



# INVESTMENT QUORUM

UNIQUE, BOUTIQUE WEALTH MANAGEMENT

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## To transfer, or not to transfer?

What to consider before making this big decision

More than 100,000 people transferred out of Defined Benefit (DB) pensions in 2017/18<sup>[1]</sup>. A DB pension scheme is one where the amount you're paid is based on how many years you've worked for your employer and the salary you've earned. The figures show that a large number of people are still transferring out of traditional salary-related pensions, but whether this is a good idea or not depends crucially on your individual circumstances.

For many people, a guaranteed salary-related pension that lasts as long as you do, and is unaffected by the ups and downs of markets, is likely to be the best answer. But there will be some who want extra flexibility or who are focused on passing on some of their pension wealth for whom a transfer might be the right answer. It is vital to take, and listen to, professional financial advice before making a big decision of this sort.

### FIVE REASONS WHY A PENSION TRANSFER MIGHT BE SUITABLE

- 1. Flexibility** – instead of taking a set pension on a set date, you have much more choice about how and when you take your pension. Many people are choosing to 'front load' their pensions, so that they have more money when they are more fit and able to travel, or to act as a bridge until their State Pension or other pension becomes payable.
- 2. Tax-free cash** – some DB pension schemes may offer a poor deal if you want to convert part of your DB pension into a tax-free lump sum. Although the tax-free cash is in theory 25% of the value of the pension, you often lose more than 25% of your annual pension if you go for tax-free cash; with a Defined Contribution (DC) plan, you get exactly 25% of the pot as tax-free cash.
- 3. Inheritance** – generous tax rules mean that if you leave behind money in a DC pension pot, it can be passed on with a favourable tax treatment, especially if you die before the age of 75. In a DB pension, while there may be a regular pension for a widow or widower, there is unlikely to be a lump sum inheritance to children.

- 4. Health** – those who live the longest get the most out of a DB pension, but those who expect to have a shorter life expectancy might do better to transfer if this means there is a balance left in their pension fund when they die, which can be passed on. Please note that HM Revenue & Customs may challenge this for those who die within two years of a transfer.
- 5. Employer solvency** – while most pensions will be paid in full, every year some sponsoring employers go bankrupt. If the DB pension scheme goes into the Pension Protection Fund (PPF), you could lose 10% if you are under pension age, and may get lower annual increases. If you have transferred out, you are not affected.

### FIVE REASONS WHY A PENSION TRANSFER MIGHT NOT BE SUITABLE

- 1. Certainty** – with a DB pension, you get a regular payment that lasts as long as you do; with a DC pot, you have to face 'longevity risk' (not knowing how long you will live).
- 2. Inflation** – a DB pension has a measure of built-in protection against inflation, but with a DC pot you have to manage this risk yourself, which can be expensive.
- 3. Investment risk** – with a DC pension, you have to handle the ups and downs of the stock market and other investments; with a DB scheme, you don't need to worry – it's the scheme's problem.
- 4. Provision for survivors** – by law, DB pensions have to offer minimum level of pensions for widows/widowers etc., whereas if you use a DC pension pot to buy an annuity, it dies with you unless you pay extra for a 'joint life' policy.

- 5. Tax** – DB pensions are treated relatively favourably from the point of view of pension tax relief. Those with larger pensions could be under the lifetime limit (currently £1.03 million) inside a DB scheme, but the same benefit could be above the limit if transferred into a DC arrangement. ■

### TIME FOR A PENSION REVIEW?

Before considering transferring your pensions, it's essential you receive impartial professional financial advice about your particular situation. We can help you do this. For a pension review, please contact us – don't leave it to chance.

#### Source data:

[1] An FOI request to the Pensions Regulator from Royal London showed that there were an estimated 100,000 transfers out of DB pensions in 2017/18, up from 80,000 in 2016/17. The average transfer was around £200,000, suggesting around £20 billion in total was transferred out in 2017/18.