Are there any tax implications for a Club transfer?

From the tax year 2006/7, if the capital value of your total pension benefits increases by more than a defined "Annual Allowance" in any one year, you will be subject to additional income tax at 40% on the excess. For members of final salary schemes, the amount of the increase is defined as the increase in any pension, multiplied by 10, plus the increase in any lump sum. (The Annual Allowance for 2006/7 is £215,000, rising to £255,000 in 2010/11).

The preferential nature of the Club transfer arrangements can result in you receiving a service credit in your new scheme that is of greater value than the amount of the transfer value paid by your old scheme. This increase in the value of your benefits will be particularly significant if there is a large increase in your salary between when you left your old Club scheme and when you join your new Club scheme. You should bear this in mind when calculating the increased value of your pension benefits over the year for the purpose of testing against the annual allowance. It is your responsibility to declare any tax liability arising from this on your self-assessment form. If you think this may affect you, you should ask your pensions administrator for further advice.

How does Club membership affect the running costs of the pension scheme?

Receiving schemes bear the cost of providing a service credit in Club, rather than non-Club, terms. When deciding whether or not to take part in the Club, schemes must decide whether the potential advantages, in terms of better job mobility and ease of recruitment, outweigh this potential increase in associated costs.

Generally, as long as the numbers of staff leaving and joining the scheme on Club terms are roughly in balance, many schemes view the effect on their finances as acceptable when set against the potential advantages. As this balance is lost when staff transfer on a reorganisation or compulsory transfer, Club terms cannot be used for compulsory transfers of staff from one employer to another.

What are the time and age limits for applying for a Club transfer?

You must apply for a transfer in within 12 months of joining your new Club scheme. If your employer offers a choice of scheme, you must apply within 12 months of being eligible to join the Club scheme. Subject to the above time limits, a Club transfer will normally be available until you reach the pension age of the sending scheme. However, schemes may impose other time limits which affect your right to a Club transfer value when you do not have preserved benefits. You should check this with the administrators of your old scheme. The 12-month time limit ensures that receiving schemes are not obliged to accept unreasonably large liabilities at some point in the future.

Club arrangements only apply when an individual voluntarily resigns and leaves one Club scheme and takes up separate employment, joining another Club scheme. Club arrangements do not apply if you join a Club scheme as a result of a compulsory transfer of employment or of pension scheme.

How do you find out if your previous pension scheme is a Club member?

You can find a full list of schemes that participate in the Club on CSPD's website. You can access the Club list at: www.civilservice.gov.uk/pensions then by clicking on:

- 'Find out more about the Public Sector Transfer Club' (at bottom of main text on home page);
- 'List of Public Sector Transfer Club members'; then
- 'View the 'date of most recent update' list of participating schemes' (towards bottom of page).

What happens if your previous or current Club scheme leaves the Club?

Club schemes must give CSPD 3 months' notice of their intention to leave the Club. Club transfers to and from a scheme that withdraws from the Club will still be available to anyone who joined their new Club scheme on or before the date of withdrawal and who applies to transfer within their first 12 months of service.

Who should you contact if you have any further questions?

You should contact your pensions administrator.

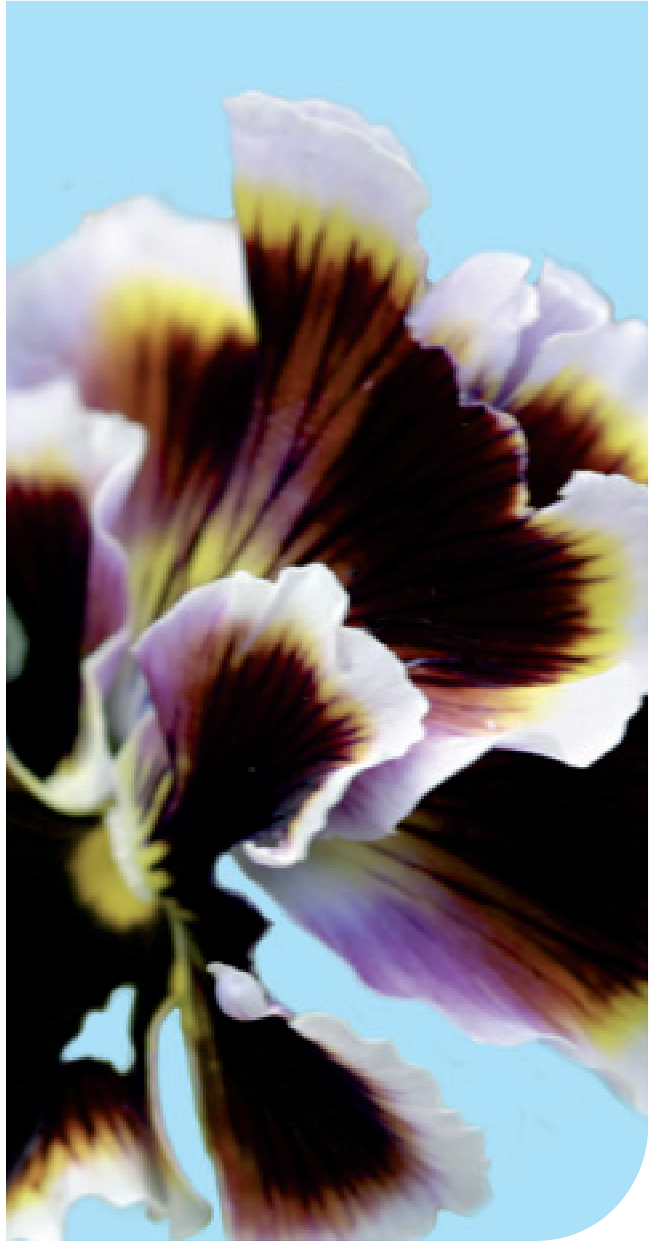
www.civilservice.gov.uk/pensions
This leaflet is published by Civil Service Pensions.

Printed by St Ives Direct **TPSTC1** April 06

Civil Service Pensions

The Public Sector Transfer Club

A guide for members of Club schemes



This leaflet provides information for scheme members on the Public Sector Transfer Club (the ‘Club’)

What is the Purpose of the Club?

The Club consists of a number of final-salary occupational pension schemes that have agreed reciprocal transfer arrangements. Final-salary schemes provide benefits based on your reckonable service and pensionable earnings at or near the date you leave the scheme.

The Club offers those who move between Club schemes the opportunity to transfer pension benefits on special terms. In general, when you transfer your pension benefits between Club schemes, you will receive a broadly equivalent service credit in the new scheme, regardless of any increase in salary on moving.

Which schemes can join the Club?

Despite being called the Public Sector Transfer Club, eligible private sector schemes can participate. The main criteria are that:

- they are final-salary occupational pension schemes;
- they have full HM Revenue & Customs’ approval;
- the scheme’s trustees or managers agree to comply with the Club arrangements; and
- the scheme is contracted out of the state second pension (S2P).

Who runs the Club?

Civil Service Pensions Division (CSPD) of the Cabinet Office manages the Club arrangements (although transfers are dealt with by the Club schemes concerned). The Government Actuary’s Department provides actuarial advice to CSPD and Club schemes on the arrangements.

How does a non-Club transfer work?

When someone asks for a transfer, the old scheme calculates a transfer payment which is the cash value of the member’s benefits in their scheme. They base these benefits on the member’s final salary at the point of leaving and allow for increases up to retirement, at most in line with prices.

The scheme receiving the transfer payment must offer benefits of an equivalent value. But they base the service credit on the person’s salary in the new scheme. They also apply factors which allow for expected salary increases. So even when the two schemes are similar in structure, the result is generally a lower service credit in the new scheme. This is particularly so if the new job pays a higher salary.

How does a Club transfer work?

The transfer value calculation is generally the same as for a non-Club transfer. The difference is that the new Club scheme calculates the service credit using a set of standard tables that all Club schemes use. The Club arrangements also require the new scheme to use the member's salary in the old scheme when calculating the service credit, regardless of any increase on moving.

When someone transfers between two schemes with identical provisions, the transfer should produce a year-for-year credit. Where the scheme provisions differ, for example if they have different pension ages, a transfer might produce a higher or lower service credit.

Is a Club transfer always more beneficial?

In a majority of cases, yes. However, there are circumstances when this may not be the case. For example, where someone:

- takes a large pay cut on joining their new scheme; or
- has substantial benefits in their old scheme, is close to pension age when they join their new scheme and who intends to work beyond normal pension age.

Your pensions administrator will be able to advise you of the implications of such circumstances.

You should also bear in mind that:

- Club membership does not require that all Club schemes have the same benefit structure; and
- qualification for pension scheme and early retirement benefits will depend on the provisions in each scheme’s rules.

What is the impact of the Earnings Cap?

The earnings cap was HM Revenue & Customs’ (HMRC’s) limit on pensionable earnings (earnings on which your pension benefits and contributions are based). HMRC’s earnings cap ceased from 6 April 2006. However, some schemes may choose to impose their own limit on pensionable earnings.

In order to maintain a consistent approach for Club transfers, any service which was subject to a cap in the sending scheme will continue to be subject to the cap in the receiving scheme. The Government Actuary’s Department will calculate a Club earnings cap, uprated each year, for all Club schemes to use for Club transfers (schemes may adopt a different approach for non-Club transfers). If your transferred service is subject to a cap, both the transfer value calculated by the sending scheme and the service credit calculated by the receiving scheme will be based on the Club earnings cap in force at the time, rather than scheme-specific caps. If your service was not subject to a cap in the sending scheme, your actual salary will determine both the Club transfer value and the Club service credit.

If only part of your benefits in the old scheme are subject to the earnings cap, both schemes will use the Club cap in force at the time you left to calculate that part of your transfer payment and associated service credit in your new scheme.

You should contact your pensions administrator for advice if you have any queries on this.