

FYI[®] Alert

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COVID-19 – Pensions Regulator publishes DB transfers warning

In its latest [guidance](#), published on 29 April, the Regulator focuses on communications to scheme members.

Aimed at trustees and administrators, it stresses the importance of making sure members don't make "hasty decisions, which they later come to regret".

The Regulator is particularly concerned that members might transfer out from defined benefit (DB) arrangements, when it is not in their best interests to do so. It has thus produced a warning letter which trustees and administrators are instructed to send to DB scheme members requesting transfer values.

In this issue: [Background](#) | [Transfers or requests to access benefits](#) | [Stopping contributions and ceasing membership](#) | [Scams](#) | [Comment](#)

Background

Member communications, important even in normal times, assume a greater importance during a crisis. It is all too easy for members to make rash decisions, or to fall prey to criminals, intent on scamming them out of their pension savings.

Since 2015, pensions freedoms have given scheme members more flexibility in how they can access their pension savings. Many have taken advantage of this flexibility to transfer their benefits from DB schemes to defined contribution (DC) arrangements. A percentage of those have come to regret doing so.

The Regulator urges trustees and administrators to keep members informed about the steps they are taking to continue to run their pension schemes, and how members may communicate with them. Where there are delays or disruption to services members should be informed.

Regulator guidance does not, of course, supersede trustees' fiduciary duties, their obligations under the scheme rules, or the law.

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Transfers or requests to access benefits

Where members are seeking to retire other than at their normal retirement date, or where they seek a transfer of their benefits, trustees are told by the Regulator to:

- Provide appropriate warnings of the risks and implications of their chosen option (this is required where members are seeking to access DC benefits).
- Read the guidance from the Financial Conduct Authority (FCA) which can help them to outline the types of risks members should keep in mind.
- Encourage members to take regulated independent financial advice to understand their options.
- Encourage members to ask questions of their financial adviser to identify any increased risks associated with how the member has decided to access their pension funds.
- Highlight the free and impartial pensions guidance offered by Pension Wise, including telephone appointments and online information.

Specific guidance on DB to DC transfers

Additionally, in a DB to DC transfer, trustees and administrators must:

- for the foreseeable future, make sure they issue this letter to all members requesting a CETV quote. It contains important information on points the members should consider before making a decision and where they should go for impartial guidance. It was prepared jointly by the Regulator, the FCA, and the Pensions Advisory Service
- actively monitor the number of requests for CETV quotes they receive, and which advisers are supporting the members' request. If they identify unusual or concerning patterns, such as spikes in CETV requests or the same adviser across a multitude of requests, they should contact the FCA on DBTransferSchemeInformation@fca.org.uk.

Stopping contributions and ceasing membership

The Regulator is concerned that the effects of COVID-19 may result in pension scheme members opting out of membership, and instructs trustees to make such members aware they:

- will lose future employer contributions
- may lose any other benefits that scheme membership provides, such as death in service and survivor benefits
- can contact the Pensions Advisory Service for guidance.

Scams

Recent years have seen a succession of criminals try to scam pension scheme members out of their benefit directly or through investment fraud. The Regulator fears the COVID-19 crisis will lead to a spike in such cases. Trustees and administrators are urged to follow the Pension Scams Industry Group (PSIG) code of good practice, which provides the practical steps for carrying out due diligence and assessing transfer requests. They should also direct savers to the Pensions Advisory Service website for guidance on how COVID-19 may have affected their pensions.

Comment

This is the latest in a series of guides the Regulator has published during the COVID-19 crisis and is unlikely to be the last.

While the Regulator's letter must be sent to those members who request a transfer value going forward, it is hard to see how trustees could justify not also sending it to members who have already requested transfers and whose transfers have not yet been completed.

At a time when many trustees are looking to cut costs and whilst employers are struggling to deal with the economic fallout, the Regulator (for good reason) is introducing further steps into the due diligence process for transfer cases. The Pensions Ombudsman is likely to judge the actions of trustees and administrators, in any subsequent complaint cases, against the higher bar now being set by the Regulator.

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