

Early exit pension product charges capped at 1%

Since 31 March 2017, product exit charges for existing members of personal and stakeholder pension schemes have been capped at 1% by the Financial Conduct Authority (FCA). This was introduced so individuals were not penalised if they wanted to move their assets, for example to access the flexibility introduced by the pension freedoms that aren't available with their current provider.

The change in rules explained

- The charge is capped at 1% of the value of the member's benefits being taken, converted or transferred from a scheme
- It cannot be increased by schemes that had exit penalties of less than 1%
- Applies after normal pension age (i.e. 55) but before expected retirement date
- Applicable to contract-based personal pensions (including workplace personal pensions) and stakeholder schemes. The Department for Work and Pensions (DWP) extended the regime to occupational pension schemes from 1 October 2017.
- Other charges, for example with profit Market Value Adjustments (MVAs) and dilution adjustments, are excluded from the definition of early exit charges
- Fees for entering into decumulation, i.e. drawdown, are not considered early exit charges

The opportunities for you and your clients

Pension schemes or individual pension products that do not have the flexibility built in to take advantage of the pension freedoms are normally old legacy pension products or employer based occupational schemes, which may have other disadvantages such as:

- Limited investment options (both funds and assets such as Exchange Traded Investments)
- Model portfolios unavailable
- Higher charging structures
- Cannot facilitate adviser fees
- Limited online access
- Paperwork still needs to be completed

Since the early exit fees cap was introduced a number of providers have either revised their charges or scrapped them altogether, which can allow clients to move their assets to a solution which may better fit with their requirements for retirement planning.

Why not take a look at our Pension, which is a modern, flexible and cost-effective solution and has become increasingly popular for pension transfers since its launch. We are members of Origo, which may assist in moving clients' assets in a more efficient way. The value of investments and the income from them can go down as well as up and clients may get back less than they invest. Tax treatment depends on individual circumstances and all tax rules may change in the future.

For more information visit fundsnetwork.co.uk/pension.

To read the FCA's full policy statement (PS16/24) visit fca.org.uk

