, max 5% p.a. to age 63	RPI, max 5% p.a.	50%	5
Post 97 Non GMP	£16,592.16 per annum	08/02/2016	RPI, max 5% p.a. to age 63	RPI, max 5% p.a.	50%	5

*As the scheme has been "contracted out" of the State Second Pension (S2P), it must provide a minimum level of pension, which is broadly equivalent to the amount of State pension given up. This pension is called the Guaranteed Minimum Pension.

Commutation Factors

The Scheme has stated that, the amount of Pension Commencement Lump Sum which is provided for each £1 of pension given up is currently as follows:

Retirement at age 63 - 11/02/2022 15:1

SCOTTISH WIDOWS

BEWARE OF ASSUMPTIONS USED IN REPORT

Commutation Factor	Pension pre-Commutation	Max PCLS	Residual Pension
12:1	£30,000	£128,571	£19,286
15:1	£30,000	£138,462	£20,769
20:1	£30,000	£150,000	£22,500

THE FCA VIEW – LATEST UPDATE


money marketing

PENSIONS REGULATION INVESTMENTS TAX

Pension transfer advice in firing line as FCA issues new guidance

By Justin Cash 24th January 2017 10:23 am

<u>The TVAS Report</u>

Our rules set out what a firm must do in preparing and providing a transfer analysis. In particular, our rules (COBS 19.1.2R(1)) require a comparison between the benefits likely (on reasonable assumptions) to be paid under a DB scheme or other scheme with safeguarded benefits and the benefits afforded by a personal pension scheme, stakeholder scheme or other pension scheme with flexible benefits.

A firm advising on a pension transfer **should not undertake a comparison using generic assumptions** for hypothetical receiving schemes. The firm must take into account the likely expected returns of the assets in which the client's funds will be invested as well as the specific receiving scheme.

Source: *https://www.fca.org.uk/news/news-stories/advising-pension-transfers-our-expectations?twitter*

THE CLOCK IS TICKING….

THE WINDOW OF OPPORTUNITY

How to best manage the three month CETV window?

- Manage the client’s expectations.
- Ensure the client understands the services and costs at outset. Explain what information will be needed and why.
- Make it clear at outset that a transfer may not be recommended.
- Explain the consequences of the CETV expiring.
- Check capacity if outsourcing….

THE PITFALLS OF OUTSOURCING

Firm suspends DB transfer advice over outsourcing issues

By Christine Dawson / 07 Jul, 2017

"…This included details about where the assets ended up after a recommendation to transfer was made.

The regulator does not want firms to simply advise on a pension transfer without considering the suitability of how money from the transfer is invested, or the circumstances of the client."

[Source: http://citywire.co.uk/new-model-adviser/news/outsourcing-concerns-prompted-intelligent-pensions-transfer-suspension/a1027519](http://citywire.co.uk/new-model-adviser/news/outsourcing-concerns-prompted-intelligent-pensions-transfer-suspension/a1027519)

THE PITFALLS OF OUTSOURCING

Firm suspends DB transfer advice over outsourcing issues

By **Christine Dawson** / 07 Jul, 2017

"It said it 'is not acceptable for that second firm to claim to be advising on the pension transfer without taking into account the assets in which the client's funds will be invested as well as the specific receiving scheme. Where both firms may be responsible for different elements of advice given to the client, *firms are expected to liaise for consistency*."

Source http://citywire.co.uk/new-model-adviser/news/contingent-charging-criticised-amid-db-transfer-mis-selling-fears/a1006826

HOW DO YOU SOLVE A PROBLEM LIKE CONTINGENT CHARGING?

THE PROBLEMS WITH CONTINGENT CHARGING

Contingent charging criticised amid DB transfer mis-selling fears

By **Jack Gilbert** / 06 Apr, 2017

30

Advisers have raised concerns about the contingent charging model for defined benefit (DB) transfer advice with many worried it leads to conflicts of interest for IFAs when they give advice, laying the ground for another mis-selling scandal.

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FT ADVISER

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Pensions April 12, 2017

Advisers warned of FCA action on contingent charging

See comments (18)

By Damian Fantato

Financial Adviser

The Financial Conduct Authority could take action on the use of contingent pricing in defined benefit transfers, advisers have been warned.

The term 'contingent charging' in relation to transfers describes when an adviser is only paid, or is paid significantly more, if the client goes ahead with the transfer.

Soucre: http://citywire.co.uk/new-model-adviser/news/contingent-charging-criticised-amid-db-transfer-mis-selling-fears/a1006826
https://www.ftadviser.com/regulation/2017/04/12/advisers-warned-of-fca-action-on-contingent-charging/

SCOTTISH WIDOWS

WHAT IS THE ALTERNATIVE?

An Example DB Advice Proposition:

Outsource?

Cost	Service
£450 - £1,000 plus vat?	✓ Initial client correspondence/priorities ✓ Pre-Advice (Triage) analysis including TVAS
1% of transfer value with cap and collar?	✓ Advice ✓ Implementation
1% ongoing charge?	✓ Ongoing reviews – client and future beneficiaries?

SCOTTISH WIDOWS

SOME CLOSING QUESTIONS….

- ✓ When will the client die?
- ✓ When does the pension die?
- ✓ When and how does the client plan to stop work?
- ✓ What is the long term future of DB Pensions?
- ✓ Can the employer meet their pension promises?
- ✓ What does the client need and when do they need it?

KEY LEARNING OUTCOMES

Understand the changes in behaviour in pensions decumulation post pensions freedoms and the current regulatory landscape and the proposed changes from the FCA in CP 17/16

Understand the advice considerations in comparing Defined Benefits and Defined Contribution pensions and understand the importance of the TVAS report, the need for accurate data and the analysis it provides

Understand the Cash Equivalent Transfer Value, how to calculate it and the impact of different assumptions

Have an awareness of the different tax charges that could apply post transfer, and any IHT implications that could apply.

QUESTIONS?

IMPORTANT NOTES

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

The tax treatment depends on individual circumstances. Individual circumstances and tax rules may change in the future

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