

# Pension Freedoms for Final Salary Pensions



Jonathan Bright, Managing Director

**For those individuals in a final pensionable salary scheme, there's never been a better time to review your pension plans.**

The 'pension freedoms' introduced in April 2015, by the then Chancellor, George Osborne, started a pension revolution.

This has significantly changed the way in which an individual can access their pensions, and the ideals of freedom, control and simple inheritance have captured the imagination of many pension holders. This desire for change also extends to people with final salary pensions, to whom the freedoms are largely unavailable.

Jonathan Bright, MD of J Finance Ltd said,

***"There has been an increase in people looking to transfer to a personal pension arrangement and take advantage of these new freedoms. If you are in a final salary pension, you can usually transfer to a personal pension, as long as you are not already taking your pension."***

#### Final salary pensions in brief:

If you have a final salary pension, effectively you own a deferred annuity. Annuities are insurance contracts that give guaranteed income payments, but are inflexible, lock in current interest rates and lock out further investment opportunity. Further, they give you little ability to control your retirement income.

If you want flexible income payments or want more control over your pension funds, then a final salary transfer gives you the option to cash out of a potentially expensive insurance and take advantage of the new flexible pension freedom rules. Furthermore, as the cost of annuities have soared so has the cash value of transfer offers, meaning you could benefit not only with the freedoms but also financially.

#### Reasons to stay with your final salary pension:

- You're attracted by the thought of a secure lifetime income, with limited risk and with no effort on your part.
- You have no or little experience of looking after investments or savings and don't want the responsibility.
- The defined pension benefits offered by the scheme exactly match your yearly income requirements based on what you think you will need during your retirement.

#### Drawbacks of a final salary pension:

- On your death, you can only pass benefits to a spouse, partner or dependent child aged up to 23 years of age, or in full time education.

- These schemes are inflexible and funds can only be taken based on the scheme's rules.
- If you have no partner or qualifying dependents, when you die, payment of your benefits will stop, even if you have received them for a limited period.

#### Compelling reasons to consider the transfer your pension:

- You will have more flexible access and won't be tied to any pre-defined guarantees.
- If you are single or divorced, childless or no longer have children in full-time education, you will be able to pass funds to any beneficiary.
- You will be entitled to a 25% tax-free lump sum and the flexibility to take the remainder as income subject to your personal retirement requirements.
- Transfer values are at historically high levels

#### Things to be aware of:

- Misleading transfer reports - some advisers will use an externally produced and semi-automated report which can throw up misleading calculations. Check that any report is personalised to your own needs and wishes.
- Excessive investment risk - having secured a generous transfer offer from your final salary pension provider, you don't want to lose it, so beware of unregulated investment schemes (UCIS) and plans that take a greater amount of investment risk than you are comfortable with. Discuss this with an adviser before you invest.
- Excessive fees – you may incur advice fees, pension account fees, fees for administering withdrawals or fees for investment and fund charges. You may want to seek a quotation from a number of advisers to ensure the amount you pay for advice is competitive.

You can check the details of regulated financial advisers and firms on The Financial Conduct Authority's website [www.fca.org.uk/register](http://www.fca.org.uk/register)

Bright concluded, ***"There are a number of important things to consider before transferring your pension, it's not a decision to be taken lightly and it can be confusing. J Finance is regulated by The Financial Conduct Authority and we will be delighted to make enquiries about your pension on your behalf, with no obligation and no fee"***.

#### J Finance Ltd is regulated by The Financial Conduct Authority

#### Talk to a pension specialist:

As the 'pension freedoms' now allow funds to be passed on to any beneficiary, you might wish to transfer to a personal pension arrangement in order to protect your wealth and have more flexibility, rather than accept the pre-defined guarantees of a defined benefit scheme. Anyone with a defined benefits transfer value of £30,000 or more, is now required by law to take advice from a UK registered 'Pension Transfer Specialist' before a transfer can be completed.

#### Your individual situation will determine the way forward.

If you have one or more final salary pension schemes, aren't currently taking your pension and would like to find out more, please contact Jonathan Bright, Managing Director at J Finance Ltd on telephone: 01635 521 300 or by email to [contact@jfinance.co.uk](mailto:contact@jfinance.co.uk).

Please note, there is no commitment, no charge and the enquiry will not affect your current benefits.

#### Case Study Example 1:

- A Final Salary Scheme member for 12 years, divorced with 2 grown up children. She didn't initially need all of the scheme income of £24,500pa from age 60, because she was still working.
- The transfer value of £1.03m was transferred to a personal pension with flexible income withdrawals to meet her changing needs, with the remainder left to her children upon her death.



The team at J Finance

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**Our office hours are 8.30am to 5.30pm Monday to Friday. Please note that meetings are strictly by appointment only.**

#### Case Study Example 2:

- A manager with 17 years' service, left his Final Salary Scheme in 2000. At age 51 he is offered a transfer value of £803,000.
- Personal Pension transfer will allow him to take 25% of the pension fund, tax free, at age 55 to repay his mortgage early.
- Suffering from diabetes, he also feels his wife will have more financial security if he dies early.

***"I always understood that a final pensionable salary was the holy grail. And it can be for some people, but actually not for me. Once I understood what it meant for me and my future, it was obvious I needed to find out more about a pension transfer. Jonathan secured an excellent transfer value for me and now we're planning how to make the best of that money and match my needs in retirement."***

#### DK, Brighton (client)

The rules on how you can access your defined contributions pension savings from age 55 have changed. For further information on 'Pension Freedoms' and the changes that came into effect in April 2015, please visit [www.gov.uk/government/news/pension-changes-2015](http://www.gov.uk/government/news/pension-changes-2015).

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