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BRIEFING PAPER

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Pension freedoms: transfers from defined benefit pension schemes

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Summary

The pension freedoms

The 'pension freedoms' introduced in April 2015 gave people aged 55 and over more flexibility about when and how to draw their defined contribution (DC) pension savings.

As the Money Advice Service explains, with a DC pension "you build up a pot of money that you can then use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in, the fund's investment performance and the choices you make at retirement."

Before the reforms, most people had had to buy an annuity with their DC pension savings. Annuities have the advantage of providing a guaranteed income throughout retirement. And although the right annuity bought on the open market could represent good value for money and be a good option for those with low appetites for risk, many did not shop around for the right annuity, due to inertia resulting from complexity and the nature of the decisions involved. Annuity rates had also dropped due to wider underlying factors. (FCA, Retirement income market study: interim report, MS14/03, December 2014, p5).

DB transfer rights

The pension freedoms were not aimed at members of defined benefit (DB) pension schemes (which provide benefits based on salary and length of service) for the majority of whom, it was likely to be in their best financial interests to remain in their DB scheme.

However, they may have the right to transfer their benefits to another scheme. The Government recognised that the pension freedoms might make transfers from DB to DC schemes more attractive. It considered removing this right (Cm 8835, March 2014, para 5.15). Following consultation, it decided to maintain transfer rights for members of private sector DB schemes and funded public sector schemes (principally, the Local Government Pension Scheme).

However, it decided to require those with benefits worth over £30,000 seeking to transfer or convert those benefits into DC benefits to take independent advice first. The intention was to ensure they were aware of the security and valuable guarantees they would be giving up (Cm 8901, July 2014, chapter 4; *Pension Schemes Act 2015* (s48); SI 2015/742, reg 5). The 'advice requirement' applies to people with 'safeguarded benefits' worth over £30,000, who are seeking to transfer or convert them into flexible benefits. 'Safeguarded benefits' means not only rights in a DB scheme, but also any benefits which include some form of guarantee or promise to members, when they are building up their pension rights, about the rate of secure income they can expect when they come to draw them (TPR guidance, DB to DC transfers and conversions, updated Jan 2020).

The number of transfers from DB into DC pensions has risen steadily since the introduction of pension freedoms. The Financial Conduct Authority has expressed repeated concerns at the quality of advice in this area. It has "found advice was suitable in fewer than 50% of cases; this was not acceptable, and standards must be improved." Despite its guidance that advisers should start from the position that a transfer is unlikely to be suitable, almost seven in ten (69%) of those advising on a transfer between April 2015 and September 2018 recommended a transfer (DB pension transfers: market wide data results, FCA, July 2019). On 21 January 2020, the FCA said too much advice was still not of an acceptable standard and that it would step up its supervisory activities in this

area over the next two years. The issues around DB pension transfer advice are discussed in a separate note Pension transfer advice (CBP 8488, May 2020).

In March 2020, the Pensions Regulator said that due to the Coronavirus outbreak, DB schemes would be allowed to suspend providing Cash Equivalent Transfer Values for a period of three months. This was to allow them to check the terms they were offering, in light of changes in the economy and financial markets, and to protect administrative functions from potentially being overwhelmed. It also issued guidance on communications to members - stressing the risk of scams and that DB to DC transfers are unlikely to be in the scheme member's best long-term interests. Trustees were asked to monitor transfer requests and report concerns (TPR, DB scheme funding and investment: COVID19 guidance for trustees, March 2020; TPR, Communicating to members, 29 April 2020).

Public sector pension schemes

When it introduced the pension freedoms, the Coalition Government decided to prohibit members of the main public service pension schemes, except for the Local Government Pension Scheme (LGPS) from transferring out to a DC scheme. This was because of concern about cost to the Exchequer if significant numbers of public servants asked for their pension rights to be paid in a lump sum rather than over many years (CM 8835, March 2014, chapter 5; *Pension Schemes Act 2015* s68). Concerns have been raised about people transferring-out rights in public service pensions schemes before this ban was put in place (PQ 184, 21 October 2019).

1. Introduction

1.1 The pension freedoms

There are two main types of private pension:

- A defined benefit (DB) scheme is one where the amount you're paid is based on how many years you worked for your employer and the salary you've earned. They pay a secure income for life which can often increase each year in line with inflation. You can contribute to the scheme too.
- With a defined contribution (DC) scheme you build up a pot of money that you can then use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in, the fund's investment performance and the choices you make at retirement.

The Coalition Government introduced the pension freedoms in April 2015, to give people aged 55 and with DC pensions more flexibility about when and how to draw their pension savings.[1]

Before that, most people (three quarters) with DC pensions used them to buy an annuity, as they were effectively required to do by pension tax legislation.[2] Annuities have the advantage of providing a guaranteed income throughout retirement.[3] Economic analysis conducted for the Financial Conduct Authority (FCA) found that, for people with average-sized pension pots, the right annuity purchased on the open market offered good value for money relative to alternative drawdown strategies and might therefore be a good option for those with low risk appetites. However, many people did not shop around and some did not buy the right type of annuity for their circumstances. This inertia was due to factors such as complexity and the fear associated with making an irreversible decision. Added to this, annuity rates fell due to wider underlying factors.[4]

Announcing the introduction of the pension freedoms in the March 2014 Budget, the then Chancellor of the Exchequer, George Osborne, announced that from 6 April 2015, people aged 55 and over would have more flexibility about when and how to draw their DC pension savings. He said the Government thought people should be trusted with their own finances:

> We have introduced flexibilities, but most people still have little option but to take out an annuity, even though annuity rates have fallen by half over the last 15 years. The tax rules around these pensions are a manifestation of a patronising view that pensioners cannot be trusted with their own pension pots. I reject that.

1 *Taxation of Pensions Act 2014*
2 HM Treasury, Freedom and choice in pensions, Cm 8835, March 2014, p21
3 DWP and Inland Revenue, Modernising annuities. A consultation document. February 2002; See also HM Treasury, 'Simplifying the taxation of pensions: increasing choice and flexibility for all', December 2002, para 5.45
4 FCA, Retirement Income Market Study: Interim Report, MS 14/03, Dec 2014, p5; FSCP, Annuities and the annuitisation process: the consumer perspective. A review of the literature and an overview of the market, January 2013, p2-6

> People who have worked hard and saved hard all their lives, and done the right thing, should be trusted with their own finances, and that is precisely what we will now do: trust the people.[5]

1.2 Access for members of DB schemes

The Government said that the reforms were not primarily aimed at members of DB schemes, for whom remaining in their existing scheme was likely to be the best option:

> 5.9 Defined benefit pension scheme members, whether in public or private sector, do not face the same set of issues as those with a defined contribution pension entitlement. The pension that members of defined benefit schemes will receive in retirement is not, in general, conditional on short term economic conditions, and the individual members do not need to enter the annuities market to secure their retirement income. In general, it is the employer who bears the risk of market volatility in a defined benefit scheme.
>
> 5.10 For most people, retained membership of an existing defined benefit scheme is likely to remain the most appropriate option even after these reforms.[6]

However, members of DB schemes have the right to request a cash-equivalent transfer value (CETV), which means the trustees convert their pension rights into a cash lump sum, which they can invest in another pension scheme, provided it will accept the transfer.[7] This means people with DB pension rights who want access to the pension freedoms can get this by exercising their transfer rights. As discussed below, the Government recognised that the introduction of the pension freedoms might make this more attractive.

Transfer rights

Transfer rights are provided for in Chapter 1 of Part 4ZA of the *Pension Schemes Act 1993*. Under section 93, in relation to 'safeguarded benefits' i.e. benefits that are not flexible, such as DB pension rights, the member must have:

- Stopped building up benefits and
- made an application to transfer those benefits (following receipt of the statement of entitlement)
- one year or more before their scheme's normal pension age to retain the statutory right to transfer those benefits.

For any category of benefits, the right to a statutory transfer value applies up to the date of crystallisation.

The Pensions Regulator has produced guidance on DB to DC transfers and conversions (last updated Jan 2020).

Pension freedoms consultation

The Coalition Government recognised that the introduction of the pension freedoms might make DB transfers more attractive:

5 HC Deb 19 March 2014 c793
6 HM Treasury, Freedom and choice in pensions, March 2014, Cm 8835, For an overview of the transfer rules, see Annex B
7 Money Advice Service, Transferring out of a defined benefit pension scheme

> 5.3 Currently, members of a defined benefit pension scheme have the right to a Cash Equivalent Transfer Value (CETV). This is an option which is not likely to be taken out by many defined benefit pension scheme members (in public service schemes in particular), unless an adviser or product provider can, exceptionally, demonstrate that it is in the individual member's best interests to do so. There are strict regulatory requirements on pension transfers which will continue to be in place under the new system, and defined benefit schemes will continue to offer their members a secure income in retirement. However, the government recognises that the attractiveness of transferring from defined benefit to defined contribution may increase as a result of the changes to the tax framework for how defined contribution pension savings can be accessed. [8]

It consulted on options, ranging from legislating to remove the right of all members of DB schemes to transfer to a DC scheme (except in exceptional circumstances) to leaving in place the existing flexibility for members of DB schemes to switch to a DC scheme, effectively "extending to them the full flexibilities described elsewhere in this document."[9]

In July 2014, the Government said the vast majority of respondents to its consultation were in favour of continuing to allow DB to DC transfers in the private sector. They argued that this would be consistent with the principles of the freedom and choice reforms. And for some people, a transfer-out might be in their best interest – for example, if they were heavily in debt, had a short life expectancy, did not have dependants or preferred wealth to an income stream. The numbers seeking to transfer-out were expected to be low: the majority of estimates were between 10% and 20%, but with a number expecting them to be below 10%.[10] The few respondents that called for a ban on transfers did so on grounds of a mis-selling risk, and the potential negative effect on the viability of schemes of transfers out on a large scale.[11]

The Government decided to retain the existing flexibility of transfers out of private sector defined benefit schemes for all pension scheme members (other than those whose pensions are already in payment), but with additional safeguards – in particular, the 'advice requirement' discussed below. The ban on existing pensioners transferring-out would remain.[12]

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8 HM Treasury, Freedom and choice in pensions, March 2014, para 5.3-15
9 Ibid, para 5.15
10 HM Treasury, Freedom and choice in pensions: government response to consultation, Cm 8901, July 2014, para 4.30-1
11 Ibid, para 4.12
12 HM Treasury, Freedom and choice in pensions: government response to consultation, Cm 8901, July 2014, para 4.30-1

1.3 Requirement to take advice

As an additional safeguard for people considering a DB transfer, the Government decided to require the trustees of the scheme from which the transfer was being made, to check first that the individual had received appropriate independent advice:

> […] defined benefit schemes will be required to check that a member has taken advice from a professional financial adviser who is independent from the defined benefit scheme and authorised by the FCA before allowing a transfer out of the scheme. In most cases the individual pension member will need to pay for the financial advice. However, responsibility for paying for the financial advice will fall on the employer if the transfer is from defined benefit to defined contribution schemes within the same scheme, or as a result of an employer led incentive exercise.[13]

For the debates in Parliament, see

Library Briefing Paper CBP 7105 (House of Lords stages) and CBP 7030 (House of Commons stages).

It said this had been recommended by a large number of stakeholders and would ensure that "all pension fund members are fully informed before taking any decision, and counteract the risk that a significant number of pension scheme members act against their own best interests or are coerced out of their scheme."[14]

Section 48 of the *Pension Schemes Act 2015* introduced a requirement to receive 'appropriate independent advice' before transferring or converting 'safeguarded benefits' into 'flexible benefits.' The rationale was that:

> […] 'safeguarded benefits' were judged to provide a particularly valuable and secure retirement benefit that an individual should be informed of before they gave up. Safeguarded benefits include funded defined benefit rights, as well as arrangements which provide a fund but include a guaranteed annuity rate.[15]

The requirement only applies where the value of the safeguarded benefits is more than £30,000.[16] This was because total savings below £30,000 could be taken as a lump sum in any case.[17] New regulations on how the transfer value is calculated were debated on 29 November 2017.[18]

The legislation defines safeguarded benefits as pension benefits other than money purchase and cash balance benefits.[19] DWP produced a factsheet to explain.[20] As The Pensions Regulator (TPR) explains, benefits are now described as either 'flexible' or 'safeguarded':

> **Flexible benefits**
>
> - Money purchase benefits
> - Cash balance benefits

13 Ibid, para 4.25
14 Ibid, para 4.28-9
15 HM Treasury, Pension transfers and early exit charges: a consultation, July 2015, para 4.3; PQ 41840 5 July 2016
16 *Pension Schemes Act 2015, s*48 (3); Cm 8901, para 4.24
17 Cm 8901, para 4.31; *Taxation of Pensions Act 2014,* Sch 1, para 71
18 Delegated Legislation Committee, 29 September 2017
19 *Pension Schemes Act 2015,* s48 (8)
20 DWP factsheet, January 2016

> - The 'third type' of benefits
>
> **Safeguarded benefits**
>
> - Any benefits that are not:
> - money purchase benefits
> - cash balance benefits
>
> 8. There is a 'third type' of benefits, where categorisation may be less obvious. This 'third type' could fall within the definition of both flexible benefits and safeguarded benefits. Where there is doubt about the status of benefits and how to treat them, trustees should treat this 'third type' of benefits as safeguarded benefits unless there is a good reason to treat them differently. Where trustees are unsure whether benefits within their scheme are clearly either flexible benefits or safeguarded benefits, we recommend that they take specialist legal advice to determine if they fall within this 'third type'.[21]

When the legislation was before Parliament, Treasury Minister, Lord Newby explained that the most common form of benefit in this category were pensions with a guaranteed annuity rate (GAR), which offered a level of security akin to DB arrangements:

> Guaranteed annuity rates were typically issued in the late 1980s and 1990s, their distinguishing feature being an enticement to customers promising that when they came to take these pensions, if they bought their annuity with the provider with which they had accumulated the pension, they would get an annuity rate specified at the point of purchase. Due to the decline in annuity rates, the pensions these guaranteed annuity rate arrangements provide by means of annuities are especially generous. Therefore in the Bill they are given the same safeguarded treatment as a defined benefit pension[22]

Respondents to consultation thought clarification was needed on how to assess benefits with a GAR (guaranteed annuity rate) against the £30,000 threshold for advice requirements. DWP confirmed that where benefits include a GAR, the calculation of the value of the benefits must take into account the value of the GAR.[23]

1.4 Pension transfer advisers

Under section 48 of the *Pension Schemes Act 2015* providers are required to check that an individual with 'safeguarded benefits' worth more than £30,000 has received 'appropriate independent advice' before the transfer can proceed. The advice must be given by an authorised independent adviser and meet requirements specified in regulations.[24] In the case of rights in a DB scheme, the advice must be provided by a pension transfer specialist. The FCA decided that this should be the case on grounds that the new regime would make advising on pension transfers significantly more complex. On balance, it

21 TPR guidance, DB to DC transfers, (Issued April 2015, last updated Jan 2020)
22 HL Deb 12 January 2009 c609
23 DWP, Pension benefits with a guarantee and the advice requirement, Jan 2016
24 Section 48 (8)

did not think this was necessary for the transfer of benefits from a policy with a GAR (on grounds of cost and industry capacity issues).[25]

The Money Advice Service has a retirement adviser directory which includes only regulated advisers, and shows whether they are qualified to deal with transfers from DB schemes.

The scheme member is expected to meet the cost of the advice except where the transfer is employer-instigated (i.e. where the employer, trustees, or someone on their behalf, writes to members, setting out the option to transfer in terms that encourage, persuade or induce a request to transfer).[26]

[25] FCA, CP 15/07; March 2015, para 2.23-4; FCA, PS 15/12, July 2015, para 2.29

[26] *The Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015* (SI 2015/724), reg 12

2. Regulation

Advice on DB transfers is regulated by the Financial Conduct Authority.[27] However, the Pensions Regulator (TPR) also has a role to play through its regulation of workplace pension schemes and trustees.[28] It has taken steps to improve matters following the Rookes review into the experience of the British Steel Pension Scheme 'Time to Choose Exercise'.

For more information, see

Library Briefing Papers Pension transfer advice (CBP 8488, May 2020) and British Steel Pension Scheme (CBP 8288, May 2020)

2.1 Case study - British Steel Pension Scheme

The issues were highlighted dramatically in connection with the British Steel Pension Scheme (BSPS) 'Time to Choose' exercise, which ran for three months from in late September to December 2017. Members had to choose between switching to a new BSPS or remaining in the existing scheme, which would transfer to the Pension Protection Fund. However, those with more than a year to go before pension age also had the option to transfer their rights out.

In a February 2018 report, the Work and Pensions Select Committee said inadequate support in making complex decisions, uncertainty about the future of the scheme and high transfer values, all contributed to a huge surge in transfers. The Committee raised concerns about "dubious advisers", using 'contingent pricing' models, who had encouraged scheme members to transfer valuable DB pension rights out into "unsuitable funds characterised by high investment risk, high management charges and punitive exit fees." It concluded that another "major mis-selling scandal" was erupting and required urgent action, including a ban on contingent charging on DB transfer advice. It called for a review and action plan to counter risks in any similar cases in future.[29]

TPR asked Caroline Rookes to conduct an independent review of communications to BSPS members. Her report, published in January 2019, found that 8,000 members – nearly 20% of the 44,000 eligible - had transferred out of the scheme. It was those members who had prompted most concern.[30]

The context for their decision was the BSPS 'Time to Choose' exercise, which "had landed in an atmosphere of mistrust and misinformation and problems were compounded by the speed with which it had to be carried out." Members who had never previously thought much about pensions were now faced with making a very significant decision on a very complex issue to a very tight deadline. They needed a lot of help but found it difficult to get guidance and information from the pensions team, which was overwhelmed. The concentration of members in four geographical areas, made them sitting targets for unscrupulous advisers. Alongside this, interest in cash transfers had been growing – because of

27 For example, Advising on pension transfers – our expectations, FCA, January 2017
28 TPR website – what we do and who we are; *Pensions Act 2004*, s5
29 Work and Pensions Committee, British Steel Pension Scheme, HC 828, June 2018
30 Independent review of communications to BSPS scheme members, Caroline Rookes January 2019, p8

the size of the potential cash sums and the activities of unscrupulous advisers- and by the time the regulators became aware and set up a helpline, it was too late.[31]

The extent to which those members may have lost out financially was not yet clear. However, there were worrying signs. In particular:

- Work done by the FCA to look at the suitability of advice given by financial advisers to a sample of BSPS members showed that, in nearly half of cases, the advice was unsuitable or it was unclear whether the advice was suitable or not.
- We know that some advisers behaved in unscrupulous ways, paying introducers and inducing people to attend sessions with the offer of a free lunch. [32]

Those who might come to regret their decision fell into two groups:

- those who regret transferring out because their future income may be at risk dependent as it is on investment performance
- those who suffered from a form of 'fractional scamming', where they paid very high fees to unscrupulous advisers and are unhappy with the decision to move out of their scheme.[33]

The report explained that it was unlikely that any scheme in future would be faced with the identical circumstances facing BSPS, but that there were undoubtedly elements that could provide useful learning for trustees in future to help their own members facing difficult situations[34]

The Rookes review was asked to look at communications rather than fundamental legislative change. However, it said the complexity of the choice for scheme members was an inherent problem and suggested ways of reducing it by taking the choice away, at least partially. Its suggestions included:

- Simplifying the choices in the event of a restructuring, whether through allowing a partial default into a new scheme or setting requirements for a new scheme to be distinguishable from the PPF.
- The Pensions Regulator should consider the preparedness of a scheme to handle the member consultation exercise in the event of a Regulatory Apportionment Arrangement (where it allows a restructuring which includes the entry of a scheme into the Pension Protection Fund).[35]

Its recommendations for improved communications relating to cash transfers included:

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[31] Independent review of communications to BSPS scheme members, Caroline Rookes January 2019, p20

[32] Ibid p29

[33] Ibid; TPR, Rookes Review Action Plan, April 2019

[34] Independent review of communications to BSPS scheme members, Caroline Rookes January 2019, p9

[35] Ibid, p22; See section 2.5 CBP 4368

- **Improving the guidance and the support trustees were expected to provide**;
- **A review of the Money and Pensions Service and FCA adviser directories/registers** and ways to help DB scheme members find suitable advisers.
- Consideration of guidance sessions to help people understand the risks and implications of taking a transfer.[36]

Subsequent action

In response, the regulators published a joint protocol and joint action plan.

The joint protocol, launched in January 2019 by TPR, FCA, MaPS is intended to enable early intervention and joint communications when there is a concern that schemes are experiencing an event likely to create member uncertainty and an increase in DB transfer requests.

Underneath this protocol, there are rapid information sharing plans in place across the organisations. This includes preparing template member communications for trustees to pass onto their members, where there are concerns about the health of the sponsoring employer which may lead to an increase in DB transfer activity.

To support this joint protocol, TPR has developed new online content designed to support trustees in communicating with members about how an employer event might impact their benefits. The PPF, with TPR's support, has issued guidance for trustees on contingency planning . The PPF has also published guidance on restructuring exercises and successor schemes.

TPR produced updated guidance for trustees on DB to DC transfers in January 2020.

2.2 COVID-19 guidance

On 27 March 2020, TPR announced that schemes would be able to suspend cash equivalent transfer value (CETV) quotations and payments for a period of three months. This was to allow them to review CETV terms in the light of changes in the economic and financial outlook following the COVID-19 outbreak, and/or to assess the administrative impact of any increase in demand for transfers.[37]

Trustees were also asked to issue a template letter in response to CETV requests, highlighting the risks of scams but also saying that a transfer was unlikely to be in their best interests:

> Legislation gives you the right to 'transfer' your pension. However, whilst you have this right, in most cases, transferring out of a DB pension scheme into a different type of pension arrangement is unlikely to be in your best long-term interests as you'll be giving up a valuable level of predictability in your retirement income. You

[36] Ibid, p32
[37] TPR website, Annual funding statement, 27 March 2020; TPR, DB scheme funding and investment: COVID19 guidance for trustees, March 2020

> will also give up the protection that is offered by the Pension Protection Fund (PPF), in case your employer becomes insolvent.
>
> The PPF has a duty to protect people with an eligible defined benefit pension when an employer becomes insolvent. So, if you are a member of an eligible DB scheme and your employer goes out of business and cannot afford to pay you the benefits due then the PPF will pay you compensation. This provides an important safety net if your scheme can't pay what was promised. […] **Please remember that you can't change your mind once you've transferred out of a DB pension.**[38]

Trustees were asked to monitor transfer activity, if they identify unusual or concerning patterns, such as spikes in CETV requests, report them to the FCA.[39]

Reports in the pension press suggest that some schemes did take advantage of the option to temporarily suspend issuing transfer quotations. A report in the *FT* in mid-May suggested around a quarter of trustees had done so.[40] *Money Marketing* reported on a survey of pension scheme administrators which suggested that some schemes that had suspended quotations were starting to issue them again.[41] Transfer activity appeared to have fallen temporarily (possibly due to the suspension of transfer values and the impact of uncertainty) but might rebound later.[42]

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38 TPR, FCA and Money and Pensions Service, CETV letter, March 2020
39 TPR, Communicating to members during COVID
40 Quarter of schemes suspend DB transfers, *FT,* 14 May 2020
41 DB Schemes start to revalue transfer quotations, *Money Marketing*, 14 May 2020
42 COVID 19 puts brake on DB pension transfer activity, *Professional Pensions,* 13 May 2020

3. Public service pension schemes

Apart from the Local Government Pension Scheme, the main public service schemes are unfunded. This means they operate on a pay-as-you-go (PAYG) basis – contributions from employees and employers are paid to the sponsoring government department who meets the cost of pensions in payment, netting off the contributions received.

3.1 Pay as you go schemes

The Government decided to legislate to prevent members of unfunded public service schemes transferring their pension rights to a DC scheme, except in very limited circumstances. This was because of concerns about costs being brought forward if more public servants requested the transfer value of their pension rights:

> 5.6 Initial government estimates suggest that the net cost of 1% of public service workers transferring out of public service schemes each year would be £200 million. This burden would be borne by the Exchequer, which would need to fund the additional costs by placing the burden onto taxpayers or onto current scheme members by imposing higher contributions. The government believes that continuing to allow people to transfer from a public service defined benefit scheme to a defined contribution scheme to take advantage of the new system would therefore be unfair on both the taxpayer and remaining scheme members.[43]

Section 68 of the *Pension Schemes Act 2015* provides for a general prohibition on transfers for members of unfunded public service DB schemes.[44] Limited exceptions to the ban could include some "specific circumstances under Fair Deal.[45] This prohibition does not apply to additional voluntary contributions that a member of a public service scheme may have made to a money purchase arrangement.[46]

Concerns have been raised about people transferring-out rights in public service pensions schemes before the ban was put in place. For example, a Parliamentary Written Answer from October 2019 said that between 2010 and 2015, some 4,600 members of the Armed Forces Pension Scheme (AFPS) transferred their pension benefits out. The MoD had received complaints on the issue and would provide transfer documentation to individuals who believed they had incurred a loss from a pension transfer:

> The Ministry of Defence provides comprehensive, non-contributory pension schemes for the Armed Forces in recognition of their dedication and service. Prior to the public sector pension reforms of 2015 which prohibited Service personnel from making transfers to non-defined benefit schemes, Service personnel had the right to transfer their pension benefits to any HMRC registered scheme. Between 2010 and 2015, some 4,600 members of the Armed Forces Pension Schemes transferred their

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[43] HM Treasury, Freedom and choice in pensions, Cm 8835, March 2014, chapter 5
[44] Section 71 for Northern Ireland
[45] HC Deb 25 November 2014 c814
[46] PQ HL2099 14 October 2014

> pension benefits to non-defined benefit schemes, such as other private or occupational pension schemes.
>
> The total number of complaints received is not held in the format requested, as not all non-defined benefit schemes have resulted in a loss no estimate has been made of the potential monetary value lost to former members of the Armed Forces Pension Scheme.
>
> The Department is not authorised to provide financial advice however copies of all transfer documentation are provided free of charge to those who believe they may have incurred a loss from the transfer of their benefits as a result of pension liberation or mis-selling.[47]

Information on the AFPS disputes procedure, referred to in the answer above, is in a factsheet produced by Veterans UK.

3.2 The Local Government Pension Scheme

Following consultation, the Government decided that the prohibition on transfers would not apply to funded public service schemes (such as the LGPS) because the implications for the Exchequer were less direct:

> 4.35 Since funded public service pension schemes hold assets, transfers out have a less direct impact on the Exchequer. As such, and in light of the decision to continue to allow transfers from private sector defined benefit to defined contribution schemes the government has decided to continue to allow transfers from funded public sector defined benefit schemes.[48]

It would ensure there were safeguards to protect the interests of both scheme members and the taxpayer.[49]

As with private sector schemes, individuals seeking a transfer would be required to seek appropriate independent advice first. To protect schemes, the Government enabled transfer values to be reduced where a transfer increased the risk of taxpayer intervention in the scheme. Steve Webb explained:

> Our expectation therefore is that, in the vast majority of cases, allowing greater flexibility in the funded public service pension schemes will not impact on public finances. However, it would be inappropriate for the Government to provide these freedoms to members of public service pension schemes and provide no backstop protection to taxpayers, should transfers—either singly or in combination with other factors—contribute to a scheme needing support from local or national taxpayers to meet the cost of its liabilities.[…] Should a situation arise in which there is a risk to the taxpayer, this new safeguard will give Ministers and scheme managers the appropriate tools to address it.[50]

There is some information on the members' website on Transferring your LGPS pension to another pension scheme.

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47 PQ 184, 21 October 2019
48 HM Treasury, Freedom and choice in pensions: government response to consultation, Cm 8901, July 2014
49 Ibid, para 4.36
50 HC Deb 25 November 2014 c814; *Pensions Schemes Act 2015*, s69 and 72

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