



Defined Benefit Schemes

Attitude to Transfer Risk

One of the main outcomes from FCA Policy Statement (PS18/20) is the requirement for a robust assessment of the client's attitude to transfer risk. This is an essential part of the advice process; together with the monetary analysis present in the TVC and APTA.

The following notes are an informal guide on some of the key aspects. Subsequently these points can act as a base for further discussion, once we have prepared the APTA/TVC:

Your client's attitude to certainty of income in retirement;

- The client's views on how the existing DB scheme income will fit in with their future requirements? Both in terms of the pension payable and any inflation proofing provided.

Your client's attitude to any restrictions on their ability to access funds in the ceding arrangement;

- Why the client feel's that inability to take flexible benefits from the DB scheme may not allow them to achieve their objectives?
- The client's feelings on the trade-off between ability to take flexible benefits and long-term security of income provided by scheme?
- Are there any alternative avenues that the client has considered prior to seeking advice on a DB transfer?

The risks and benefits of staying in the ceding arrangement;

- Provision of latest Summary Funding Statement.
- Any other recent communications from the scheme in relation to funding, or potential re-structure of benefits, etc.
- Any specific concerns expressed by the client in relation to scheme health, or the solvency of their employer.

- The client's understanding of the PPF and what would happen if the scheme entered it.

The risks and benefits of transferring into an arrangement with flexible benefits;

- The clients understanding of the flexible drawdown rules and how these can help meet their objectives?
- What thoughts the client has given to the sustainability of income in a drawdown plan, taking account of the likely pattern of income required?
- What are the client's thoughts on living longer than expected?
- What are the client's thoughts on the unknown effects of future inflation?

Whether your client would be likely to access funds in an arrangement with flexible benefits in an unplanned way? If so, the likely impact of this on the sustainability of funds over time;

- The client may have expressed a desire to withdraw flexible benefits ad-hoc (in addition to known income and capital needs). If as much detail as possible is obtained. we can model additional cashflow scenarios for discussion.

The client's attitude to and experience of managing investments or paying for advice on investments so long as the funds last;

- Specific examples from the client of any active participation in managing their own investments, e.g. own research, active interest in investments held, buying and selling shares, fund switches, etc.
- The client's views on the time commitment that goes hand in hand with paying for long-term investment and pension decumulation advice?

Recording the soft facts in terms of actual quotes from the client is very useful and helps us in the construction of the suitability report. These could be recorded in your Fact Find and Meeting Notes.
