Smart Pension

Safeguarded benefit

What is a safeguarded benefit?

Any pension benefit that includes some form of guarantee or promise during the 'accumulation' phase (including the rate of pension income that a member (or their survivors) will receive or will have an option to receive).

The following type of pension benefits are classed as a 'safeguarded benefit':

- Defined benefit - Final salary / Career average revalued earnings (CARE)
- Guaranteed minimum pension (GMP)
- Guaranteed pension at retirement
- Guaranteed annuity rate (GAR)

Defined benefit - Final salary / Career average revalued earnings

This secures an eventual pension benefit based on an individual's length of service and measure of salary at the point of retirement.

- **Final salary arrangement -** the member's pension is based on a scheme's definition of final salary at retirement in relation to the agreed accrual rate and their length of service.
- **Career average revalued earnings (CARE) -** the member's pension benefit will be calculated according to average earnings.

In addition to the guaranteed pension benefit, defined benefit pensions ordinarily include:

- an option to exchange some of the pension for a tax-free cash lump sum (up to the maximum allowed)
- some schemes (typically Civil Service/Local Government) provide pension income plus a tax-free cash lump sum
- annual increases to pension income (usually in line with inflation up to a limit)
- a spouse's/survivor's pension

Guaranteed Minimum Pension (GMP)

A guaranteed minimum pension (GMP) is a 'contracted out' benefit that replaces part of that person's State Pension.

This can be an individual's previously accrued GMP benefits in an employer's scheme, where those benefits were subsequently secured by what is known as a 'Section 32' policy. A defined benefit pension may also include an element of GMP benefit.

Guaranteed pension at retirement

This type of policy provides a basic guaranteed pension which is increased by the addition of bonuses up to when the retirement benefit is payable. This is also known as a 'deferred annuity' plan.

Guaranteed annuity rate (GAR)

Under a Guaranteed Annuity Rate (GAR), the current provider offers an annuity using the minimum rate when the policyholder retires (for example, the current provider may offer a GAR of 8% per £1,000 of fund value), which will be lost should the member choose a retirement option other than buying an annuity with their current provider.

Pros and cons of safeguarded benefits

Pros:

- certainty in that the member will receive a guaranteed lifetime pension income
- the pension may benefit from annual inflationary increases
- potential payment of a survivor or spouse's pension if the member dies first
- the scheme / policy provider is responsible for maintaining the promised retirement benefit throughout the member's lifetime
- other death benefits may apply, for example a payment guarantee if the member were to die in the early years of retirement

Cons:

- the pension ends when the member dies or, if applicable, when the member's surviving spouse / partner dies
- inflexibility in that retirement benefits cannot be altered to suit life circumstances
- limited tax planning opportunities

What happens when a safeguarded benefit is transferred out?

Any guaranteed pension benefit associated with the existing scheme/policy will be immediately lost on transfer, as these can only be payable through the originating scheme/arrangement.

The ceding scheme/policy provider will offer a transfer value in exchange for the individual concerned forgoing the existing benefits. By accepting the transfer value, that person will take on the risk of securing future pension benefits, where previously this would have been the responsibility of the ceding scheme/policy provider.

Important information about your intended transfer

A transfer value is offered by the scheme in exchange for potentially giving up any guarantees associated with a safeguarded benefit right. Known as a 'Cash Equivalent Transfer Value' (CETV), this value will be valid for a set period before it expires (usually, three months from the date it is issued by the scheme).

If your intended transfer is not processed before the CETV deadline expires, the value offered by the current scheme will no longer be available to you.

It is your responsibility to ensure all requirements to secure a CETV before its deadline expiry date are satisfied. Smart Pension cannot be held responsible or accept liability, should a CETV deadline be missed and any future value offered to you is lower.

Safeguarded benefit transfer out requirements

If the transfer value is £30,000 or less, you would not be required to seek professional advice from a regulated Financial Adviser. However, Smart Pension strongly recommends members seek professional advice and/or free impartial guidance.

Please note that Smart Pension is unable to give guidance or advice.

If the transfer value is more than £30,000, the government will require members to seek professional advice from a regulated Financial Adviser. A transfer in this instance would not be able to proceed without proof the individual concerned has had this advice.