

## **FREEDOM AND CHOICE - Q&A FOR LGPS MEMBERS**

### **Transfers from the LGPS to Defined Contribution Schemes**

From 6 April 2015, the Government introduced greater flexibility ('Freedom and Choice') in the way individuals, aged 55 and over, can access any Defined Contribution (DC) pension savings they may have.

It's important that as a member of the Local Government Pension Scheme (LGPS) you understand that you are a member of a public sector Defined Benefit (DB) scheme and therefore the flexibilities introduced under 'Freedom and Choice' do not impact on how you can take your Defined Benefits from the LGPS.

There are, however, some indirect changes that do impact upon any members of the LGPS who are considering transferring the value of their accrued LGPS Defined Benefit pension rights from the LGPS to a DC arrangement offering 'flexible benefits'.

The following questions and answers aim to help you understand these changes.

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## Q1. What is Freedom and Choice?

**A1.** From 6 April 2015 members of certain pension schemes have more freedom over how they take their money from their pension pot.

These changes affect pension scheme members who are:

- age 55 or over, and
- have a pension based on how much has been paid into their pot (a Defined Contribution pension).

There are now four main options for members who are in a Defined Contribution pension scheme which offers flexible benefits from their pension pot, including:

- purchasing an annuity (annual pension) or scheme pension if offered by the scheme
- flexi-access drawdown
- taking a number of cash sums at different stages
- taking the entire pot as cash in one go

These new flexibilities do not apply to any Defined Benefits you have in a Defined Benefit pension scheme, including the LGPS, and therefore they have no direct impact on your Defined Benefits from the LGPS.

## Q2. Does Freedom and Choice impact on LGPS members at all?

**A2.** Not directly. However, if you cease membership of the scheme with 3 or more months' membership then, unless you are retiring with immediate payment of your benefits on the grounds of redundancy, business efficiency or ill-health, you will be given information about your right to transfer your benefits built up in the LGPS. If you then choose to use the right to transfer the value of your LGPS Defined Benefits to a Defined Contribution pension scheme which offers flexible benefits, you will be able use the 'Freedom and Choice' flexibilities under that scheme.

## Q3. Are there any new rules around transfers from the LGPS to a defined contribution scheme?

**A3.** Yes, if you cease membership of the LGPS and wish to use the right to transfer the value of your LGPS Defined Benefits to a Defined Contribution pension scheme which offers flexible benefits you will be obliged by law to obtain appropriate independent advice, at your own cost, from an authorised independent adviser who is registered with the Financial Conduct Authority (FCA), or from an appointed representative (see Q7 for more information). You must prove that this advice has been taken before any payment of a transfer can be made from the LGPS Pension Fund(s) to a Defined Contribution pension scheme offering flexible benefits.

You are only entitled to request one transfer quotation in any 12 month period and, if you wish to proceed with a transfer, the election to proceed must be made at least 12 months before your Normal Pension Age in the LGPS or, if you are a Pension Credit member<sup>1</sup>, at least 12 months before your Normal Benefit Age.

In addition you can only transfer benefits from the LGPS if you have left the scheme and you have not already drawn benefits from the LGPS (either in your current employment or any earlier employment).

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<sup>1</sup> A Pension Credit member is a person who, as part of a settlement following divorce or dissolution of a civil partnership, has been given a share of their ex-spouse's or ex-civil partner's pension benefits in the Scheme which the Pension Credit member now holds in the Scheme in their own right..

#### **Q4. Are there any exemptions to the rule on advice?**

**A4.** Yes, if the total value of all your LGPS benefits<sup>2</sup> across all LGPS Pension Funds is £30,000<sup>3</sup> or less then you are not legally required to take advice. However, given the impact on your LGPS benefits, you are recommended to take such advice regardless of the legal requirement.

In addition, if you leave the LGPS with 3 or more months but less than 2 years membership (and you do not have an entitlement to a deferred benefit in the LGPS in respect of that membership) you would not legally be required to take advice. However, given the impact on your LGPS benefits, you would again be recommended to take such advice regardless of the legal requirement.

#### **Q5. How will I know what the total value of my LGPS benefits is?**

**A5.** You will need to request a transfer value quotation from all LGPS Pension Funds in which you have benefits in the scheme. The total value of your benefits is the sum of all these transfer values. If the total amount is more than £30,000 then you will be legally required to take advice.

#### **Q6. What happens to my LGPS benefits if I do transfer to a defined contribution scheme?**

**A6.** From the point of transfer all rights to any benefits of any description in any circumstance in the LGPS included in the transfer are extinguished.

If you hold more than one deferred benefit under the Scheme, in either the same or separate Funds, it is not possible to transfer out only one of the deferred benefits; if you wish to transfer out you must elect to transfer all or none of the deferred benefits you hold.

This restriction only applies to deferred benefits held under the same Scheme. As the LGPS in England & Wales, Scotland and Northern Ireland are all different schemes, a member holding a deferred benefit in both LGPS England & Wales and LGPS Scotland can decide to transfer out one and not the other.

#### **Q7. Who do I need to get authorised independent advice from?**

**A7.** You must by law receive appropriate independent advice from an independent adviser who is authorised by the Financial Conduct Authority (FCA), or from an appointed representative. You can check if an adviser is authorised by the FCA using the Financial Services Register on the [FCA website](#).

An independent adviser must not only be authorised but also must be qualified to give specific advice on transfers between pension schemes. From 6 July 2016 an appointed representative of an authorised financial adviser is also permitted to provide this advice, providing the authorised financial adviser has the permissions to advise on pension transfers. It is important that you ensure that this is the case before committing to the receipt of advice.

Please do not ask your LGPS Pension Fund to advise you as you cannot by law receive advice on this matter from them. They are not authorised by the FCA to provide such advice

#### **Q8. Can the LGPS Pension Fund give me names of an authorised independent adviser or appointed representative?**

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<sup>2</sup> LGPS benefits include active, deferred, deferred refund and pension credit benefits.

<sup>3</sup> This £30,000 limit is across the scheme so if you are a member in the LGPS in England and Wales it's the value of all benefits in that scheme, if you are a member in the LGPS in Scotland it's the value of all benefits in that scheme and if you are a member in the LGPS in Northern Ireland it's the value of all benefits in that scheme.

**A8.** No. You can however locate details of an authorised independent adviser on the [Financial Services Register](#), the [Personal Finance Society website](#), the [Association of Professional Financial Advisers](#) website or contact the [Citizens Advice Bureau](#).

You should be aware that appointed representatives will not be shown on the Financial Services Register as they only act as agents for firms that are directly authorised by the FCA. However, the details of the authorised independent adviser who appointed the appointed representative should be available on the Financial Services Register instead.

**Q9. How much will this advice cost and who pays for it?**

**A8.** The cost will vary depending on the authorised independent adviser or appointed representative you decide to use. You, as the member choosing to transfer, will be expected to meet the cost of the advice. You should ensure that you get a clear and understandable quote of the cost from the authorised independent adviser or appointed representative before committing to receiving advice from them.

**Q10. Do I have to follow the advice that I receive from the authorised independent adviser or appointed representative?**

**A10.** No. However, if you choose to ignore the advice and proceed with the transfer to a registered Defined Contribution scheme offering flexible benefits (or to a qualifying recognised overseas pension scheme) you will have no redress from either the authorised independent adviser/appointed representative or from the LGPS Pension Fund, should that decision prove to be financially disadvantageous to you.

**Q11. If I follow the advice to transfer what protection do I have?**

**A11.** If the advice you are given from an authorised independent adviser or appointed representative is to proceed with the transfer and it proves to be financially disadvantageous to you, you would need to seek redress from the authorised independent adviser or appointed representative who provided that advice. There will be no redress from, or reinstatement in, the LGPS Pension Fund from which the benefits have been transferred.

**Q12. How will the LGPS Pension Fund know I have taken appropriate independent advice?**

**A12.** If you are required to take appropriate independent advice you will have to prove to your LGPS Pension Fund(s) that this advice has been taken before the Fund can release the transfer value payment. As part of the transfer information provided by the LGPS Fund there will be an 'Advice Confirmation Form' which the adviser/representative must complete. The information on this form will include confirmation:

- that advice given to you was specific to the transfer
- that the adviser is authorised to provide such advice, or in the case of an appointed representative, that the principal financial adviser is authorised to provide such advice
- of the FCA reference number of the company for whom the adviser works or for whom the representative is an agent
- your name, and the name of the scheme from which the transfer is being sought and in respect of which the advice was given.

You must also sign that 'Advice Confirmation Form' and return it as part of any other application forms to transfer your LGPS benefits which your LGPS Pension Fund may send you.

On receipt of the above proof of advice the LGPS Pension Fund must check the authorisation status of the adviser's/representative's company. They will do this by checking the company's

entry in the [Financial Services Register](#) using the FCA reference number provided by the adviser/representative on the 'Advice Confirmation Form'.

If you are not required to take appropriate independent advice (because the total value of your benefits in the LGPS is £30,000 or less or the scheme to which you are transferring benefits is not one that offers 'flexible benefits') you will be asked to confirm this in writing.

### **Q13. Are there any other new rules which could impact on the transfer value of my accrued LGPS pension benefits?**

**A13.** Potentially, yes. In circumstances where the Government is convinced that the number of transfers to Defined Contribution schemes offering flexible benefits may result in a risk to the LGPS Pension Fund and, hence, to local taxpayers, the amount of the transfer value can be reduced. Your LGPS Pension Fund will confirm if this applies when you are considering your transfer.

### **General Points to note about transferring from the LGPS:**

- You cannot transfer your benefits, other than Additional Voluntary Contributions (AVCs), if you leave the scheme when you are less than one year away from your Normal Pension Age.
- An option to transfer must (other than in respect of AVCs) be made at least 12 months before your Normal Pension Age or, if you are a Pension Credit member, at least 12 months before your Normal Benefit Age.
- If you wish to investigate a transfer of your pension rights, your Pension Fund has to (other than in respect of AVCs) provide you with a transfer value quotation within three months of receiving your request and the quotation will be guarantee for a period of three months from the date of calculation (known as the 'Guarantee Date').
- If you wish to proceed with the transfer, a written option to proceed must be received by the LGPS Pension Fund within three months of the 'Guarantee Date'.
- If you opt to proceed, the normal time limit for payment of the guaranteed transfer value will be six months from the 'Guarantee Date'.
- If payment is not made within this period your Pension Fund will need to recalculate the value as at the actual date of payment and pay the recalculated value or, if it is greater, the original value plus interest.
- If you are considering whether to transfer benefits, make sure you have full information about the two pension arrangements i.e. details of what your benefits are worth in the LGPS and details of what your benefits would be worth in the new pension scheme, if transferred.