Citywire

Adviser workshop: How to do pension transfers safely

by **William Robins** on May 06, 2010 at 07:00

Financial advisers Peter Chadborn (above), Paul Lothian and Francis Klonowski explain their approaches to pension switching and emphasise the importance of leaving clients' money where it is if you are in any doubt.

Peter Chadborn

Director, CBK Colchester

Do not be guided by what the Financial Services Authority (FSA) says today but what it might demand in five or 10 years' time. The advice we gave 10 years ago is judged by today's standards. You have to read between the lines: when the FSA makes noises about pension switching you can bet there is a feasibility review around the corner.

Make sure the client is receiving communication. If the first letter they receive is about the suitability report, that is too late. On the other hand, don't bamboozle them with information. Ask yourself: is this something that would cause confusion? It is difficult to predict the level of customers' understanding, so assume a low level.

If your firm is not big, check each other's fact finds and suitability reports. If colleagues don't understand something, the client won't and nor will the FSA.

Look at critical yield

We will all inherit new clients who have had advice in the past and have plans but uncertainty over how they came about. And other advisers may be looking at your legacy files. So we look at critical yield and how appropriate that is to a client's risk profile. That is one reason why, when the funds are not held in a Sipp, I would never switch them to another provider if the client's risk profile hadn't changed.

If the client's circumstances change and they need to change the profile of their investments, you would have to go through the whole transfer process again. It may be justified at the time but would have the whiff of churning to the FSA. With a Sipp all you would need to do is reallocate funds.

Recording phone calls is probably a step too far at this point and would make a client nervous.

Paul Lothian

Co-director, Verus Financial Planning

We are very aware of the misselling problems some advisers have had with pension switching and transfers.

You need to make sure you have looked at all the options: market value adjusters, guaranteed annuity rates and other valuable benefits.

Our network [Lighthouse] is now asking every adviser to submit the next three pension switching cases for scrutiny. So right now they will be auditing 100% of cases.

We have a checklist that our clients work through with us that covers exit charges, guarantees and so on, as well as projections from all their existing schemes.

Our network started asking us to do this about a month ago when the FSA published the results of its thematic review and announced fines for advisers. The network is now making its advisers prove their advice could stand up to scrutiny.

Put everything in writing

The most important undertaking is to write to the client confirming everything you have discussed in meetings and agreed on. It is vitally important to agree with the client what you have said to them.

You must also spell out the reasons for switching their pension.

We didn't always do everything that the network now expects of us, which we are now compelled to do. The professional compliance people at the network have their reasons and we would have had to arrange compliance support and make those calls ourselves otherwise.

Francis Klonowski

Principal, Klonowski and Co

The most important thing is to work out what a client's needs are at the start.

There seems to be a lot of talk about tidying up, but I think any switch should be led by the results from a financial plan, rather than tidiness.

So I look to see what people need in retirement and then see if the existing arrangements are sufficient or if the present arrangements will not satisfy those requirements.

I would never transfer pensions just to change providers. I think if a client wants to consolidate their pots then they should move their funds into a Sipp or a similar vehicle.

My issue with moving to different providers is: if the providers clients have been with collectively until now have not performed well enough for them in the past, why would a new provider perform better in the future?

Sipps have advantages

With a Sipp – all things being equal in terms of transfer costs – then at least the client can change the investments within it and you haven't locked them into something that is not performing for them.

I think Sipps are usually less costly to transfer partly because, in my experience, the providers are more flexible, and in the past I have been able to renegotiate costs when a client's circumstances have changed.

The highest number of pension pots I have dealt with at one time was eight. It was complex. But if I wanted to switch these, I would have to go into each one and find out what investments were in them and find out what exposures they have.

Chris F

May 06, 2010 at 17:05

SIPPs should only be used if investments are needed that warrant a SIPP - not to buy collectives.

I'm not going to join the dots here and if you disagree, perhaps your research is flawed...

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Andrew Moreton

May 07, 2010 at 09:50

A SIPP might be cheaper...

A SHP/PPP may not have the required collective...

"your research"? Who's...

The distinction between SIPP and PPP is anachronistic and will disappear in due course.

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