Holborn Assets Ltd
Guide to UK Pensions

We have developed this guide to shed some light on the complex choices available to British citizens in connection with their UK pensions.

In this guide we have aimed to explain how the main types of UK pensions work and set out the key considerations for scheme members considering retirement or restructuring their pension into a different format.

UK pension rules are complex, and this guide does not seek to cover them all exhaustively. It is therefore important that you take professional advice before exercising any options under them. The information included within this brochure is based on UK laws and regulations and may be subject to change in the future.

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Introduction

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There are two main types of pensions, each of which comes with sub-variants:

- A defined benefit (DB) pension scheme (such as Final Salary)
- Defined Contribution (Money Purchase or investment related)

Defined Benefit (DB) Pensions

What are DB pension plans?
A DB pension is a type of pension plan where an employer promises to provide a certain income each year when you retire. The benefits of these pension schemes are usually based on your historical earnings, length of service and age. The income usually goes up by a measure of inflation and many schemes may provide for a spouse, dependent or even child pension. On retirement benefits can be taken in the form of a pension only or a lump sum payment (which is tax-free to UK residents) and a reduced pension.

DB pension plans are valuable workplace pensions that are becoming rare. The UK Pensions Regulator says there has been a decline in DB pension membership of 46% since 2010, and only 14% of DB pension plans were open to new members in 2018.

If you have a DB pension, you should think very hard before letting go of it. That's because, amongst other benefits, "Defined benefit pensions pay out a secure income for life which increases each year." (moneyadviceservice.org.uk)

Are DB pension plans worth keeping?
A major advantage of DB pension plans is that the employer bears all the risks of providing you with the promised level of benefits. They provide a guaranteed, inflation proofed, income for life that is paid straight into your bank on a regular basis, with tax taken off at source. So, you have very little to do but get on with enjoying your retirement. These valuable benefits should not be thrown away lightly.

Are DB pension plans safe?
All DB pension plans are protected by the UK Pension Protection Fund (PPF). The PPF say: "It's our duty to protect people with a DB pension when an employer becomes insolvent".

If a UK employer goes bust leaving a pension scheme that is underfunded, this is covered by the PPF. Most pensioners often receive at least 90% of what they would have done if their scheme still existed. Over 249,000 people are members of the PPF*. You can search the PPF database to see if your DB pension is covered - but you will need to know the name of the scheme to do so. Otherwise, ask your employer. For most people, the PPF protects the bulk of their benefits. However, high earners with pension entitlements of materially over £30,000 per annum could lose more than 10% of the value of their pension since the protection is capped.

How are DB pensions taxed?
If you are a UK resident, you can withdraw a lump sum payment that is free of tax. The income is subject to income tax and this is deducted at source in the same way as a UK wage, via the PAYE system.

How to calculate DB pension value?
Holders of DB pensions often want two questions answered:
How much will I receive when my DB pension starts to pay out?
This depends on:
- How much you have earned over your career
- How long you have been with the DB pension scheme

*PPF Annual Report 2018

- Which definition of pensionable earnings is used
- The accrual rate (the proportion of your final salary that you get for each year you are a member of the scheme)

One formula used to arrive at your yearly DB pension income is to multiply the number of years you have been with the scheme by your pensionable salary and multiply that number by the accrual rate, i.e. If you had been in a scheme for 10 years with a pensionable income of £24k per year and an accrual rate of 1/60, the calculation would be: (10 x 24,000) x (1 / 60) = £4,000 a year DB pension income. Please note, there are other types of DB pensions schemes for which the benefits are calculated in a slightly different manner, for example career average schemes.

When you left service, your employer will have provided you with a benefit statement. You can also request that your employer provides you with an up to date illustration of your scheme benefits.

How much is my DB pension worth if I want to transfer out of it?
Find out the Cash Equivalent Transfer Value (CETV) of your DB pension by asking your employer or your financial advisor.

Defined Contribution Pensions

What are Defined Contribution (DC Pension) pensions?
DC Pension schemes (also commonly referred to as money purchase plans) describe any pension scheme that mainly provides benefits based on the value of the fund at retirement. They include Personal Pensions, Stakeholder Pensions, Self-Invested Personal Pensions (SIPPs) and many workplace pensions.

In addition to UK pensions, it is also possible to transfer to certain overseas pensions which meet the UK HMRC requirements, (known as a ROPS or Recognised overseas pension scheme). The rules for these have been recently changed and there are severe tax penalties for rule breaches.

Unlike DB pensions, in which employers carry all the risk of providing retirement benefits to members, the risks under DC pensions are entirely bourn by members.

How do DC Pensions work?
DC Pensions are invested in funds which accumulate free of UK taxes, which are outside your estate for UK inheritance tax purposes. Benefits can usually be taken from age 55 in the form of a lump sum, which is tax free in the UK but potentially taxable in other jurisdictions and an income which is subject to income tax in the UK and most other jurisdictions. The income can be paid from the fund (known as flexible drawdown) or via an annuity, which provides a guaranteed Income for life. On death the full value of whatever is left in the fund can be passed to your beneficiaries.

DC Pensions are compatible with other pensions and you can transfer out of your DB Pension into a DC Pension. You can also run your DC Pension alongside any other pensions you may have.

If you are thinking of investing in a DC Pension, be aware that charges exist. Even with a low-cost DC Pension, a setup fee, annual management charge and dealing charges may apply.

What investments can be held within DC Pensions?
DC pensions come in two basic forms, Insured and Self Invested. Insured pensions are generally cheap and offer access to a panel of internal and external funds. Self-Invested pensions include Self Invested Personal Pensions (SIPPS) and Small Self-Administered Schemes (SSAS – used by UK business owners) offer access to a wide range of investments:

- Commercial property
- Quoted and unlisted UK and overseas stocks and shares
- Collective investment schemes
- Investment trusts
- Commodities*
- Structured financial products*

*Generally, only to be considered by professional or sophisticated investors.

Exotic assets – such as wine, luxuries, cars – are generally not permitted as investment vehicles by DC Pension providers, because they attract taxation from HMRC.

How are DC Pension withdrawals taxed?
DC Pension withdrawals in the UK are taxed the same way as other personal and workplace pensions. It is possible to withdraw 25% of the value of the fund (Typically capped at the level of the lifetime allowance) free of UK taxes. The balance is treated as income and subject to tax in the same way as UK wages.

DC Pension: when can I withdraw?
You can start making withdrawals from your DC Pension at the age of 55. This age threshold applies to withdrawals on all personal and workplace UK pensions.

Are DC pensions worth keeping?
Personal pensions are a form of investment designed for retirement planning. Like all investments, personal pensions offer benefits as well as disadvantages if you compare them with other investments.

Personal pensions offer tax advantages such as no capital gains or inheritance tax in the UK. On the downside, as with all pensions, personal pensions lock your money away until the age of 55. As with all investments there is the risk that you will eventually receive less than you hoped for.

Can I take my DC pension as a lump sum?
You can take your entire DC pension as a lump sum if you are aged 55 years or over or you can take it in smaller chunks over time. UK residents will pay income tax on any withdrawals in excess of 25% of the value of the fund. The way the PAYE system operates means that tax could be deducted at a substantially greater rate than your normal rate. This will need to be reclaimed but it can reduce your cashflow in the short term if you are trying to fund a project.

Be aware that rules exist about what you can and cannot do, and taxation applies. In the area of pension taxation, the guidance of an independent financial adviser really counts, as there are a variety of positive steps that can be taken to safeguard what is often a lifetimes worth of investment.

What happens to a DC pension when a person dies?

In general, DC pension funds can be passed on in the UK with no UK Inheritance Tax to pay. If you die under the age of 75 the fund or any income payments can be paid to your beneficiaries free of income tax for life. If you die after the age of 75, income payments or capital withdrawals are subject to income tax at your beneficiaries' top rate.

Irrespective of your age when you die, your DC pension fund can be passed to your beneficiaries intact, or cashed in. If passed on intact, the same options apply to them as to you. This means that they can buy an annuity, draw an immediate income from the fund or defer this until they reach their own retirement age.

The fund will not form part of their estate and if the fund lasts, it can be passed down through the generations of your family.

Pension Transfers

Pension schemes vary on many levels – costs, investment policies, benefits, rules and restrictions, to name just a few. The pensions industry and related legislation are constantly changing, and so does your own life and aspirations. As a result, you may find your existing plan no longer suitable to your situation. Due to the complexity of UK pension rules it is essential that you take advice from a UK regulated independent financial adviser with the appropriate regulatory permissions before you make any changes to your pensions.

With the above said, transferring a pension is a very complex task, which should not be undertaken without careful consideration of all consequences.

Considerations to make when deciding on a pension transfer

- Your existing scheme may provide valuable guarantees which could be lost if your transfer away. It may also have exit penalties, or provide guarantees, bonuses or other benefits which you will lose when transferring out. Make sure you understand not only what you will gain with the new provider, but also what you will lose with the old one.
- Changing your pension arrangements can have unforeseen legal and tax consequences, which are easy to overlook or underestimate – especially those which will only materialise in retirement. This is particularly important for non-UK resident.
- Assessment of different offers available on the market is difficult without experience. You need to be able to distinguish between guaranteed and merely estimated (illustrated) returns, understand how all charges are calculated and who bears the investment risks (it's often you).
- Transfers typically involve not only substantial amounts of money, but also substantial paperwork, with small print to read and deadlines to meet. Mistakes and omissions can be very costly.

Reasons why you might wish to carry out a pension transfer
The basics
It is important that you focus on the achievement of your goals rather than the means of delivery. Goals are specific projects that require time, money and planning to be achieved. Typical goals can include things like retirement at a specific age with a specified target income, debt repayment, funding property purchase or renovation and provision for dependants in the event of your death. Greater control over investment and a general desire for flexibility are not goals but means of delivery. Even where you have clearly identified goals, you need to ask yourself whether a transfer is the only way of delivering them and even if it is, does it need to be carried out now? What other ways are there of achieving your goals that do not involve a transfer. The UK regulator requires regulated pension specialists to start from the position that a transfer is unlikely to be suitable for most people.

We have set out lists of reasons for DB and separately for DC pensions. They are given for general guidance only and should not be taken as any form of recommendation. It is important (and a regulatory requirement if you have certain pensions, such as a DB scheme with a CETV in excess of £30,000), that you take specialist professional pensions advice before you make any changes to your UK pensions.

Potential reasons to transfer DB Pensions

- Access benefits early where scheme rules don't permit this.
- Access a lump sum early in order to clear debts or meet capital expenditure requirements, where there are no alternative sources of funds (over 55s only and tax may be due for non-UK residents).
- Take benefits in a different format to scheme specification.
- Enhance spouses and dependants death benefits.
- Provide death benefits to non-spouses/dependants.
- In certain cases, to enable non-UK residents to transfer to a pension scheme in their country of residence.

Things to watch out for

- The acid test is that any transfer must be in your best interest.
- The over-riding priority is the provision of your income in retirement. Any option that will result in a reduction must be able to clearly be justified.
- Any of the above potential uses MUST be matched with a genuine client need that cannot be met in any other way.
- Loss of enhanced or primary protection against the Lifetime Allowance.
- Loss of death benefits within the scheme.
- Taxation of PCLS for non-UK residents
- Transfer values from DB schemes are usually valid for only 3 months, so advice needs to be delivered and transactions carried out within that timescale.
- You will be responsible for the risk of the fund
- Poor performance may mean that you run out of money
- You will pay charges and need reviews etc.

Potential reasons to transfer DC Pensions

- To reduce cost.
- To adopt a more coherent investment approach in line with other investments.
- To consolidate with other arrangements in order to simplify personal admin (secondary reason only).
- To access a lump sum in order to clear debts or meet capital expenditure requirements, where there are no alternative sources of funds. Non-UK residents may be taxed on the lump sum.
- To facilitate borrowings or investment in members business in order to further business objectives.
- To facilitate commercial property purchase either as an investment or as trading premises.
- To improve death benefits under old style schemes.
- To protect against impact of lifetime allowance.
- To retain control where a director or shareholder member of a SSAS exits a business.

Things to watch out for

- Tax-free cash in excess of 25% under existing schemes.
- Enhanced and Primary Protection.
- Loss of Guaranteed Annuities.
- Loss of Life cover.
- Loss of Waiver of contribution benefit.

Who are Holborn Assets Ltd?

Holborn Assets Ltd is part of the Holborn Assets Group, a major international financial advisory firm with 8 global offices and its headquarters located in Dubai, UAE.

Holborn Assets Ltd is a UK Independent Financial Advisory form regulated by the Financial Conduct Authority (FCA). We are run by a highly experienced and qualified team of financial advisers with many years of experience working with both UK based clients and expatriates. Our primary focus is on helping clients achieve their important financial goals.
We specialise in:

- Pension Transfer Advice
- Retirement Planning Advice
- Expatriate Financial Planning
- Wealth Management
- Wealth Protection

This is a highly specialist area that, in some cases, requires specialist qualifications and permission from the FCA to advise. Holborn Assets Ltd holds all the necessary regulatory permissions and its advisers are fully qualified to advise on all UK pensions.

The Holborn Pension Transfer Advice Service

The goal of the Holborn Pension Transfer Advice Service is solely to provide you with the correct advice in relation to your UK pension benefits. It is not to facilitate to a pension transfer. Our sole focus in on helping you achieve your important financial goals in the best way for you. When providing you with advice we are totally detached from the outcome of the advice. You will receive a formal report, either recommending a transfer, or recommending against a transfer. If required, we will issue the formal confirmation of advice required by your pension scheme trustees. If we recommend in favour of a transfer, we are happy to arrange this for you. If we recommend against a transfer, whilst we fully recommend that you follow our advice, you are free to transfer your pension, but we will not arrange this for you.

We have developed an extremely robust advisory process and all advice is subject to external compliance checking to ensure that it is accurate and fully compliant with UK regulations.

The Next Steps
The first step is to contact us on +44161 969 2646 or email chris.wicks@holbornassets.co.uk

We will have an initial discussion with you about your requirements and to explain our service and fees.
If you are happy to proceed, we will send you a welcome pack containing our initial client on-boarding documents. These include our client agreement, which explains our service and sets out our charges in cash terms, a financial planning questionnaire and a psychometric risk questionnaire. You will be able to complete all these digitally. So, you have no need to print them off. You may need to obtain details if your other pensions, investments and state pensions and supply these to us.

Once you have returned the documents to us, we will run the risk report and arrange a call with you to go through your goals and to discuss the risk aspects of a transfer to ensure that you are clear about them.

When we have full details in file of your personal and financial situation, we will analyse your pension benefits, carefully consider all options for achieving your goals and generate our formal recommendations.
If we recommend in favour of a transfer our advice report will specify exactly what plan your benefits should be transferred to and how the fund should be invested. We operate an evidence-based approach to investment which focusses in the use of low-cost funds within balanced risk rated portfolios. Further details of this are available on request. Importantly, we provide a structured ongoing review service as a matter of course. This will ensure that your pensions remain on target to help you achieve your retirement goals.
If we do not recommend a transfer, we will issue the confirmation of advice to your current scheme trustees, as required by UK FCA rules. However, we will not arrange the new transfer or interact in any way with your new scheme, which you will need to source yourself. These are regulatory and professional indemnity insurance requirements.

For more information please contact us on +44161 969 2646 or email chris.wicks@holbornassets.co.uk