Rt Hon Frank Field MP
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House of Commons
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Dear Frank

Defined benefit pensions

Thank you for your letter of 30 May 2018. Frances O’Grady has asked me to respond on behalf of the TUC. Please find our response to your questions below.

What action have the TUC and its member unions taken to inform individual members that transfers out of defined benefit schemes will only be in the interests of members in exceptional circumstances?

Trade unions work with members on the issue of defined benefit pension transfers in a range of situations: when individual members explore whether a transfer would be suitable to them; when employers contact members about transfer values, such as during liability reduction exercises; and in particular situations such as the recent uncertainty around the future of the British Steel Pension Scheme.
Trade unions receive large numbers of calls from members regarding pension transfers. Their experience is that members appreciate the ability to have a conversation devoid of pension industry jargon with an organisation they might trust more than an employer or a financial adviser.
However, union officials have to be careful to stick to stating facts and the pros and cons of transferring from a DB pension to DB. They must avoid drifting into an area that could constitute financial advice.
Of course, those unions operating exclusively in the public sector do not encounter these issues because transfers from unfunded public service schemes are not possible.

Individuals
Members approach their unions about pensions transfers for a range of reasons. Shopworkers’ union Usdaw reports that:
• a large number of enquiries we receive are from members who need financial advice because their transfer value is just above the £30,000 limit (or their combined pensions total >£30K). They are attracted to the TV in many cases because the annual pension is a relatively low amount e.g. circa £1,000 p.a. which does not

Frances O’Grady General Secretary Paul Nowak Deputy General Secretary
appear particularly good value to someone on a low income when the transfer value is in excess of £30,000.

- some are concerned about their company and worry what will happen to their benefits in the event of insolvency.
- some members think they can improve their returns.
- some members want all of their pots in one place, so they don’t lose track.
- some members want more flexibility—so they like the idea of cashing in their pots or perhaps the idea of a drawdown facility rather than a fixed regular income.
- some are not actually looking to transfer until they are approached out of the blue by scammers telling them they can secure a better deal for them.

Unions report that they advise members that while they have the right to transfer, it may not always be in their best interests.

Potential lost benefits vary from scheme-to-scheme but typically include spouse’s benefits, guaranteed pension increases once in payment and a pension income payable for the rest of their lives.

Unions are particularly concerned about the use of Self-invested Personal Pensions with high charges for the use of transfers, which will eat away at the assets.

Unions are also concerned about members falling victim to scams and losing their retirement savings.

Below are links to examples of information on transfers provided by Prospect, which represents professionals including scientists, engineers and managers:

Response to employer contact with members

When an employer contacts members regarding transfer values, whether part of or independent of a liability reduction exercise, unions have issued guidance on the process.

As an example, below is information released by pilots’ union BALPA regarding a BA CETV process:

British Airways NAPS CETVs
As part of the process of closing NAPS to future accrual, BA Pensions has been preparing CETV statements for all members. These will be issued in the coming week or so.
These statements are absolutely NOT designed to entice people to take benefits out of NAPS and elsewhere via a transfer out. Their issuance is much more a technical exercise linked to the closure.

CETVs are highly sensitive to real Gilt yields in particular, and can display significant volatility as a result. They represent the value of giving up a defined benefit promise for a lump sum. Anyone considering giving up their defined benefit pension in this way should take expert financial advice before acting, recognising that there is significant risk in doing so.

There will, of course, be people who, having taken advice, decide to give up their NAPS pension and take a CETV. Each of us faces differing financial circumstances, has different financial plans for the future, and has a different attitude to risk. All that we ask members to do is act carefully and in full cognisance of the various risks involved.

As NAPS matures in a closed scheme scenario, we would expect it to adopt a reduced risk investment strategy, which alongside £450m per year in deficit contributions should enable it to move to a well-funded position within 10 years, helping secure accrued benefits. With BA currently in very good financial health, we would perceive ‘sponsor’ risk as less of a factor than it has been historically when weighing up relative risks.

Other situations
Unions have acted to inform members in other situations. Below is a statement issued by the National Trade Union Steel Co-ordinating Committee in June 2017 at a time when the future of the British Steel Pension Scheme was uncertain.

We understand the uncertainty around the future of the BSPS is extremely difficult for scheme members, and this has not been helped by media speculation. It is unsurprising that this uncertainty has led to some members considering transferring their pension to a money purchase arrangement, however we would urge all members to think carefully before going down this route.

We are aware that the current circumstances have led to a number of financial advisors, some with questionable motives, contacting BSPS members and offering to “help”. These financial advisors will charge for their services and costs can vary hugely. The Pensions Regulator stresses the need to exercise caution and warns about potential “liberation scams”, particularly where individuals receive unrequested approaches from financial advisers, and says it is vital scheme members make properly informed choices on the basis of all the facts.

On 16 May Tata Steel announced it had agreed the key commercial terms of a Regulated Apportionment Arrangement (RAA), which would mean part of the scheme entering the Pension Protection Fund. The company has also agreed in principle to sponsor a new scheme with modified benefits. Members will be able to choose whether they want to stay in the BSPS, which will then enter the PPF, and so receive PPF compensation, or to
transfer to a new scheme often referred to as “BSPS2”. Details about this new scheme, which is subject to certain qualifying conditions, will be communicated in the coming weeks, and the trustees will conduct an extensive consultation process to help you make an informed choice.

Whilst everyone’s circumstances are different, our pension experts tell us that scheme members’ benefits in retirement are likely to be better protected in BSPS2 or the PPF, rather than through transferring out. Community, Unite and GMB therefore recommend that before you take the option to transfer out you should be sure you have all the information you need to enable you to come to an informed decision. Importantly, providing the RAA is confirmed, you will have the option to transfer out throughout the consultation process so you can give proper consideration to this important long-term decision.

Further to the above, on behalf of the company and BSPS Trustee, Derek Mulholland Pensions Director says: “It is very important scheme members make an informed decision after receiving all the necessary information on the options available and taking appropriate advice. A decision to take a transfer cannot be reversed and should not be rushed. The Trustee expects to be writing to all scheme members with further details in July”.

We should be clear that the trade unions cannot offer individual financial advice, but if you are seriously considering transferring your pension you should take and act on advice from a reputable financial advisor. Community’s approved independent financial advisory firm is Fiscaler Financial Services Ltd (0845 463 4071), and Unite’s approved independent financial advisory firm is Lighthouse Financial Advice (08000 858590). GMB members seeking financial advice should contact their regional office in the first instance.

What further action do the TUC and its member unions intend to take to inform members about the risks posed by DB transfers?

Specific campaigns about the risks of DB transfers are difficult for unions to undertake due to concerns about overstepping the boundary with the provision of financial advice.

However, unions are active in raising awareness about pensions and signposting members to a union’s pension section so that someone who is considering a transfer can receive appropriate help and guidance.

For instance, Usdaw, the union for shopworkers, runs Pensions Awareness Day campaigns which generate enquiries about transfers. These are run by union reps in their own workplaces to encourage members to take an interest in their workplace
arrangements, reforms to the State pensions and signpost people to the pinions section within Usdaw.

How many unions provide their members with access at a preferential rate to a trusted financial advice service qualified to give DB pension transfer advice?

Unions differ in their approach. Some provide access to financial advisory firms. Others to not.

For instance, Unite offers access to pensions advice via Lighthouse Financial, Hilltop Finance and Uniec Prestige. Community’s approved independent financial advisory firm is Fiscale Financial Services. BALPA provides financial advice via BALPA Financial Solutions. Usdaw and Prospect have a relationship with Lighthouse.

However, our understanding is that this is not typically on the basis that members would receive preferential rates.

Unite reports that less than one in 20 cases reviewed result in the member being advised to transfer.

How many trades union members have access to such a service as part of their membership, and how many use it?

Take up varies enormously depending on the profile of the membership. BALPA reports that BALPA A Financial Solutions’ services are “very well used” both for one-to-one individual advice or group workshops.

However, Usdaw says that many of its members are low paid and find the services of an IFA too expensive.

What monitoring is being carried out by unions to ensure that the advice provided through these deals is the best available – and can you please provide us with details of this monitoring?

Typically unions operating such arrangements receive regular management information reports giving details of the business transacted.

What reports have you received in the last 12 months of financial advisers or introducers visiting workplaces to discuss pension transfers with employees and how many of these visits were made with the blessing of the sponsoring employer?

BALPA reports that during the consultation process for closing BA NAPS DB pension scheme to future accrual, St James’s Place IFAs were very active in trying to promote CETVs (although this was not promoted by the employer).
For its part, Prospect reports that Tideway (https://www.finalsalarytransfer.com/) has been proactively contacting workers at EdF and Magnox. But this was never done at the invitation of the employer.

I hope this information is useful to the committee’s inquiry. We would be happy to help with any further queries.

Yours sincerely

Tim Sharp
Policy Officer
Economic and Social Affairs Department