Do you have a right to a transfer value?

Nowadays, very few employees actually stay with one employer throughout their working lives. Therefore by retirement age, most of us will have worked for several employers and are likely to have been members of different pension schemes throughout.

In the majority of cases a decision as to whether or not to transfer will usually arise on termination of employment or perhaps on being TUPE transferred to another employer whom operates a different pension scheme.

On cessation of employment, members of occupational pension schemes have a legal right to a transfer value as long as they have completed 3 months pensionable service. Indeed in a number of pension schemes (for example, the NHS Pension Scheme) a member with less than 2 years pensionable service would not be entitled to leave their accrued pension benefits in the scheme and would either have to transfer it (assuming they have at least 3 months service) or elect to receive a refund of contributions.

It is quite common for occupational pension scheme rules to require an individual to either claim a refund of their pension contributions on leaving service or to transfer to another approved pension scheme. The Local Government Pension Scheme (LGPS) is a notable exception in that a member only needs to complete 3 months service to qualify for a pension.

What is a pension transfer and what form can they take?

A pension transfer is effectively the movement of benefits in the form of a transfer value payment made from one pension scheme to another, in lieu of benefits that have built up to date. Forms of transfer are as follows:

1. Public Sector Transfer Club – If you transfer between schemes such as the LGPS and NHSPS for example, your service credit should be “actuarially favourable” because they would have been calculated on better terms courtesy of being members of the Public Sector Transfer Club. This would usually mean in schemes of the same benefit structure that your service credit in the receiving scheme would be broadly equivalent to that you had in the scheme you are transferring from.

12 month time limits apply for transfers into the LGPS and NHSPS so anyone transferring into these schemes should be conscious of this.

2. Change of employers within the same scheme – If you change employers but effectively remain in the scheme you will need to check your position. For example, members of the LGPS whom change employers and subsequently Administering
Authorities would in effect have their previous pension deferred and would have to specifically elect to transfer this service into their current Administering Authority.

3. Transfer to the Private Sector: Cash Equivalent Transfer Values – If you are transferring employment in or to the private sector your old scheme will at your request transfer at least a “cash equivalent” transfer to an approved private sector pension scheme at any time up to normal retirement age. However such a transfer will rarely guarantee a year for year service credit and indeed it’s very common for there to be a drop in the real value of your benefits as recognition is given to your potential future salary increases.

This is because the transfer value would be based on the value of your preserved benefits in your old employer’s pension scheme at the date of leaving with no account being taken of your projected salary increases to retirement. The new scheme converts the transfer value into a service credit based on assumptions about how much you will be earning at retirement age, hence the drop in value. It is difficult to estimate the loss, although in broad terms the younger you are the greater the drop in service credit. Where there are differences in the benefit structures added to the different assumptions used between the schemes a shortfall in service credit of between a quarter and a third is not uncommon.

4. Transfer to the Private Sector: Bulk Transfers – If higher the transfer value can be based on a member “share of fund”. This is the amount of money needed to secure the retirement benefits based on the assumption that the member will stay an active member until retirement age and receive above price inflation pay increases. If the pension fund is in surplus then the transfer value calculated on this basis is likely to be higher than the legal minimum cash equivalent basis.

It is the law in certain Best Value Authority staff TUPE transfers, and Government Guidance on public sector TUPE transfers of staff to the private sector that, in addition to the new employer providing a broadly comparable pension scheme, members must be offered the option of transferring their past service from the public sector pension scheme. This should generally be done on a bulk transfer basis and should mean that in effect members should be offered broadly similar service credits ion transferring, although it’s possible there could be a difference depending on any structural differences between the two pension schemes.

**The Decision to Transfer Pension Rights**

On leaving employment and starting a new job members should always consider potentially transferring their accrued pensions into any pension scheme offered by their new employer.

In deciding on whether or not to transfer, members should compare the benefits arising from the service credit in their new pension scheme with the benefits preserved in their old employer’s pension scheme. Set out below are some reasons which may encourage you to transfer and some which may not encourage you to transfer:
**Potential factors that would typically favour transferring**

- You have many years to go before retirement and many years of probable salary increases
- You are likely to stay with the same employer until retirement for a considerable period and expect regular salary increases
- You have good promotion prospects and hence the potential for very significant salary increases
- Your salary increases are likely to outpace the cost of living increases (which are sometimes capped) that would otherwise apply to your deferred pension benefits if you were not to transfer them
- The Rules of your new scheme in relation to ancillary benefits such as survivors benefits, ill-health and redundancy are such that your overall position would improve if you were to transfer in your preserved pension or pensions compared to what it would be if you were not to
- You have less than 2 years pensionable service in your former scheme and do not simply want to take a refund and lose the benefit of the employer contributions
- You have concerns about the financial security of your former pension scheme and indeed the ability of the employer to finance it and believe transferring would represent better security
- You are transferring between members of the Public Sector Transfer Club or simply will be offered a bulk transfer and want to take advantage of this if your new job offers a higher or similar salary and you expect your salary to keep increasing.

**Potential factors that would not typically favour transferring**

- You have many years pensionable service in a public sector pension scheme such as the NHS or Local Government and you value the security and uncapped cost of living increases offered to such pensions
- You are pretty close to your retirement date and value the security and terms of your deferred pension. Your promotion prospects with your new employer are bad, and you think your potential salary increases are unlikely to outpace cost of living increases
- Your salary is your new job is less than your previous job and is unlikely to outpace this and increase significantly anytime soon
- You are uncertain about your new employer’s commitment to the pension scheme and feel they may look to close this and perhaps even wind it up in the near future
- You are concerned about the funding position of any defined benefits pension scheme offered by your new employer and have reservations about your employer’s continued ability to adequately fund the scheme
- This is generally unlikely, but you feel that your overall position in relation to survivors benefits, ill-health and redundancy would be better served by not transferring your preserved pension benefits
- If you have LGPS benefits and will satisfy the Rule of 85 you may not want to lose your potential ability to draw pension benefits as of right and without reduction at 60
• If you have NHS Pension Scheme benefits you may not want to lose your potential ability to draw pension benefits as of right and without reduction at 60 as this is the 1995 Section’s Normal Pension Age.
• You feel you may return to local government or NHS employment in the foreseeable future in which case if you have existing preserved benefits you could elect to aggregate these

**IT’S ALWAYS ADVISABLE TO SEEK INDEPENDENT FINANCIAL ADVICE**

The decision as to whether or not to transfer pension benefits is often a difficult one and very specific to individual circumstances. For this reason members are always advised to seek independent financial advice if they can on this issue. UNISON’s Pensions Unit cannot provide advice on whether or not you should transfer, or on the most suitable place to put your transfer value.

UNISON members may be able to get such advice from Lighthouse Temple. UNISON Members are entitled to an initial consultation without charge or commitment and any fees are paid at preferential rates.

You should always ensure that anyone you seek financial advice from is registered with a regulator as being approved to give such advice. Your Yellow Pages should contain a list of independent financial advisers in your area. Alternatively you can try IFA Promotions on 0800 085 3250 or [www.unbiased.co.uk](http://www.unbiased.co.uk).

The regulator for financial advice is The Financial Services Authority and their contact details are as follows:

The Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS  
Telephone: 0845 606 1234  
Web: [www.fsa.gov.uk](http://www.fsa.gov.uk)

**Transfer guides that you may find of interest**

Although not specific to the issue of whether or not you should transfer previous pension benefits that you’ve built up you may find the following guides of interest.

• The Pensions Advisory Service produce a guide entitled Transferring your pension to another scheme which you can order by calling 0845 601 2923 or can view online by going [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk).

• The Financial Services Authority produce a guide entitled Pension Transfers – The Risks of Salary-Related Occupational Pension Transfers which you can order by calling 0845 606 1234 or can view online by going to [www.fsa.gov.uk](http://www.fsa.gov.uk).
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