
Transferring Pensions

Information accurate for 2026/27 tax year, valid until April 2027



Managing pension arrangements

The introduction of automatic enrolment in the UK from 2012, means that all employers now have to provide, and contribute, to a pension for their employees that meet certain age and income thresholds, unless the employee chooses to opt out of the pension plan. With the average employee likely to have around 12 jobs over the course of their career, this potentially means that, at the point of retiring, individuals may have a similar number of pension arrangements to manage in order to fund their retirement.

Additionally, before retirement, individuals will need to ensure that they keep their details updated with the administrators of all their pension arrangements if moving house, so the administrators can continue to provide annual statements. Should an individual experience any life event (having children, getting married or divorced) the nominated beneficiary on all pension arrangements should be updated to help ensure that in the event of the pension holder's death the administrator takes into account their wishes as to where benefits should be paid without any unnecessary delays.

Currently, there are no rules in place to automatically combine pensions held although the Government is considering what can be done to address this issue. Therefore, it is down to individuals to keep track of their pensions and make the decision as to whether some, or all, should be consolidated.

Consolidating pensions for ease of management may not be the best course of action; transferring funds from one registered pension arrangement to another, means that the terms & conditions of the receiving pension provider are adopted. This dictates the costs you pay going forward and the benefits you receive at retirement.

Pension Consolidation

Many people choose to consolidate legacy pension arrangements into the workplace plan they are currently paying into. Whilst this means all pension benefits are in one plan, which is easier to manage and review, before transferring any pension, careful consideration needs to be given to whether you will be disadvantaged in any way and whether this is a suitable course of action to take.

Type of Pension

Broadly speaking there are two types of pensions; Defined Contribution (also known as Money Purchase) arrangements or Defined Benefit Schemes (sometimes called Final Salary Plans).

Defined Contribution (DC) arrangements are where the holder builds up a fund of money which is then used to provide retirement benefits. The value of those benefits will depend on the value of the fund that is built up which, in turn, is impacted by the amount paid in, the investment returns enjoyed, the charges paid and the time the money is invested.

Defined Benefit (DB) arrangements will provide a guaranteed income for life although it is possible to exchange some of the regular income for a tax-free lump sum at the point of retirement. Typically, DB schemes will also provide a spouse's income in the event the scheme member dies and is survived by a spouse. The amount of pension a DB plan provides is dependent upon the scheme rules and an individual's membership history (such as how long they were in the scheme and the salary they were paid) meaning that there is no risk to the member that their pension benefits will be impacted by investment performance.

Taking professional advice regarding transferring pensions

DB Schemes

The guarantees provided by **DB schemes** are incredibly valuable benefits. In relation to income an individual can be certain about the level of pension income they will have in retirement without having to worry about the impact of investment performance.

Recognising the value of these benefits and the potential damage that could be done to an individuals' pension income if action is taken to transfer out of such arrangements, the Government introduced legislation earmarking these guarantees as "Safeguarded benefits". This legislation stated that if an individual has safeguarded benefits valued at £30,000 or more then they have to, by law, take advice from a suitably qualified pension transfer specialist (like a Financial Advisor with additional expertise and qualifications) before any transfer can be permitted.

It is the responsibility of the Trustees of DB Scheme holding the safeguarded benefits to check that such advice has been taken and will not action any transfer without the necessary documentation and information to evidence that advice was provided.

You should note that the amount that can be transferred out of a DB scheme is called a Cash Equivalent Transfer Value (CETV). This is an estimation by a scheme actuary of the value of the pension benefits that the member is entitled to. The calculation of the CETV is based upon various assumptions such as future interest rates, investment returns and member mortality rates; so this amount can vary.

Furthermore, whilst the majority of privately run DB schemes will provide a CETV amount that can be potentially transferred out of the pension scheme, there are some DB schemes which are known as "unfunded" schemes. Unfunded schemes offer members the promise of future pension payments but there is no fund held to support these payments; the Government undertakes to make these pension payments. Examples of unfunded schemes include The NHS Scheme, the Armed Forces Scheme, the Teachers' Pension Scheme and the Civil Service Pension Scheme. It is NOT possible to transfer benefits held in an unfunded DB scheme; you are therefore unable to consolidate these benefits into an alternative registered pension scheme.

DC Plans

For **DC plans**, there is no statutory requirement to take advice from a regulated advisor unless the plan provides guarantees in respect of retirement income (guaranteed annuity rates) or investment returns (guaranteed bonuses). The value of the pension you will get is dependent upon the amount of pension fund you have accumulated.

Many pension providers will offer the option to transfer DC funds with no guarantees on a non-advised basis, meaning that they will facilitate your transfer request without providing any advice or guidance as to whether the transfer is beneficial or not. You need to be comfortable that you understand the risks of transferring on this basis and have considered the various aspects required to know if a transfer is advantageous.

A pension transfer specialist (for safeguarded benefits) or financial advisor (for all other transfers) will typically charge a fee for providing any pension transfer or consolidation advice. Whilst you must take such advice if transferring safeguarded benefits valued at over £30,000, for non-safeguarded benefits you may feel that this is an unnecessary expense. However, taking such advice will ensure that all aspects of whether it is beneficial to transfer will be considered.

Listed below are the aspects that will be considered by an advisor when advising you as to whether consolidating your pensions is in your best interests.



Factors to consider when transferring DC pensions

Guarantees

Some older pensions (typically taken out before the advent of stakeholder pensions in 2001) provide guarantees that would be lost in the event of a transfer. These guarantees can take various forms such as providing a guaranteed increase to the fund each year or offering a certain level of pension from the fund at retirement. Alternatively, the scheme may offer loyalty bonuses once you have invested for a certain period which could increase the fund you have at no cost to yourself.

Whilst the presence of these guarantees does not automatically preclude transferring, the benefits you receive from the receiving scheme could offset these guarantees; however it is important to establish whether your pension has any guarantees before commencing a transfer.

Q. Ask your pension provider – Does my policy have any guarantees such as guaranteed annuity rates, loyalty bonuses or investment return?

Transfer penalties

Most modern pension contracts will allow you to transfer the fund you have built up to another register pension scheme without any penalty (reduction to the fund) being applied. The amount you have in one pension will, upon transfer, be the amount invested in the receiving plan minus any adviser charges that are taken from the fund.

However, some older pensions have terms & conditions applicable which state that in the event of transferring funds out of the pension before your stipulated retirement age, a reduction will be applied to the fund you have accrued. This means that in the event of a transfer, less money will be invested in the plan receiving the transfer than you had invested in the original pension.

As with guarantees, having a transfer penalty does not automatically mean you should not transfer the fund as it may still be advantageous to action the transfer due to other factors. You should always check whether a penalty is applied in the event of a transfer before commencing a transfer process.

Q. Ask your pension provider – What are the fund and transfer values for my pension? If they are the same, then no penalty will be applied in the event of a transfer.

Charges

There are various different charges that can be applicable to pension contracts however most modern workplace pensions will only have one charge applied which is known as the Annual Management Charge or AMC. This is usually expressed as a percentage which is levied by the pension provider to pay for administering and managing your pension. There is a legislative limit on the charge that can be applied to workplace pensions when investing in the default investment option within the plan of 0.75% although many schemes will have a lower AMC applicable.

In very simple terms the lower the AMC the less that will be deducted from your fund to pay for this administration so potentially the greater the fund will be to provide you with retirement benefits. Therefore, if you are planning to consolidate pensions you should consider the charges applicable as paying more in charges means that you will need higher investment returns to provide an equivalent pension fund at retirement.

Example of potential benefit of lower charges on retirement fund values

Investment Period	Annual Management Charge		
	0.3%	0.75%	1.00%
5 years	£31,333	£30,465	£30,317
15 years	£49,599	£46,513	£44,876
25 years	£78,513	£70,523	£66,428

These figures are for illustrative purposes only to demonstrate the benefit of reduced charges and are not guaranteed. Example is based upon £25,000 invested for the stated investment periods with the relevant AMC levied each year assuming 5% investment return per year.

Q. Ask your pension provider – What is the AMC applicable to my pension and are there any other charges applied?

Entitlement to tax-free lump sums

Pension legislation permits individuals to take an element of their DC pension pot as a tax-free lump sum known as the Pension Commencement Lump Sum (PCLS) which is typically 25% of the fund built up currently capped at a maximum PCLS of £268,275 unless certain HMRC protections are in place in which case a higher cap is applied.

You are entitled to take 25% of each and every pension you hold provided the total doesn't exceed the cap however under legislation in place before April 2006, some DC plans provided an entitlement to PCLS of more than 25% of the fund value. Therefore, if you have a DC pension which was set up before April 2006 you may have a PCLS greater than 25% which may be lost in the event of transferring to another registered pension so you should check whether this is the case before commencing a transfer.

Q. Ask your pension provider – Does my pension have a protected PCLS of greater than 25% of the fund value?

Investment Options

A wider range of investment options doesn't guarantee you will get better investment returns, just as having a less choice doesn't mean you will get lower returns. This is because the value of your pension fund is not guaranteed and will fluctuate depending upon where you are invested.

If you are planning to consolidate pension funds, you should ensure that the plan you are planning to move your funds into have suitable investment choices for you based upon your age, proximity to retirement, level of risk you are prepared to take, your capacity to loss and the level of volatility you are comfortable with.

Retirement Options

There are various factors to consider when considering consolidating pensions that can impact the fund value you build up over your working, pre-retirement career. In addition, you should also consider whether the pension that you are planning to consolidate into has suitable retirement options to meet your requirements.

For example, if you are planning to take your pension income from your pension fund (known as Drawdown) then consolidating all your pensions into a one which doesn't offer this facility will mean that you will need to transfer your funds again at the point of retirement when you want to start accessing your pension. If retirement is a number of years away this may not be a consideration in relation to the other factors detailed.

Please note that this content is provided for information purposes in order that you can consider how you wish to proceed and is not intended as financial advice or a recommendation for a particular course of action. If you are in any doubt as to how you wish to proceed you should seek appropriate professional advice.

If you need further help understanding this matter and how it might impact you, we're here to help.



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Making changes with your pensions and investments may have tax consequences and it is important to bear in mind that this document is produced as a guide only; NFP does not provide tax advice and this document is not intended to provide advice. The level of taxation applicable depends on individual circumstances and such levels and bases of taxation can change. It is your responsibility to ensure that you understand any applicable tax consequences and should consider taking professional tax advice if necessary.

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