

# Defined Benefit Pension Schemes

## Stick or Twist??



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## Defined Benefit Pension Schemes – Stick or Twist??

Defined Benefit (DB) Pension schemes are fast becoming a foot note in the financial history books. Once considered the Rolls Royce of pensions, over the past 25 years the number of DB schemes has dwindled from over 22,000 back in 1996 to a little over 600 today. Of the schemes still in force, 75% are closed to new entrants and 25% do not meet the required funding standard\*

*(\*IAPF 2018 survey on Defined Benefit (DB) pension schemes in Ireland)*

Many companies operating DB Schemes are seeking to reduce their obligations & liabilities and so are offering enhanced transfer values to their scheme members - ***But what is the right thing to do?***

### What is a Defined Benefit Pension Scheme?

In essence a Defined Benefit Pension is a 'promise' by your employer to pay you an income in retirement based on your salary when finishing and the length of time you were a member of their pension scheme.

Once believed to offer security and certainty of income in retirement, this image has been hugely damaged in recent years with so many employers closing their schemes and high-profile cases (Waterford Wedgewood) being reported in the media.

### So, what went wrong?

In simple terms - cost. People are living longer; lower interest rates and a stricter regulatory environment have all impacted employers' ability to keep their DB schemes funded.

Defined Contribution schemes, where the employer makes a payment each month on your behalf to a scheme held with a Life Company or Pension Provider are far more manageable and cost effective for employers and as such have become the new norm.

### What should you do if you are invested in a DB Scheme?

You may have the choice to take a transfer payment to another scheme (DC), or to a Buy Out Bond, or to leave your entitlement in the DB scheme ( Deferred Benefit). This is an important decision influenced by many factors both personal and circumstantial.

Have you retired? Taken early retirement? Not yet 60... waiting to avail of the scheme final salary options? Have you considered your options?

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Have you left the Company... moved to another Company or set up your own business? Have you looked at your DB pension and possible options?

**When making your decision you should ask the following questions:**

- Is the DB plan fully funded or could the funding position deteriorate?
- How strong is the sponsoring employer, will they make contributions to make up a funding gap?
- Are you happy with an I.O.U.?
- Does the transfer payment properly reflect the cost of the pension you are giving up?
- Is there an enhanced transfer payment from the DB scheme to encourage transfers?
- Are there any alternative solutions to the DB scheme that better suits your needs?
- Are you willing to take on the investment risk?
- What are your priorities – potentially the security of income over the long term or the value of your assets to your estate?

At Seaspray Private we have a team of Trusted Advisors with extensive knowledge and expertise to guide you through the many questions, options, and possible solutions.

If we can help in any way, please feel free to contact any member of the team shown in this website article.