

**Society of Financial Planners In
Ireland**

DB to DC - Transfers

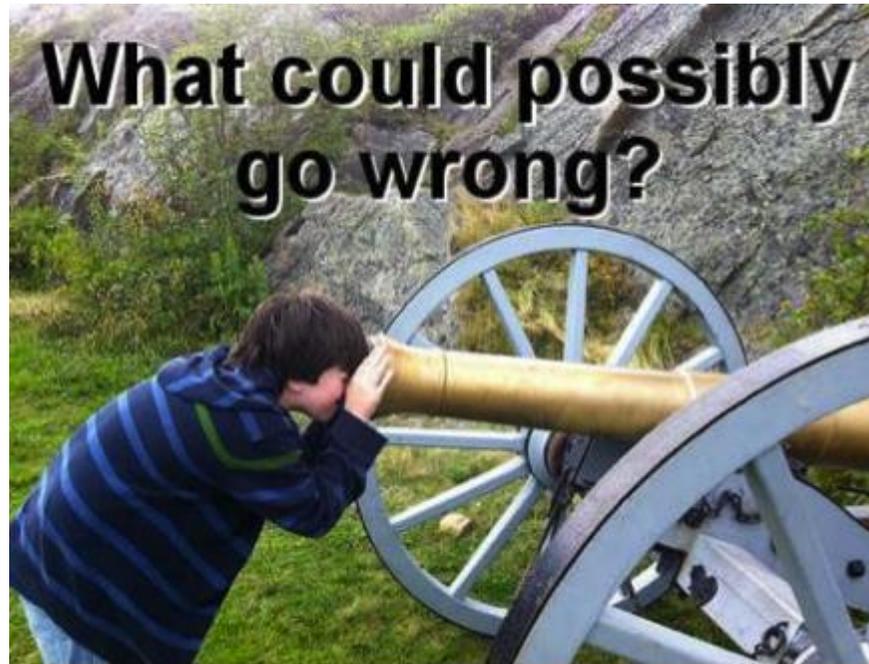
John Lynch, partner

21 Sept 2017



Transfers from DB to DC

What could possibly go wrong?



Recent Case study

Financial Advisor asked if member should take TV

- Scheme closed to future accrual, replaced by DC Scheme
- FD advising members to transfer out
 - Remove DB risk
 - Greater control
 - More options at retirement
- FD transferred out and most of active members
- Financial Services Company (General Insurance)

- Pension of €35k
- Transfer of €510k
- Current Age 55
- Retirement age 65

“A lot of the members have transferred out. The FD said the DB scheme was too risky....”

Recent Case study

Financial Advisor asked if member should take TV

- Scheme 200%+ funded
- Scheme invested 80% in bonds and cash
- Trustees have power to seek any shortfall in scheme
- No health issues for member and no requirement for funds
- Expected transfer at retirement = €1,200k (9% return)

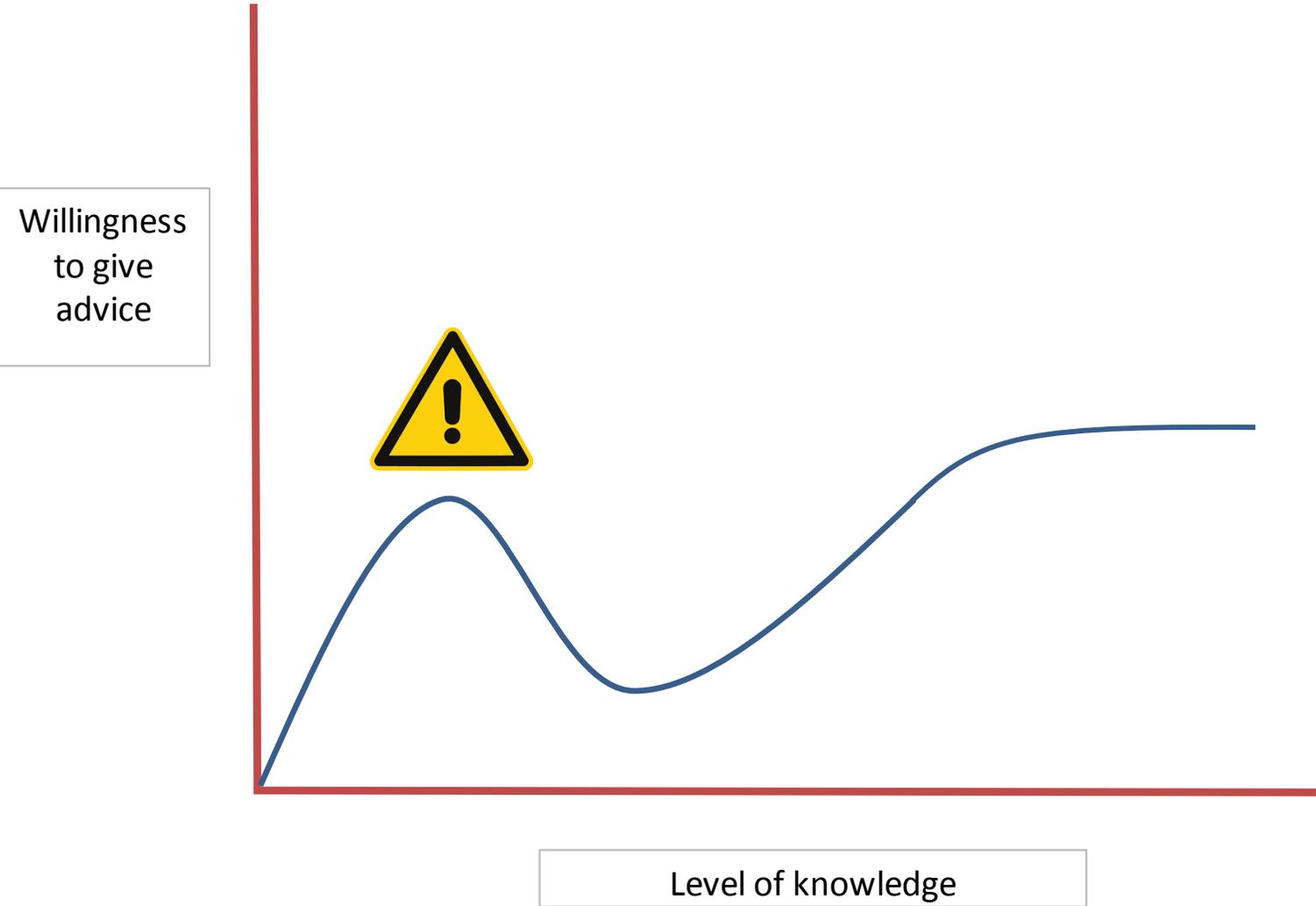
Recent Case study

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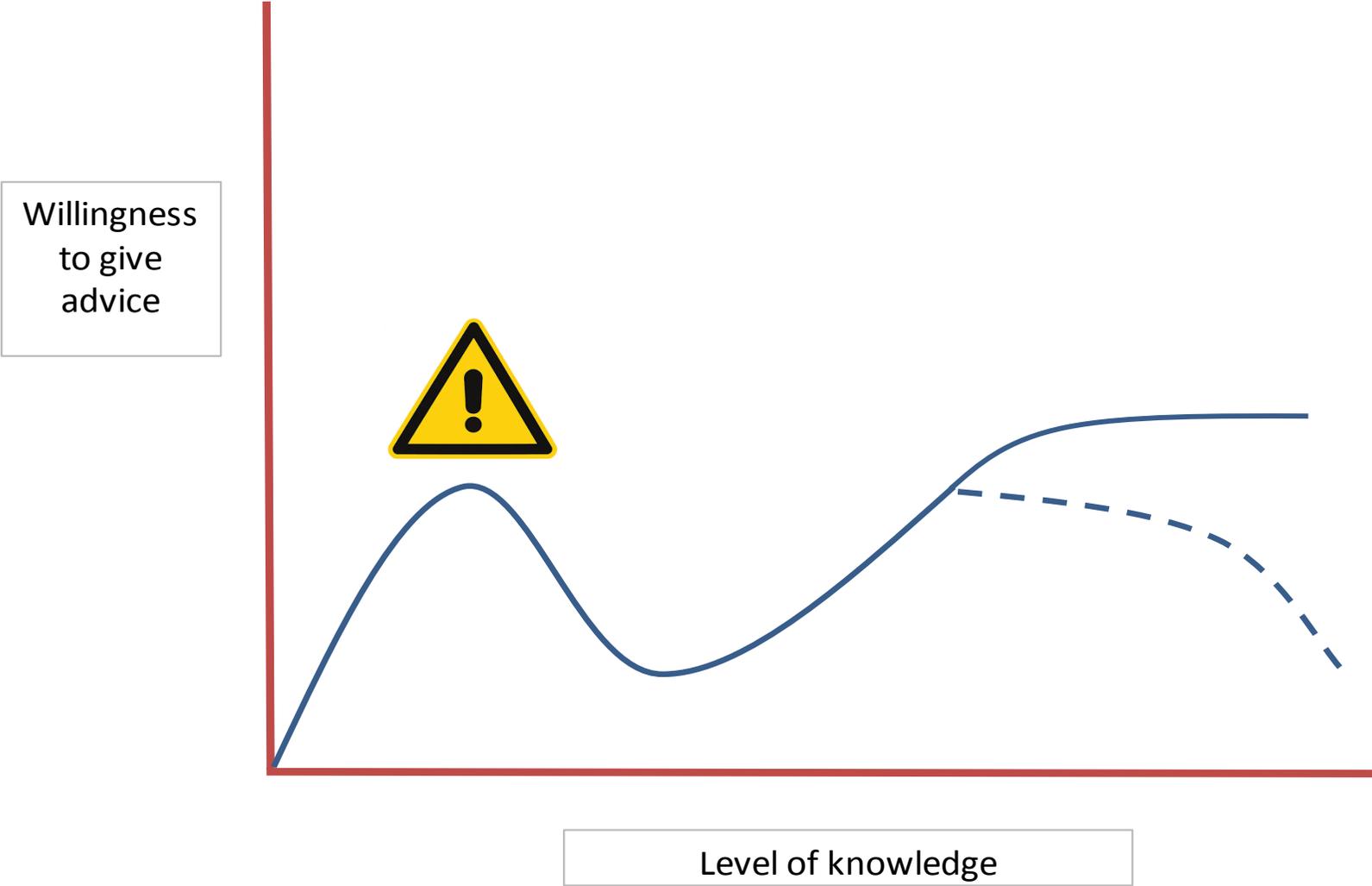
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- Scheme invested 80% in bonds and cash
- Trustees have power to seek any shortfall in scheme
- No health issues for member and no requirement for funds
- Expected transfer at retirement = €1,200k (9% return)
- Risk averse member



Graph of advice vs knowledge/understanding



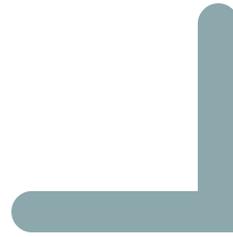
Graph of advice vs knowledge/understanding



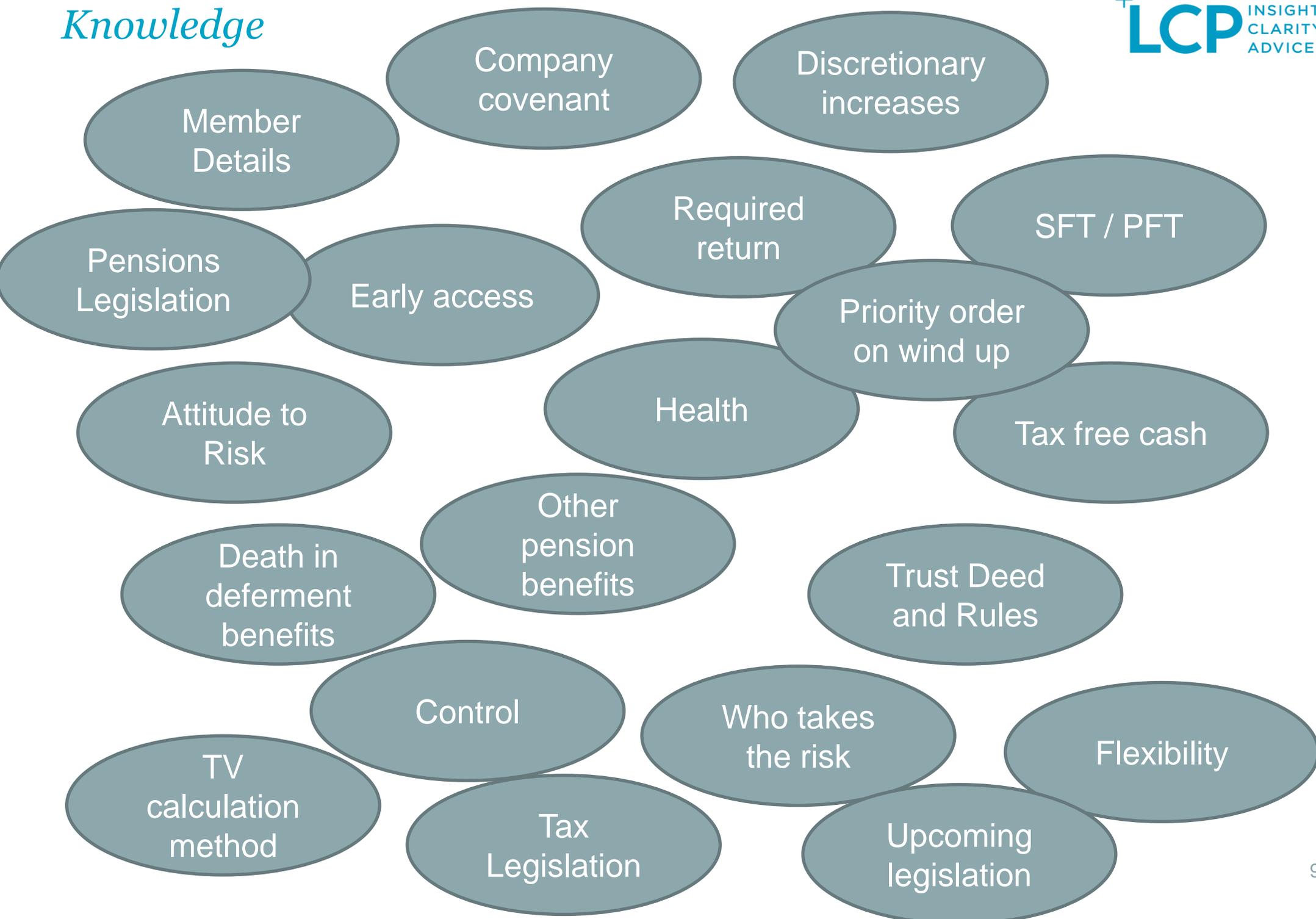


Key considerations

*What knowledge is
required?*



Knowledge



Giving advice on DB transfers



General Practitioner



Consultant



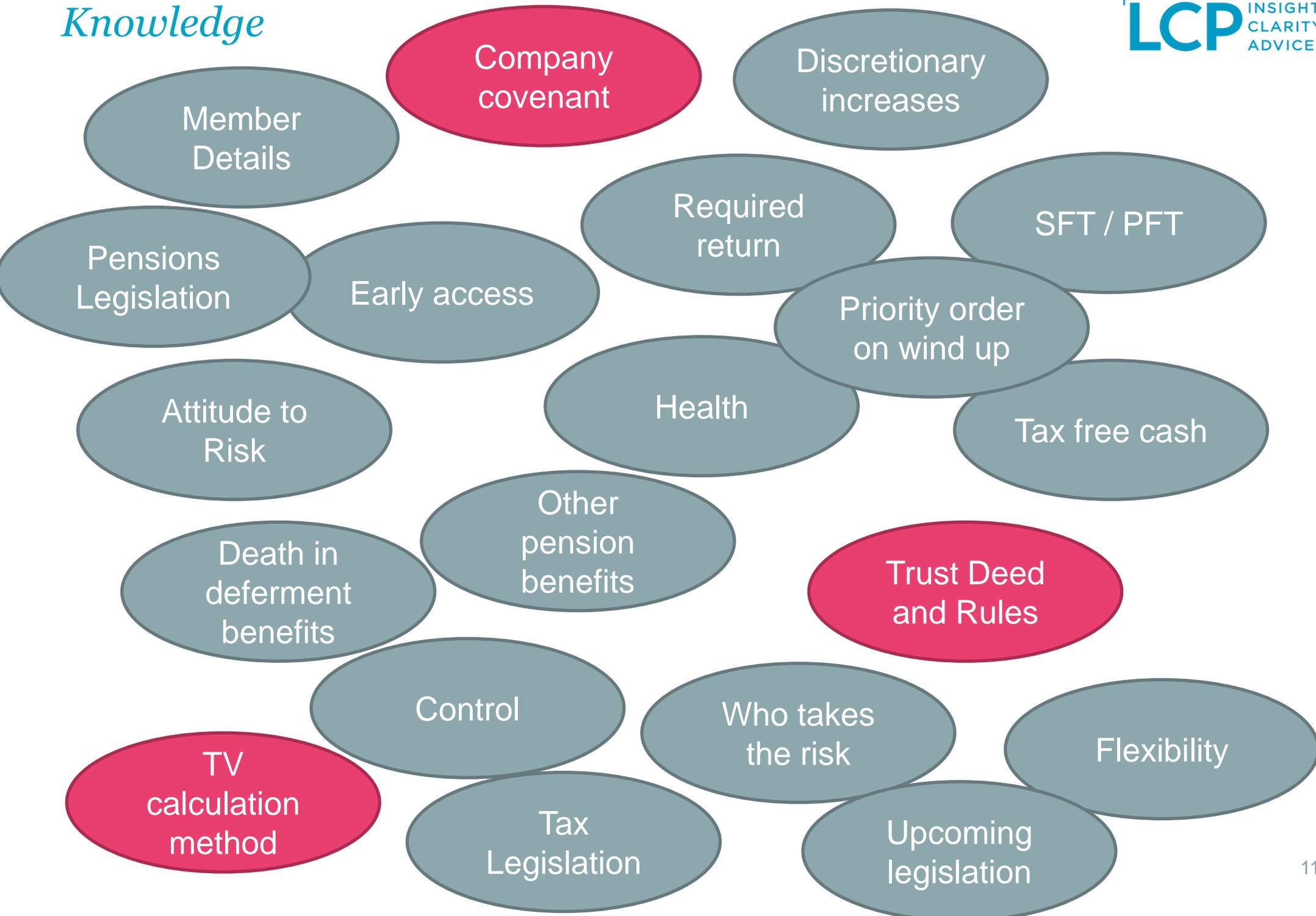
Mr James Walsh

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Knowledge





Trust Deed & Rules



Trust Deed & Rules

Legal document by which scheme is governed

- Benefits provided
- Discretionary benefits provided
- Who can join
- Trustee role
- Company role
- Investment rules
- Contribution Rules
- Wind up rules
- Etc
- Etc

Trust Deed and Rules

Key clauses

- Wind up notice
- Who sets the contribution rate
- Benefits on retirement

Strong	Weak
One month notice	No notice
Trustees	Company
Deferred Annuity	MFS Transfer



Omega Pharma



Employer Covenant



Employer Covenant

The covenant is the employer's legal obligation and financial ability to support their defined benefit (DB) scheme now and in the future.

- What legal entity is the principal employer to the scheme?
 - Is there a parent company?
 - Balance Sheet
 - P&L
 - Future expectations
 - Attitude to staff benefits
 - Union representation
-
- Will the company exiting in 20 / 40 / 60 years?

Trust Deed and Rules & Company Covenant

Key clauses

- Wind up notice
- Who sets the contribution rate
- Benefits on retirement

Strong	Weak
One month notice	No notice
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Profitable
company.
Strong Parent



Loss making
company.
No Parent



*Transfer value calculation
method*



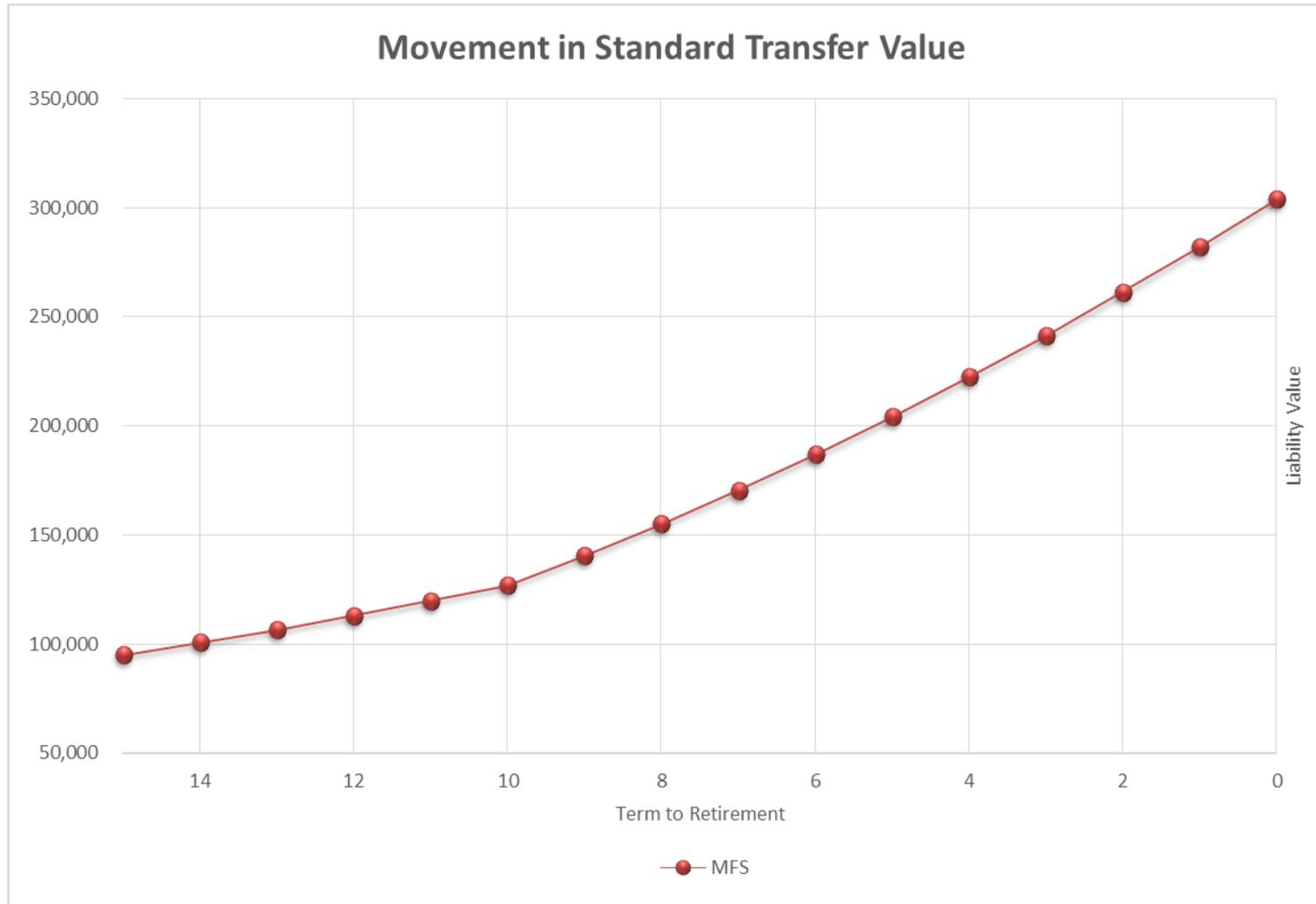
How are Transfer Values calculated

Mathematical formula

- 6.0% discount rate, falling to 4.25% gradually within 10 years of retirement
- Inflation 1.5%
- CSO mortality table
 - Life expectancy Male 65 = 78.5
 - Life expectancy Female = 79.5
- Bond basis 4.25% falling to reflect current market yields within 10 years of retirement

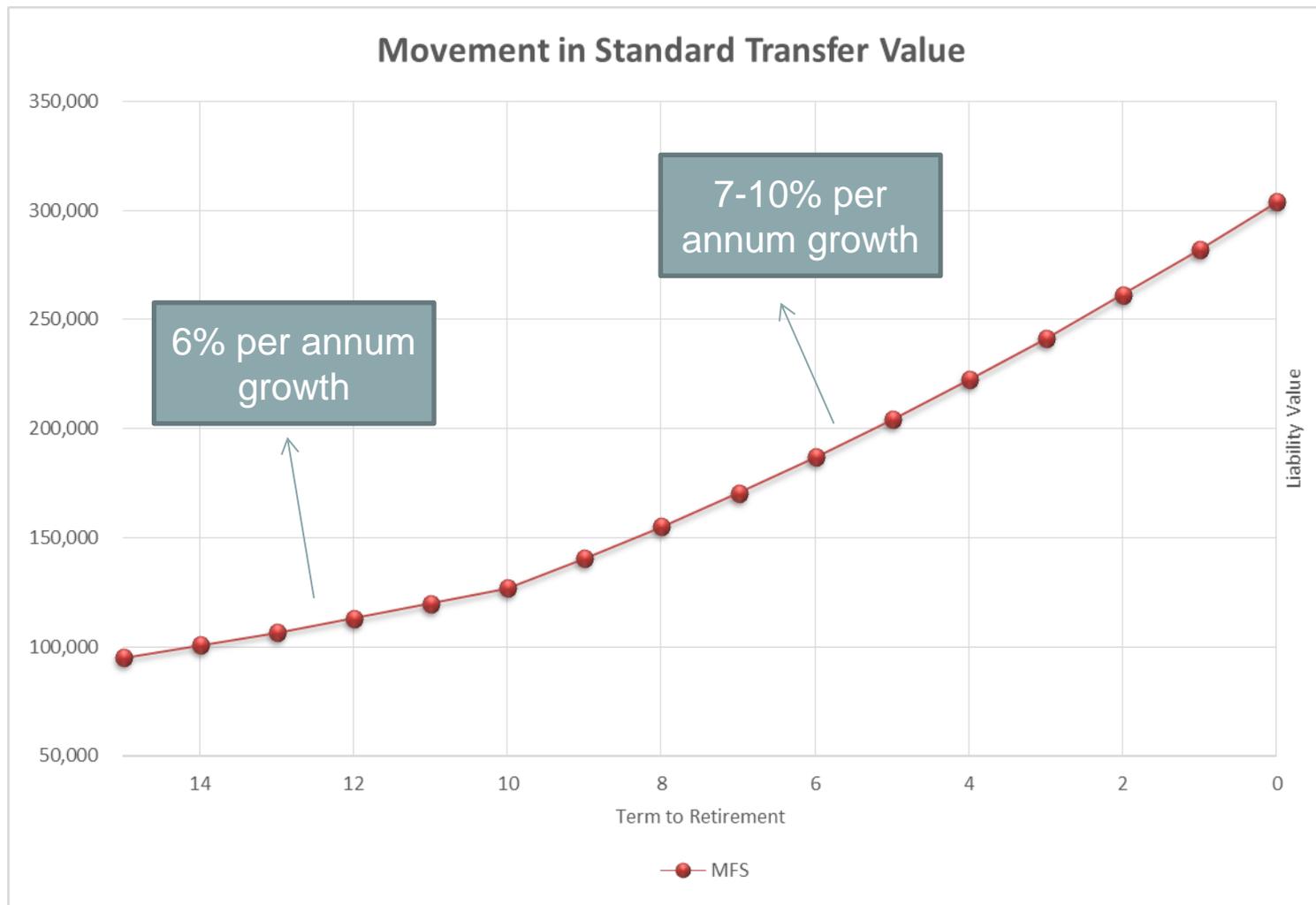
How are Transfer Values Calculated

Unwinding of Transfer Values



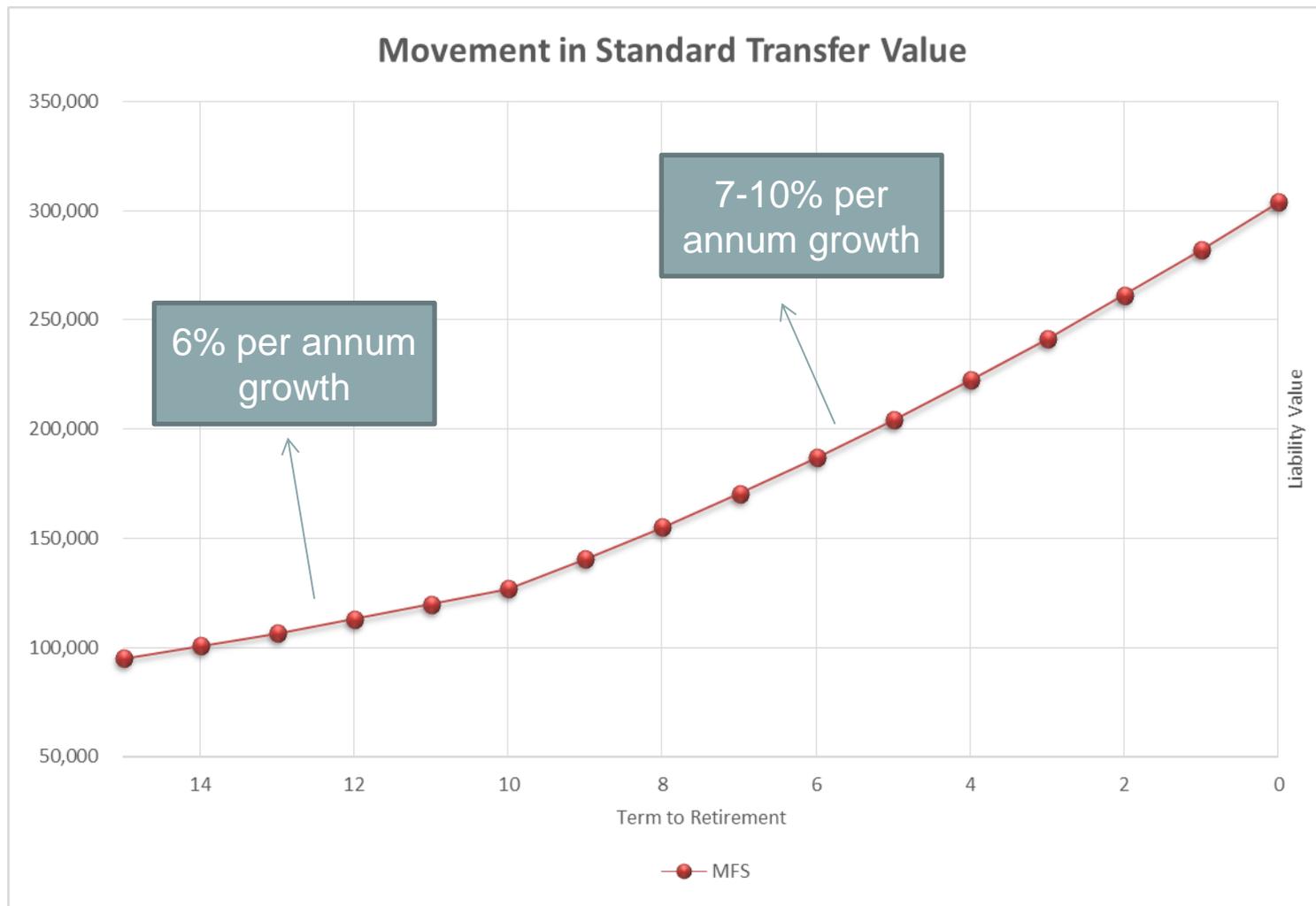
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Unwinding of Transfer Values



How are Transfer Values calculated

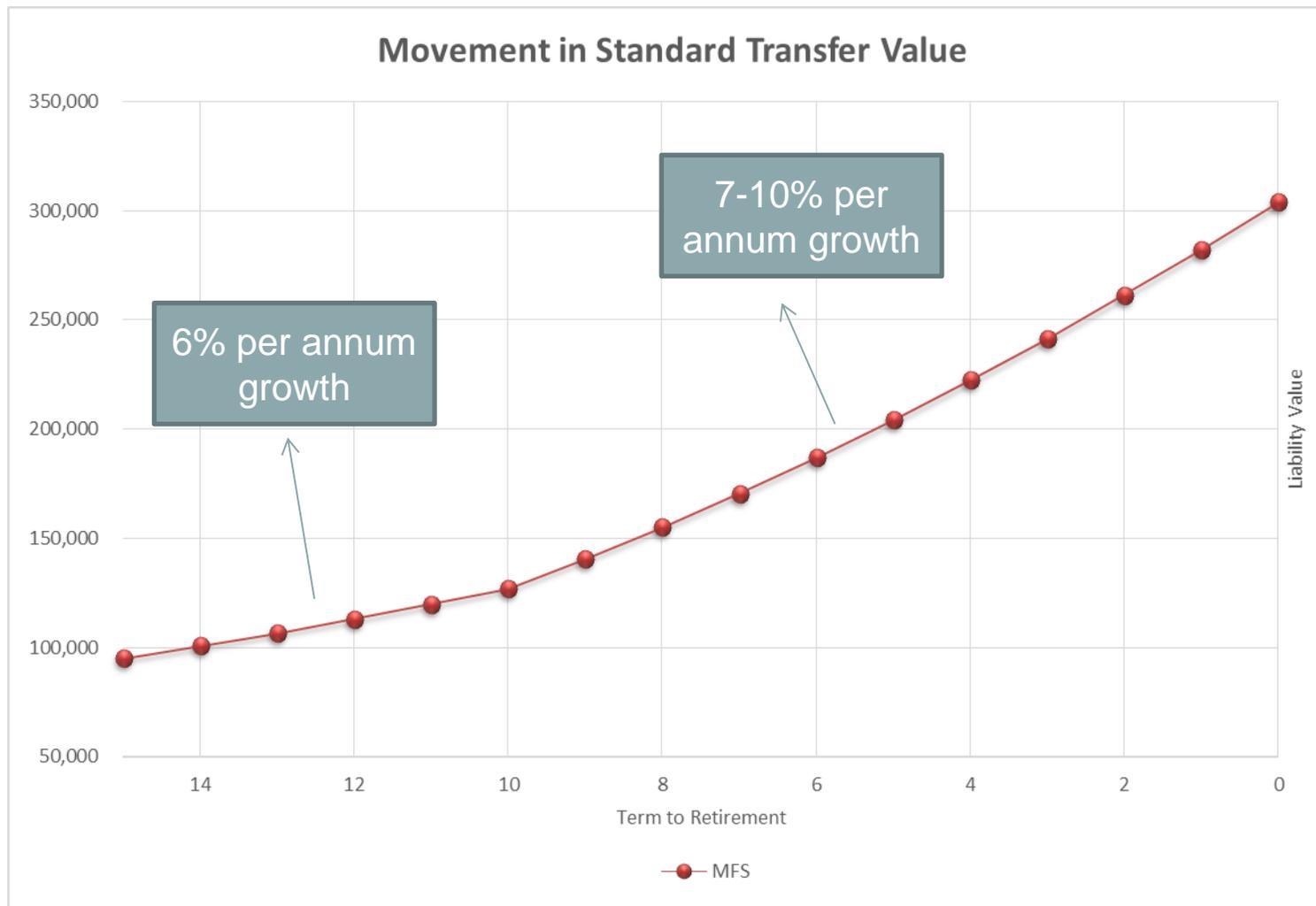
Unwinding of Transfer Values



Transfer values unwind at 6%+, after expenses!

How are Transfer Values calculated

Unwinding of Transfer Values



Question is should I take a transfer NOW!

Return to.... Recent Case study

Financial Advisor asked if member should take TV

- Pension of €35k
 - Transfer of €510k
 - Current Age 55
 - Retirement age 65
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- Expected transfer at age 65 = €1,200k

Question is not....should I transfer to DC?

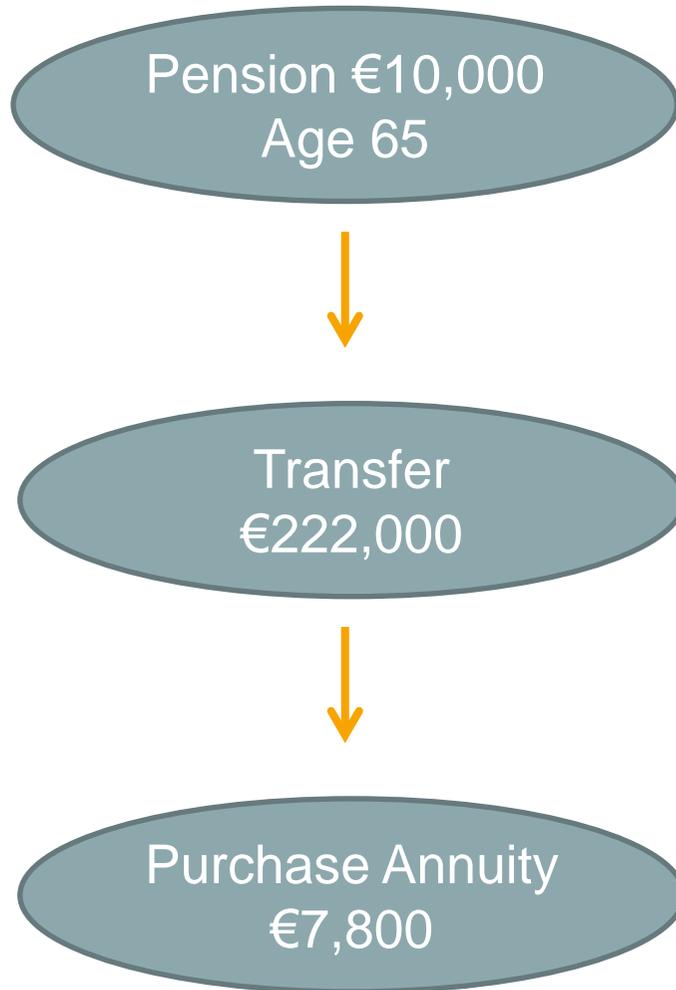
Question is.....**should I transfer to DC now?**



“A lot of the members have transferred out. The FD said the DB scheme was too risky....”

How are Transfer Values calculated

Shortfall at retirement



22% shortfall to cover

- Risk margins
- Profitability
- Administration
- Reserving costs





Additional Risks



Risk considerations

Transfer from DB to DC

- Pre retirement investment risk
 - Depending on TD&R, transfer of risk from Company to Member

- Post retirement investment risk
 - Depending on TD&R, transfer of risk from Company to Member

- Post retirement mortality risk
 - Members can run out of money in their ARF

UK Experience – Pensions mis-selling scandal of 1980's

┌ *Does a TV from DB ever
make sense?*



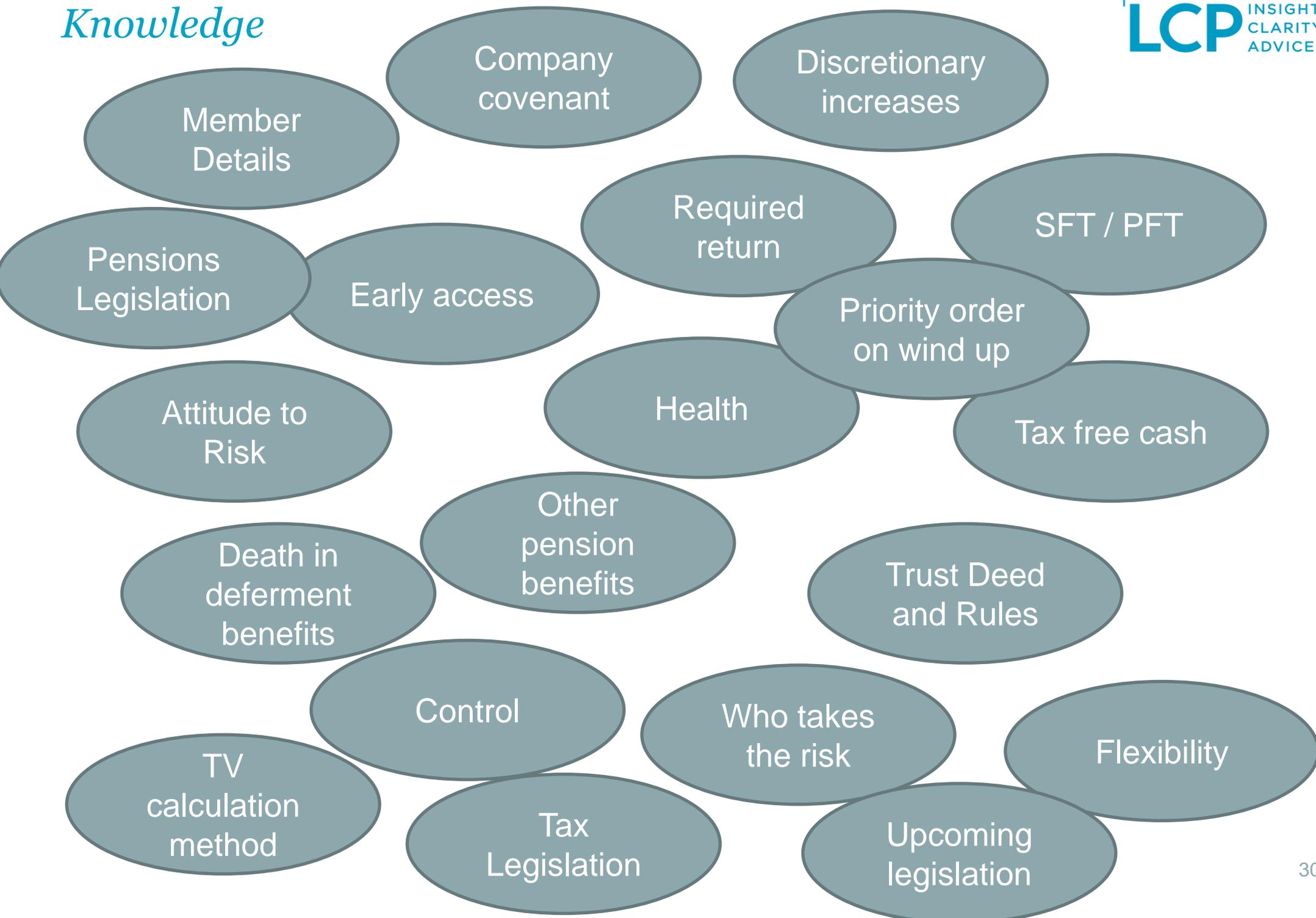
When could it be right to transfer

Transfer from DB to DC

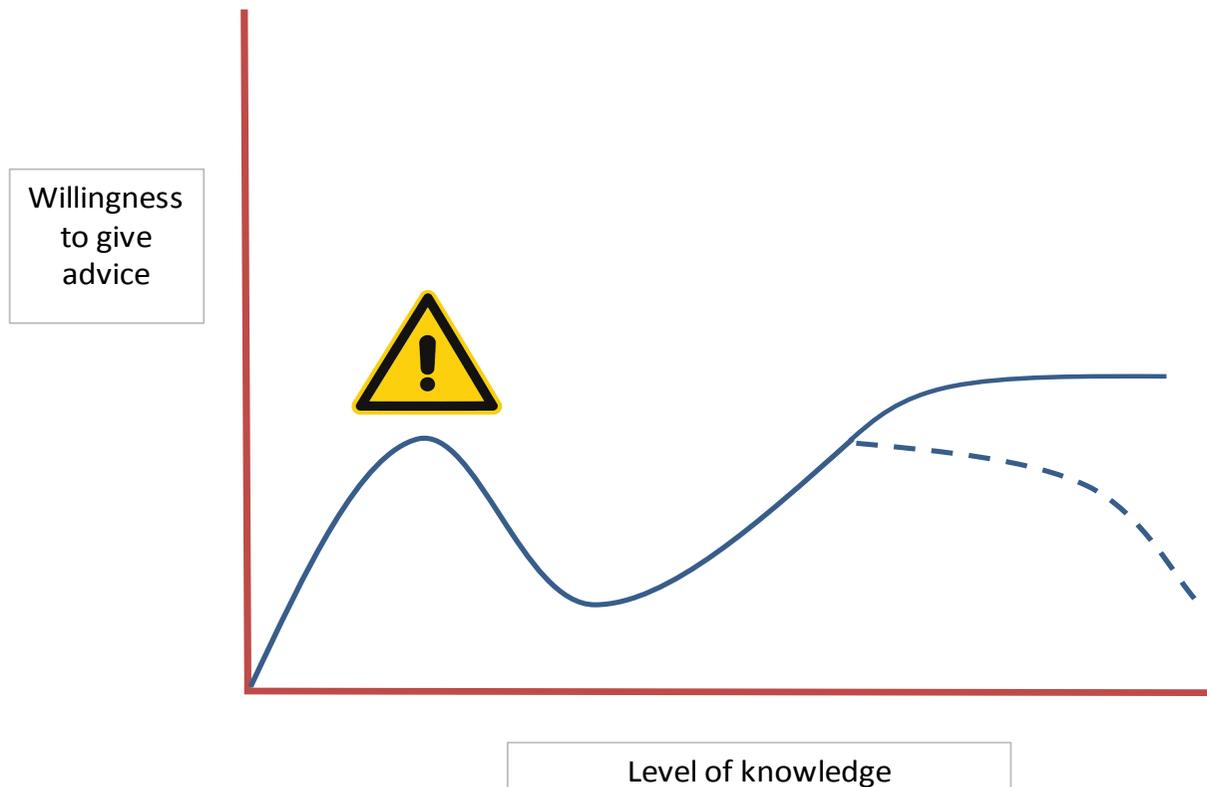
- Require access to funds (early retirement) ✓
- No requirement for pension in retirement ✓
- Inheritance Tax Planning ✓
- Ill health ✓
- Weak covenant and TD&R ✓
- Material one-off uplift provided ✓
- Ability to negotiate uplift ✓

Ensure you engage with DB expert

Knowledge



Take care when giving advice



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