creative benefits

Pensions
The New World of Freedoms

A guide for employers with Defined Benefit pension schemes

"It means that people who have worked hard and saved hard can have access to their pensions savings."

George Osborne, Chancellor of the Exchequer

About Creative Benefits

Creative Benefits is an award winning Employee Benefits Consultancy dedicated to helping employers, trustees and employees.

Our expert Consultants have many years' experience in all types of company pension arrangement and think differently to give our clients the unique 'Creative Approach' – looking innovatively, from different angles and with imagination to uncover the best solutions to each client's own needs.

Teamwork

We provide services to companies and organisations in the UK private sector to optimise pension and other benefits.

We have clients with Defined Benefit (DB) pension schemes, Defined Contribution (DC) pension schemes and Group Personal Pension plans (GPPs) and importantly, we know how to work with them. Creative Benefits can provide a complete ongoing service, including all administration, actuarial and reporting through to solving specific issues on an ad hoc basis.
Our consultants are used to dealing with the senior management, scheme trustees and other professionals. Our Employee Benefit Consultants and Client Managers each have a minimum of 15 years' experience in pensions.

Our services are delivered through a team of specialists. Corporate needs are met by our Employee Benefit Consultants in tandem with our Client Managers.

They provide the principal point of contact and ensure that plans are kept under close review, bringing in others, such as for Group Risk as may be needed from time to time.

Individual financial advice, including advising on transfers is provided through our chartered financial advisory arm, Creative Wealth Management. Importantly, most of their consultants are regulated Pension Transfer Specialists and they are therefore able to advise on more complex pension related matters such as DB transfers. They provide a complete service and ongoing support for those with more sophisticated financial planning requirements.

Whole of Market

We are not bound by any other parties' interests and always seek to deliver the very best products and services to all our clients, as is appropriate to their own needs.

Working with some of the largest and most respected providers of financial services products and investment managers within the UK; we can source and select the most appropriate financial solutions for each of our clients for the best possible terms.

DB Pension Schemes The Financial Problem

Most schemes now have substantial deficits

Traditionally DB schemes have been considered the best type of pension scheme for employees. Benefits are usually linked to service and final pay leading up to retirement. Index linked benefits are provided for employees who leave service and pensions in retirement offer a degree of inflation proofing.

The cost is usually shared between the employees and employer with the employee paying a fixed level of contribution and the employer meeting the balance of the cost.

Until more recent times they were generally considered cost effective – in fact many had surplus assets – but circumstances have changed dramatically. Due to a whole range of factors most schemes now have substantial deficits.

These deficits (which have to be incorporated into a company's own balance sheet) have required significant funding from employers, which in practice, because of continuing changes in financial circumstances have often had little impact in reducing a deficit.

In view of the financial issues most schemes have been closed both to new entrants and to benefit accrual for existing members. Nevertheless the cost of meeting accrued liabilities for existing members remains the responsibility of the employer and the cost of "buying out" the liabilities is usually prohibitive.

Most companies with DB schemes continue to be faced with substantial liabilities causing difficult financial problems.

DB Deficits hit a record level of £367 Billion at the end of January 2015.

Source: The Pension Protection Fund.

Pension Freedom
A new Government initiative

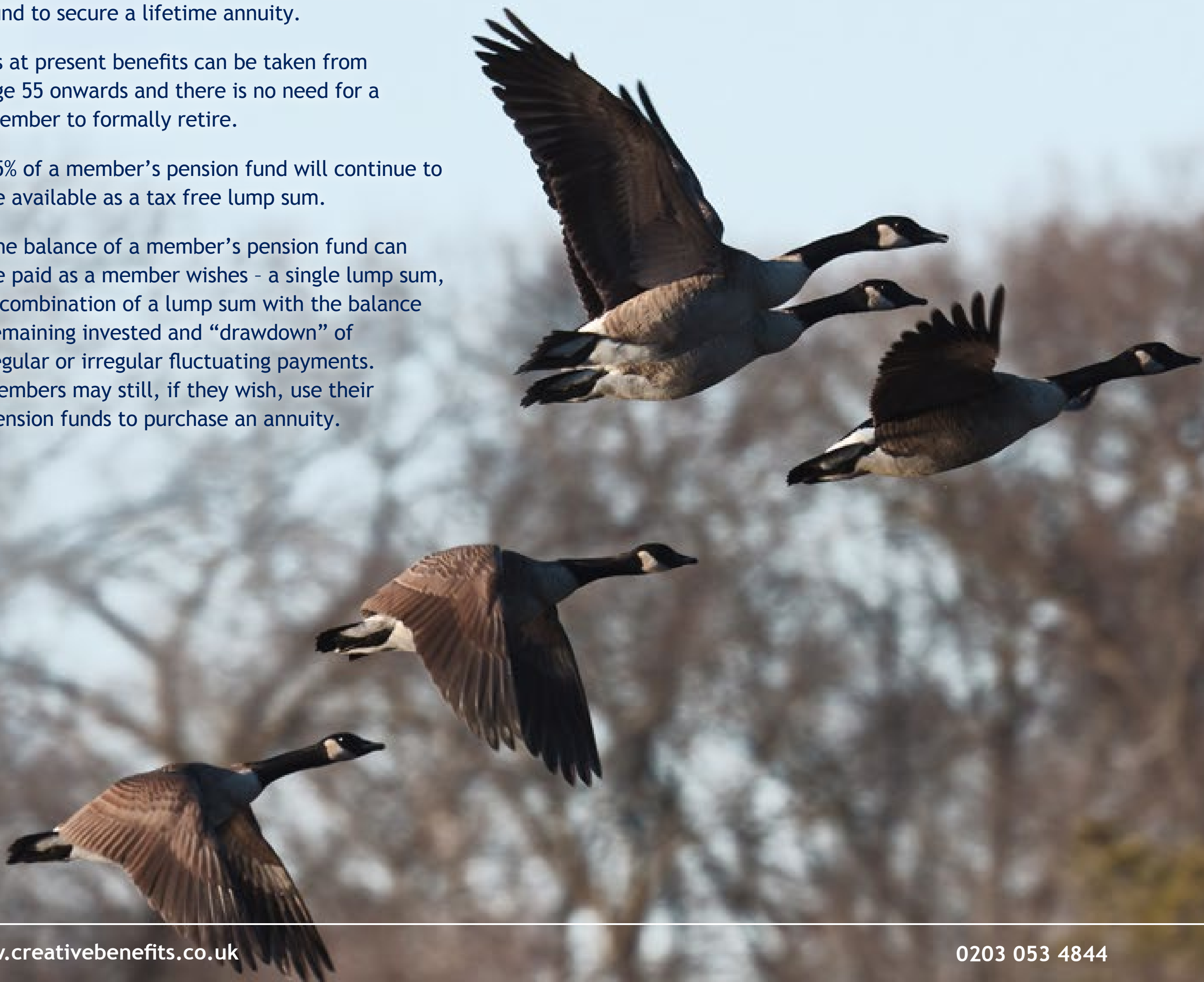
The Government has introduced new regulations relating to the payment of benefits under DC Pension Schemes effective from 6th April, 2015. They are designed to provide members of DC schemes with much wider freedom of choice and greater flexibility. The new regime is known as Pension Freedom.

DC schemes include Occupational Pension Schemes operated by an employer, group and individual Personal Pension Plans and any other types of pension schemes providing DC benefits.

The main provisions of the new regulations are:-

- There is no longer a requirement for members of DC pension schemes to use their accumulated fund to secure a lifetime annuity.
- As at present benefits can be taken from age 55 onwards and there is no need for a member to formally retire.
- 25% of a member's pension fund will continue to be available as a tax free lump sum.
- The balance of a member's pension fund can be paid as a member wishes – a single lump sum, a combination of a lump sum with the balance remaining invested and "drawdown" of regular or irregular fluctuating payments. Members may still, if they wish, use their pension funds to purchase an annuity.
- Any payments from a pension fund in excess of the tax free cash amount will be chargeable to income tax and subject to the member's tax position in the year in which the payment is made.
- Any residual funds remaining on death can be passed on from one generation to the next while continuing to retain most of the tax advantages of a pension.

The changes introduce a major change to retirement planning for members of DC schemes. There is now far more flexibility and benefits can be adapted more readily to a member's personal circumstances. The UK is embarking on an entirely new era of Pension Freedom.



Pension Freedom and DB Pension Schemes

The new Pension Freedom regulations do not apply to DB Pension Schemes.

The Government have recognised that some members of DB schemes may wish to avail themselves of the new Pension Freedom regime by transferring their entitlements to a DC scheme. This will be permitted (as it is at the present) but only from a closed scheme where benefit accrual has ceased. Transfers will be subject to important new safeguards which are covered in regulatory guidance published by The Pensions Regulator and by Financial Conduct Authority (FCA) rules.

It is vitally important that members considering a transfer from a DB to a DC scheme understand that they will be surrendering their valuable entitlement to a guaranteed lifetime income for themselves and their spouse/partner. The FCA and The Pension Regulator's views are that it is likely to be in the best financial interest of members to maintain their DB benefits.

However, both the FCA and The Pensions Regulator recognise that the new Pension Freedoms may be better suited to the financial interests of some members and that these members may also prefer the greater flexibility in accessing their benefits in different ways compared to the regular income provided through their DB scheme.

Statutory right to transfer

Members of DB schemes have a statutory right to transfer benefits to a DC scheme up to 12 months before normal retirement date (except from unfunded public service schemes). Members within 12 months of Normal Retirement Date may also transfer their benefits if scheme rules permit or at the discretion of the trustees.

While the transfer can take place at any age, it is anticipated that members are more likely to wish to arrange it from or after the earliest date they can draw benefits under a DC scheme (age 55).

Transfers from DB to DC schemes would normally be arranged through:-

- A Personal Pension Plan (including to a Group Personal Pension plan)
- A Self Invested Personal Pension plan (SIPP)
- Possibly to an employers DC scheme (depending on the rules of the scheme)

Strict Transfer Rules

In order to protect DB members' best interests The Pensions Regulator has introduced new rules which apply when the value of the benefits to be transferred (the transfer value) exceeds £30,000.

The most important requirements are:-

- DB scheme members considering a transfer must receive advice from a qualified FCA regulated Pension Transfer Specialist who has particular knowledge and experience of pension transfers. Only around 1 in 5 of all FCA regulated financial services advisers have the required qualifications.
- In addition, firms providing advice in this area must apply for 'pension transfer specialist' permissions from the FCA. A recent survey found that less than 20% of all firms have these permissions.
- The trustees of the DB scheme must verify that the appropriate advice has been provided before a transfer is processed. They must obtain the advisory firm's FCA registration number and verify they have the necessary permissions directly with the FCA.
- Where a transfer is being considered the trustees of the DB scheme must provide scheme members (or their advisers) with all the relevant scheme details and member specific information relating to the scheme.
- While the trustees of a DB scheme are responsible for providing all the relevant information, they are not responsible for checking the advice a member receives, the recommendations and whether the scheme member follows the recommendations. Trustees must not request a copy of the advice, ask a member the substance of the advice or in any way attempt to prevent transfers.
- The DB scheme trustees must confirm that the pension scheme to which the benefits are being transferred is a legitimate tax-approved pension scheme (i.e. formally approved by HM Revenue and Customs) and will accept the transfer.

The Regulatory timeframe

The DB scheme trustees must perform their duties within a regulatory time frame.

Within 1 month	Trustees must advise members to take independent advice.
Within 3 months	The trustees must provide members or the members' advisers with a statement of the member's accrued benefits and the transfer value of those benefits.
Within 6 months	The trustees must have processed transfer applications and obtained the required adviser details with evidence that advice has been provided to the member as required by the regulations.
Within 9 months	This is the latest date for the transfer to be completed.

Employer promoted transfer exercises

An employer can promote a transfer exercise to scheme members and select the regulated Pension Transfer Specialists to provide independent advice to them. It is the employer's decision and choice - not the trustees. The trustees cannot prevent the exercise and they must meet their statutory duties.

When employers promote the transfer exercise then they must pay for the advice provided to members.

Transfers and the Financial Conduct Authority (FCA) rules

Much of the now historical pensions mis-selling review related to the quality of the advice or lack of evidence of the correct advice to members transferring benefits from DB schemes to individual DC pension arrangements. As a result the FCA insist on strict standards for DB/DC transfers and a clear verifiable audit trail to confirm that the advice and any related transactions have been properly completed.

An employer promoted transfer exercise undertaken by Creative Benefits has been designed to ensure it complies with FCA rules.

- A letter is circularised to DB scheme members explaining the new Pension Freedom regime and inviting members who might be interested to seek more information. They need to complete and return a letter of authority requesting the trustees to provide information to Creative Benefits.
- Creative Benefits request member specific scheme and benefit details from the trustees.

Once this is received an initial report is prepared for the member. This will summarise a member's benefit details including the transfer value and include a comparison of the value of the member's scheme benefits compared to the transfer value that has been offered. A questionnaire is included for members who wish to pursue matters further.

- On receipt of the questionnaire Creative Benefits arrange a telephone or personal interview with the member. During this interview they undertake a comprehensive fact find to understand the member's personal circumstances and their attitude to risk.
- Following this interview a personalised report is prepared for the member. This summarises the member's personal circumstances, objectives, attitude to risk and desire to transfer. It includes relevant risk and investment advice according to a member's circumstances and pays close attention to "value for money" issues.
- The personalised report provides clear advice to the member on whether or not a transfer can be recommended.

The entire transfer process is supervised by a Creative Benefits regulated Pension Transfer Specialist who signs off the final recommendation report. Clear documentary evidence is maintained at every step along the process, together with recordings of telephone conversations with members.

Transfers are a detailed and carefully regulated process and need to be handled with great care by specialists with the relevant qualifications and experience. Creative Benefits meet all the necessary requirements.

Insistent client transfers

Transfer Values may not represent good value after having particular regard to the benefits being surrendered and scheme members' personal circumstances.

In these cases members will be given clear and unambiguous advice NOT TO transfer their benefit to a DC scheme.

However, members may still wish to effect a transfer because of their perceived view of their personal circumstances or simply out of personal choice.

In these circumstances Creative Benefits may still arrange a transfer to a DC scheme in accordance with any guidance provided by the FCA and the agreement of the member and the member's spouse or partner legally discharging them from all liability relating to the transfer.

The transfer process

There are six clear steps for a successful transfer exercise.

Step 1 Initial meetings and discussions with the employer and liaison with the trustees.

Step 2 The initial circular to members which can either be from Creative Benefits or the employer.

Step 3 Responses from member enclosing the authority to obtain scheme and member specific information. Issue of the interim report to members.

Step 4 The telephone or personal interview with the member.

Step 5 Issue of member specific full report and recommendations.

Step 6 Implementation should the member decide to transfer.

FEES

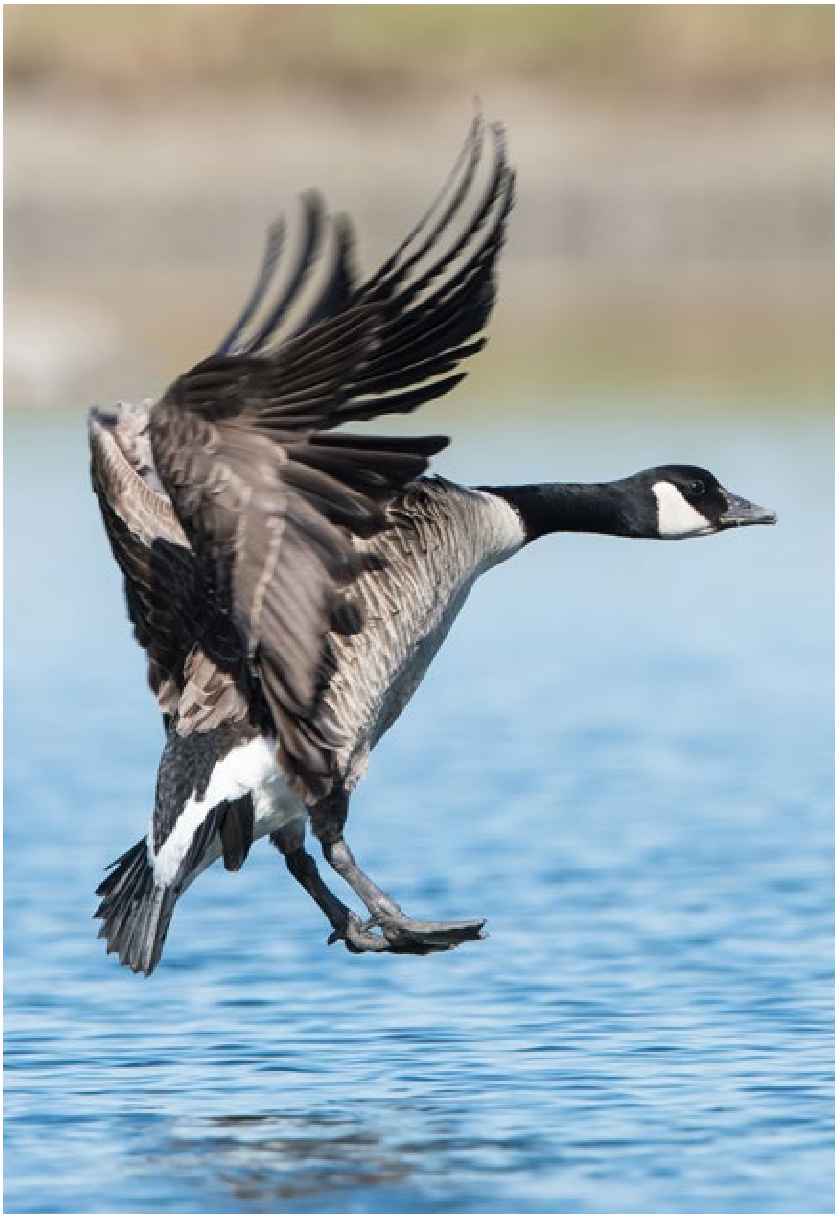
Creative Benefits fees to the employer for undertaking a transfer exercise are set out in the enclosed schedule.

The fees are exempt from being treated as a taxable benefit in kind for income tax and National Insurance contributions purposes, as confirmed in the July 2015 Budget.

Summary

The new Pension Freedom legislation and regulations have brought material changes to the retirement options available to members of DC schemes. Members of DB schemes can only avail themselves of the flexibility of the new regime by transferring their benefits to a DC scheme. However, they must understand the risk of giving up guaranteed benefits where there may be significant value for money issues and downside investment risks.

It is vital in undertaking a transfer exercise that all the risk issues relating to a transfer are clearly explained to members within the regulatory guidance from The Pensions Regulator and the rules of the FCA. The service provided by Creative Benefits meets those objectives.



Important information

This brochure is based on Creative Benefits' understanding of all relevant legislation, regulation and best practice guidance, including the requirements of The Pension Regulator and the Financial Conduct Authority. It is intended to provide useful information on the issues relating to transfers from DB to DC pension schemes. All information in this brochure is for general guidance and does not create nor confer any rights or obligations.

Legal notes

The law and tax rates may change in the future which could affect the value of your pension.
The value of your pension's tax relief depends on individual circumstances.

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