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Final Salary Schemes: time to transfer?

Workplace pension schemes that provide retirement benefits based on length of service and salary are classified as "defined benefit" schemes. There are different ways of calculating how a member's entitlement is built up, but perhaps the most common – and certainly the most widely-recognised – format is "final salary", which is the focus of this article. Below, we explain why some final salary scheme members are contemplating transferring their accrued benefits to "defined contribution" personal pension arrangements that they can control themselves.

We've been used to thinking of those people with final salary pension schemes as being the lucky ones: their pension will deliver guaranteed levels of income in retirement that are not generally dependent on market values. However, since the rest of the pension-saving population has been granted wide-ranging freedoms in the way they access their personal pensions, some final salary scheme members can appear to be hamstrung by scheme rules.

Personal pensions can make use of the new freedoms, with flexible access to tax-free cash and income, together with more choice for dependants' pensions and how unused pension can be passed on to heirs free from Inheritance Tax. As with an employer's final salary scheme, they use investments to grow the fund; however, the underlying portfolio can be personalised and matched to the saver's attitude to risk, thereby giving them control over how it is invested.

In addition, many of us have heard about some underfunded company schemes being wound up. This leaves employees – both past and present – relying on the Pension Protection Fund to deliver at least a portion of the benefits that should have been paid to them.

Both these factors have caused many of those in final salary schemes to consider whether they should transfer their benefits into a personal pension.

The good news is that the trend to consider final salary scheme transfers has coincided with a time when the transfer terms on offer are at an all time high. Your pension scheme administrator should be able to provide you with a Cash Equivalent Transfer Value (CETV). This figure will change over time, as interest rates rise and fall, and it is generally expected that the current high levels will not be consistently available in the future.

However, there are many cases where a transfer is not in the best interest of the scheme member. It is required that you take advice from a pension transfer specialist if you are considering this route, as your scheme may provide a range of valuable benefits such as a pension for your spouse, guaranteed income and inflation-proofing that may not be able to be replicated in a new scheme.

Any views and opinions expressed are subject to change and should not be taken as advice. Any product described may not be suitable for everyone. If you require advice, you should speak to a suitably qualified professional. The value of an investment and any growth, income or dividend can go down as well as up and so the return at the end of the investment period is not guaranteed.

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