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Pension Transfer And Consolidation Fact Sheet

(Defined Benefit to Money Purchase)

CLAIRVILLE YORK FINANCIAL ADVISERS

INTRODUCTION

It is not unusual for someone to accumulate a number of different pension arrangements during their working life. Those individual plans to which you no longer contribute are usually described as 'paid-up' plans. Any Defined Benefit Pension (Final Salary) Scheme that you have left, normally because you have left the employer providing the scheme, are called 'Preserved' pensions. These are usually administered by the Scheme Trustees.

TYPES OF PENSION SCHEME

There are 2 main types of pension arrangement:

- **A Defined Benefit** pension, also known as a final salary scheme, whereby the pension you receive is determined amongst other things by; the scheme rules, your length of service and your final salary. The benefits are paid from the scheme funds as a whole because there are no 'earmarked' funds for each member as there are in a Money Purchase arrangement. We are referring to this type of scheme in the rest of this document. Or,
- **A Money Purchase** arrangement. Put simply; the pension you receive in retirement is determined not by your salary but mainly by; the value of your pension funds, your age and interest rates at the time you take your benefits. Money Purchase arrangements can take the form of either:

  - Employer sponsored occupation scheme (run by Trustees but not a Final Salary Scheme)
  - Employer sponsored Group Personal Pension Plan (GPP) or Group Stakeholder Plan
  - Individual Personal Pension Plan (PPP) or Individual Stakeholder pensions
  - Retirement Annuity Contract (RAC)
  - Free Standing Additional Voluntary Contribution Plan (FSAVC)
  - Section 32 Buy-Out Plan

LEAVING YOUR PENSION IN A PREVIOUS EMPLOYER'S DEFINED BENEFIT SCHEME.

There are a number of 'promises' or guarantees within such defined benefit arrangements as follows:

- **A 'guaranteed' pension.** Your pension is calculated at the date you left your employer based on a formula including the following:

  1. A fraction of your final pensionable salary for each year you were employed, e.g. 1/60th, 1/80th depending on the rules of the scheme.
  2. Your length of service with the employer, and
  3. Your Final Pensionable Salary (calculated per the scheme rules) when you left the employer.

- **An increased deferred pension.** In most circumstances your pension is not 'frozen' at your date of leaving the employer. The calculated pension is increased each year until your Normal Retirement Date (NRD) under the scheme. This is known as Indexing. The % increase each year will depend on the scheme rules, typically Limited Price Indexation (LPI) which is Retail Price Indexation with a maximum of 5%.

- **An increasing pension in payment.** The pension you receive from the scheme will usually increase in retirement by the % detailed in the scheme rules, typically LPI.

- **Death benefit before retirement (NRD)** In the event of your death before retirement a pension may be paid to your spouse and/or dependents without any reduction due to it being paid earlier than your NRD.

- **Death benefit after retirement (NRD).** Should you predecease your spouse whilst receiving your pension a proportion of your pension is then paid to your spouse for his / her lifetime, which continues to increase. This is usually 50% or 66% of your pension, depending on the scheme rules.

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Ill health early retirement. If you choose to take your retirement income earlier than the scheme's NRD there is usually a reduction in your pension, as it has to be paid for longer. However, if you have to take retirement early due to very serious ill health the scheme rules may allow the benefits to be paid without the reduction or with a lesser reduction.

TRANSFERRING OUT OF A PREVIOUS EMPLOYERS DEFINED BENEFIT SCHEME.

The 'promises' listed above are not absolutely guaranteed. You need to consider who is making the 'promise' and what are the risks of them not being met.

- It is your former employer who is making the promises under your employment contract.
- There is a pension fund for all employees, both those currently still working for the employer and those who have left and have a 'preserved' pension.
- The promises can only be met if there is sufficient money in the pension fund as a whole when you reach the scheme NRD, which may be many years away.

Where does the 'money' come from and what happens to it until you reach retirement ?

1. The scheme funds are invested and investment decisions are made by the scheme's advisers.
2. Your former employer will continue to pay contributions to meet the promises.

However, if the investments fall in value before you reach the retirement age (NRD) under the scheme the scheme could become 'underfunded'. This means there is insufficient money in the fund as a whole to meet the promises at that date. This is not necessarily a problem provided:

1. The Scheme remains in force, and
2. Your former employer continues to pay into the scheme.

Underfunding could result in the promises to you being reduced in line with the scheme's funding position. In the event your former employer becomes insolvent (goes bankrupt) your benefits may fall under the remit of the Pension Protection Fund (PPF). www.ppf.gov.uk

The decision as to whether to leave a scheme and transfer the benefits to your own pension is not straight forward. You need to consider all the promises of the scheme and the financial and business strength of your former employer. To do this you need the following information:

- What is the amount of your accrued pension at the date you left and what are the promises ?
- Is the scheme currently underfunded and what action is your former employer taking to correct this ?
- How financially sound is your former employer ?
- How financially sound will your former employer's business remain in the future ?

Financial advice from an appropriately qualified adviser is therefore essential. All advisers at Clairville York Ltd hold the necessary qualifications to carry out research and analysis into the scheme to check and confirm the following for you:

- **The funding situation of the scheme,**
- **The action being taken by your former employer to correct any underfunding,**
- **The amount of your pension at the date you left your employer,**
- **The amount of the Index Linking promise to NRD, and the increases promise after NRD,**
- **The death benefit before NRD and after you start to receive your pension income,**
- **Any ill health retirement benefit.**

We can provide a report confirming these details, which is designed to help you thoroughly understand the benefits so that you are making the decision to leave your benefits in the scheme or to transfer them to another pension arrangement on a rational, rather than 'emotional' basis.

Although Clairville York is unable to advise you on the solvency of your former employer the action being taken by them to correct any underfunding situation can provide reassurance and perhaps an indication of their commitment to maintaining the scheme.

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