Defined Benefits - Pension Advice

The Financial Conduct Authority (FCA) & Adviser Insurance Position

In early 2018 the FCA stated that they believe that in most client cases then the assumption should be that retaining their Defined Benefit scheme with guarantees, or those with "safeguarded" benefits, is the best advice solution.

The FCA believes that any starting point should be

1. The client outcome at retirement,
2. the objectives of the client overall, and
3. the DB scheme's potential in meeting those objectives or assisting in meeting the outcomes.

The FCA does not like the separation of advice of the 'transfer' from the transfer itself, including any 'investment' in the new pension, as they believe that this results in poor outcomes for clients.

In practice, "signing off" of Defined Benefit pension transfers has led to numerous claims against adviser firms, which has led to the largest Public Indemnity (PI) insurer going into liquidation, and also scrutiny by MPs at parliament throughout 2018 and early 2019.

The FCA has also changed the amount of compensation available through the FOS and implemented full reviews of firms in 2019. This has led to some adviser firms now being refused PI cover and going out of business, along with restrictions in the cover where it is provided.

In 202 it effectively brought in a ban on "insistent" clients and banned charging clients for advice only where they transferred (Contingent charging). They also stipulated that not every case advised by a firm should be recommended to transfer, citing that they anticipated less than 50% of cases should be recommended to transfer. They now seek 6 monthly returns from firms.

Abridged Advice and Contingent Charging Ban

Since the beginning of October 2020 Abridged Advice has been an FCA optional requirement as well as non-contingent charging being required for DB transfer advice. A fixed fee is agreed with the client which must be paid irrespective of whether a transfer proceeds or not:
https://www.handbook.fca.org.uk/handbook/COBS/19/1B.html

Abridged Advice- this is a simple report that covers the main benefits of the scheme and whether-

1. A transfer is clearly not in the clients' best interests, or
2. A more detailed report must be undertaken as it is not clear whether a transfer can be recommended or not.

This initial Abridged Advice report will cost £500 - whatever the conclusion. There is no fee share.

If a further report is required by the client, assuming the advice is not to remain in the scheme, the charge is £2,500. This will be the same, whether the client transfers or not and will be in our terms and conditions that the client must sign.

In the UK, there cannot be an additional charge for implementation. If a non-UK company implements the transfer as a result of a UK FCA registered company giving the advice, the transfer report must refer to the additional charges that may be payable. In other words, the overseas advisers need to stipulate all charges that will apply.

Further, the FCA in December 2020 have questioned the use of insurance bonds within SIPPs and are now carrying out a review on SIPP providers and seek extra justification. IDD is not a justification!

Our Position

Aisa Financial Planning Ltd has the necessary FCA permissions to provide advice to clients with defined benefits (final salary) schemes and those with 'safeguarded' benefits in excess of £30,000.

We follow FCA Best Practice and always strive to achieve positive outcomes for all the clients that we work with. We have always believed that a 'Sign Off' is not in a client's best interests and as such, we do not provide 'Sign Offs'. We do not accept "execution only" or "insistent" clients.

We are a Chartered Financial Planning firm and we see our role as assisting clients to be in the best position they can be through sound advice and long term planning. To achieve this, we work with our clients and guide them where they require our knowledge and expertise.

What we will do

- We will assess the clients' overall position both now and at retirement.
- We will review all the clients' pensions and any Defined Benefit pension and provide an initial Abridged Advice report. If not conclusive, then this will be followed up with a comprehensive Project Report with a analysis, along with a personal recommendation, based on a client's unique circumstances
- If the advice is to transfer and the client decides to follow our advice, we provide an Implementation Report and arrange for the transfer
- We then provide a tailored investment report, with the recommended funds
- We will provide bespoke ongoing investment advice up to and beyond retirement

What we will not do

- We will not do a 'Sign Off' for a client
- We will not 'Sign Off' reports for other adviser firms. We require direct contact with the client at all times.
- We will not recommend any transfer where the client then wishes to invest the funds themselves or appoint a third party to do so, as part of the transfer process * (see below)
- If the recommendation within the Project Report is not to transfer, Aisa Financial Planning will provide no further advice on the matter and will not be party to any subsequent transfer, although we can continue to provide advice on other areas that may be of assistance in meeting your objectives and goals.
- If another UK FCA registered company provides an advice report, and the advice is not to transfer, Aisa Financial Planning will not implement the transfer.

Investment Qualification

All Malta trustees only can take professional investment advice from MiFID regulated individuals (IFPR in the UK). All UK providers (including those in Gibraltar) are being instructed to only take advice from Investment qualified firms. Further, all Pension Transfer Specialists (those who give advice about DB schemes) must hold a regulated and current investment qualification by October 2021 (this was 2020 but has been delayed due to coronavirus).

Therefore, IDD qualification is now banned from later in 2021 as having the ability to provide advice on pensions that have safeguarded benefits, or that end up with SIPP or QROPS.

Our minimum engagement level and Fees

In the light of escalating PI premiums, (ours has increased 5-fold in 2018) the risk to ourselves and concerns over the volume of transfers being advised upon, we have reviewed our service. We will only provide advice on DB transfers if we:

- Have an overall view of client objectives, not just the DB pension transfer aspect.
- Have completed a full review and recommendation
- If appropriate where we have recommended it, implement any transfer

We believe that our service is only suitable to those people with serious intentions and with funds of at least £300,000. Our standard fee is £2,500 for the report and £500 for the abridged advice. If Aisa International arranges the implementation then there is an additional sliding scale percentage of the transfer value if we recommend a transfer for someone living in the EU.

Please note that our PII and the FCA are insisting that we ensure that any initial investments are in line with the risk spectrum of the client. Therefore, we would expect Aisa to be involved in the investment recommendations after implementation for which we charge an ongoing fee.*

*This does not affect clients statutory rights with regard to engagement. It does not stop the investor from disengaging from Aisa Financial Planning and choosing another investment adviser in the future

Further Background and Information

The Defined Benefit Pension advice market is tightening up rapidly, after concerns about the ongoing provision of Professional Indemnity Insurance (PI) cover for adviser firms after experiences of poor pension transfer advice to British Steel Pension members and overseas transfers. Many transfers are being found to be unsuitable https://www.ft.com/content/46ef41b4-fba3-11e7-a492-2c9be7f3120a and the Financial Ombudsman has already taken on large numbers of complaints that, if upheld, will most likely all have to be covered by the PI insurers. The largest PI insurer went into liquidation in 2019 as a result of claims. A further 2 pulled out of the market during 2019-20.

This has led to a dramatic 'tightening' in the PI market, with some insurers raising premiums substantially or not providing cover at all, even if a firm has previously had no complaints or claims. The Personal Finance Society, our professional body has raised concerns about the effect the lack of PI cover will have for those providing advice to DB scheme members
- https://www.moneymarketing.co.uk/pfs-advisers-struggling-get-pi-cover-pension-transfers/

A prime example is here https://corporate-adviser.com/lack-pi-kills-off-om-pension-advice-transfer-arm/. The owner of this firm is a compliance expert, without any previous claims. If PI cover is not available, then the adviser firm can no longer carry on providing advice on pension transfers. If they do, they ***are operating illegally***.

CONCLUSION

We believe that our service is what the FCA is insisting on in their review paper https://www.fca.org.uk/news/press-releases/fca-announces-changes-advice-pension-transfers and that it meets our PI requirements. As a professional company that cares about our clients, we believe this will enable us to continue to offer this valuable service. If you, or your colleagues, are interested in a professional service that has PII cover and future protection from a reputable company then, we would be pleased to assist you.