



DB to DC transfers

The greater flexibility now available to members of defined contribution (DC) schemes to access their pension savings has the potential to increase the number of defined benefit (DB) members requesting a transfer of their benefits.

The statutory right to transfer now applies separately in relation to a member's specific benefit categories, as opposed to all the benefits under the scheme. Benefits are split into the following three categories;

- i. Money purchase benefits
- ii. Flexible benefits that are not money purchase benefits
- iii. Benefits that are not flexible benefits (e.g. DB benefits)

In relation to benefits that are not flexible benefits, members must have ceased accrual and made an application to transfer those benefits one year or more before their scheme's normal pension age to retain the statutory right to transfer those benefits.

Some members may wish to convert their safeguarded benefits into flexible benefits within the scheme (or exercise a right to take an internal transfer). There is no statutory obligation for schemes to permit this and the exact method of conversion or internal transfer will depend on the scheme's trust deed and rules.

Impact of transfer values on scheme funding

As an integral part of scheme management, it is important for trustees to monitor and understand the demand from members for transfers and the impact those transfers could have on scheme funding. Trustees should consider the risks presented by transfers to the likelihood of members receiving their benefits in full.

Trustees should identify any potential for different classes of transferring members disproportionately affecting scheme funding. Care with transfer bases will be especially important for smaller schemes where the departure of a few members with very large transfer values relative to the total scheme assets could have a disproportionate impact on the scheme.

It is also important to monitor the potential impact on investments, particularly regarding the balance of asset classes held by the scheme and the liquidity required to

pay large numbers of individual transfers or in respect of members with a large transfer value relative to the scheme.

Trustees must notify The Pensions Regulator of transfers of more than £1.5m or, if lower, 5% of scheme assets.

Trustee obligations regarding the advice

To protect members against the risks associated with a transfer, the 2015 Act has introduced a requirement that trustees check that appropriate independent advice has been received by the member before they carry out the transfer or conversion. Trustees should keep a record of the checks undertaken and retain them for at least six years.

The Pension Regulator also expects trustees to check the receiving scheme to ensure it is able and willing to accept the transfer and it is a legitimate arrangement.

Exemption from the requirement to obtain appropriate advice

Where the member's cash equivalent value of safeguarded benefits in the scheme is £30,000 or less (the '£30,000 exemption'), the member is not required to obtain advice for the purposes of making a transfer. However, the member must be reminded about the information on transfers available from The Pensions Regulator, The Pensions Advisory Service and the FCA to assist them. The trustees must also recommend that, although there is no obligation to take independent financial advice, the member nevertheless take advice before deciding whether to transfer.

Timeline

Where a member requests a transfer, there are several steps in the process that must be followed. The timeline below sets out the main steps for a statutory transfer where the £30,000 exemption does not apply.

Trustees should ensure they have processes in place to implement transfer requests in a timely manner.

For further information please contact your 44 Consultant.

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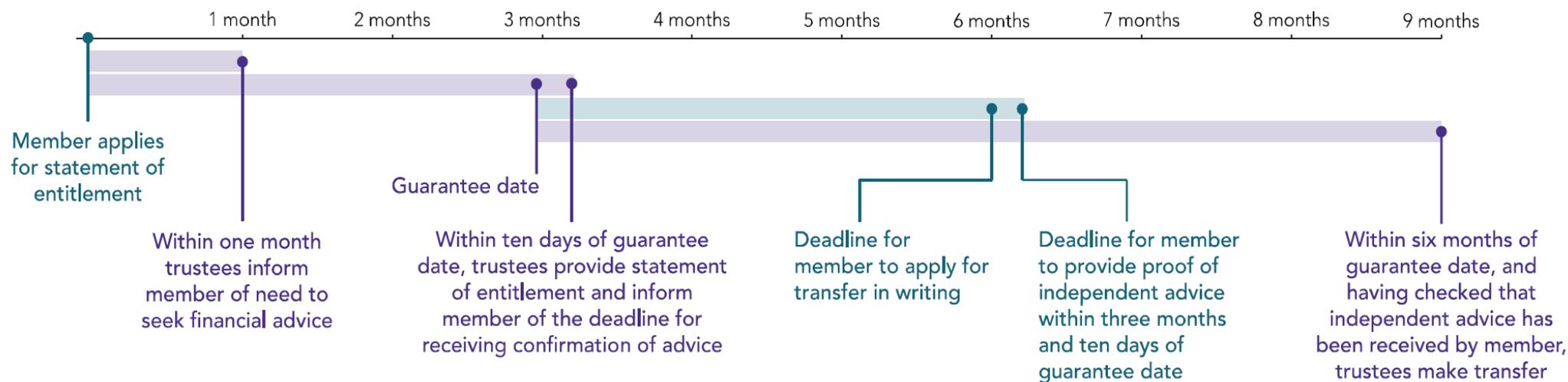
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Timeline for statutory transfers over £30,000



Members have a right to apply for a statement of entitlement once in every 12 month period. Schemes may allow more frequent requests. This timeline sets out the maximum period available.

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