Freedom and choice in pensions: government decision on private sector defined benefit to defined contribution transfers

Government decision

The government believes it is important that as many people as possible have the freedom to access their pensions in ways which work best for them. It will therefore **continue to allow transfers from private sector defined benefit to defined contribution schemes, excluding pensions already in payment, subject to additional and important safeguards.**

- The government will require every pension scheme member who wishes to transfer out of their defined benefit pension to take advice from a professional financial adviser who is independent from the defined benefit scheme and authorised by the Financial Conduct Authority (FCA).
- The government will issue new guidance to trustees on how to use their existing powers to delay transfers from schemes if the scheme is at risk, and to reduce transfer values to reflect scheme funding level.

The decision to continue to allow transfers is supported by the CBI, ABI, NAPF and the large majority of insurance companies and employer pension funds.

The government intends to consult on whether the requirement to transfer first to defined contribution schemes should be removed for those defined benefit members who wish to take advantage of the new flexibilities.

Impact on defined benefit pensions investment and financial markets

The decision about whether to continue to allow transfers from defined benefit schemes is based on the government being sufficiently confident that it would not entail significant damage to financial markets, investment and the wider economy, through any reduction in demand for corporate bonds, gilts or other assets.

The **government believes that the decision, with the additional safeguards, is justified** because:

- **The amount of defined benefit assets potentially subject to transfers is substantially reduced** by excluding pensions in payment.

- The **proportion of transfers from defined benefit schemes is likely to be low** (the majority of stakeholders estimated between 10% and 20%, with a number expecting transfers to be below 10%) as it is not likely to be in the best interests of most defined benefit pension members to transfer out of their schemes.

- **Transfers out will be spread over a number of years** as the small proportion of those people for whom it is in their best interest to transfer out will, in all likelihood, wait until near retirement to do so.

- **It is expected that there will still be strong continuing demand for high quality fixed income assets, including government and corporate bonds** in the future from defined benefit schemes, even allowing for transfers out, given the significant trend of de-risking by these schemes.