

GUIDE TO TRANSFERS

A BASIC INFORMATION GUIDE
TO UK PENSION TRANSFERS

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Guide to UK pension transfers

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GUIDE TO UK PENSION TRANSFERS

This guide gives you some basic information on pension transfers – what they are, how they work and why your adviser might recommend a transfer from one or more of your pension plans.

What the guide covers

It covers transfers you can make from a UK registered pension scheme to a defined contribution scheme which is also a UK registered pension scheme.

The guide does not cover occupational income drawdown facilities. For more information about transfers from these plans please speak to your adviser.

We have tried to use plain English in this guide but avoiding all technical terms is difficult. This is why we have added a glossary at the end of this guide to explain what they mean.

What is a pension transfer?

It is the process of moving the value of the pension fund you have built up in one pension scheme to another. When you've transferred all of your pension fund, your right to benefits from the original plan ends.

If your pension plan includes investments made directly into assets such as shares, you may be able to re-register these assets without the need to cash them in. This is sometimes referred to as an 'in specie' transfer.

Why is advice important?

You should always take advice when considering a transfer. Understanding whether a pension transfer is right for you can be complicated. You should be aware what your existing pension arrangements could provide before transferring them to a new pension plan.

A financial adviser must recommend transfers that are suitable for your needs. You have a legal right to compensation if that recommendation was unsuitable when it was made.

It is also important to regularly review your pension arrangements with your adviser as your circumstances and your pension requirements are likely to change after you start a pension plan.



What you should discuss with your adviser

There are a number of important factors to consider before choosing to transfer benefits from an existing pension plan. These include the following and should be discussed with your adviser before taking action:

- Your retirement objectives.
- The level of investment risk that you are comfortable with.
- Any particular features of your existing plan which are not available under a new plan.
- Charges you incur as a member of your existing pension scheme, compared to charges in the scheme you may transfer to.
- If it is possible to change your existing investment strategy within the current plan to meet your objectives without having to transfer your existing plan benefits.
- The potential loss of any compensation payments.

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What are the types of pension scheme I can transfer from?

It is important you understand the type of pension scheme you may want to transfer from because you could be giving up guarantees and other benefits. There are two main types of occupational (company) pension schemes – a defined benefit or a defined contribution scheme.

You should note that although personal plans (including group personal pension plans and stakeholder schemes) are also classed as defined contribution schemes, they are not classed as occupational schemes.

We describe other pension plans that you can transfer from later in this guide, but we have not included all types of pension plan.

Transferring from a defined benefit pension scheme

A defined benefit scheme usually guarantees you a pension that is a fixed percentage of your final salary based on your pensionable service to when you retired or left the company. The cost of running the scheme will be met by the employer and any investment risk is taken by the employer.

It may offer additional benefits such as:

- benefits for your dependants if you die before you leave service
- an early pension based on potential service rather than actual service if you retire because of ill health.

If you were contracted out of the state second pension your scheme may have a guaranteed minimum pension (GMP) and section 9(2B) rights. These guarantees would be lost if you transfer as they become ordinary scheme rights.

The way your transfer value is calculated is based on an assessment of the value of your pension entitlement under it, rather than payments made by you and your employer to the scheme. By making a transfer to a defined contribution scheme, you will be giving up the entitlements and will not know what you will get until you take your benefits. You will be taking the risk that investment growth after the transfer is not enough to provide the retirement benefits you have given up and you will be responsible for payment of the charges applicable to your plan.

Your adviser should complete an appropriate pension transfer analysis (APTA) of your options, and provide you with a Transfer Value Comparator, including the value of benefits being given up and the cost of purchasing the same income in a DC environment.

If you are a member of this type of scheme with your current employer, your adviser is unlikely to recommend a transfer.

Sometimes a transfer might be considered because a defined benefit scheme valuation shows a former employer's scheme is not fully funded to meet its liabilities. If you are in this situation, you should carefully consider your decision with an adviser as this is a complex area.

Transferring from a defined contribution pension scheme

A defined contribution scheme usually entitles you to the benefits bought by the fund built up by payments made into the scheme – not a specific level of benefits. You will not know what you will get from this type of scheme until you start to take your benefits.

If you're considering a transfer from one defined contribution scheme to another, you should compare the following features of your existing arrangement and the arrangement you are considering transferring to and discuss them with your adviser:

- The choice of investments.
- The quality of administration.
- Charges.
- Any options provided by the new scheme not available from the current plan.
- Any charge made by the current scheme if you transfer.
- Any guarantees or benefits held within your existing scheme that cannot be replaced in the new scheme.
- Whether there is enough time for the benefits of a transfer to work for you.

TRANSFERS (CONTINUED)

Your adviser can give you illustrations on a like-for-like basis for the types of fund or funds that match your attitude to risk, to help you compare potential benefits from your existing scheme and the new scheme.

The transfer value of your defined contribution pension scheme will be calculated based on the current value of payments made. You need to remember that these are typically invested in stocks and shares, so the actual value will go down and up depending on market conditions. This means that when you transfer your pension scheme, the final transfer value could be more or less than you were expecting.

Transferring from a personal drawdown pension plan

A personal drawdown pension plan is a defined contribution scheme that allows you to take income in retirement until you have (or decide) to buy a pension. If you would like to transfer from this type of plan, the plan you transfer to must also be a drawdown pension plan.

If you are transferring capped drawdown pension the existing income limit and review date will continue after transfer, unless you convert it to flexi-access drawdown.

You cannot take tax-free cash from funds already in drawdown. Please also see the previous section for details of points to compare.

Transferring from other plans

Other pension schemes which you might have and where your adviser might recommend transferring from include:

- **Buy-out plans (section 32 transfers)**

A buy-out plan is an individual transfer plan bought by transferring out of an occupational pension scheme. It may provide some minimum benefits related to rights built up by contracting out. It may have a cash lump sum option more than the normal 25% limit and it may have a protected retirement age (see 'What other things should I know about?' for further information).

- **Retirement annuities**

A retirement annuity is a type of individual pension plan offered before 1 July 1988 when personal pensions were introduced. Some retirement annuities have guaranteed annuity rates (see 'What other things should I know about' for further information).

- **Free-standing additional voluntary contribution (FSAVC) scheme**

This is an individual defined contribution pension top-up plan. This type of arrangement usually gives the option of continuing to be able to pay in to it if you change employer.

What types of pension scheme can't I transfer from?

Most types of pensions can be transferred. However there are some exceptions, including:

- transfers from some pension schemes, if you are within one year of the scheme's retirement age
- transfers from a public sector pension scheme, if you left the scheme before 1 January 1986
- transfers from some overseas schemes.

Some pension plans such as some drawdown pension plans may not allow transfers.

TRANSFERS (CONTINUED)

Do all pension schemes accept transfers?

Some schemes do not accept transfers. Your adviser will be able to give you more information.

Can I transfer my pension into my bank account or into a savings plan?

No. There are strict rules as to money held in UK registered pension schemes. Normally, it is only permitted to transfer money between UK registered pension schemes or to a Qualifying Recognised Overseas Pension Scheme.

Are there fees or penalties for a pension transfer?

Your existing pension provider may charge a fee or a penalty when transferring a pension and you should check with your adviser how any fee or penalty might affect your pension position if you continue with a transfer. You may be charged a fee if:

- you transfer out of a scheme within a set period of time
- you have a with-profits plan and transfer out when a market value reduction applies.

What is a block transfer?

A block transfer occurs where you and at least one other person transfer from the same registered occupational scheme or personal pension scheme to the same alternative pension scheme. Block transfers can also occur for one member pension schemes where they are winding up.

A block transfer can protect any rights you have to a tax-free lump sum greater than the normal 25% of your pension fund value and/or your right to an early retirement age.

In certain circumstances the definition of a 'block transfer' is extended. The additional block transfer rules are:

- a) all of the sums and assets of the member, under the scheme are transferred, and
- b) the transfer takes place on or after 19 March 2014 and before 6 April 2015, and
- c) the member becomes entitled to all the benefits under the pension scheme on the same date, which is before 6 October 2015.

WHAT OTHER THINGS SHOULD I KNOW ABOUT?

If your existing scheme has a protected retirement age or rights to a cash sum greater than the normal 25% of the pension fund value, you would lose these rights by transferring, unless you were involved in a block transfer or a scheme wind up. You should discuss any potential loss of protected tax-free cash or early retirement age rights with an adviser alongside all other factors and your personal circumstances before deciding whether to transfer.

You may need to consider other areas of protection including enhanced, primary, fixed protection 2012 and fixed protection 2014 before making a transfer. Please speak to your adviser or see our 'Guide to pension plan tax' for more information.

Where can I find more information?

The MoneyHelper website, moneyhelper.org.uk has a great deal of information about the things you should consider before making any big financial decisions.

Please remember it may be some time between your pension fund being transferred and invested in your new pension scheme. Your investment may potentially lose out on any growth in this period.

GLOSSARY

Protected retirement age

A retirement age lower than the normal minimum pension age for registered pension schemes, currently 55.

Registered pension scheme

A registered pension scheme is registered with HM Revenue & Customs and complies with rules on payments and benefits to make it tax effective.

Scheme wind up

This is the process of ending an occupational scheme in accordance with the scheme rules. Common reasons are on grounds of cost, merger or takeover of employers.

Stakeholder pension

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

State pension

A pension that is based on your or your spouse's/ registered civil partner's national insurance record.

State Second pension

An additional State pension paid on top of your basic state pension.

Defined benefit pension scheme

This is also known as a final salary scheme where your pension is based on your service and salary when you retired or when you left service.

Defined contribution pension scheme

This is also known as a money purchase scheme where you know how much you and your employer may pay.

Group Personal Pension Plan

A personal pension offered by some employers.

Group Stakeholder

A Stakeholder pension offered by some employers.


Occupational scheme

A work-based pension scheme set up by an employer for the benefit of employees.


Personal pension

A money purchase plan from a financial services company where you know how much you and your employer may pay.



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