

Pensions and leaving work

guidance
redundancy
work
retirement
information
pensions

The Pensions Advisory Service provides information and guidance to members of the public on pension matters generally. We also help to resolve disputes and complaints about private pension arrangements (company pensions, personal pensions and stakeholder pensions).

Our service is free and is provided by a nationwide network of volunteer advisers who are supported by technical and administrative staff in London.

All our advisers are pensions professionals with many years of experience in the pensions industry.

The Pensions Advisory Service is an independent voluntary organisation that is grant-aided by the Department for Work and Pensions.



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Introduction

Leaving work can be a stressful time. No doubt you will be thinking about your future career and prospects. At this time pensions may not be high on your list of priorities. But one of the issues you need to consider when your job ends is what impact leaving work will have on your retirement saving. The purpose of this leaflet is to explain the issues you should think about and advise you about the information that you should be given when you leave. The leaflet also tells you where you can get more information from.

What should I be told?

If you were a member of a pension scheme set up by your employer, within a reasonable period you should be told about your pension options. Depending on your scheme's rules and how long you have been a member, your options may include a refund of your contributions, a pension payable when you retire, and the option of transferring the value of your pension to another pension scheme.

If your employer had arranged for you to contribute to an individual plan (like a personal or stakeholder pension), arguably it is business as usual, except that any contributions paid by your employer will stop. Now may however be a good time to get an up to date statement of the value of your plan.

What do I need to think about?

Some people assume that once they leave their job they should move their pension. But now is not the time to make hasty decisions. In most cases you will be able to transfer at any point up to one year before your retirement age, although not all schemes have to accept a transfer. If your new employer is in the public sector and you join their scheme, it is a requirement of most public sector schemes that transfers into their scheme are made within the first 12 months of joining.

Try and find out as much as you can about the pension scheme. Find out what you would be giving up by transferring to another plan. Think about what you will gain if you transfer. Will it be of better value than what you are losing? The advantages and disadvantages will differ depending on the type of scheme you are leaving and the type you are joining. Your pension scheme administrator should be able to answer any question you have about their scheme.

I've been made redundant. Does that make a difference?

Some company pension schemes give better benefits to members who have been made redundant. Ask your normal pension scheme contact what your scheme rules say.

You may have the option of using some, or all of your redundancy money to boost your pension. This can be an attractive route to reduce your tax liability as the first £30,000 is tax-free while the excess is taxable. Using the excess in this way can reduce your tax bill and increase your pension. An employer

does not however have to offer this and therefore you should speak with them to see whether it is a possibility.

Can I retire early?

If you are over 55 years (50 until 6 April 2010) it may be possible to draw your pension early. You may however need the permission of your former employer or pension scheme to do so. If you have been made redundant there may be special terms that are not normally available. You may want to put off the decision to retire while you look for a job. If special terms are available, ask how long you have to make up your mind before the opportunity to take these terms lapses.

If you are a member of a company scheme and are considering retiring, ask your pension scheme administrator whether this is possible and, if applicable, who needs to agree to it. If you have been made redundant, ask what the scheme's rules say.

If you are due to receive a retirement pension within 90 days of your dismissal it is possible that your redundancy payment could be reduced.

What if my employer has gone bust?

If your employer ran a salary-related pension scheme and there were not enough monies in the scheme to pay for all the pension promises, help may be available from the Pensions Protection Fund (PPF). As long as certain conditions are met, the PPF will take over the scheme and pay regular compensation to the scheme's members.

If you are over your scheme's normal retirement age, or retired early because of ill health, the PPF broadly protects 100% of benefits; but if you are below the normal pension age, compensation is limited to 90% of your benefits subject to a cap. The cap is equivalent to £28,742.68 at age 65 (2009/10). A proportionally lower cap applies if you retire before 65.

Any employee or employer contributions that were not paid to your pension plan in the 12 months before your employer went bust can be claimed from the National Insurance Fund. If you are in a company scheme ask your trustees to make the claim. If your contributions should have been paid to an individual plan, ask the insolvency practitioner to do so.

I hear my employer is in difficulty, should I transfer?

People can be naturally concerned that they will lose pension rights if their employer were to go bust. You should not however rush into any hasty decisions. The assets of a company pension scheme are kept completely separate from that of your employer. If your employer were to go bust, help could be available from the PPF (see above). You could be losing valuable rights, like death benefits, if you were to transfer out and you would lose any entitlement to help from the PPF.

To reduce their costs some employers offer incentives to their employees to encourage them to transfer out of their pension scheme. The incentive can either be in the form of a cash sum or as an increase

to the transfer value. If an incentive is offered to you as a cash sum, it is taxable. While an incentive may seem attractive, consider what you are giving up. You will be losing all the benefits offered by your pension scheme. If you are transferring to a money purchase plan it would be very costly to buy benefits of a similar value. Get independent financial advice before making any decision.

Transferring may be a consideration if you have built up a large pension as the cap on PPF compensation for members who are under their scheme's pension age could mean a significant reduction in expected retirement income. This is not a step to take lightly, so if you think this applies to you, get independent financial advice first. You may also find that if you transfer from an underfunded scheme, to protect the interests of the remaining members the trustees will reduce your transfer value to take account of the shortfall.

If your employer is paying into an individual plan on your behalf, its security would be unaffected by the collapse of your employer.

I've been put on 'gardening leave', should my employer still pay into my pension?

If you are on 'gardening leave' your pension rights should continue as before. If however you receive a payment in lieu of notice, your membership of your company's pension scheme, or the employer's contributions to your plan, will end from the date your employment was terminated.

How will losing my job affect my state pension?

Your basic state pension is based upon your history of paying National Insurance (NI). Signing on and claiming jobseekers allowance means that you will be credited as paying NI and your NI record will therefore be protected. Now could be a good time to get a forecast of your state pension. To do so ring the Future Pension Centre on 0845 300 0168.

Where can I get further information about pensions?

You can contact the Pensions Advisory Service at the address or numbers shown on the back cover.

Useful information and guides on financial issues, including pensions, can also be obtained from the Financial Service Authority's MONEYmadeclear website:

www.moneymadeclear.fsa.gov.uk

TPAS also publishes the following information leaflets:

*Talks in the Workplace –
Free independent retirement planning
information available through employers*

*Getting information about your
occupational pension*

Ill-health early retirement

Mistakes and overpayments

Pension dispute procedure

Saving for retirement

*Saving for retirement –
The self-employed*

*Saving for retirement –
Small business owners*

State death benefit factsheet

*The Pensions Advisory Service –
Ask us for free independent information
and guidance*

*The Pensions Advisory Service and the
Pensions Ombudsman*

*Transferring your pension to another
scheme*

Where is my pension?

*Winding-up a pension scheme -
A guide for members*

Women and pensions –

Saving for retirement -

Know your pension rights and options

These are available free from us at the address shown or on our website. These are the leaflets available at the time of printing and this list may be subject to change after that date.

We can be contacted at:

The Pensions Advisory Service

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Helpline 0845 601 2923
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This leaflet is available in large print or Braille.

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