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Adviser factsheet

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Block transfers

Introduction

Where an individual transfers from a scheme under which they have an entitlement to scheme specific lump sum protection or a protected pension age, such protection is lost unless the transfer is a block transfer. Both forms of protection are covered in other factsheets.

Features

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- What is a protected pension age?
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Block transfers

What is scheme specific lump sum protection?

This is where the scheme, either an occupational pension scheme or buy out policy, as at 5 April 2006 could have paid a tax free cash sum of more than 25% of the member's pension fund. If it does exist, the lump sum entitlement will be protected after 5 April 2006 provided certain conditions are met. To see if this form of protection applies to a member, please check with the scheme administrator.

What is a protected pension age?

This applies only to pension schemes where the member had an unqualified right on 5 April 2006 to take benefits before normal minimum pension age. Even though, currently, the normal minimum pension age is 55, the lower pension age is retained provided certain conditions are met. To see if this form of protection applies to a member, please check with the scheme administrator.

Conditions applying to block transfer

1. A block transfer is the transfer in a single transaction of all the sums and assets held for the purposes of (or representing accrued rights under) the arrangements under the pension scheme from which the transfer is made, which relate to the member in question and at least one other member of that pension scheme.
2. Before the transfer, the member must not have been a member of the receiving scheme for more than 12 months. In this context a member includes not only active members, but also deferred members, pensioner members and pension credit members.
3. All benefits under the scheme must be taken at the same time.
4. They must have sufficient lump sum and death benefit allowance remaining.

Considerations regarding such a transfer

Condition 2 above can create a problem.

Some life offices 'badge' a SIPP provider's scheme and market it as though it were their own, whereas in reality they are using the SIPP provider's scheme. It is this situation that can create problems when an individual comes to open up a SIPP with the same provider and wants to make a block transfer.

For example, an individual who is considering transferring benefits from their employer's occupational scheme to a SIPP could find that they are already a member of the receiving scheme by virtue of taking out a SIPP with the life office that "badges" the SIPP provider's scheme. If they have been a scheme member for more than 12 months, the transfer is not a block transfer as it falls foul of condition 2.

Condition 3 also has a specific impact on how a member takes benefits i.e. in order to preserve protection a member cannot phase the taking of benefits under the scheme.

Single members

The only time a single member scheme (including a buy out policy) can make a block transfer is when the scheme is being wound up and all the benefit rights in respect of the member are transferred to a deferred annuity contract e.g. a buy out policy.

Increase in normal minimum pension age from 55 to 57

With the exception of members of uniformed service pension schemes, this increase is scheduled to take effect from 6 April 2028. The definition of block transfer contained in the protection measures associated with this increase differs in that conditions 2 and 3 do not apply.

See the following frequently asked questions for further information on block transfers. Please note that the questions do not take account of the definition of block transfer associated with the increase in the normal minimum pension age from 55 to 57.

Frequently asked questions

1. I already have a SIPP under a scheme, of which I have been a member for more than 12 months; can I make a block transfer to a new SIPP under the scheme?

   No. Both SIPPs would be set up under the same scheme and the legislation states you cannot transfer using the block transfer rules once you have already been a scheme member for more than 12 months.

2. Block transfer is held in a separate SIPP; can I take phased drawdown on any non-block transfer money held under other SIPPs in the same scheme?

   If you choose to take phased drawdown on either SIPP, this will invalidate the protection afforded by theblock transfer.

3. How do the new lump sum and lump sum death benefit allowances impact scheme specific lump sum protection?

   Lump sum allowance (LSA): only 25% of the value of the benefits crystallised is deducted from the lump sum allowance, not the amount of the tax-free lump sum paid.

   Lump sum and death benefit allowance (LSDBA): the full amount of the tax-free lump sum paid is deducted from the lump sum and death benefit allowance. Care and advice is needed before you crystallise them. For example, if you have more than two pension schemes, one with scheme protected tax-free cash and the other with the maximum 25% entitlement.

4. I have transferred under the block transfer rules and my transfer 'buddy' has subsequently cancelled their transfer within the cooling off period; does this affect the protection afforded to me?

   No, as long as the initial transfer was compliant with the block transfer rules, subsequent actions by a transfer buddy do not affect you.

5. My transfer 'buddy' has invalidated their protection; does this affect me in any way?

   No, please see the answer to Question 3.

6. I am the last remaining member of my occupational pension scheme and I have scheme specific lump sum protection; can I transfer to a SIPP while retaining the protection?

   No, as there is no other member with whom to transfer. However, if practicable, a new member could join the scheme to facilitate the transfer.

7. I have a section 32 buy out policy with protected pension age; can I transfer to a SIPP and retain the protection?

   By its very nature a section 32 buy out policy does not satisfy condition 1 above, i.e. it's an individual policy and there is no other member with whom to transfer. However, it's possible to transfer to another buy out policy and retain the protected pension age.

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