

# Transferring-out DB Benefits to access a flexible income (drawdown)

If you are a deferred member of the Scheme, you currently have the option of transferring any DB (Defined Benefits) out of the Scheme to another pension arrangement, such as a defined contribution arrangement, where the money can be taken as a flexible (drawdown) income.

This is a complicated topic and you should always take independent financial advice before you transfer - taking independent financial advice before transferring is a legal requirement if your transfer value is £30,000 or more. Neither the Scheme Trustee nor the Company can give you advice, but this factsheet provides a simple summary of some points to be aware of if you are considering a transfer and are looking for a financial adviser.

## What is my transfer value?

Your transfer value is a one-off amount of money paid by the Scheme to another pension arrangement. This is instead of the Scheme paying you the DB pension income (and any associated benefits such as a dependant's pension that may be paid after you die). It's often referred to as a Cash Equivalent Transfer Value (“CETV”).

A calculation is carried out based on:

- The pension you've already built up in the Scheme
- Expected increases to that pension in line with inflation up to your normal pension age
- An estimate of how much cash would be needed at the date of the transfer to provide that pension, after allowing for future investment returns.

The assumptions used are Scheme-based and are updated regularly to reflect current market conditions. Please refer to the “Frequently asked Questions on Transfers out” factsheet for further information.

The transfer value can often look very high in comparison to the annual pension, but there are a number of things to consider before you can decide whether it's a good deal for you and your individual circumstances. The following information is not an exhaustive list, but may be a useful starting point for your considerations and for your discussions with your financial adviser.

## How does a flexible (drawdown) income work?

In summary, a flexible income involves investing your money in a defined contribution arrangement that allows you to draw money out as and when you like, from age 55 onwards. Usually, you can take 25% of your money tax free, either:

- a. As a one-off payment at the beginning. Subsequently, all money drawn out will be subject to income tax;  
OR
- b. Each time you withdraw money, 25% of it will be tax free and the remainder will be subject to income tax.

Unlike a DB pension, or the purchase of lifetime income (known as an annuity) the income isn't guaranteed for life, so this option carries more risk that your money might run out before you die.

More information can be found in the factsheet entitled, "Using your DC Account to provide a flexible income".

## What are the pros and cons of choosing a flexible income compared with receiving my DB Pension from the Scheme?

Potential Pros	Potential Cons
Ability to take your income flexibly	Loss of guaranteed pension income for life for you and your spouse.
Opportunity to re-shape your income	Investment risk and decisions largely fall with the member.
Different death benefits	Cost of transfer advice and, if taken, drawdown advice.
Possibility of more tax free cash in the long term	You could run out of money!
	Lower future tax efficient pension savings limit of £4,000 applies if you withdraw taxable income.

## What are the typical costs associated with a flexible (drawdown) income?

Drawdown charges can vary significantly between different arrangements, but typically fall into the following main categories:

Drawdown charge type	What is it for?
<b>Administration charge</b>	For the provision of the defined contribution arrangement/drawdown facility. Typically an ongoing charge, but initial and exit charges can also apply.
<b>Fund management and investment platform charges</b>	Investments made in drawdown (these normally vary by the type of fund) and if applicable, a platform provider charge (where the investment fund is provided via a platform).
<b>Adviser charges</b>	If you have appointed a financial (or other) adviser to give ongoing advice (see more below).

**It's important to shop around for the best arrangement for your individual circumstances.** As mentioned above, it's recommended you take your own independent financial advice. Here are some examples why:

- The average platform charge for a DC account of £250,000 is 0.34%, but the best platform charge is 0.18% and the worst is 0.50% (based on a survey carried out by James Hay in 2016). For a DC account of £100,000 the platform charge ranges between providers from 0.29% to 0.7%.
- Over time, charges can make a significant difference. The table below shows the total drawdown costs for a DC account of £250,000, based on a survey by "Which?" in 2016, assuming annual drawdown of 6% of the pot and investment growth of 5% a year: (Full details published by [www.sippclub.com](http://www.sippclub.com)).

Drawdown Provider	1 Year Cost	10 Year Cost
A	£1,786	£16,325
B	£2,410	£21,152
C	£2,959	£26,490

The above examples are only illustrative and the Company hasn't independently verified the above information.

## How can I find a financial adviser?

You can find a list of authorised advisers in your area at [www.unbiased.co.uk](http://www.unbiased.co.uk). You can also look up companies and individuals that provide advice at [www.fca.org.uk](http://www.fca.org.uk)

You could ask your adviser the following questions:

1. Are you independent or restricted in which products you can propose?  
- i.e. will they consider all products from the whole financial market or a restricted number of products, such as only those offered by an individual company.
2. What qualifications do you have and can I have a copy of your “Statement of Professional Standing”? – A level 4 Diploma in Financial Planning (DipFP) is the minimum.
3. How will you advise me? - E.g. will it be face to face, by phone/email, will the price differ depending on the method of advice?
4. How much will it cost?

The above questions are non-exhaustive, and you should consider asking other questions which are relevant to your circumstances.

## What are the typical costs of financial advice?

Adviser costs vary but typically can involve initial fees and ongoing reviews / retainer fees if required. Advisers may charge based on a fixed fee, an hourly rate (in which case ensure you ask how long the work is likely to take) or a percentage of the money they are advising on.

Currently, purely as an indication, the typical cost of taking specialist advice on a defined benefit transfer in the UK is £1,500 (taken from [www.unbiased.co.uk/cost-of-financial-advice-guide](http://www.unbiased.co.uk/cost-of-financial-advice-guide).)

The cost of advice to select a drawdown provider and choose investments is often a percentage of the money going into the drawdown product, if you want the advice to be ongoing. However, it is possible to take fixed fee advice which is initial advice only to select the provider and investments on day 1. For information only, this fixed fee service is available from Origen Financial Services (Origen) at a current cost of £1,150.

Origen is the current financial advisory company appointed by BASF plc to provide “At retirement Advice” to Scheme members with a DC Account. Origen would typically charge around £2,000 to give advice on a defined benefit transfer and receiving drawdown product (and investment choices). If you are interested in getting a quote for advice from Origen, you can call 0344 209 3915 or email [basf@origenfs.co.uk](mailto:basf@origenfs.co.uk).

## Next steps

If you're interested in taking forward a transfer of your DB benefits to a flexible (drawdown) income arrangement, you will need to appoint an independent financial adviser and get a transfer value from the Scheme.

1. **How do I get a transfer value?** – You can request a transfer value from the Scheme Administrators free of charge once in any 12-month period. The transfer value is guaranteed for 3 months, so if you are planning to proceed with the transfer you will need to have an adviser ready to provide you with advice. If you require another transfer value within any 12-month period, you will need to pay an administration charge (currently £250).
2. **How do I appoint an adviser?** See above for how to find an adviser and the typical costs. Make sure you ask questions to ensure you understand the service and costs that you will be given. Get quotes from several advisers before you formally sign anything to appoint one.
3. **Where can I get more information?** – You'll find lots more information online at the websites noted in this factsheet and further BASF Pension Scheme information can be found at <http://ukpensions.basf.co.uk>