Clifford Chance Pension Scheme

Transfers-out

Your guide to the Transfers-out considerations

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Introduction

The Clifford Chance Pension Scheme is able to make transfer payments to all types of UK registered pension schemes, in respect of members' benefits under either the Final Salary section or the Money Purchase section, including those benefits built up from Additional Voluntary Contribution (AVC) payments.

The transfer of such pensions is a complex matter and we strongly recommend you take appropriate financial advice.

We have asked Aon (advisers to the Trustee of Clifford Chance Pension Scheme) to draw up this Guide on the areas you should consider before asking for a transfer value quotation and obtaining advice as to whether or not you should transfer out any pension benefits you may hold in the Clifford Chance Pension Scheme.

The points set out do not constitute an exhaustive list and this Guide is no substitute for you obtaining financial advice before making any decision on this complex subject. An adviser would need to make sure that the advice they give is 'suitable' and presented in the form of a detailed report setting out a clear recommendation. When advising a client who is a member of the Final Salary Section whether he or she should transfer, an adviser must start by assuming that it will not be suitable and, only then, consider it to be suitable if it can be clearly demonstrated, on the basis of the evidence available at the time, that it is in the client's best interests.

You should note that in many cases the administrators of a receiving pension arrangement will need confirmation that you have obtained regulated financial advice, before a transfer payment is accepted. For transfer values of £30,000 or over from a final salary scheme, you'll be required to get regulated financial advice before the transfer can be made.

We have set out below details of the process which is followed when advice is requested from a financial adviser in respect of the transfer of benefits. This type of advice is regarded as being specialist and will, therefore, be very detailed.

Know your client

- Initially an adviser would provide their client with various information such as who they are regulated by, what the basis of their remuneration will be, etc.

- An adviser would then need to make sure that they 'Know Their Client' thoroughly i.e. they will need to assess their client's personal circumstances and aspirations. This will be necessary to ensure that the advice given will be suitable and will take account of up-to-date information regarding an individual's income and expenditure, assets including pension assets, and details of any dependants. In addition, an adviser will ensure that they ascertain exactly what their client's reasons are for wanting to transfer their benefits/opt-out, and what their attitude to investment risk is in respect of their pension investments.

- Even if the advice is specifically in relation to your pension in the Clifford Chance Pension Scheme, the adviser would still need to understand your wider financial position including details of any other pensions which you have (including details of your entitlement to the State Pension) and details of your spouse or anyone else who is financially dependent on you (including details of their pensions and other assets).

- This 'Know Your Client' process will typically be undertaken as part of a phone call with an adviser, but some advisers may offer a face-to-face service. It will also entail the completion of various questionnaires and the signing of a letter of authority by the member, which would enable the adviser to obtain from the Clifford Chance Pension Scheme the necessary information regarding the member's benefits in order that suitable advice can be given. In respect of the Final Salary section this will include very detailed information including spouse's, dependants' and children's pensions; early retirement provision; the rates in which benefits are re-valued in deferment and payment; tax–free cash arrangements; lump–sum death benefits; the Scheme's financial position and whether the transfer value has been reduced because of under-funding. In respect of the Money Purchase Section, the fund value, transfer value, any restrictions in retirement benefits, and death benefits payable would be obtained.

- 'Know Your Client' information would be recorded so it can be demonstrated that the adviser took all reasonable steps to ensure that they 'knew their client' before providing advice.

Transfers from the Final Salary Section

The transfer value quotation is determined by the Scheme Actuary and will be their view of the current value of deferred benefits payable at the Scheme normal retirement date. This will be calculated using a long term view on interest rates, inflation and investment returns, and will be guaranteed provided you agree to the transfer and return the relevant paperwork within 3 months. A member or their adviser may request a transfer value quotation once a year without incurring a charge.

Where pension schemes are in deficit, it is permissible for the scheme's trustees to reduce the level of the transfer value to reflect this. However, at the date of this Guide, no such reduction applies in the Clifford Chance Pension Scheme.

There are a number of factors which need to be taken into consideration when making a decision about whether to transfer pension benefits out of the Clifford Chance Pension Scheme, the benefits under which need to be carefully considered compared to the pension arrangement to which the transfer would take place, and the following will normally be covered in the advice report:

- confirmation of the client's career aspirations, desired retirement age and consideration of what a realistic retirement age would be, having regard to the size of the transfer value and how far this money would go at different retirement ages,

- details of the client's needs, wants and aspirations in retirement, such as level of income required to support the desired lifestyle (and whether or not this is achievable) and any desire for a financial legacy to be passed on to the client dependants. The adviser will typically look to produce a 'retirement plan' for the client,

- an assessment of the client's attitude to risk and security; this is relevant not merely to the choice of alternative contract or fund, but also (and more fundamentally) to the initial choice between having a benefit under the Scheme or in an individual pension contract,

- If you are not yet ready to retire, consideration of whether you might be better off not transferring for now but revisiting this decision once you are ready to retire and draw your benefits,

- confirmation of whether the client's new employer (if any) has arrangements to accept transferred benefits, and if so an analysis of this as a transfer option; in the Company's case, the Clifford Chance Group Personal Pension Plan is able to accept transfer values,

- a review of any other existing or new 'homes' for pension monies,

- a 'Transfer Value Comparator' which, broadly speaking, provides a comparison between the size of the transfer value offered by the Trustee and the value of the stream of pension payments which the Clifford Chance Pension Scheme would otherwise make, bearing in mind that the pension payments from the Scheme are guaranteed.

- an assessment of spouse's, dependants' and children's pensions; early retirement provision; revaluation rates in deferment and payment and whether they are guaranteed or discretionary and if discretionary whether they are likely to continue and how far they are reflected in the transfer value; tax–free cash arrangements; lump–sum death benefits,

- consideration of the Scheme's financial position and whether the transfer value has been reduced because the Scheme is under-funded; at the date of this document, no such reduction has been applied under the Scheme,

- the protection afforded under the Clifford Chance Pension Scheme by the Pension Protection Fund (PPF) if Clifford Chance LLP as the Scheme Sponsor, were to become insolvent,

- provision of sufficient, clear information to enable the client to make an informed investment decision.

Further relevant items of information for the client include:

- the different risks of personal pension schemes and final salary pension schemes,

- the impact of fluctuations in annuity rates on the size of the eventual pension under any receiving scheme,

- any changes to the tax–free cash sum. Within an occupational pension scheme such as the Clifford Chance Pension Scheme prior to April 2006, it was possible to accrue tax-free cash, payable at retirement, of more than 25% of the value of the retirement fund and if this applies then it will need to be considered carefully as it might be lost if a transfer were to take place,

- the treatment of any money purchase funds that sit alongside the final salary benefits, most likely to have built up from Additional Voluntary Contributions. Under the Scheme, it may be possible to take all of these as a tax–free cash sum whereas on transfer elsewhere, only 25% may be taken as a tax–free cash sum,

- any reduction in immediate death benefits,

- the position and interests of the client's spouse and dependants.

What changed from April 2015?

From April 2015 the government radically changed the way in which people may access their pension savings on retirement. For members of defined contribution pension arrangements, there are now broadly three options:

Cash: You could take all your savings as cash straight away.

Drawdown: You could invest your transfer value in a 'flexible drawdown' arrangement and take income out whenever you wanted it.

Annuity: You could use your transfer value to buy a different kind of pension from an insurance company. This is known as an annuity.

In all cases, these payments would be taxed as income.

Members with defined benefit arrangements such as the Clifford Chance Pension Scheme can only access the increased flexibility if they transfer their benefits out of the Scheme – this is a significant decision and we would recommend that anyone considering this takes independent financial advice. You retain a statutory right to take a transfer value if you are more than 12 months away from your Normal Retirement Age; this has not changed. It is also now possible to take a transfer value within 12 months of your Normal Retirement Age. Since April 2015, you must take financial advice if you wish to take a transfer value and you have more than £30,000 in total pension savings from the Scheme.

Transfers from the Money Purchase Section

As it is a defined contribution arrangement the factors identified above may also apply to a prospective transfer of benefits from the Money Purchase section; and additional information should be considered, including:

- the possibility of front–end charges under the receiving scheme,
- how the transfer affects the investment risk,
- how the effects of charges and expenses differ between the pension arrangements,
- whether the client prefers to minimise the number of pension arrangements held,
- the investment options under each pension arrangement,
- charges applicable to existing funds and under an alternative pension arrangement,
- penalties on transfer,
- any reduction to the tax-free cash sum, where an entitlement to tax free cash of greater than 25% has been accrued, and could be lost upon transfer,
- the online facilities available under each pension arrangement.

When an adviser recommends to a client to transfer any type of occupational pension scheme benefits, such as those under the Clifford Chance Pension Scheme, the advice report should include:

- a clear explanation regarding why transferring out is more suitable than remaining in the occupational pension scheme,
- a request for the client to contact the adviser immediately should clarification or further information be needed or if the advice report does not match the client's understanding of why the transfer has been recommended,
- an arithmetical analysis setting out the financial implications of transferring the occupational pension scheme benefits.

What changed from April 2015?

If you have built up AVCs in the Scheme and/or have benefits in the Money Purchase (DC) Section, the same flexibility set out in the previous section for all DC plans now also applies to how you take your AVC / DC benefits. In particular, you can take all of your AVC / DC account as a single lump sum directly from the Scheme. However, if you want to take some or all of your account as flexible income (drawdown), then you will need to transfer all of your AVC / DC benefits out of the Scheme to another provider. This is because, like many pension scheme trustees, the Trustee of the Scheme has concluded that facilitating drawdown through the Scheme would introduce significant additional administrative complexity and expense.

You should consider seeking independent financial advice before making a decision about transferring AVC or Money Purchase Section benefits as it could impact the investment options available to you and / or the total amount of tax free cash available.

Obtaining advice

It is very important that you take financial advice before making a decision on whether or not to transfer your benefits.

Under the Financial Services & Markets Act 2000, Clifford Chance LLP is not permitted to give financial advice and therefore will not provide advice to individual employees in respect of a transfer.

The Money Helper website has a directory of financial advisers you can search by postcode.

The Pension Transfer Gold Standard

The Pensions Advice Taskforce (an industry body set up by the Personal Finance Society) have established a voluntary code of good conduct for Safeguarded and Defined Benefit Pension Transfers advice – known as the 'Gold Standard'.

Financial advice firms who adopt and promote this standard adhere to a set of principles. This should leave you confident that you are dealing with an adviser that has your best interest at heart when receiving financial advice in relation to whether you should transfer your pension.

Further information about the Pension Transfer Gold Standard is available here.

Other useful sources

MoneyHelper (a consumer-facing service provided by the Money and Pensions Service) provides additional information about transfers that may help you when deciding whether or not to transfer. The following may be of use in helping you reach a decision:

- https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/transferring-your-defined-benefit-pension
- https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/transferring-your-defined-contribution-pension

If you have AVCs or benefits in the Money Purchase (DC) section, you have access to a free and impartial guidance service called Pension Wise to help you make informed choices about these benefits:

- www.pensionwise.gov.uk

Aon Solutions UK Limited's registration number, as detailed on the Financial Conduct Authority's Register, is 4396810. Aon Investments Limited's registration number is 5913159.

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