The six figure pension fund

The fall in interest rates is boosting some pension transfer values.

Pension scheme deficits have been hitting the headlines again, and not just those of BHS. The Bank of England's efforts to bolster the post-referendum economy have been to blame. On one widely quoted measure – the Pension Protection Fund's PPF7800 Index – the overall deficit for private sector benefit schemes covered by the PPF was £408bn in July 2016, an increase of over £170bn in the space of just 12 months.

The reason is the fall in long term interest rates, which are the basis for valuing final salary pension scheme liabilities: as rates fall, the value put on the liabilities rises. Unfortunately for many schemes, the other side of the balance sheet – the investments assets – do not rise in value as rapidly, hence the deficit (liabilities – assets) widens.

There is one piece of potentially good news that stems from this situation: many schemes are increasing the transfer values they offer. This is due both to increases in asset values and to schemes' desire to reduce their liabilities by cutting membership. In some cases, transfer values have been equal to over 30 times the prospective pension, meaning a £3,500 future pension could provide a six figure transfer value.

If you have final salary benefits from previous employment, it could be worth seeing whether a transfer now makes sense, even if it did not a couple of years ago. To begin the process, please contact us.

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.