

DB to DC transfers - points to consider

This guide is designed to give financial advisers information that they can use to help control and develop their business and shouldn't be relied upon by clients.

The FCA rules on transfers of safeguarded or guaranteed rights from a defined benefit (DB) scheme continue to require financial advisers to start from the assumption that transferring will be unsuitable and in the majority of cases won't be viable. However, the FCA also states this doesn't prevent an adviser from recommending a transfer where this can be demonstrated on current evidence to be suitable and in a client's best interests.

The requirement for DB scheme trustees to see evidence that a member has received appropriate independent advice applies where the safeguarded or guaranteed benefits have a cash equivalent transfer value (CETV) of more than £30,000. Adviser firms must have the FCA permission to advise on pension transfers. For a firm with the permission, FCA rules permit an individual adviser who isn't a pension transfer specialist to advise on pension transfers. However, the firm must make sure that the advice is checked and signed off by a pension transfer specialist.

It's clear that any proposed transfer involves many considerations and requires thorough investigation before any recommendation can be made. Your client may lose features, protections, guarantees or other benefits when they transfer. Please also remember that a transfer to a defined contribution (DC) scheme is moving to an investment-based product where your client's capital is at risk and the final value of their pension pot may be less than they've paid in - it's important your client understands all the risks associated with this type of transfer.

The following tables outline the main issues and considerations that must be included in any assessment of whether it's better for a client to retain their deferred benefits in the DB scheme or transfer the benefits to a DC scheme. (It doesn't consider opt out and transfer by an active DB member as this is unlikely to be in the client's best interests.) Also, it isn't intended to be an exhaustive list covering DB to DC transfers or a replacement for your own compliance processes.



The triage process - a service that gives factual and generic information without stepping across the advice boundary

- It's limited to the provision of guidance only.
- Any discussions of individual circumstances is likely to be deemed a personal recommendation.
- It can provide generic, educational material, for example explaining the differences between DB and DC schemes.
- Deliver in written material, videos, referral to independent bodies, etc.
- You should maintain records of your client interactions to minimise the risk of future claims of unsuitable advice.

Your client's personal information

- Gather sufficient information on your client's personal circumstances, for example:
 - Their financial situation.
 - Their spouse and dependants.
 - Any other schemes they're in.
 - Any non-pension assets they have.
- Assess their current health status, for example:
 - Any pre-existing conditions they have.
 - Are they a smoker/non-smoker.
 - Their family history.
- Clarify their retirement plans, for example:
 - Their current age and the specific age they expect to take benefits.
 - The likely format that they want to take benefits, for example, income only, lump sum only, etc.
- Establish the income needs in retirement for your client and their spouse/partner.
- Confirm their attitude to certainty of income and make sure they understand the impact of life expectancy on their retirement income.
- Determine their attitude to investment risk, including:
 - Checking their experience in managing investments and paying for advice.
- Discuss their attitude to the risks of staying in their DB scheme, including:
 - Explaining any restrictions on their ability to access funds in their DB scheme.
- Discuss their attitude to risks of giving up safeguarded or guaranteed benefits for flexible benefits, including:
 - Checking the sustainability of funds if flexible benefits are likely to be accessed in an unplanned way.
- Check the suitability for:
 - Taking immediate DB benefits.
 - Taking out an enhanced annuity.
 - Taking a serious ill health lump sum if their expectation of life is likely to be less than one year.





Your client's scheme information

- **Understand all the relevant information on their DB scheme, for example:**
 - The value of the DB pension and death benefits.
 - How the DB pension revalues during deferment.
 - How the DB pension increases in payment.
 - The value of any GMP and non-GMP benefits, and the provisions that apply to each.
 - What commutation factor is used to convert the pension to a lump sum.
 - If the DB benefits have been equalised or proposals and timescales for this to take place.
 - Any early retirement provisions that apply, and any conditions and reduction factors to consider.
 - The availability of partial transfers from the scheme and terms that apply.
 - A balanced assessment of the scheme funding position, the recovery plan if the scheme is underfunded and any impact on the CETV.
 - The impact of the scheme going into the Pension Protection Fund (PPF) on prospective benefits.
- **Assess the suitability of the receiving scheme, for example:**
 - The income options.
 - The death benefit flexibility.
 - Any other scheme features.
 - Charges and fees.
 - The investment options available.



Your client's objectives

- **Evidence that your client understands the value of their DB benefits, for example:**
 - The increases of the pension during deferment.
 - The increases of the pension in payment.
 - The death benefit provisions.
- **Clearly define your client's objectives with specific reasons for transferring and their intentions for accessing flexible benefits.**
- **Prioritise their 'needs' over their 'wants'.**
- **Set out the role played by safeguarded or guaranteed benefits in achieving their objectives at the normal retirement date (NRD) and any chosen early retirement date.**
- **Set out the impact of giving up safeguarded or guaranteed benefits on their income and capital needs if a transfer to a DC scheme proceeds.**
- **Evidence the sustainability of income and do a stress test for various scenarios, for example:**
 - Living beyond the average life expectancy.
 - Taking higher income in early years.
 - The risk of taking withdrawals in periods of market volatility.



Your client's objectives - continued

- Assess the impact of any competing aims and objectives and how these have been prioritised or traded off.
- Consider all the alternative methods of achieving income and capital needs, for example:
 - Other schemes.
 - Any non-pension assets.
 - Any separate borrowing.
- Make sure your client understands the compensation available under the Pension Protection Fund and Financial Services Compensation Scheme safety nets.
- Make sure your client understands the tax rules on taking benefits, for example:
 - If they take a scheme pension from the DB scheme.
 - If they take an uncrystallised funds pension lump sum.
 - Any emergency tax codes and tax reclaims.
- Identify the amount and the format of death benefits required:
 - During the accumulation phase.
 - During the decumulation phase.
- Compare death benefits in the existing DB scheme and prospectively available under the proposed DC scheme.
- Make sure your client understands that a transfer will mean the loss of any spouse's/civil partner's pension on death and any plans to replace this benefit.
- Evidence that all alternative ways of meeting death benefit objectives have been investigated and discounted, for example:
 - Setting up separate life cover.
 - Setting up whole of life.
 - Using benefits from other pension schemes they're in or non-pension assets they have.
- If a key objective of the transfer is to provide death benefits to beneficiaries, how will this be impacted by other stated objectives?



Tax considerations

- Consider all the relevant tax issues, for example:
 - The impact of taking higher levels of income - moving into a higher rate tax band.
 - Your client's state pension age and expected level of state pension.
 - The opportunity to take withdrawals within tax thresholds for maximum tax efficiency.
 - The lifetime allowance applicable to your client and whether any lifetime allowance protection is already held or can be applied for now.
 - Factor in any possible lifetime allowance issues into an appropriate pension transfer analysis (APTA) with plans to mitigate issues where possible.
 - Investigate buddy transfer provisions where there's a protected pension commencement lump sum or protected pension age.
 - Provide a warning of a prospective inheritance tax (IHT) challenge if your client dies within two years of transfer where they're in ill health at the point of transfer.



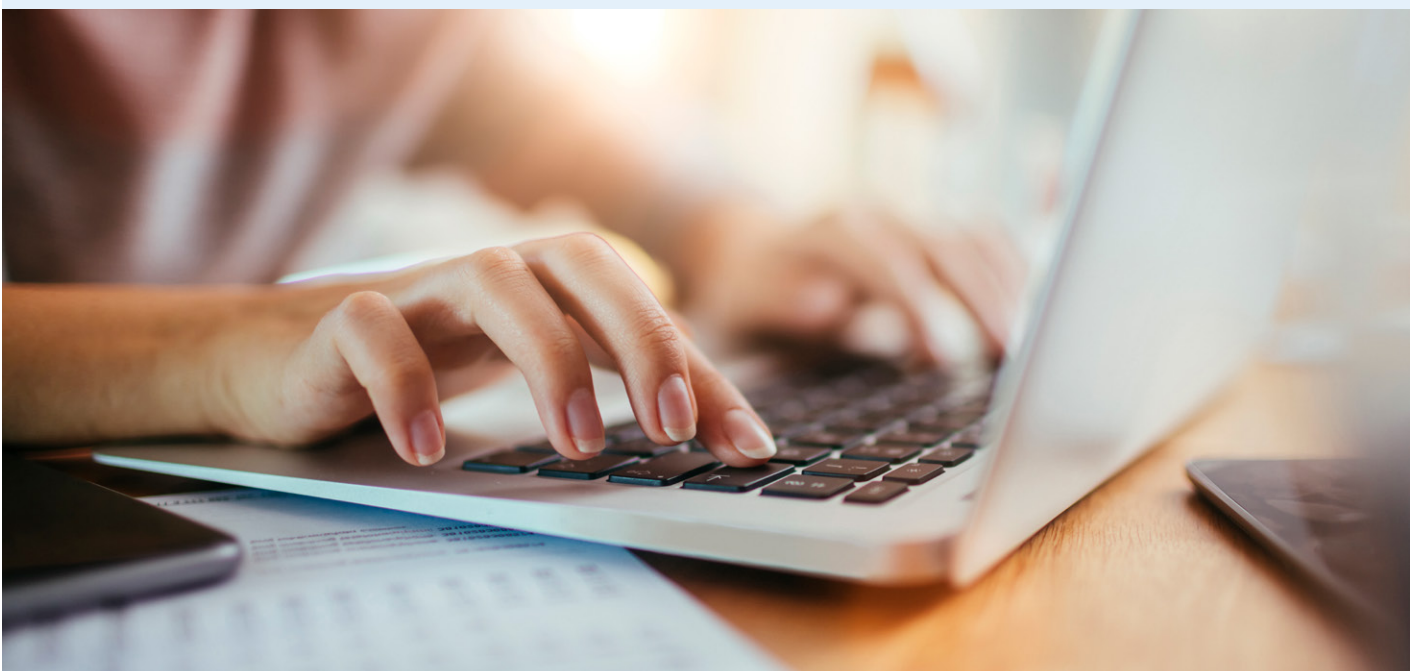
Investment considerations

- **Review your client's understanding and attitude to investment risk by:**
 - Making sure they understand they'll be responsible for the investment risk once the transfer takes place.
 - Assessing their knowledge and experience of managing investments.
 - Assessing their experience and understanding of paying for financial advice.
 - Assessing their understanding of charges from pension providers, for example, product and fund charges.
 - Assessing any impact on their circumstances if the value of their benefits falls in value.



Documentation

- Prepare a personal recommendation in the form of a suitability report explaining why the recommendation is in the best interests of the customer.
- Include your assessment of the client's income needs, benefit comparisons and options in an APTA report.
- Include the standard Transfer Value Comparator (TVC) comparing the CETV offered by the DB scheme against the cost in today's money of buying the same level of benefits at NRD. You should also consider showing:
 - The position at any early retirement age.
 - The position assuming the scheme enters the PPF.
 - Taking account of, and explaining, the expected returns of the assets in which your client's funds will be invested in after the transfer.
- Arrange for your personal recommendation to be reviewed and signed off by an authorised Pension Transfer Specialist before presenting it to your client.
- Make sure all communications with your client are fair, clear and not misleading.



ARC SIPP, One Retirement and Aegon SIPP

Any financial review and personal recommendation to transfer benefits from DB to DC will include your assessment of the suitability of the receiving scheme, the investment choices, benefits, and options that are available.

The [Aegon Retirement Choices \(ARC\) SIPP](#), [One Retirement](#) and [Aegon SIPP](#) offer the full income and death benefit flexibilities that were introduced for DC schemes in April 2015. They give your clients more control over their pension savings and also a wide investment choice that can be tailored to meet their individual risk appetites.

You should be comfortable with the investment choices that you make for your client as they may lose features, protections, guarantees or other benefits when they transfer. Please also remember that a transfer to the ARC SIPP, One Retirement, or Aegon SIPP is moving to an investment-based product where the client's capital is at risk and the final value of their pension pot may be less than has been paid in.

For more information on DB to DC transfers, have a look at our [Consolidation toolkit](#), which aims to help with the suitability assessment and important areas to consider before deciding if a transfer is suitable.

aegon.co.uk/consolidation-toolkit

If you have any questions, please speak to your usual Aegon contact.