The end of contingent charging and what it means for me

From the 1st October 2020 financial advisors will no longer be able to use contingent charging when they advise on defined benefit (DB) pension transfers.

What is contingent charging and why has it been stopped?

Contingent charging is a way of advisors being paid following the transfer of a client's DB pension. It means that the financial advisor is only paid if the transfer goes ahead and it means you don't have to pay for sometimes expensive financial advice up front. However, in some cases, to ensure they are paid, it can mean that financial advisors encourage you to transfer your DB pension even though it is not in your best interests. This could put your DB pension benefits at risk.

The Financial Conduct Authority believes that too many financial advisors are encouraging transfers that might not be the best choice for their clients. This is why they have decided to ban contingent charging (in most cases) from 1st October 2020. The two exceptions to this are if you are in ill health and have a shortened life expectancy or if you are facing serious financial hardship. More details on these exceptions which are known as 'carve-outs' can be found here. (See section 2.19 of page 18).

What does this mean for me?

Because contingent charging ends on 1st October this year, there is now a period of time when people with DB pension benefits could be encouraged to make financial decisions quickly in order to use the contingent charging system. This may leave DB members susceptible to pension scams.

The FCA's ScamSmart website has a tool to help you check if an investment or pension opportunity is a scam, along with lots of information on how to protect your investments and how to report a suspected scam.