

PENSIONS Q&A

Unlike our beleaguered former Secretary of State, the GMB pensions department has survived the early onslaughts of 2008 and is back with another Pensions Q&A for all you dedicated readers (and those of you with excess time on your hands and an odd choice of distraction).

This month a few thoughts on what happens when a member leaves a pension scheme and some pertinent pension points that should be considered when leaving a scheme or changing employers.

Leaving A Pension Scheme

For various reasons at one time and another you are likely to be faced with the prospect of leaving a pension scheme. Sometimes this will be because of a change of job and in other circumstances some people decide to leave a pension scheme while carrying on with the same employer.

Over the years most people will have faced the prospect of their employer worsening their occupational provision. When this happens there is often a threat by some members to leave the scheme in high dudgeon (as an aside I've never known whether high dudgeon is a mode of transport or an outfit, answers on a postcard please). Unfortunately, the only effect this is likely to have is to worsen their own retirement prospects. Essentially it's like saying "My employer is proposing a bad pay rise this year so I'm going to protest by taking a pay cut." However you look at it, a pension scheme with an employer contribution is better than nothing. I should say that this doesn't mean pension saving is right for everyone, some people get priced out of pensions when member contributions are increased. However, at the end of the day, it is money from an employer that you can't get without participating in a pension scheme.

What Happens To The Pension When A Member Leaves A Scheme?

When you leave an employer's pension scheme you change from being an active member to being a deferred member. This will continue until you retire when you then morph into being a pensioner member.

The pension stays where it is unless you choose to transfer it (more on that in a minute). In a defined contribution scheme (also known as money purchase) the funds in the pension pot will continue to be invested and basically run as before but without

any further contributions going in. When you get to pension age your pot will then be cashed in and that money will be used to buy an annuity which in turn will provide you with a pension. In a defined benefit scheme the pension you've earned will be stored up, its value increasing each year in line with inflation (usually capped at either 5% or 2.5%). When you retire you'll then get a pension based on the formula set out in the scheme rules.

Transferring Pension

Instead of leaving your pension unloved on the shelf, in some cases it is worth transferring it to another pension scheme. Usually you would consider this if you were changing employment and joining that employer's scheme. Be warned though, this is not always a sensible thing to do and you should take independent financial advice when making this decision. In a lot of cases for example, transferring pension that's deferred in a defined benefit (final salary or CARE) scheme into a defined contribution scheme isn't a wise move because of the transfer of investment risk from the employer to the member.

If you decide to transfer your pension saving, and the schemes involved allow you to, you will get a transfer quote. In a defined contribution scheme, the transfer value is typically the value of the pension pot that is either thrown in with the new pot or if it's headed for a defined benefit scheme it may be used to buy extra service. When transferring *from* a defined benefit scheme, the actuary comes up with a figure known as the Cash Equivalent Transfer Value (CETV) which is then used to buy benefits in your new scheme or goes into that pension pot. These CETVs often look quite odd, particularly those involving transfers between defined benefit pensions as it's not simple to calculate how much the built up pension is worth at any particular time (if it was simple actuaries wouldn't be able to charge as much).

So there you have it, as with most pension decisions you should take independent financial advice when thinking about leaving a pension scheme or transferring from one scheme to another.

That's your lot for the first Q&A of 2008, don't forget to look in on the pensions page of the GMB website now and again: www.gmb.org.uk/pensions (as if you'd forgotten).

Several big pension events this year: the launch of the new Local Government Pension Scheme in England & Wales in April, a new mammoth Pensions Act to go through Parliament and the small matter of some economic jitteriness that always puts the pensions industry on edge – it should be a fun year...