# 2014 Budget – implications for DB

March 2014

## What does this mean for DB schemes?

Under these proposals, the level of flexibility that will be offered by DC schemes is likely to prove very attractive and we therefore expect that many members may want to transfer their DB benefits into a DC scheme.

The Government, in recognition that it may not be in the best interests for members to transfer, is consulting on the options available. For public sector pension schemes, legislation will be introduced to remove the option to transfer to a DC scheme, except in limited circumstances. For private sector DB schemes, the Government is considering:

- removing the right to transfer from DB to DC in all circumstances (this is its default option);
- allowing transfers, but ring-fencing the funds transferred and having them subject to the current regime (this would be very complicated to administer);
- capping transfer amounts (say on a yearly basis);
- allowing transfers provided the DB scheme trustees allow it (giving Trustees an additional headache if it turns out in the future to be have been the incorrect option);
- and allowing members of DB schemes the ability to transfer to DC (as now).

## In the short term

It is possible that, following the completion of the consultation exercise, DB members will not be allowed to transfer to a DC scheme (although it will be interesting if this is then later challenged). Therefore there is a potentially small window of opportunity for members to transfer into a DC arrangement in order to take advantage of this new flexibility. Even if the consultation concludes that these transfers should still be allowed, it could still be more complicated for instance due to the introduction of caps or ring fencing.

Schemes that do act in this window will need to make sure that they do everything possible to make sure that any exercise is carried out fairly and reduce the potential for the Trustees/Company being open to criticism later (particularly if this proves to be the wrong decision).

Carried out correctly a transfer exercise could be to the benefit of everyone – members who want it can transfer and obtain that additional flexibility, members that remain will be in a smaller scheme backed by the same company covenant, and the company will have a smaller scheme to manage.

The Trustees and Company should discuss whether a transfer value exercise makes sense and, if it does; review their transfer value basis and consider incentives; speak to their advisors about costs of such an exercise (including the additional calculations); and think about what communications to provide. It will also be vital to consider what access to Independent financial advice to provide to members.

## In the longer term

If members retain the right to transfer to DC schemes, it is likely to take some time to understand the full implications. However, we can expect there to be more transfers out (particularly after the age of 55 and those members who are less expensive pension risks – for instance they might be in ill health or have no spouse). The scheme will need to consider its investment strategy and risk management in light of significant assets being capitalized early and a smaller but healthier residual population.

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