

Defined Benefit Pension Transfer Information

Key Differences Between Defined Contribution and Defined Benefit Pensions

	Defined Contribution Pensions	Defined Benefit Pensions
Running of scheme	Can be run by an employer or by an individual personally.	Run by an employer.
Tax-free cash entitlement	Usually 25% of the fund can be taken as a tax-free lump sum or 25% of all income can be tax-free.	Usually 25% of the benefits can be taken as a tax-free lump sum.
Income in retirement	Possible to purchase an annuity to guarantee an income for life. Can also use 'flexi-access drawdown' to take any amount of income at any time with complete flexibility.	A guaranteed income is provided, usually rising in line with inflation (or higher).
Investment returns	Based on underlying investments. This means the returns are unknown and are likely to fluctuate. The value of your fund can fall.	All the investment risk is borne by the pension scheme. Your income is guaranteed.
Death benefits	Your spouse, partner or other dependants can access your pension as a lump sum or use it for income.	Most schemes will pay out a reduced spouse/partners pension and some pay a dependents pension. Typically, no lump sum can be passed on.
Ill health benefits	Possible to purchase an 'impaired life annuity' to provide a higher level of guaranteed income or leave your residual pension fund to your beneficiaries.	A reduced spouse/partners pension is usually paid following your death.
Scheme security	Schemes in default covered by the 'Financial Services Compensation Scheme' protecting up to 100% of the value.	Schemes in default are covered by the 'Pension Protection Fund'. This covers 100% of payments for those receiving their pension and up to 90% for those not yet receiving their pension.

Typical Advantages & Disadvantages of Defined Contribution and Defined Benefit Pensions

	Defined Contribution Pensions	Defined Benefit Pensions
Transfer value available to invest		
Guaranteed known income in retirement		
Personal control of pension		
Income escalation in payment		
Flexibility of retirement income		
Spouse/partner pension following death		
Tax-free lump sum available from age 55		
No investment risk		
Death benefit lump sum payable		
Income secured for life		
Ability to pass on retirement fund following death		

This document is intended as information only and should not be inferred as advice. Information provided in this document is generic and may not apply to all defined benefit schemes. Specific information is provided in a full pension review. Should you require more information on defined benefit pensions, the NorthStar defined benefit transfer process and your options, please contact us.