Defined Benefits
Pointers Guide

Following on from our video series, here are some pointers and tips to consider when reviewing defined benefit schemes.

Theme 1
Practical Considerations

- Consider each scheme from a blank slate. Do not carry any previous scheme knowledge forward. Things can, and do, change.
- Risk controls – put these in place at a firm level. Examples are:
  - Maximum Critical Yield
  - Minimum risk tolerance
  - CETV as a maximum percentage of assets
  - Projected income as a maximum percentage of retirement income
- A matrix / combination of these would be most thorough.
- Critical yield, or hurdle rate, or drawdown growth rate? Whichever is most suitable for that particular client.
- Consider age – flexibility is not a true objective if they are 10 years from retirement.

Theme 2
Technical Considerations

- CETV as a multiple of income; we're seeing 20 – 30 x income, and this can help act as a sanity check when reviewing the Critical Yield.
- But look beyond this – if it is 40 x income, look into why?
- Delve into scheme accounts and plans for reducing any deficit
- Do not underestimate PPF, even with its limitations. For some clients, it is an important safety net.
- GMP revaluation; previously state paid pre 88 GMP increases and post 88 increases above 3%. Paid alongside state pension.
- Since flat rate was introduced, they underwent a test on 06/04/16 and this resulted in a protected payment replacing true revaluation.
- Consider lifetime allowance; £20k income will use 40%, but scheme offering £550,000 CETV would use 55%. Consider implications and factor in to advice.

Theme 3
Compliance Considerations

- Be mindful of FCA proposals on DB redress and the change in factors, such as inflation.
- If undertaking a quote to rule out life cover in place of death benefits, agree basis, term, and amount as a firm. And document why.
- Ensure TVAS factors in PCLS (if likely to be taken) and the clients true retirement age (using early or late retirement factors).
- Partial transfers – may not exist, but ask the question.
- Rule out other options, such as workplace and stakeholder pensions.
- There are no Section 32 providers who will accept and protection GMPs. Plus it is still the plan that would have to cover the guarantee.
- PI concerns about the regulator future stance could result in renewal issues.