# Video 4 – Adviser research and communication of advice

Welcome to the fourth of our series of videos, looking at our expectations of financial advisers when they provide pension transfer advice, such as leaving a defined benefit scheme

After obtaining the Know your client information that I described in the previous video, the adviser should then undertake research.

So, the adviser takes all of the information they have gathered about you and starts to consider the options that are open. This will involve finding out about the benefits and risks of your DB scheme. Then they start to look at how well the DB scheme fits with the type of retirement you want and the risk you can accept, and the alternative options available.

For full advice, at this point we would also expect advisers to carry out a detailed comparison of the benefits available in the employers' pension scheme against the benefits available in any proposed new arrangement, as well as any other workplace pensions available to you as these are often lower cost. They should also consider any alternative ways in which your priorities could be met without a transfer.

This detailed comparison needs to look at the following:

- Income levels available: the employers' pension scheme will deliver a fixed, inflation-linked income but what level of income will any new plan deliver, if investment returns are uncertain and you have to pay charges?
- Tax-free cash available: the adviser should be considering your preference for tax-free cash, and how it would impact the levels of income available in the employer's scheme and any new plan?
- If you want to retire early, will the employer scheme allow you to do that?
- Income sustainability: the employers' pension scheme will provide a guaranteed income for life. Would any new pension plan deliver this or is there a risk of running out of money?

- What are the death benefits available within the employers’ pension scheme compared with the death benefits available in any proposed new arrangement?
- Compare the flexibility of the existing and proposed new plan. A new plan may seem more flexible and appear to give you more control. But how does the monthly cost of that new plan and paying an adviser to manage it for you, compare to what you might get from your existing scheme? The employers’ pension scheme will manage your money on your behalf at no cost to you.
- Research also has to consider where the money is going if a pension transfer takes place. So, the adviser has to think about the type and the risk of the investment funds the money will be invested in, the type of product that the money will go into and who will be the provider of that product, taking into account any existing pensions or workplace pensions you have.

The adviser should also look at alternative ways of helping you achieve your priorities without giving up your guaranteed pension.

For example, if leaving a lump sum to your dependants is important to you, they should investigate whether it’s better to just buy some basic life insurance rather than giving up your guaranteed pension.

Or if you want to retire early, they should look at whether it’s possible to achieve that by using any other pension schemes that you may have, for example by making higher contributions to them while you’re still working.

Research must consider these things.

Following this comparison, a ‘transfer analysis’ should be prepared. The analysis should illustrate the cost of replacing the benefits that are being given up if you leave your employer’s pension scheme.

Then based on what they know about you, the adviser needs to consider whether it’s in your best interests to stay in your DB scheme or, if giving full advice, if it’s suitable for you to transfer away from it.

Where the adviser is recommending a clear course of action, they should then communicate their findings and recommendation to you in what we call a ‘suitability report’.

In simple terms, this written report should explain the recommendation, how the adviser has arrived at that decision, and why it’s the right thing to do based on your personal circumstances.

There are some clear guidelines in terms of what has to be included in this report.

Your needs and objectives must be in here: the report must be personalised. We have seen situations where advisers have regularly used the same report for different clients and just changed the client's name. That's not what we are looking for.

For abridged advice, an adviser can only recommend that you stay in your DB scheme or give you an option of taking full advice. For full advice, the report must contain a clear recommendation to stay in your employer scheme or to transfer out. Advisers should not give you a list of options and then ask you to choose.

As with all recommendations there will be advantages and disadvantages and we expect advisers to present them to you in a balanced way.

We have seen some advisers overplaying the merits of transferring out to get better death benefits for the client, even though it's clear that the client's income **needs in retirement** would be better met by staying in the employer scheme.

The report must clearly state that you'll be losing a guaranteed income for life if the advice is to leave your employer's pension scheme and transfer to a flexible or income drawdown plan.

Other material information should be given particularly if the advice is to leave your employer's pension scheme and transfer to an income drawdown plan. Risk warnings must be given and should explain in a personalised way how:

- the capital value of the fund may be eroded
- the investment returns may be less than those shown
- the levels of income provided may not be sustainable, so in other words your pension fund may run out
- there may be tax implications

In summary, the report should set out the risks and benefits **to you** of staying in the current scheme or transferring.

We know some reports are long, but it is important to read all of it in case some of the important information isn't immediately obvious.

Your adviser should also check that you understand the advice and what it means for your retirement. You should be comfortable that you understand the risks as well as the benefits and, if you transfer, that you understand the extent to which you could be better off or worse off as a result.