November 2009

Our Moneymadeclear™ guides – here to help you

This guide is part of our Pensions and retirement series.

Available from our 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 Moneymadeclear helpline on 0300 500 5000 or Typetalk on 1800 1 0300 500 5000.

(Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.)

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

Plain Language Commission Clear English Standard Winning Document

Moneymadeclear
from the Financial Services Authority (FSA)

No selling. No jargon. Just the facts about salary-related pension transfers.

Moneymadeclear™

No selling. No jargon. Just the facts.

With our Moneymadeclear™ 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 salary-related pension transfers.

We try to ensure that the information in this guide, some of which comes from sources outside the FSA, is correct at the time of print. It is possible that some of it is oversimplified, or may become inaccurate over time, for example because of changes in the law. You should check the current position before you take any action.

This is general information to help you make financial decisions. It is not advice, and cannot take account of your individual circumstances. When making decisions about your own circumstances you should consider whether to consult a financial or other professional adviser.

The Pensions Regulator

FSA®
Financial Services Authority

This guide is for you if

You have

benefits in a salary-related occupational pension; and

You want

to know if you should transfer your benefits to another pension scheme

or

You have

been offered an incentive to leave your scheme.

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

- **explains the most important things to consider if you're thinking about transferring or you have been approached with an offer to transfer out of your salary-related scheme; and**
- **answers some of the questions you may have.**

Contents

How salary-related pension transfers work

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 is invested 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 16 for an explanation of some words you may come across.

Salary-related pension transfers are complicated and it is difficult to make suitable decisions without professional advice, even when all the relevant information is provided.

See page 8 for information about Getting financial advice.

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

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.

Cash equivalent transfer value (CETV)

If you decide to transfer, the trustees 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 occupational scheme, personal or stakeholder pension plan or buy-out contract (also sometimes called a section 32 contract).

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 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. Where a scheme is under funded the transfer value may be offered on a reduced basis.

Transfer incentives

A transfer incentive (also known as an inducement to transfer) is an offer from your employer of a direct cash payment or enhanced transfer value if you decide to transfer out of your final salary scheme. Your employer may offer this as an inducement for losing the benefits of your scheme.

If the transfer incentive is paid in cash, you may have to pay income tax and possibly national insurance on it, and you will get less pension than if you had accepted the incentive as part of the transfer value.

You are strongly encouraged to seek professional financial advice about this offer, as it makes the decision to transfer more complicated. An adviser will take the cash payment or enhanced transfer value into account when comparing the benefits you are giving up.

Compare benefits and costs

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 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 the size of the cash equivalent transfer value and how well it grows once invested in the new scheme. In a money purchase scheme you bear the investment risks.
- Your pension will also depend on annuity rates at the time you retire and the type of annuity you choose.
- 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.

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.
- Check with your new employer whether they will accept transfers into their salary-related scheme and on what basis the transfer is calculated.

No selling.
No jargon.
Just the facts about pension transfers.

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Key things to think about

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. You can check what your benefits are by reading your membership booklet or contacting the pension trustees.

Key points

- You can draw your pension from age 50 if the scheme rules allow – going up to 55 in April 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.

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.

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.

But some of the employers sponsoring these schemes have gone bust and there hasn't been enough money left to pay the pensions promised.

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

The government set up the 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.*

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

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. Check that you have considered the potential risks of leaving your benefits in the final salary scheme.

Your employer may wind up the pension scheme completely. If so, the trustees must follow the scheme rules to make sure all of the scheme's benefits are secure. 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.

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 professional financial advice – see *Useful contacts*

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; a 'suitability report' or letter to explain how their recommendations meet your needs; and a 'transfer value analysis' that compares the actual value of the pension you're leaving with the estimated value of a new pension.

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

Getting financial advice

- 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. This is known as the 'critical yield'. Generally, the higher the critical yield required, the more risks you will need to take with your investments. You will also have to make a judgement about whether this is achievable. A financial adviser can help you with this decision.

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.
- Whether or not you decide 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. This is a complex area and it is strongly recommended that you seek financial advice to help you with this comparison.

Check that

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

Check that

your new employer's 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.

Your questions answered

Question

Should I transfer?

Answer

Transferring out of a salary-related scheme may be appropriate for you but it is complicated and we recommend you seek financial advice to help you with this decision.

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'.

Your questions answered

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.

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 may be better off using the transfer club than transferring to a personal or stakeholder pension.

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 we recommend you get 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 salary-related pension scheme membership.

Annuity
An investment that converts a lump sum (for example, your pension fund) into regular income, which is taxed.

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 that pays you a pension in the future.

Cash-equivalent transfer value (CETV)
This is another name for a transfer value. It is a lump sum available to you to transfer to another pension scheme. The lump sum represents the benefits you build up in your employer's salary-related pension scheme, which are converted into a cash sum.

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.

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

Deferred annuity
An annuity that starts some time 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 depends on your earnings and years of membership of the scheme and the scheme's accrual rate.

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. This is 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).

Jargon buster

Money purchase pension
A pension where 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 and months 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 (S2P)
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.

Useful contacts

Financial Services Authority (FSA)

To order other Moneymadeclear™ guides, check our Register, report misleading financial adverts or other promotions, or for general information or guidance

Helpline: 0300 500 5000
Typetalk: 1800 1 0300 500 5000
(Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.)

Other Moneymadeclear™ guides

- Getting financial advice
- Making a complaint
- Mortgages
- Pensions
- Retirement options
- Retiring soon

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.

Useful contacts

Call rates may vary – check with your provider

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

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.thepensionservice.gov.uk

To trace pensions you've lost track of.

The Pensions Service
For information about State pensions

0845 606 0265
www.direct.gov.uk

Financial advisers/planners

IFA Promotion
www.unbiased.co.uk

For independent financial advisers in your area.

Institute of Financial Planning
www.financialplanning.org.uk

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

MyLocalAdviser
www.mylocaladviser.co.uk

For a mortgage, insurance or investment adviser in your area.

Personal Finance Society
www.findanadviser.org

For financial advisers in your area.

Complaints and compensation

Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

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

Financial Services Compensation Scheme (FSCS)
7th floor, Lloyds Chambers
Portsoken Street
London E1 8BN

020 7892 7300
0800 678 1100
www.fscs.org.uk