PENSIONS REFORM

Introduction

Pensions can be a minefield and especially at a time when there is so much change being brought in.

The last Labour Government introduced auto enrolment for workers not already in pension schemes whilst the current government has continued that initiative with a series of additional changes that will come into operation from 5th April 2015.

Reforms to the basic State Pension and the Second State Pension will come on line from 6th April 2016 and were described in Reps Bulletin PEN/040 Jan 2015.

This Reps' Bulletin is intended to give a brief overview of the latest updates and to direct members who wish to seek more advice and guidance to appropriate sources of help.

From the start it is worth pointing out that the detail in this Bulletin is not intended as financial advice which should be obtained from appropriately qualified FCA registered professionals. TSSA members seeking such advice can contact Martin Teal from Keystone Financial on either 07974 923554 or at m.teal@keystonefinancial.co.uk.

A few definitions

It is perhaps worth pointing out a few definitions that need to be understood alongside the new provisions and from which reps and members can understand what applies to them. Chief amongst those definitions are the following:

Defined benefit (DB), also known as a final salary pension scheme, is one that promises to pay out an income based on the employee's final salary just before they retire (eg, the last twelve months as applies to the Railways Pension Scheme).

The amount paid out is guaranteed, will be paid directly to the employee and does not require any decisions about annuities or drawdowns as applies in DC schemes.

Defined contribution (DC), also known as money purchase scheme, is a pension that is built based on the contributions of the employee, those of their employer and tax relief from the government. At retirement that accumulated pot of money can be used to secure a pension income through buying a product called an annuity or by opting for income drawdown.

What changes to pension provision occur from April 2015?

Originating from the Budget in 2014 are a series of measures that the government has introduced and that are available from April 2015:

- **Payment Flexibility**
  If you are 55 or over and a member of a DC scheme (many TSSA members pay into the Railway Pension Scheme or some other DB arrangement) you will be able to access your pension fund, anywhere up to 100% in a particular tax year without the need to purchase an annuity. This applies whether or not you have retired.

  The tax free lump sum of up to 25% of the fund will remain available (ie, every time money is taken out of the DC scheme) with any balance taxed as income at the individuals' marginal tax rate (at the time of withdrawal). The withdrawal itself could push you into a higher tax bracket with the consequence of having to pay more in tax.

  These flexible rules will apply to Additional Voluntary Contributions (AVCs), cash balance and some hybrid schemes subject to their pension scheme rules.

  Providers can, however, choose not to offer the new flexibility.

- **Contributions**
  The level on contributions will be limited in order to stop people withdrawing from a pension, then immediately re-contributing to the pension and gaining additional tax relief.

  The annual contribution allowance will be £40,000 after April 2015 (as it is now).

  If you make any withdrawals from a defined contribution pension (after taking the 25% tax-free cash), there could be a restriction placed of £10,000 on the annual allowance

- **Defined benefit transfers**
  Most of the new pension reforms apply only to defined contribution (DC) schemes but members of defined benefit (DB) pension schemes will continue to be allowed transfers to DC schemes, although this provision excludes pensions that are already in payment and does not apply to unfunded public service pension schemes.

  Before transferring from a DB Scheme, advice must be taken from a regulated adviser because it may result in the loss of important benefits.

  The exception to the advice requirement is where the pension's pot is under £10,000 or they have pension savings below £30,000. Advice will normally have to be paid for, unless the transfer is to a connected employer scheme or is an “incentivised transfer‟, in which case your employer will pay.

Scheme Trustees will be given guidance on how to protect their schemes funding position from the impact of transfers out.

- **The Guidance Guarantee**
  All individuals with a DC pension approaching retirement from age 55 will have access to free and impartial guidance provided under the heading of “Pension Wise.”

  In the first instance, guidance can be found at the government’s Pension Wise Website[i] but there is also the facility for an individual seeking guidance to either approach The Pension Advisory Service (TPAS) or Citizens Advice (CA). Details of how to book a 45 minute guidance session can be booked from the Pensions Wise website[ii] with TPAS conducting the session over the phone and CA providing the face to face meeting.

  The new “guidance guarantee” is a vital part of the pension reforms which offer a large amount of freedom. If these freedoms are not dealt with correctly, it could lead to a person’s pension fund being depleted too early.

  The guidance provided, whether by phone or in person will cover three areas:

  1. What the individual can do with their pension pot

  2. The different pension types and how they work

  3. What’s tax-free and what’s not

  On advice from the CA, it is important to realise that guidance, whether by phone or at an interview, is limited to one session only. Guidance sessions have to be booked in advance so that those seeking information can gather together all their appropriate documents.

  It is also important to be aware that it is guidance and <u>not</u> financial advice that is being offered.

  The purpose of the free guidance is that it will give information that could help the individual make a decision.

  Pension Wise will not provide any advice or assist in the purchase of financial products. If an individual requires advice that includes a personal assessment of their financial situation then advice must be sought from a FCA qualified financial advisor.

- **Minimum pension age increased to 57**
  The normal minimum pension age (the earliest age that you

can normally access your pension pot) will increase from age 55 to age 57 in 2028. It will increase at the same rate as the increase in the state pension age, from then on, so the minimum pension age will remain ten years below state pension age.

- **Inheritance Tax**
  The 55% inheritance tax charge has been scrapped and replaced by the following:
  - If someone passes away under the age of 75, there will be no inheritance tax on the inherited pension funds.
  - Over the age of 75, the inherited pension pot will be taxed at the beneficiaries marginal income tax rates.
  - The tax is payable on withdrawal from the pension fund. So it is possible to inherit a pension pot, and not pay tax until a withdrawal is made.

Rep Actions
TSSA reps are requested to bring the contents of this Bulletin to their members' attention.

Acknowledgements and further reading:
This Bulletin was prepared using information from:

- The Pension Advisory Service (TPAS) guidance. (http://www.pensionsadvisoryservice.org.uk/about-pensions/pension-reform/)
- Which? Company Pensions Explained (http://www.which.co.uk/money/retirement/guides/company-pensions-explained/)
- Pensions Wise (https://www.pensionwise.gov.uk/)
- Hawsons Chartered Accountants (http://www.hawsons.co.uk/proposed_pension_reforms.htm)

Other sources appear in the endnotes below.

[i] https://www.pensionwise.gov.uk/

[ii] https://www.pensionwise.gov.uk/appointments