



## **LOCAL PENSION BOARD - 3 FEBRUARY 2020**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **PENSION FUND – TRANSFERS OUT**

##### **Purpose of the Report**

1. The purpose of this report is to inform the Board of relevant issues administering pension transfers out.

##### **Background**

2. If a scheme member ceases employment earlier than the date they can claim payment of their pension, their benefits are usually preserved in the scheme until they are able to claim payment.
3. However, some scheme members with a preserved benefit opt to transfer out their pension benefits to new pension arrangements rather than have a preserved benefit.
4. There are differing types of transfers out and the clear majority of these are fine and there are no administrative issues. These schemes include other Local Government Pension Funds, other Occupational pension arrangements and various personal pensions e.g. Prudential, AXA, Standard Life etc.
5. However, some pension arrangements may look legitimate and could even be registered with HMRC as authorised schemes, but they are fraudulent scams set up to tempt people out of their long-term pension savings.

##### **Transfer Process – To Non-Public Service Schemes**

6. There are four main stages to the process.

**Stage One** - On receipt of the scheme members initial enquiry the Pension Section provides a letter to the member detailing the benefit of the Local Government Pension Scheme. Enclosed with the letter are documents;

- Freedom and Choice – Question and Answers
- Financial Conduct Authority (FCA) and The Pension Regulators (TPR) - Don't let a scammer enjoy your retirement factsheet.

These are attached as Appendix A.

7. On receipt of this information some scheme members decide to proceed no further and retain their preserved benefit.

Stage Two - Scheme members who wish to proceed return their authority permitting the Pension Section to calculate and supply a transfer value to the new pension provider.

Stage Three - The Pension Section calculates and provides the transfer value and forms to the new provider. At this stage some scheme members decide to proceed no further and retain their preserved benefit.

Stage Four - If a scheme member wishes to complete the transfer, there are various forms that the scheme member and the new provider must complete. These allow the Pension Section to complete the due diligence checks. The new scheme must be registered with HMRC and provide its Pension Scheme Tax Reference.

8. The member must provide proof they have taken the appropriate independent advice.

#### **Number of Transfers to Personal Pension Arrangements**

- 9 In the period April 2016 to December 2019 there were 158 transfers to personal pension arrangements completed. Within this 89 were to widely recognised personal pension arrangements. The remaining 69 were to other pension arrangements.

<b>Period</b>	<b>Break down of the 69 transfers</b>
April 2016 to March 2017	13
April 2017 to March 2018	26
April 2018 to March 2019*	16
April 2019 to December 2019	14
<b>Total</b>	<b>69</b>

\*The LGPS regulations changed in August 2018 to permit members to claim early payment of their preserved benefits from age 55.

#### **When doing the right thing can get you stung**

10. While there have not been any reported cases in the Leicestershire Fund there have been several high-profile cases nationally from both private and public pension schemes, where members have transferred out substantial

values to pension scams. In some cases, the administrators were criticised for not doing enough due diligence checks and making payment too easily.

11. Alternatively, in a Pensions Ombudsman decision in September 2018 a pensions administrator was ordered to compensate an individual for investment losses as it took too long to transfer over the members pension because the checks were too excessive.
12. The Leicestershire Pension Section is in a difficult position because whilst it endeavours to protect The Fund's members with its process and covering documents, it is also required to abide by the Pension Ombudsman rulings; to transfer out a pension where a previous member requests this, as a statutory right to transfer exists.
13. In a few Leicestershire Fund cases, during the period the Pension Section was completing the due diligence checks, Officers received daily phone calls from the Independent Financial Advisor chasing payment.
15. Officers have also received phone calls from scheme members after they received the Fund's initial letter and documents stating they now wish to cease the transfer out and instead retain their preserved benefit.
16. The 2014 Budget introduced changes from the 6 April 2015, that permitted a different way for people can take their pensions. This is known as Freedom and Choice and gave people the opportunity to "draw down" their pension pot. However, the Local Government Pension Scheme regulations did not allow this, so a few members considering transferring out their pensions to schemes to access draw down.
17. To try and mitigate this increased interest in transfers out, in August 2018 the Local Government Pension Scheme regulations were amended to allow preserved members age 55 or over to claim payment of their pension, the Pension Manager wrote to over 5,000 preserved members age 55 or over informing them. This continues every month as new preserved members reach age 55. This ongoing communication from the Pension Section has reduced the number of initial enquiries from members considering transferring out to personal pension arrangements.

### **Changes to the Process**

18. The Queen's speech in December 2019 announced new regulations covering the right to transfer out. When the regulations are published Officers will review these and make any necessary changes to the Fund's transfer out process. Some pension professionals have been calling for amended legislation, stating administrators cannot do anymore because the current law does not permit them to do so.
19. In December 2019 Royal London and Eversheds Sutherland jointly produced a discussion paper named "Should I stay, or should I go?" on facilitating financial advice for scheme members seeking to transfer out. This is attached as Appendix B. This is an interesting document and is designed to assist

Fund administrators consider the pros and cons of helping scheme members with financial advice.

20. This is difficult question as the Pension Section cannot offer financial advice but is often asked by scheme members “what should I do?”
21. The Pension Manager has raised this question previously with Officers, the Fund Actuary and nationally at a Technical Group. Following much debate and thorough consideration, the Leicestershire Fund has decided we cannot choose a Fund Independent Financial Adviser (IFA). The Fund believes by proposing an IFA or IFAs, this puts the Fund in a conflicting position and indirectly assents advice. Officers feel the law needs to change before this could be permitted. They feel the current process and checks, alongside The FCA and TPR’s factsheet, provide sufficient security for members but still allows members to exercise their statutory right to a transfer out.

### **Recommendation**

22. It is recommended the Board notes the report.

### **Equality and Human Rights Implications**

None specific

### **Appendix**

Appendix A:

- Freedom and Choice – Question and Answers
- Financial Conduct Authority (FCA) and The Pension Regulators (TPR) - Don’t let a scammer enjoy your retirement factsheet.

Appendix B – Should I stay, or should I go?

### **Officers to Contact**

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