



<b>Report for:</b>	Pensions Committee 15 <sup>th</sup> December 2014	<b>Item number</b>	
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<b>Title:</b>	Transfers Out and the Implications of the New Pension Freedoms
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<b>Report authorised by :</b>	Jacquie McGeachie - Interim Head of Human Resources and Organisational Development
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<b>Lead Officer:</b>	Janet Richards, Pensions Manager
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<b>Ward(s) affected:</b> N/A	<b>Report for Non Key Decision</b>
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## **1. Describe the issues under consideration**

- 1.1 This is an information report concerning transfers of benefits out of the Haringey LGPS and the impact of the new pension freedoms effective from 1<sup>st</sup> April 2015.

## **2. Cabinet member Introduction**

- 2.1 Not applicable.

## **3. Recommendations**

- 3.1 The paper is for noting.

## **4. Other options considered**

- 4.1 N/A.

## **5. Background information**

- 5.1 The paper has been prepared at the request of the vice-Chair and provides information on the numbers of scheme members who transfer their benefits to other pension arrangements and the additional options that will be available when new regulations are introduced in 2015.



5.2 Haringey Council is not able to give financial advice to scheme members comparing the LGPS and the proposed transfer. We do however provide guidance on the issues to be considered and possible pitfalls from leaving LGPS.

## **6. Comments of the Chief Financial Officer and financial Implications**

6.1 Transfer values are calculated by the Actuary on a cost neutral value. There may be cashflow implications if volumes of transfers increase under the new freedoms and also reputational issues if scheme members make decisions that are not in their long term interests.

## **7. Assistant Director for Corporate Governance and Legal Implications**

7.1 The Assistant Director for Corporate Governance has been consulted on the content of this report and there are legal issues raised.

## **8. Equalities and Community Cohesion Comments**

8.1 There are no equalities issues arising from this report.

## **9. Head of Procurement Comments**

9.1 Not applicable

## **10. Policy Implications**

10.1 None.

## **11. Use of Appendices**

11.1 None

## **12. Local Government (Access to Information) Act 1985**

12.1 Not applicable.

## **13. The current ability to transfer out of the LGPS.**

13.1 Currently where an individual has left the pension scheme and has entitlement to a deferred pension or a refund of pension contributions in the LGPS they may be able to transfer their pension benefits to another pension arrangement.



13.2 The pension arrangement can include a new employer's pension scheme, a personal pension plan, a stakeholder pension scheme or a buy out insurance policy. It may be possible to transfer to an overseas arrangement that meets HM Revenue and Customs conditions. The cash value of the deferred benefits known as the Transfer value is calculated in accordance with the terms and conditions of the Local Government Pension Scheme Regulations 2013.

13.3 Once the cash value is calculated the new pension provider is able to advise members of the benefits the transfer will buy in their scheme.

#### **14. The numbers leaving and the basis on which they transfer benefits**

14.1 We have over 7,000 deferred members of the pension scheme of those 242 have become deferred beneficiaries since April, during which time we have finalised 28 transfer value payments, of these 20 have transferred to other local authorities, 5 have been transfer payments to occupational pension schemes and 3 have been paid to pension schemes which are overseas.

14.2 In tax year 2013/2014 we had 45 transfers payments out of the scheme 11 were transfers to non local government pension schemes.

#### **15. How the new regulations (freedoms) impact the LGPS and expected impact on numbers leaving.**

15.1 The regulations do not currently place any restrictions on LGPS transferring to Defined Contribution (DC) schemes. The LGPS is a funded public sector scheme and unlike unfunded Public Service Defined Benefit pension members under the new freedoms will still be able to transfer to a DC scheme and members if they elect to transfer to a DC scheme will be able to take advantage of the new flexibility.

15.2 From April 2015 if you are aged 55 or more you can take all your Defined Contribution (DC) pension benefits as a cash sum, subject to the pension scheme and tax rules. Another change is that the minimum age at which pension benefits can be taken will increase from age 55 to age 57 in 2028 and then it will be linked to 10 years before State Pension age after that.

15.3 The new rules will also mean that individuals wishing to transfer to a DC Scheme will have to prove they have consulted a professional financial adviser authorised by the Financial Conduct Authority (FCA).



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15.4 It is anticipated that there will be an increase in the number of members requesting a transfer value quote as well as an increase in those requesting an actual transfer payment. Some scheme members may transfer against the advice from their professional financial advisor.

## **16 Advice to Scheme Members**

16.1 The lure of gaining access to significant sums by cashing in pension benefits early will be attractive to many. The provision of advice is important to ensure that short term decisions do not jeopardise solvency during retirement.

16.2 Haringey Council is not authorised to give financial advice. In our transfer correspondence we tell scheme members that if they are considering whether to transfer benefits, to make sure that they have full information about the two pension arrangements i.e. details of what their benefits are worth in the LGPS and details of what the benefits would be worth in the new pension scheme, if transferred. We remind members that when they compare options not to forget that their LGPS benefits are guaranteed for cost of living increases

16.3 With the transfer quote we enclose a copy of the scorpion leaflet issued by the Pension Regulator which highlights pension scams which can be found on the website:

<http://www.thepensionsregulator.gov.uk/pension-scams>

16.4 As transferring pension rights is not always an easy decision to make we suggest when we send the transfer estimate that individuals may, therefore, wish to seek the help of an independent financial adviser before making a decision to transfer their deferred benefits to a personal pension plan, stakeholder pension scheme, buy-out insurance policy or to an employer's money purchase scheme, as they will be bearing all of the investment risk which could significantly affect future pension benefits. We also inform members that overseas schemes may not be obligated in any way by the law of the United Kingdom and consequently the receiving scheme or arrangement or its trustees or administrators may not be under any obligation to provide any particular level of pension or benefit for the transfer payment.



16.5 We also ask members to consider the following when considering a transfer of pension rights:

- i. Ask what guarantees there are in the scheme to protect the value of your current entitlement.
- ii. Ask about Index Linked pension increases and how this might affect the amount of pensions you receive.
- iii. Check that the scheme provides the range of benefits appropriate to your family needs e.g. Ill Health/Early Retirement Benefits and Survivor Dependant's Pensions.
- iv. Check that any assumptions on future rates of inflation seem reasonable.
- v. Ask about the commission/administrative charge that will be recovered from your transfer payment.
- vi. Ask about transferring your pension rights back into an Occupational Scheme and how this might affect your pension rights and your service credit.

16.6 Deferred members are notified annually of the current value of their deferred benefits and we remind them of this information when we send the transfer estimate or if they are eligible for a refund of pension contributions the current refund value.

16.7 To date the number of scheme members making decisions that may not be in their best long term interests is small. The guidance provided is in line with the approach taken by other Council's and as far as we can go without being seen to give financial advice, for which we are not authorised.

16.8 It is proposed that the volume of requests are monitored and periodically reported to the Committee. If the new freedoms to release pension benefits through transfers to DC arrangements cause an increase in transfers, one possible approach will be to employ the services of a financial advisor to give more robust advice on the benefits of LGPS. Unfortunately, even if fully appraised of the implications of a transfer, there will be some members who place a greater weight on short-term considerations.