MercerMarsh Benefits

benefits that truly benefit

Transferring your pension

Every time you change jobs, chances are you will join your new employer's pension scheme. Over the course of your working life this could amount to several pension plans that you may find hard to keep track of and to manage. Furthermore, over time pension charges and terms will have changed and these legacy contracts may well be making excessively high or punitive charges on the funds they hold on your behalf.

You may therefore want to consider consolidating your pensions under one contract to make it easier to monitor your overall portfolio and to make sure your pension assets are working for you. However there can be some disadvantages, including the loss of protected or guaranteed benefits. It is possible to transfer most types of pension fund into another plan, including into your current employer's group scheme. It is important to only transfer your pension plan if this is to your advantage.

Transferring your pension is a very important decision so we would always recommend that you seek authorised financial advice before proceeding with any transfer, so that you can be sure it is in your best interests to do so. We are able to offer this advice via our partners; Mercer Private Wealth, details of which can be found in the following link: https://www.uk.mercer.com/what-we-do/wealth-and-investments/mercer-private-wealth. html. Alternatively you can find a financial adviser at the following link: https://www.fca.org.uk/consumers/finding-adviser .

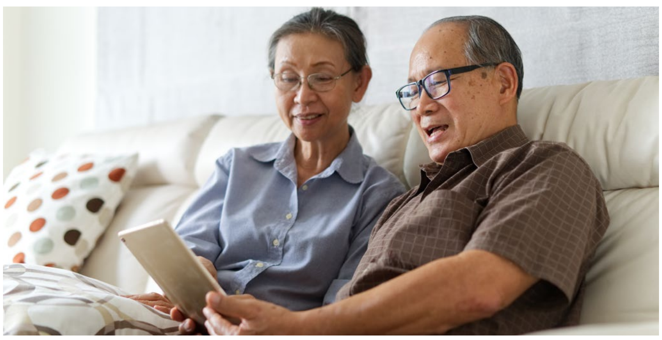
Most pension providers will allow you to transfer certain pension plans without requiring that you take advice, possibly also allowing you to do the transaction online. As a result though, it is solely your responsibility to ensure that you fully understand the terms and conditions of the transfer and that you are not losing out on the potentially valuable benefits associated with some pension schemes.

Pension scams

Since the introduction in April 2015 of additional flexibility in drawing your retirement benefits, the number of pension scams have risen significantly. These scams effectively try to persuade pension savers to transfer their savings into other pension plans, offering free services such as reviews, health checks and loans, most of which are fake, trying to entice people to move their funds into less regulated schemes.

Scams are also becoming more sophisticated and harder to detect, so you need to be very careful and check who you are dealing with. Beware of fraudsters posing as your pension provider, or other companies or financial institutions that you may recognise, or regulating bodies, through fake websites, advertising and email addresses. You should never accept unsolicited advice about transferring a pension and if you are in doubt speak to your HR department, The Pensions Regulator or the Financial Conduct Authority.

More information about pension scams can be found in the following link: https://www.fca.org.uk/publication/documents/pension-scams-leaflet.pdf.



Under new regulations your pension provider now has the power to prevent or delay a pension transfer if it believes or suspects that you are being scammed. The regulations outline issues which give rise to a red flag (stopping the transfer from taking place) or an amber flag (requiring the transfer to be delayed whilst further action is taken). Whilst this is not expected to affect the majority of transfers, if your pension provider has any concerns you may need to provide them with further information or evidence. There are also certain circumstances which will require further evidence. For example, if you are transferring to the occupational pension scheme of your new employer, you will need to provide proof of employment. Certain evidence will also be required if you are transferring to an overseas pension scheme (see later). In certain circumstances you may also be required to receive specific scam guidance from the Money and Pensions Service through MoneyHelper before the transfer can proceed.

If you are determined to transfer without seeking advice, you should ask yourself the following?

What type of plan is it?

There are two distinct types of pension scheme. 'Defined Contribution' schemes are pension arrangements where contributions are accumulated over time and you build up a pension pot. Almost all new pension schemes are this type of arrangement, including Group Personal Pension Plans. These types of scheme will provide a transfer value based on the funds you hold (minus any transfer penalties that might apply).

'Defined Benefit' schemes (which include 'final salary' arrangements) are different in that you do not actually hold any funds in the scheme, the company simply promise to pay you a secured income when you reach a certain age, for the rest of your life, based on your salary and service history. It may still be possible to transfer this benefit to a new scheme, with a 'Cash Equivalent Transfer Value' representing the amount that could be transferred into an alternative arrangement in exchange for giving up the promised income.

However, the protected nature of the secured income from this type of scheme, as well as the cost of funding a similar level of income from defined contribution funds, means that this can be an extremely valuable asset when it comes to retirement. If you are considering this type of transfer you should certainly seek financial advice before doing so. There is a regulatory requirement for advice to be given where a Cash Equivalent Transfer Value exceeds £30,000, and indeed, most providers will insist on advice for this type of transfer.

The rest of this factsheet does not consider the transfer of defined benefit pensions, but solely looks at defined contribution plans.

Does the policy have lower charges than my existing scheme?

One of the main considerations when looking to transfer pension funds from one plan to another are the charges associated with each. Most pension schemes carry single rate charges that make it easy to compare one against another, however some older plans may be making more than one charge on your fund making the process more difficult. You should ensure you are aware of the charges associated with any type of plan you are looking to transfer into.

What are my investment options? Do they match my needs?

The majority of defined contribution plans invest your money into pension funds, which are collective investments that can hold a wide range of assets. Typically, these aim to grow the value of your investment beyond simply what is added by any ongoing contribution. However, there is no guarantee that your pot of money will increase.

These additional returns are an important part of building your fund for your retirement, and most pension providers will offer you several investment options, including fully managed investment strategies for those people who are unsure about making their own investment decisions.

However, some plans may restrict what you can and cannot invest in and may not match your investment principles, so you should take care that you understand what you are transferring into before doing so. Some providers for example, may make additional charges on some investments that others do not, or may not offer an investment strategy that suits your goals.

Are there any protected benefits or guarantees I would lose on transfer?

It may be that your existing plan carries some form of protected benefit (such as guaranteed annuity rates) or guarantee of a future fund value or level of investment growth that wouldn't be guaranteed elsewhere. This is typically associated with 'With Profits' types of investment offering guaranteed annuity rates, but also include some other types of older plan (typically those established before April 2006) that have been set up with a guaranteed bonus or other guarantees awarded for remaining in the scheme. Members of occupational pension schemes prior to 6 April 2006 may have protected tax-free cash rights greater than 25% of the value of their fund.

You should ensure that any plan you transfer does not carry this sort of guaranteed benefit (or that you are comfortable with losing it), as giving up a valuable guarantee may have a negative impact on your retirement.

If you have a protected normal minimum pension age (NMPA) within your existing plan, this may be lost when you transfer your benefits to another arrangement.

Your NMPA is the earliest age that you can access your private pension benefits without incurring an unauthorised payments tax charge, unless you are retiring due to ill-health. The current NMPA is 55, although there are exceptions to this. Your scheme rules may also have a different NMPA.

The current NMPA is due to increase to 57 on 6 April 2028 at the latest, except for members of a uniformed services pension scheme, such as naval, military or air forces, the police force (other than the Civil Nuclear Constabulary) and firefighters. However, under new legislation some pension scheme members may have an existing right to take their pension benefits earlier than age 57, depending upon whether the pension scheme, and the dates of their membership, satisfy certain criteria outlined in the legislation.

You should check with your current pension provider whether you have a protected NMPA in respect of your benefits in the pension plan, and what would happen to this protection if you were to transfer your benefits into another pension plan. You should also check with the pension provider of the receiving pension plan that they will accept pension benefits with a protected NMPA, and that the protection will not be lost.

What next?

When you are certain that transferring is the right course of action for you, you should first speak to the pension provider you are intending to transfer to. They will likely provide you with a service to make the process as easy as possible.

They may require you to speak to the provider of the transferring plan, to obtain transfer information and the relevant application forms, and this would be good practice in any case so that you can assess the viability of a transfer yourself.

Both providers should also provide answers to any questions you may have, so feel free to ask them anything you do not understand.

Again, if you are in any doubt, we would recommend speaking to a financial adviser before transferring to ensure it is in your best interests to do so.

Please note; this document does not constitute financial advice and should be used as a reference only. There may be other factors involved in transferring which are not explicitly mentioned here.

Is there a penalty to transfer my funds?

Some older pension plans may charge you a penalty to transfer your funds. This is again often associated with some types of investments (in particular With Profits, which may have a Market Value Reduction factor applied to reduce the fund value), and should be explicitly outlined with your transfer value. You should carefully consider whether the benefit of transferring is worth the charge.

Transferring overseas

If you have built up a pension outside of the UK, and are now living in this country, or if you are looking to move abroad, it may be possible to transfer your pension to or from the UK.

This is largely dependent on the relationship between the UK and the other country, and whether the other pension scheme is a 'Recognised Overseas Pension Scheme' (ROPS). If it isn't you could be liable to an extremely high penalty for moving your funds.

An overseas transfer charge may apply to a transfer from a UK pension scheme to a ROPS, unless it qualifies for exemption under UK tax legislation. Currently this depends upon the location of the ROPS, and your personal circumstances. We would recommend that the tax position and applicable exemptions are checked prior to any transfer taking place. In addition, under new regulations, your pension provider will require you to provide proof of your tax residency in the country in which the ROPS is established, or if it is an occupational ROPS (linked to your employment), proof of your employment instead. Some pension providers may request both before the transfer can proceed.

The main UK pension providers will only accept transfers from ROPS, however some will not accept transfers at all from an overseas pension scheme. Local laws where the pension assets are held, or product terms, may also prevent a transfer of funds into a UK pension fund.

As with transfers within the UK, we strongly recommend that you seek authorised financial advice before committing to this type of transfer. This advice will also require a specialist adviser who will be able to talk you through exactly what you can and can't do, and the tax implications both within the UK and overseas.

More information on ROPS can be found in the following link: https://www.gov.uk/transferring-your-pension/transferring-to-an-overseas-pension-scheme.

6 April 2023

Important Notices

This document is based on our current understanding of legislation, taxation and HMRC practice, which may change in the future, for example if Government policy changes.

This document is for information only and is not personal financial advice. If you require financial advice you should seek this from an authorised financial adviser. The value of investments can go down as well as up, so you could get back less than you invest. Past performance does not guarantee future results.

Please also note that we are not lawyers or tax advisers and nothing in this document should be construed as legal or tax advice or relied on for this purpose. We strongly recommend that you seek appropriate advice in relation to matters of law and taxation.

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