Video 3 – Getting to know you

Welcome to the third of our series of videos looking at our expectations of financial advisers when they provide pension transfer advice, such as leaving a defined benefit scheme.

In the last video, we looked at the information advisers must give you before you commit to taking advice - the next part of the advice process is called 'know your client' or factfinding. Now this is arguably the most important part of the process, as an adviser should be asking lots of questions around your specific personal and financial circumstances.

Your answers to these questions will help them judge whether it's suitable for you to leave your DB pension scheme.

The approach I would like to take here is to highlight some of the key areas you should be asked about. Now obviously the answers to these questions will be personal to you but if you've already taken advice, consider if you were asked about these areas and the answers that you gave.

We can split factfinding into 3 broad areas:

- personal circumstances
- risk profile
- objectives and needs

Let's start with personal circumstances. In general terms, you should be asked for details about the following:

- marital status / family details
- health
- your knowledge of the risks and benefits of different types of pension schemes
- your knowledge and experience of investing money
- tax position both now and what it might be in retirement

- income/expenditure – not just what they are at the moment but what they both might look like in retirement
- other pension plans you have including state pension entitlement, or dependency on state benefits
- other assets you can use in retirement
- any liabilities, such as outstanding loans or debt
- planned retirement date

Now this list isn't exhaustive, but this basic level of information should be obtained by the adviser and, where appropriate, explored further.

So, for example, if you have indicated you have some health issues, then the adviser should be asking for more detail on the extent of that issue. Or if you have joint finances with a partner, they should be asking about your partner's pension entitlements.

Also, as part of the factfinding process, the adviser should discuss how you feel about taking risk.

There should be a discussion on this, or you might be asked to fill in a questionnaire to inform that discussion.

As a result of this exercise, the adviser should establish a number of things, such as:

- the relative importance of having an employer scheme, providing a guaranteed lifetime income which usually increases with inflation each year compared to the uncertainty associated with a flexible benefits scheme
- They should also establish how you would feel about running out of pension money in your lifetime – this could happen if you were to transfer
- How do you feel generally about giving up a guaranteed lifetime income for benefits which are flexible and not guaranteed, meaning you might have to be prepared to accept a reduced lifestyle in retirement
- How do you feel about having to manage your money yourself or paying for it to be managed throughout retirement
- If you were to transfer, how much risk do you **want** to take - in other words how do you feel about investing your money into something where

there may be financial gain but there is also a chance you may lose some or all of your pension fund.

- But it’s not just about how you feel. How much risk are you financially able to take? So, for example, could you still pay your bills in retirement if you lost some or all of your pension fund?

- And what about the level of risk you need to take? You may have certain goals or plans for retirement that can only be achieved if you invest your money in a certain way or if you keep your employer’s scheme.

Finally, as part of the factfinding exercise, the adviser should establish your needs and objectives for your retirement.

The aim of establishing your needs and objectives is to understand what your priorities are and what your plans are for the future. So not only how much you need to pay the bills but the type of lifestyle you are hoping for, the extras you’d like to be able to afford.

It’s unusual, but some people’s needs and objectives may be perfectly aligned – so what they want to do is also what they need to do. But that is unusual.

On most occasions, there will be some differences between the two, and that’s where the financial adviser comes in. We would expect the adviser to accurately identify your needs alongside your objectives, prioritise each element and build their recommendation around that.

So, for example, you might want more control over your pension money or want to be able to get your hands on your pension money earlier.

Nothing wrong with that but we would expect an adviser to use their expertise to explore why more control or earlier access is important to you, and weigh up the pros and cons to see how achievable that is, given you still need to pay bills in retirement.

To give you some examples of the needs we would expect an adviser to take into account:

- Income – how much income do you need throughout retirement?

- Liabilities – what about bills, rent, mortgage, council tax, gas/electricity, food bills, unexpected repairs etc?

- Lifestyle – how much income do you want for entertainment, holidays, new cars etc?

- Dependants – self-explanatory, do you need to make any provision for dependants when you retire and how would they prefer to receive that money, for example as a pension or a lump sum?

- Timing – when can and when do you need to access your pension money?

So, to summarise factfinding, we would expect a financial adviser to pull all of this information together around your personal circumstances, your attitude to the different risks, and your needs and objectives before they establish the most beneficial outcome for you.