Pension transfers skyrocket

Transfers out of private sector final salaries boomed in 2017.

There was a dramatic increase in the value of number of transfers out of defined benefit (usually final salary) pension schemes in 2017. A recent Freedom of Information (FoI) request to the Financial Conduct Authority (FCA) revealed that the £20,800 million was transferred last year, up from £7,900 million in 2016. There were 92,000 transfers, compared to 61,000 in 2016.

The increase in transfers stems from a variety of factors:

- A growing awareness of the planning opportunities introduced by pension flexibilities, which can make the traditional defined benefit scheme look outdated and rigid.
- The significant sums involved: the average transfer last year amounted to £226,000.
- Employers quietly welcoming transfers as a way of reducing their pension scheme liabilities, which have grown rapidly because of ultra-low interest rates and improving pensioner lifespans.
- The proportion of defined benefit schemes closing to existing employees steadily increasing, leaving more people with preserved pension benefits, even if they have not changed jobs.
- Since 2009, investment markets being generally benign or buoyant, helped by the same economic measures that have pushed, and held, down interest rates. The absence of any major market declines has reduced the visibility of one of the major transfer risks: exchanging a quasi-guaranteed benefit for one reliant on investment performance.

A transfer can be the right choice in certain circumstances, but there are sound reasons why the FCA continues to require advisers to start with the assumption that a defined benefit pension transfer will be unsuitable.

If you are considering transferring any of your existing pension arrangements, please make sure you talk to us before taking any action. A transfer out of a defined benefit scheme is nearly always a one-way ticket and you need to be sure you fully understand the pluses *and* minuses of the destination before the journey begins.

The value of your investment can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.