City Trustees
PART OF MATTIOLI WOODS PLC

Transfers
Guidance booklet

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TRANSFERS

INTRODUCTION

Pension transfer advice is a necessity because making the wrong decision could affect you after retirement. On the surface, it is a basic process involving switching/transferring money from one pension scheme to another; however, there are many variables which you need to take into consideration.

Your consultant/financial adviser will be able to provide clear, informed advice based on your own unique circumstances, to allow you to find out more about the options available.

There are many reasons why you would consider a pension transfer. One of the main reasons is to consolidate your pension pots and to make your investment options more flexible.

Generally speaking, most occupational pension and personal pensions can be transferred, although this is not always the case for public sector pension schemes.

Due to the complexity of pension transfers, anyone considering a transfer should seek professional advice. This booklet is for guidance only and should in no way constitute advice. In all cases you must refer to your consultant/financial adviser before commencing with any pension scheme transfers.

WHAT IS A PENSION TRANSFER?

A pension transfer is a transaction resulting from the decision of a member of a pension scheme to transfer existing accrued benefits from:

- an occupational pension scheme;
- an individual pension contract, providing fixed or guaranteed benefits; or
- a stakeholder pension scheme or personal pension scheme

to:

- an occupational scheme;
- a stakeholder pension scheme;
- a personal pension scheme; or
- a deferred annuity policy

A pension transfer is made by transferring the invested funds from one pension scheme to another. Pension transfers are normally made to improve fund performance and/or reduce fees and charges.

WHY TRANSFER?

Each member has different circumstances; what might benefit one member, might not be beneficial for another. There are situations where it may make financial sense to transfer to a new or different scheme:

- your existing company scheme is being wound up
- you have a personal pension plan that has high fees
- you have lots of small pots and would like to amalgamate them into one
- your investment choice is restricted in your current scheme
- your options on drawing benefits are restricted

In all circumstances you must obtain regulated professional advice. Pension transfer advice will encompass all elements of the transfer, from choosing suitable products to the way in which your tax situation may be affected.

PENSION SCAMS

Pension scammers are after your pension pot and active in the pension market. They try and tempt you with promises of one off investments, pension loans or up front cash, most of which are bogus. More information on pension scams can be found at www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx

DEFINED BENEFIT PENSION SCHEME

(Sometimes referred to as final salary schemes)

Defined benefit pension schemes guarantee to pay you a pension based on your salary and the number of years you have belonged to the scheme.

If you leave your benefits in the scheme, your leaving service benefits will be increased to keep pace with the rate of inflation. Should the company sponsoring the scheme fail, your promised pension may be reduced.

Transferring out of a defined benefit scheme means that you surrender a promised payment in retirement for the prospect of an investment-linked lump sum and income. The amount you get to invest in the new scheme is a transfer value (known as the cash equivalent transfer value, or CETV), the value of which is calculated by the ceding scheme's actuary.

Because you are taking an investment risk and giving up a 'pension promise' underwritten by the old scheme, switching out of a defined benefit scheme into a defined contribution scheme is generally not advised.

COMMENT

Regulated pension transfer advice is a necessity because making the wrong decision could affect you after retirement.

DEFINED CONTRIBUTION PENSION SCHEME

(Sometimes referred to as money purchase schemes)

Transferring from an occupational defined contribution scheme or personal pension is far simpler, as you have accumulated an individual pension pot and can simply invest this elsewhere when you leave the existing employer.

TRANSFERRING YOUR COMPANY PENSION

If you leave your employer before reaching normal retirement age, you can either leave your pension savings invested or transfer them to another scheme. There are pros and cons to consider carefully before making any decision.

Before you decide whether to transfer, you need to find out about the benefits provided by your former employer's pension scheme. This will depend on what type of scheme it is.

DEFINED BENEFIT AND DEFINED CONTRIBUTION SCHEMES

The process of transferring a pension is slightly different for final salary and defined contribution schemes. For final salary schemes the administrators will provide a transfer value, which is guaranteed for three months, if you plan to transfer you must confirm this in writing within the three months. The administrator will then process your transfer which could take up to a further three months. If you are 12 months from retirement you have no legal right to transfer.

For defined contribution schemes the scheme administrator will provide a transfer value, based on the current value of your pension pot. A transfer of a defined contribution scheme is not guaranteed and could fluctuate depending on the markets. The administrator should process the transfer within six months of receipt of your request.

PERSONAL PENSION

You may have a personal pension that is held in under-performing funds, with companies who are no longer open to new business. In addition, pension charging structures have changed dramatically over the last few years. Many individuals now find themselves with outdated, overpriced pension contracts. If you are considering transferring your pension away from your current provider, the main factors you have to consider are the possible benefits of transferring i.e. greater investment choice and/or lower overall charges. However, you should take into consideration any penalties on transfer as these can sometimes be substantial.

The easiest way to make a charge comparison is by looking at the current valuation and transfer value of your existing policy. Along with a pension projection, this will allow you to make a comparison with your proposed new pension contract.

KEY AREAS TO CONSIDER

There are certain key areas that need to be considered prior to transfer, these are listed below. Some are covered in more detail within this guidance:

- protected lump sums
- protected minimum pension age
- guaranteed annuity rates (GAR)
- guaranteed minimum pension (GMP)
- death benefits provided
- costs and/or penalties
- transfer analysis
- investment risk
- lifetime allowance protection status

Protected pension commencement lump sums

A protected lump sum applies automatically to any occupational scheme which had an entitlement at 5 April 2006 of more than 25% of its fund. Protection is given on the basis that all benefits under the scheme come into payment at the same time.

As this protection is scheme specific on transfer of benefits out of the original scheme, you would lose the protection; unless the transfer is part of a block transfer (see next page).

Protected minimum pension age

The earliest age at which a member of a UK-registered pension scheme can retire is 55. This age is known as the normal minimum pension age.

Subject to two exceptions, a pension scheme that pays benefits before the member reaches the minimum pension age of 55, will be classed as making an unauthorised payment and be subject to tax charges on the member and the scheme.

COMMENT

There are certain key areas that need to be considered prior to transfer.

The two exceptions are:

1. **Ill-health pension.** If members meet the ill-health condition, they can receive early payment of their pensions, whether or not they have reached the minimum pension age.
2. **Protected pension ages.** Members who had a right (includes a prospective right) on 5 April 2006 to take their pensions earlier than 55 are entitled to exercise that right, subject to certain conditions (please refer to your consultant/financial adviser).

A member who has a protected pension age can keep this protection if he or she transfers to another registered pension scheme under a block transfer, provided certain conditions are met (see below).

Guaranteed annuity rates (GAR)

A GAR is a fixed rate, written into your pension contract, at which you can convert your fund into an annuity, irrespective of what open market rates are doing at that time. There are normally some conditions written into the application of the GAR. It is usually only available at the scheme's selected retirement age i.e. it will not apply if you retire early or if you retire late. It will normally only provide an annuity on your own life and often will not provide for post-retirement increases.

The attraction and value of the GAR is that it can produce a pension for life that is higher than anything you can get by applying your fund to buy an annuity from any other insurance company at the time you retire.

The downside is the restrictions that may apply and highlighted above, e.g. based only on your life, applied at your selected retirement age etc.

Where you have a scheme that offers GAR, you will generally lose this right on transfer.

As average rates have fallen considerably in recent years (from 15% in the early 1990s to 6% in 2010), you could lose out by giving this up, before transferring you will need to check for a GAR and compare this with what might be achieved today.

Guaranteed minimum pension (GMP)

When the state earnings-related pension scheme (SERPS) was introduced in 1978 the Government allowed employees to contract-out of this scheme, provided contributions were instead paid to a suitable arrangement.

In order to contract-out, final salary schemes originally had to provide a guaranteed minimum pension (GMP) broadly equivalent to the SERPS entitlement that was given up. In 1997 members of contracted-out final salary schemes ceased accruing GMPs, but any GMP accrued prior to that date was retained, and from 1997 rules apply preventing a pension being reduced below a requisite amount.

Death benefits

You will need to consider the death benefits payable from each scheme, as a final salary scheme will have different death benefits, than a money purchase scheme. Your consultant/financial adviser will give consideration to your own individual circumstances to evaluate which is the best option for your needs.

Costs and penalties

Depending on the type of scheme and/or the provider, there may be charges applied on transfer.

Most occupational schemes will allow you to transfer without a charge, but some personal pensions have exit fees as high as 10%. You will need to check this carefully before transferring.

You will need to check the annual charge your current scheme is making and compare these with the charges in the proposed new scheme.

Transfer analysis

Before looking to transfer benefits from a final salary scheme, your consultant/financial adviser should look at the transfer analysis. This is a computerised calculation that allows a comparison of the frozen benefits, with alternatives. This will also give a critical yield, which indicates at what rate an alternative scheme will have to grow to match the benefits in your old pension investment risk.

Investment risk

The new scheme might not have the same fund choices that your old scheme offered. Conversely, a wider range of investment options might be the reason for you to decide to transfer.

With the majority of investments comes risk; your attitude to risk will need to be assessed before transferring, to ensure that you are comfortable with any potential investment risk on transfer.

Lifetime allowance protection status

Where a member holds a protection certificate to protect their fund against the lifetime allowance, this will not be lost if the transfer is a permitted transfer.

Your consultant/financial adviser will advise as to whether the transfer would be classed as a permitted transfer.

TRANSFERS IN DRAWDOWN

Where you have started to take benefits from your pension arrangement, there is a requirement to transfer the whole of the pension pot. We are unable to proceed with partial transfers of pensions in drawdown, whether in or out of a scheme.

TRANSFERS IN SPECIE

A transfer in specie involves the transfer of assets as they are i.e. you do not have to cash in the assets when transferring to another pension scheme. The asset will be re-registered in the name of the trustees.

BLOCK TRANSFERS

A block transfer involves the transfer of two or more people who have the same type of pension plan transferring to a new scheme. To qualify for a block transfer the following conditions must be met:

a) Transfer must be a single transaction, for the member plus at least one other member of the same scheme.

b) The transfer must go to the same scheme for all members; a Section 32 policy cannot make or receive block transfers (unless it is a bulk Section 32 policy used in wind-ups to receive transfers).

c) Receiving scheme must be a registered pension scheme.

d) Individuals cannot have previously been a member of the receiving scheme for more than 12 months.

e) The receiving scheme for the transfer is treated as being the original protected pension scheme.

So long as it is a block transfer, the receiving scheme is treated as though it were the original pension scheme, which means the member continues to have protected lump sums, or protected pension age.

PENSION SHARING ON DIVORCE

Where a pension sharing order has been effected and the receiving spouse 'transfers' these benefits, this may or may not come under the pension transfer definition. If the rules of the scheme where the benefits are coming from will not allow the receiving spouse to be a member of the scheme and there is no choice but to 'transfer', this would, therefore, not constitute a pension transfer. However, where the spouse can become a member and subsequently transfers to another scheme, this would be deemed to be a pension transfer.

OPTING OUT

If your pension benefits are as a result of your current employment, a transfer may result in a loss of employer contributions and possibly other ancillary benefits. You should check your benefits before opting out and transferring from your current scheme.

SUMMARY

As you can see there are many variables involved in the decision to transfer your existing pension contracts, and what might be right for one person might not be right for another. It is important that your circumstances and each policy are reviewed in detail before a decision is made.

The guidance booklet is to give you a general overview of the different areas that need to be considered before proceeding with a transfer of any existing pension arrangement. In all cases you should look to seek regulated professional guidance from your consultant/financial adviser before any decision is made.

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