# Should I transfer my previous pension benefits?

One of the most commonly asked questions by anyone actively contributing to a pension scheme is 'Should I transfer in my previous pension benefits?'

Unsurprisingly there is not a straightforward answer to this question. The chief factors to be considered relate to the category or nature of the transferring and receiving schemes and the impact on the underlying investments.

We can speculate on the variety of reasons why people choose to transfer in previous pensions when the opportunity arises, but in truth the principal reason will invariably be the ease of administration. The idea of reaching retirement age and having half a dozen policies which require your attention is not appealing to most.

Jobs for life are now, in the main, a thing of the past. An onerous factor in having a number of different employers is the equivalent number of pension schemes you are likely to be offered. For an individual's peace of mind, transferring in one or more previous pensions may be extremely attractive and comforting, even if there is an element of financial loss entailed.

So, what kind of questions should be asked and what factors should be considered when looking to transfer?

## Categorise your pension

Look at the product you are thinking of transferring and look at the potential receiving scheme or policy. Broadly speaking, your pension product will generally fall into one of two categories – Defined Benefit and Defined Contribution.*

**Defined Benefit** – these schemes generally offer an assured element, usually in the form of guaranteed pension at retirement based on the term in the scheme and the salaries during that term. Final Salary and Career Average Revalued Earnings (CARE) tend to be the most common but they exist in other forms as well.

**Defined Contribution** – more common nowadays, these products allow you to fix the contribution level but generally offer no guarantees. The funds will generally grow in the long-term with investment returns but will only purchase the actual pension (or annuity) at retirement. Most common types are Money Purchase Plans, Group and Individual Personal Pensions, Stakeholder Policies and SIPPs (Self Invested Personal Pensions).

In relation to transferring, the individual should consider the impact of moving between these types of product, specifically:

**Defined Benefit to Defined Benefit** – reasonable in theory as the products are similar (possibly identical) in their nature – changes in salary levels can impact on the value being transferred and other factors for consideration relate to the subtle differences in benefits at retirement e.g. level of increase of pension in payment, special deals, death benefits, early retirement factors/options.

**Defined Contribution to Defined Benefit** – very appealing in theory as benefits accrued, which generally carry no level of guarantee and therefore a significant element of risk in their actual value, can buy guaranteed pension in the receiving scheme. This is generally by purchasing either added years and months, a percentage of your final salary or a fixed amount of pension at a specified age, in said scheme. An obvious factor would be whether

**There are exceptions to this rule – certain hybrid schemes may not be easily categorised. Contracted-out monies ('Protected rights') accrued in an Appropriate Personal Pension (APP), although more easily categorised, are often difficult to transfer.*

the defined benefit scheme was open to transfers in and beyond that, the significant factor is timing. Are you maximising the value of the defined contribution product by transferring it at that time – the underlying investments and market conditions impact on this (see 'Consider investment factors' on page 15).

**Defined Contribution to Defined Contribution** – there are really three main factors for consideration with this type of transfer including: penalties for transfer; the investment make up of both schemes/policies; and ongoing costs. The investment factors are covered under 'Consider investment factors' opposite. Since the Stakeholder regulations of 2001 came into play, substantial penalties for moving money between pension schemes have disappeared in the main but certain 'adjustments' can still be applied and Market Value Adjustments (MVAs) may still be implemented on transfer. Ongoing costs relate generally to the charges applied to the products. The principal (and often only) charge applied to defined contribution products relates to the size of the fund (x% of fund value each year).

If you move from one defined contribution product to another, your fund will be added to the existing fund and will generally then be subject to the charging structure of that scheme. Assuming that the products had similar underlying investments (both in structure and performance), you could benefit in the long-term by having funds invested in the policy with the lower charging structure.

**Defined Benefit to Defined Contribution** – generally considered a negative move due to the risk element. By exercising this option you are fundamentally sacrificing a guarantee. In a defined benefit scheme you are entitled to a pension at a future date calculated using a formula (usually based on earnings and length of service). If you choose to transfer this to a defined contribution scheme, your pension is converted to a transfer value (monetary amount) and this is added to your existing fund. However, the transferred benefits, along with your existing fund, would then be exposed to the receiving scheme's investment portfolio (and subsequent risk) and later to the annuity rates available at the time you retire, which cannot be predicted with any great accuracy. Although this creates a chance to 'outperform' the level of guarantee, is this likely? The answer to this is unknown and the individual needs to take the responsibility for the funds and the investment strategy in the long-term. The simple argument against the move, regardless of market conditions, is 'Why take risk with a guaranteed benefit?'

## Consider investment factors

**Portfolio of investments** – does the portfolio of investments under the transferring scheme match that of the receiving scheme? If so, effects of market conditions are lessened. Most investment portfolios (particularly for those who are not close to retirement) contain at least an element of equity investment – if the portfolios match or are very similar, there is not likely to be a high potential for loss (or gain) at the point of transfer as you are either buying and selling high or buying and selling low, both of which reduce the effects of the market.

If the portfolios of investment do not match, the market conditions become more significant and subsequently they should be in the forefront of your mind when considering the timing of the move.

These investment issues are relevant when moving under any of the scenarios mentioned in 'Categorise your pension' (on page 13) but you only have influence over the investment strategy under defined contribution schemes.

## Penalties on transfer/ exceptions

Stakeholder regulations, where many pension transfers either avoid penalty on transfer or have minimal fees or charges applied, were naturally welcomed by members. Prior to these regulations, individuals could lose significant elements of their fund value on transfer and were often forced to leave pension funds where they were. The regulations allowed members to benefit from the peace of mind of amalgamating past pension without being significantly penalised for doing so.

A number of products still operate with penalties on transfer and many apply market value adjusters to create an adjustment to the value at any time.

An exception to the standard rules of investment is money held in with-profits funds – unlike standard investments with unit prices, with-profits funds work in a similar manner to endowment policies – interim bonuses are paid out during the period of investment and, if money is invested for the full term, a terminal bonus is often applied. If the individual transfers out of a with-profits fund before the fixed term is complete, future bonuses due can be withheld.

## Conclusion

**It's reasonable to say that it's worth your while investigating a transfer** – often the receiving scheme/policy administrator will carry out much of the work on your behalf and there is no obligation to follow through to completion.

**Certain instances are a great deal clearer** – some pension products have rules in place where benefits can be lost if not transferred within a set period of time after deferment.

**Look at the outcome of the transfer** – are you left with your potential retirement benefits held under a type of scheme or portfolio of investments that you are happy with?

**Think of the outcome of not transferring** – are you comfortable knowing that at retirement you may have a number of pension pots which will require a course of action?

**Is the timing right** – how will the timing affect the values? Are you likely to review your situation on a regular basis and perhaps take action in the future if you don't act now?

**Collect the information and read the detail** – if you are comfortable with the concepts, the nature of the products, the penalties attached, etc you can, if you are absolutely sure, make up your own mind – **otherwise you may wish to consider taking independent financial advice.**

A good starting point is the FSA website – their information service www.moneymadeclear.fsa.gov.uk provides impartial direction on all manner of pension matters – included is a section on 'Transferring your pension' (www.moneymadeclear.fsa.gov.uk/products/pensions/transferring.html) where they offer '7 key questions to consider' when looking to transfer a pension.