Salary-related pension transfers

The **Money Advice Service** is here to help you manage your money better. We provide clear, unbiased advice to help you make informed choices.

About this guide

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.

When you read it you will know:

- the risks of transferring your pension
- what to consider before getting professional financial advice, and
- what to do if things go wrong.

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 17 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.

In most cases you are likely to be worse off if you transfer, even if your employer gives you an incentive to leave your scheme. Before you go ahead, you should get professional financial advice.

See page 8 for information about getting professional financial advice.

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

Watch out as some adverts about pension transfers may be scams – see page 14.

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.

What happens when you transfer

If you decide to transfer, the trustees must first convert the benefits you have built up in the pension scheme into a cash sum, called a transfer value (also known as a **cash-equivalent transfer value** or a CETV).

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.

The transfer value

The trustees need to make certain assumptions when they calculate the value, such as the rate by which the cash sum might increase after you transfer. So the transfer value may not grow enough to let you buy the same pension at retirement as your scheme would have paid.

The transfer value may sometimes be less than the value of your scheme benefits. When this happens, it's called a 'reduced transfer value'. This is likely if the scheme is 'underfunded' – in other words, it does not have enough money to pay the benefits it is expected to pay.

The amount of the reduction will usually reflect the proportion of the future benefits that the scheme's funds cannot currently provide.

Even if the scheme is fully funded, the transfer value may not take into account discretionary benefits. 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 some of the benefits you have been promised under the scheme's rules or the value of discretionary benefits. Check with your pension scheme manager.

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 salary-related scheme. Your employer may offer this as an inducement for losing the benefits of your scheme.

Watch out as the enhancement may not be as attractive as it looks. The enhancement may have been applied to a reduced transfer value – see 'The transfer value' above.

You may get a choice about whether to transfer the whole of the enhanced value into another pension scheme or whether to take the transfer incentive as cash. If you take the transfer incentive 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. So – if you decide to transfer – it is normally better to transfer the full enhancement.

You should take 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.

In almost all cases it is good practice for your employer to provide an independent financial adviser for free. You can choose another financial adviser but you will have to pay for their service.

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 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 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 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.

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.

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 55 if the scheme rules allow.
- Find out what benefits your current scheme offers.
- Compare your current benefits with what any new scheme offers.

Risks of staying in your salary-related scheme

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 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. It pays some compensation to members of salary-related pension schemes that can't provide the benefits in full.

Although the level of compensation is high, it is usually less than the pension that would have been paid if the employer had stayed in business. For more on the Pension Protection Fund – see *Useful contacts* on page 20.

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.

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 salary-related 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.

For more about winding up, read The Pensions Advisory Service guide **Winding-up a pension scheme – a guide for scheme members** – see *Useful contacts* on page 20.

Getting professional 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 financial services 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. You should get professional financial advice to help you work out whether transferring is right for you – see *Useful contacts* on page 20.

Transferring to a personal or stakeholder pension

Firms advising on personal pensions and stakeholder pensions must be regulated by the Financial Services Authority (FSA), the UK's financial services regulator. This means they have to meet certain standards that the FSA monitors, and it can take action if they don't.

Information you will get

Firms regulated by the FSA 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.

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**.

The FSA requires 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 professional financial adviser can help you with this decision.

Even when you receive suitable advice to transfer, you could still eventually receive a lower pension income.

Advice is likely to be one-off. You must pay extra for ongoing advice about the performance of your money purchase pension fund.

If the advice ends up being unsuitable, you can complain to the firm and you may be able to get compensation for any loss. But it is unlikely you will be able to transfer back into your salary-related scheme – see *If things go wrong* on page 16.

Before choosing an adviser

The organisations in *Useful contacts* help you find a local financial services firm that can help with pensions. But not all FSA-regulated firms can advise you on transferring your salary-related scheme. When you have a few you're interested in, check on the FSA Register whether they can give pension transfer advice – see *Useful contacts* on page 20. You should also check with the firm if they are qualified in this field.

Remember, if your employer offers you a transfer incentive, you should check if they have provided an independent financial adviser for free. This is good practice for employers in almost all cases.

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.
- Make sure you fully understand the risks and benefits of transferring your pension. For example, for money purchase pensions no-one can predict your future pension income with any certainty, so you could be worse off.
- Check with the FSA that a regulated firm is allowed to give advice on pension transfers.
- Check that the firm's adviser has an appropriate qualification.
- You cannot usually transfer back into the scheme, even if you have a valid complaint about the advice you receive.

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 you should get professional financial advice to help you with this comparison.
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 understand the options available to you if your occupational pension scheme is closed or wound up.
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:
In most cases you are likely to be worse off if you transfer, even if your employer gives you an incentive to leave your scheme. Before you go ahead, you should get professional financial advice. Remember the advice is likely to be one-off.

Make sure you fully understand the risks and benefits of transferring your pension. For example, no-one can predict your future income from a money purchase pension with any certainty, so you could be worse off.

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:
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.

Question:
How can I tell if a pension transfer advert is a scam?

Answer:
You can transfer to get cash from your pension if you're 55 or over. See 'pension unlocking' in our **Pensions** guide – see *Useful contacts*.

But it's likely to be a scam if you see claims that you can transfer to get cash before 55 or you can get more cash than under your current scheme. You may even see these claims in the sponsored links on internet search webpages.

Don't get caught out, as getting too much cash out of your pension, or before you're allowed, will mean you have to pay tax and a fine. Report the advertisers to the Pensions Regulator – see *Useful contacts*.

Only deal with FSA-regulated firms by checking the FSA Register – see *Useful contacts*.

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* on page 20. You should also consider seeing a professional financial adviser.

Step 3 If you're thinking of transferring to a personal or stakeholder pension or buy-out contract, you should get help from a financial adviser with specialist knowledge to help you decide whether to transfer. Check the firm is regulated by the FSA and is specifically allowed to give pension transfer advice.

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.

If things go wrong

Complaints against an FSA-regulated firm

If you used an FSA-regulated firm to give you information or advice about transferring to a personal pension, stakeholder pension or buy-out contract, then you are covered by complaints and compensation schemes if things go wrong.

Contact the adviser to complain. 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. It is independent and free for consumers.

The firm should give you the details of this service or you can get our **Making a complaint** guide – see *Useful contacts* on page 20.

Even if you have a valid complaint, you are not likely to be able to transfer back into the salary-related scheme. Any compensation paid today may not guarantee the same level of future pension income that you would have got in the salary-related scheme.

If an FSA-regulated firm is unable or likely to be unable to pay claims against it, you may be able to get compensation from the Financial Services Compensation Scheme (FSCS) – see *Useful contacts*. It is independent and free for consumers.

Complaints against your employer's pension scheme

If you have a complaint, contact your pensions administrator at work first. They have a procedure to follow when dealing with complaints. If your complaint is not resolved, you can take it to the Pensions Advisory Service. It is independent and free for consumers.

You can report your concerns of being misled or pressured by your employer's transfer incentive offer to the Pensions Regulator, which is the UK regulator of work-based pension schemes – see *Useful contacts*.

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. (The lump sum may be reduced – see 'Reduced transfer value'.)

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.

Enhanced transfer value

The enhancement is an extra amount you normally wouldn't get from the scheme if you transferred out. But the extra amount may have been applied to a reduced transfer value – see 'Reduced transfer value'.

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).

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.

Reduced transfer value

If your salary-related scheme is underfunded (see 'Underfunded'), it is likely that the scheme will offer you a reduced cash-equivalent transfer value. The reduction will usually reflect the proportion of the future benefits that the scheme's funds cannot currently provide.

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.

Underfunded/in deficit

A salary-related scheme is underfunded if it does not have enough money to pay all its pension promises in the future.

Useful contacts

Money Advice Service

For advice based on your own circumstances or to order other guides

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

Other Money Advice Service guides

- Getting financial advice
- Making a complaint
- Your guide to retirement (explains your choices if you are two years or less from retirement)

For more titles, call us or go to **moneyadviceservice.org.uk/publications**

Call rates to the following organisations may vary – check with your telephone provider.

Financial Services Authority (FSA)

To check the FSA register, or to report misleading adverts or other promotions.

0845 606 1234
Minicom/textphone: 0845 730 0104
www.fsa.gov.uk

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
- Pension dispute procedure

The Pension Protection Fund
0845 600 2541
www.pensionprotectionfund.org.uk

Guide
- Protecting people's pensions

The Pension Tracing Service
To trace pensions you've lost track of.

Whitley Road
Newcastle upon Tyne NE98 1BA

0845 600 2537
www.direct.gov.uk/pensiontracing

Directgov
For information about state pensions.

www.direct.gov.uk/pensions

Financial advisers/ planners

Unbiased.co.uk
For financial advisers in your area.

www.unbiased.co.uk

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

www.financialplanning.org.uk

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

www.mylocaladviser.co.uk

Personal Finance Society
For financial advisers in your area.

www.findanadviser.org

If things go wrong

Financial Ombudsman Service
For complaints against FSA-regulated firms.

South Quay Plaza
183 Marsh Wall
London E14 9SR

0800 0234 567 or 0300 123 9123
www.financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)
For complaints against an FSA-regulated firm that has gone out of business.

020 7741 4100 or 0800 678 1100
www.fscs.org.uk

The Pensions Regulator
For reporting suspected pension transfer scams or concerns about your employer's transfer incentive offer.

Napier House
Trafalgar Place
Brighton BN1 4DW

0870 606 3636
www.thepensionsregulator.gov.uk

the Money Advice Service®

This guide is part of our pensions and retirement series.

Other titles in this series include:

- Pensions
- Your retirement options
- Income withdrawal

All our guides are available from:

Our website
moneyadviceservice.org.uk

Money Advice Line
0300 500 5000

If you would like this guide in Braille, large print or audio format, please call us 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.

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Plain Language Commission Clear English Standard Winning Document