

June 2007

Our **MONEY**madeclear guides –
here to help you

This guide is part of our **Pensions and retirement series.**



Available from our Consumer Helpline or website
www.moneymadeclear.fsa.gov.uk

No selling. No jargon. Just the facts.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.



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**No selling.
No jargon.**

**Just the facts
about pension
transfers.**

**The risks of salary-related
occupational pension transfers**

MONEYmadeclear
from the UK's financial watchdog (FSA)

With our **MONEY** made clear range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

Just the facts about pension transfers.

The risks of salary-related occupational pension transfers



The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights.

Remember, this is general information and isn't the same as getting financial or other professional advice. For advice based on your own circumstances, talk to a professional adviser.

This guide is for you if

You have

benefits in a salary-related occupational pension; and

You want

to know your options if you decide to leave it, or if it is closed or wound up.

It's about transferring benefits from a salary-related occupational pension and:

- explains the most important things to consider; and
- answers some of the questions you may have.

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How salary-related pension transfers work

This guide is *not* for you if you're a member of:

- an occupational money purchase scheme (defined contribution scheme);
- a Group Personal Pension scheme (GPP), under which each employee has their own personal pension; or
- a stakeholder pension.

If you're not sure which type of pension scheme you belong to, check with your personnel department or pension scheme administrator.

A pension transfer from a salary-related (defined-benefit) pension scheme means giving up your benefits in the scheme in return for a cash value, which you must then invest in another pension scheme.

This may be a pension scheme with another employer; a personal or stakeholder pension; or a buy-out contract.

See the *Jargon buster* on page 15 for an explanation of some words you may come across.

If you decide to transfer, your employer must first convert the benefits you have built up in the pension scheme into a monetary value, called a **cash-equivalent transfer value**.

You must then invest the transfer value in another scheme or plan or use it to purchase a buy-out contract.

A buy-out contract (also sometimes called a section 32 contract) is an individual insurance policy that will provide pension benefits to you in the future. The benefits you receive may depend on the performance of the investments in the policy.

Not all employer pension schemes or buy-out contracts accept transfers, so check first.

Key points

With a salary-related pension transfer – you:

- get a transfer value from your pension scheme;
- invest the transfer value in a new scheme; and
- cannot usually take the transfer value as cash.

The main advantages of salary-related pension schemes

These schemes aim to pay you a pension based on:

- the number of years you have belonged to the scheme (pensionable service);
- your earnings that your pension scheme benefits or contributions, or both, are calculated on (pensionable earnings);
- the proportion of those earnings you receive as a pension for each year of membership (the accrual rate).

The schemes provide some protection against inflation. This protection starts on the date you leave the scheme and therefore stop building up benefits, until your retirement (and in many cases continues after you retire).

Even if you're no longer building up benefits in the scheme, you will often be entitled to more than just a pension when you retire.

Benefits vary between schemes but the package may include some or all of the following:

- a tax-free lump sum (taken from your pension fund) paid to you when you retire;
- a pension when you retire;
- an increase every year once you start to receive the pension;

- the possibility of retiring early, but on a reduced pension;
- a pension if you retire early because of ill-health;
- a pension for your spouse or civil partner when you die.

Your scheme may also provide other benefits, such as life insurance cover that will pay a lump sum to your dependants if you die.

Key points

- You can draw your pension from age 50 if the scheme rules allow – going up to 55 by 2010.
- Find out what benefits your current scheme offers.
- Compare your current benefits with what any new scheme offers.
- We don't regulate advice about transferring between employers' occupational pension schemes. If you get the wrong advice, you may only be able to get compensation through the courts.

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Key things to think about

See the *Jargon buster* on page 15 for an explanation of some words you may come across.

Risks of staying in your salary-related scheme

The cost, potential loss of benefits and risks of transferring from a salary-related pension scheme to a money purchase pension scheme often outweigh the advantages.

However, staying in a salary-related pension scheme is not risk free. Some of these schemes have gone bust and there hasn't been enough money left to pay the pensions promised. So some of their members have lost some or all their retirement benefits.

The government set up a Pension Protection Fund in April 2005. It pays some compensation to members of salary-related pension schemes that can't provide the benefits in full. The level of compensation is usually less than the pension that would have been paid if the employer had stayed in business. For more information on

the Pension Protection Fund – see *Useful contacts*.

Compare the benefits

If you transfer, you may have to give up benefits, pay charges, or both, so it's important to check carefully what benefits you will give up against the benefits of the new scheme you want to transfer to.

Transferring from one salary-related scheme to another salary-related scheme

A new employer's salary-related scheme may offer you 'added years' in exchange for your transfer value. These increase the number of years used in the scheme formula to work out your pension and other benefits.

This means you will get a bigger pension from your new employer's scheme. It may also mean that the other benefits provided by your new employer's scheme will be enhanced.

However, the number of added years you can buy is usually less than the number of years you were in your former employer's scheme.

This is because each year in the new scheme is expected to provide a higher pension based on your salary at retirement (compared with your salary at the time you left the former employer's scheme, with an allowance made for inflation increases between the date of leaving and retirement).

So it may be better to leave your benefits in the old scheme, rather than transferring them to the new one.

Transferring from a salary-related scheme to a money purchase scheme run by a new employer, or to a personal or stakeholder pension

- You will give up the right to a pension and other benefits that are linked to, and are a proportion of, your final salary.
- Instead you will get a pension whose value depends on how much you invest and how well the invested money grows.
- In employers' schemes the employer may pay the costs of running the plan. But if you transfer to a personal or stakeholder pension, you must pay these costs.
- Any charges will reduce the value of your investment. The higher the charges the bigger the reduction.

Transferring from a salary-related scheme to a buy-out contract

- You can use your cash-equivalent transfer value to buy an individual insurance policy to provide you with a pension in the future.
- In some buy-out contracts the benefits you get depend on how well investments perform.

The transfer value

Find out whether the transfer value takes into account discretionary benefits – it doesn't always.

These are benefits that the scheme or your employer may choose to give you but need not, such as increases to your pension when you retire.

If you transfer, you could lose the value of these discretionary benefits.

Your employer may offer you a cash payment or offer to increase your transfer value as compensation for losing these benefits.

So you would need to think about whether the transfer value or cash offered is good value compared to the benefits you are giving up. This is a complex area so you should consider taking financial advice.

Closing or winding up a pension scheme

Your employer may close a salary-related pension scheme to new or existing employees and offer a new pension scheme. The scheme trustees will give you information about your options.

Your employer may wind up the pension scheme completely. If so, all the benefits must be transferred out of the scheme. If an employer is going out of business, its salary-related pension will be wound up automatically.

A wind-up can happen in other circumstances too. If there are plans to close or wind up your pension scheme the scheme trustees will give you information about your options.

If there are not enough funds

Sometimes a salary-related scheme is wound up and there are not enough funds in the scheme to give its members their full entitlement.

If the employer is still in business, it usually has to ensure the scheme has enough funds to provide the full entitlement of all members.

If the employer is going out of business without enough funds in its pension scheme, the Pension Protection Fund may be able to help – see *Useful contacts*.

For more information on winding up see The Pensions Advisory Service guide **Winding-up a pension scheme – a guide for scheme members** – see *Useful contacts*.

The State Second Pension

In April 2002, the State Second Pension (S2P) replaced the State Earnings Related Pension Scheme (SERPS).

It is possible to 'contract out' of S2P. This means that the portion of your National Insurance contributions that would normally be paid into your S2P can be redirected into your employer's scheme if their scheme is contracted out.

If your employer's scheme is not contracted out you can still contract out into a personal or stakeholder pension.

If you have contracted out you will no longer build up entitlement to S2P benefits.

There are special rules restricting the way you can transfer contracted-out benefits. If the scheme you're leaving is contracted out the scheme administrators should tell you what these restrictions are.

Getting financial advice

Transferring to an occupational pension scheme

Advice on transfers between occupational pension schemes is not regulated. So if things go wrong, you will not be able to use the complaints and compensation arrangements.

When you ask your pension scheme trustees about pension transfers, the information you receive will be about pension transfers in general and will not be specific to your needs and circumstances. If you're uncertain about whether transferring is right for you, consider getting financial advice.

Transferring to a personal or stakeholder pension

Firms advising on personal pensions and stakeholder pensions must be regulated by us. This means they have to meet certain standards that we monitor, and we can take action if they don't.

Firms advising on transferring your occupational pension to a personal

or stakeholder pension or to a buy-out contract must have specialist knowledge in this area. You can ask them if they are qualified in this field.

Information you will get

Firms we regulate must recommend only pension schemes that are suitable for you. They must give you certain information about themselves, their services and costs. They will also give you a Key Features document setting out the main features of any pension they recommend.

You can check that we regulate the firm you're dealing with by checking our Register – see *Useful contacts*.

Buying with advice

Whether you're considering transferring to an occupational pension scheme or a personal or stakeholder pension, a good adviser will check all these points with you:

- Your personal circumstances and financial position, including the level of investment risk which you feel comfortable with.
- The benefits you may give up if you transfer out of your employer's scheme.
- The benefits you may get if you can transfer into a new employer's scheme.
- The level to which your employer's pension scheme is funded, the risk that your benefits may be reduced, and the effect on any transfer value offered.
- The difference between salary-related schemes and money purchase arrangements.
- Whether you have discussed your decision with your spouse or civil partner as your decision probably affects them too.
- Your full range of options.

If your adviser suggests that you transfer to a personal or stakeholder pension or some buy-out contracts, make sure you understand:

- that with a personal or stakeholder pension, you will give up any benefits you had in the former employer's scheme;
- that the pension you get will depend on:
 - the amount you invest (the transfer value and any further contributions);
 - the investments you choose, and how well they grow;
 - the charges taken out of the plan; and
 - the amount of pension income that your fund can buy at retirement. See the Key Features document that the adviser must give you;
- that your future pension cannot be predicted with any certainty. This is true for all personal and stakeholder pensions and some buy-out contracts;
- how charges, which include the adviser's commission, will affect your plan. Details are included in the Key Features document.

We require your adviser to give you a detailed analysis that compares the advantages and disadvantages of leaving your benefits in your former employer's scheme and of transferring them to a personal or stakeholder pension or a buy-out contract.

The analysis must show you the rate at which your investments need to grow to match the benefits you would give up if you left a salary-related scheme.

If things go wrong

If you take advice from a regulated firm and things go wrong, contact the adviser to put matters right. They have a procedure to follow when dealing with complaints.

If you're not satisfied with their response, you may be able to take the matter to the Financial Ombudsman Service.

The firm should give you the details of this service or you can get our **Making a complaint** guide – see *Useful contacts*.

You may also be able to use the Financial Services Compensation Scheme (FSCS) if you're given wrong advice and you're entitled to compensation but the adviser can't pay – see *Useful contacts*.

Buying without advice

Transferring from an occupational pension to a personal or stakeholder pension is complicated.

If you choose to transfer without taking advice and the new pension turns out to be unsuitable you will have fewer grounds for complaint.

Key points

Pension transfers are complicated and it is difficult to make suitable decisions without advice, even when all the relevant information is provided.

If you decide not to get advice make sure you fully understand the risks and benefits of transferring your pension.

When considering whether to transfer from your salary-related occupational pension

Check that

you have compared the benefits of your existing scheme with any new schemes you're thinking about transferring to.

Check that

you understand the options available to you if your occupational pension scheme is closed or wound up.

Check that

the new occupational scheme accepts transfers, and find out what you need to do to arrange the transfer.

Check that

you read and understand the Key Features documents you get if you're considering transferring to a personal or stakeholder pension.

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Your questions answered

Question

Should I transfer?

Answer

Transferring out of a salary-related scheme may be appropriate for you but this will depend on:

- your personal circumstances;
- your opinion of your former employer's scheme; and
- your opinion of the options now open to you.

If you're unsure about whether to transfer, seek financial advice.

Question

Am I eligible to transfer?

Answer

Provided you have belonged to the scheme for three months or more you have the option to transfer. You may not be able to transfer if you're less than 12 months away from your normal retirement date.

Question

Can I leave my benefits where they are?

Answer

Provided you have belonged to the scheme for two years or more, you can usually leave the pension and other benefits you have built up in your old scheme. The scheme will pay them to you when you retire. This is known as a 'deferred pension'.

Question

What is a 'transfer club'?

Answer

A transfer club is a special arrangement that protects your pension rights when you change from one public-sector job to another. You're probably better off using the transfer club than transferring to a personal or stakeholder pension.

Question

Where can I transfer my pension benefits?

Answer

You may be able to transfer from a salary-related scheme to:

- a pension scheme run by a new employer;
- a personal or stakeholder pension; or
- a buy-out contract.

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Next steps

Step 1

Find out about the benefits of the salary-related pension scheme you're transferring from.

Step 2

If you're thinking of transferring between occupational pensions make sure you compare the benefits in each – see the Pensions Advisory Service guide **Transferring your pension to another scheme** – see *Useful contacts*. You should also consider seeing a financial adviser.

Step 3

If you're thinking of transferring to a personal or stakeholder pension or buy-out contract consider getting help from a financial adviser with specialist knowledge to help you decide whether to transfer.

Step 4

Before you decide, make sure you're satisfied that transferring is right for you, by reading the information provided and asking questions if anything is unclear.

Jargon buster

Some key words and phrases explained.

Accrual rate

The proportion of pensionable earnings you receive as a pension for each year of a pension scheme membership.

AVCs – Additional Voluntary Contributions

A pension top-up for an occupational pension. You pay contributions into a scheme run by your employer to boost your main pension.

Buy-out contract

With a buy-out contract you use your cash-equivalent transfer value to buy an individual insurance policy to provide you with a pension in the future.

Contracting out

The decision to leave the State Second Pension (S2P or previously SERPS) and use your National Insurance contributions to build up benefits either through an occupational scheme or a personal pension instead.

Deferred annuity

An annuity that starts sometime in the future – usually at a specified retirement age.

Defined benefit pension scheme

Another name for a salary-related occupational pension scheme where what you get when you retire can be worked out on your earnings and years of membership of the scheme.

Jargon buster

Defined contribution pension scheme

Another name for a money purchase occupational pension scheme where you know how much you and your employer (may) contribute.

Discretionary benefits

Benefits that the scheme or your employer may choose but is not obliged to give you, such as discretionary increases to your pension once you retire.

FSAVCs – Free-Standing Additional Voluntary Contributions

A money purchase pension top-up policy for an occupational pension, but separate from your employer's pension scheme and normally run by an insurance firm.

Group Personal Pension

A type of personal pension offered by some employers but not classified as an occupational pension scheme (see money purchase pension).

Money purchase pension

Your contributions are invested in, for example, the stockmarket. The size of your fund depends on how much is invested and how well those investments grow. At retirement, some or all of the fund may be used to buy an annuity.

Occupational pension

Available through employers and run by pension scheme trustees. There are two types – salary-related (defined benefit) and money purchase (defined contribution).

Pensionable service

The number of years you have been a member of an occupational salary-related pension scheme.

Personal pension

A money purchase pension from a financial services company into which you and/or your employer make contributions.

Stakeholder pension

A type of personal pension that has to meet certain standards set by the government.

State Pension

A pension based on your National Insurance contribution record.

State Second Pension

An additional State pension paid on top of your basic State Pension. This used to be called SERPS. Self-employed people cannot build up a State Second Pension.

Tax-free lump sum

An amount of cash set by HMRC which you can take at retirement free of tax. Individual pension schemes may have different rules on the amount you can take.

Transfer value

The benefits you build up in your employer's salary-related pension scheme, which are converted into a cash sum. You invest the transfer value in an alternative pension scheme.

Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other Moneymadeclear guides, check our Register, or for general information or guidance

Financial Services Authority (FSA)

Consumer Helpline: 0845 606 1234
Minicom/Textphone: 08457 300 104
www.moneymadeclear.fsa.gov.uk

Other Moneymadeclear guides

- Getting financial advice
- Pensions
- Retirement options
- Making a complaint

To report misleading promotions
08457 300 168

Use our **online pensions calculator** to see how much income you may get when you retire (for money purchase pensions only).

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For details of your employer's pension scheme

Contact the pensions administrator, pensions manager or pension trustees at work.

Employers' pension scheme disputes and general pension advice

If you have a complaint, contact your pensions administrator at work first. If your complaint is not resolved you can take it to the Pensions Advisory Service.

For general pension information

The Pensions Advisory Service

11 Belgrave Road
London SW1V 1RB

0845 601 2923

www.pensionsadvisoryservice.org.uk

Guides

- Transferring your pension to another scheme
- Winding-up a pension scheme – a guide for scheme members
- Pensions disputes procedure

The Pension Protection Fund

Knollys House
17 Addiscombe Road
Croydon, CR0 6SR

0845 600 2541

www.pensionprotectionfund.gov.uk

Guide

- Protecting people's pensions

Useful contacts

The Pensions Regulator

Napier House
Trafalgar Place
Brighton BN1 4DW
0870 606 3636
www.thepensionsregulator.gov.uk

The UK regulator of work-based pension schemes.

The Pension Tracing Service

Whitley Road
Newcastle upon Tyne
NE98 1BA
0845 300 0163
www.thepensionstracing.gov.uk

To trace pensions you've lost track of.

DWP Pensions Information Orderline

0845 7 31 32 33
0845 604 0210 (textphone)
www.thepensionstracing.gov.uk

For free factsheets about State and other pensions.

Financial advisers/planners

IFA Promotion

0800 085 3250
www.unbiased.co.uk

Will provide a list of 8 independent financial advisers in your area.

Institute of Financial Planning

0117 945 2470
www.financialplanning.org.uk

Financial planners can help you to achieve your goals by planning your finances.

MyLocalAdviser

www.mylocaladviser.co.uk

Online only – no telephone number.
For a mortgage, insurance or investment adviser in your area.

Personal Finance Society

020 8530 0852
www.thepfs.org

Will provide a list of up to 6 financial advisers in your area.

Complaints and compensation

Financial Ombudsman Service (FOS)

Complaints resolution
South Quay Plaza
183 Marsh Wall
London E14 9SR

0845 080 1800
www.financial-ombudsman.org.uk

Complaints resolution for personal and stakeholder pensions.

Financial Services Compensation Scheme (FSCS)

7th floor, Lloyds Chambers
Portoken Street
London E1 8BN

020 7892 7300
www.fscs.org.uk

For help if the firm goes out of business.