TSSA Staff Reps Bulletin

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PENSIONS UPDATE

Introduction
For many people, keeping up with developments in pensions can seem mind boggling with what may seem like numerous changes provoking questions about whether something you may read in a newspaper, magazine or online actually applies to you or your colleagues.

The purpose of this Bulletin is to provide an update on pension issues which we think you may be interested in and through which we hope to be able to clarify how you may be affected.

The plan is to provide regular quarterly updates throughout the rest of the year. If you wish to feedback on pensions – or have a suggestion for a Bulletin on a differently topic, please contact us at: jenksr@tssa.org.uk.

What's been happening in pensions recently?
There are a number of issues that we will list here:

- Combatting Pension Scams: new regulations introduce new conditions on transfers
- Checking the value and safety of your pension pot
- Many older defined contribution pensions deliver poor value for money
- Automatic enrolment earnings trigger and qualifying earnings bands to remain unchanged for 2022/23
- Modifications to the auto enrolment arrangements put on hold
- Pensions Dashboard development continues
- The Stronger Nudge regime begins
- Awareness and understanding of pension tax relief
- Pension news from the Government's Spring Statement
- New Normal Minimum Pension Age (NMPA) from 2028

Combatting Pension Scams: new regulations introduce new conditions on transfers
Using powers from Section 125 of the Pension Schemes Act 2021, the UK Government introduced new regulations into law from 30th November 2021 that are designed to make it harder for people to be scammed out of their pension savings.

Scammers can try to convince members of pension schemes to transfer money out of their bonafide arrangement and put it into bogus schemes from which it promptly disappears.

The new regulations have introduced additional checks that trustees, pension managers and scheme administrators have to fulfil before permitting a statutory transfer to go ahead, including the First Condition of establishing "beyond reasonable doubt" that the receiving scheme meets certain established criteria (eg, that it is a public service pension scheme, authorised master trust or authorised collective defined contribution scheme).

If the First Condition is not met, the Second Condition requires an assessment based on evidence of whether a Red or Amber Flag should be applied. If the former, the statutory transfer cannot take place because it indicates a scam. For an assessment leading to an Amber Flag, certain additional requirements have to be fulfilled before the transfer can take place.

TSSA will be producing a separate Reps Bulletin on advice available on pension scams.

Checking the value and safety of your pension pot

The Financial Services Compensation Scheme (FSCS) exists to protect customers of financial services firms that have failed. Earlier this year, FSCS published new research, which found that:

- one in seven people (12%) "don't know" when they last checked the balance of their pension pot
- a further 20% admitted to having never checked the value of their pension
- 40% of those saving into a pension have not checked if their pension is FSCS protected.

Within certain limits, FSCS will automatically pay compensation to people who hold money with UK banks, building societies and credit unions should the firm fail.

Pensions provided by insurance schemes (typically Defined Contribution Money Purchase based personal pensions) are included but they must qualify as 'contracts of long-term insurance' (eg, an annuity purchased from an insurance company). FSCS recommend that if you are unsure, you make time to check that your pension is covered by using the Pension Protection Checker[1]

Many older defined contribution pensions deliver poor value for money

This is the main implication of research findings published by the Institute of Fiscal Studies which found that:

> "Many working-age people already have one or more pension pots that they have stopped contributing to. Some savers stand to lose thousands of pounds if they do not move older pensions to ones that offer better value for money."

The IFS found that much of the issue relates to charges being higher in older schemes but can also relate to investment options. The findings are presented in an accessible format at: https://ifs.org.uk/publications/15920 .

[1] See: https://www.fscs.org.uk/media/press/2022/jan/consumers-not-checking-pensions/ See also: https://www.fscs.org.uk/what-we-cover/pensions/

Automatic enrolment earnings trigger and qualifying earnings bands to remain unchanged for 2022/23

Members may be aware that employers are required to automatically enrol workers into a pension scheme if they are not already in one offered by the company. In some firms that TSSA bargains with the Railways Pension Scheme or TfL Pension Fund (as appropriate) are used but for others it may be a defined contribution scheme set up specifically for the purpose.

To qualify, workers have to meet criteria that places them in one of three categories (Eligible Jobholder, Non-eligible Jobholder and Entitled Worker) which is based on age, salary level and that they are ordinarily working in the UK.

The Government annually reviews the applicable salary levels and has decided that for 2022/23 they will remain frozen at 2021/22 levels:

- Earnings Trigger at £10,000 per annum;
- Lower Earnings Limit (LEL) qualifying earnings band, £6,240
- Upper Earnings Limit (UEL) qualifying earnings band £50,270

Modifications to the auto enrolment arrangements put on hold

An attempt by an MP to introduce a Private Members Bill that would have reduced the Eligible Jobholders minimum qualifying age from 22 to 18 and removed the lower earnings threshold altogether won broad support in the House of Commons but ran out of Parliamentary time. The Pensions Minister has stated, however, that the Government will "in the fullness of time, bring forward or support legislation to take the matter forward".

Pensions Dashboard development continues

Members may not have heard about the Pensions Dashboard Project (PDP) that is being developed by the Money and Pensions Service (MaPS).

The PDP website describes their vision[2] for pension dashboards as enabling "individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement and growing financial wellbeing. Dashboards will provide clear and simple information about an individual's multiple pension savings, including their State Pension. They will also help them to reconnect with any lost pension pots."

The Project started in 2019 and has been steadily progressing through a series of phases.[3] From 2023, three staging cohorts will start which means that pension schemes will have to connect to the digital infrastructure in specific time frames:

- large schemes (April 2023 – September 2024)
- medium schemes (October 2024 – October 2025)
- small and micro schemes (expected from 2026).

[2] See: https://www.pensionsdashboardsprogramme.org.uk/vision/

[33] See: https://www.pensionsdashboardsprogramme.org.uk/programme-phases/

It is unclear at this stage when Pensions Dashboards will become available to use but it appears that the latest expectation is during the middle of 2024.

State Pension information, already available via the Government's Website (at https://www.gov.uk/check-state-pension), will be available on the Pensions Dashboard from the start of its operation.

The Stronger Nudge regime begins
With the advent of the retirement flexibilities in 2015 a new service, Pension Wise, was created to provide individuals aged 50 and over with free, impartial guidance in relation to the options for taking their DC benefits.

From 1st June 2022, regulations made under the Financial Guidance and Claims Act 2018, came into operation which mean that, with certain exceptions, "trustees and managers of occupational pension schemes will be required to deliver the stronger nudge whenever they receive an application, or communication made in relation to an application, from any person to transfer any rights to flexible benefits, or to start receiving flexible benefits from the scheme."[4]

What is meant by the stronger nudge is ensuring that DC (money purchase) scheme members or beneficiaries have taken appropriate financial advice before actioning flexible pension options which could include (from age 55):

- using your pension pot to purchase a lifetime annuity
- draw down elements of your pension pot
- take your pension pot as a lump sum.

Each of these options attracts a 25% tax free element.

More details about what the stronger nudge means can be found in the Sackers' article in the footnote below.

Awareness and understanding of pension tax relief
Reported in April 2022, HM Revenue and Customs (HMRC) commissioned research in 2015 under the subject of "Pension tax relief: awareness, understanding and saving behaviours"[5]

Amongst the findings of the report was that:

- "many people were not aware of the tax system in place for pensions." Only four people in ten (41%) correctly believed that the government effectively tops up people's pension contributions through tax relief. A quarter (26%) thought the government provides no top-up, and a third (33%) did not know

- "When those with pensions who were aware of pension tax relief were asked how much the Government had topped up their contributions to date, the mean response was by around 6 per cent for basic rate taxpayers (versus

[4] See: https://www.sackers.com/publication/stronger-nudge-to-pensions-guidance-2/
[5] Available at: https://www.gov.uk/government/publications/pension-tax-relief-awareness-understanding-and-saving-behaviours#:~:text=The%20key%20research%20findings%20were,33%25)%20did%20not%20know

25% in reality) and 15 per cent for higher or additional rate taxpayers (around 67% in reality)"

Tax in general is a complex matter which requires professional advice from a qualified tax accountant. Whilst TSSA is unable to give such advice, there are online sources that will introduce you to some of the basics of how your pension is affected by tax.

Amongst those are:

- MoneyHelper's[6] "Tax relief on pension contributions" at: https://www.moneyhelper.org.uk/en/pensions-and-retirement/tax-and-pensions/tax-relief-and-your-pension#
- Which? magazine article "Tax relief on pension contributions explained" at: https://www.which.co.uk/money/pensions-and-retirement/personal-pensions/contributing-to-a-private-pension-explained/tax-relief-on-pension-contributions-explained-a27f53z7qg3f#:~:text=When%20you%20earn%20tax%20relief,get%2020%25%20pension%20tax%20relief

Pension news from the Government's Spring Statement

The Chancellor of the Exchequer's Spring Statement on 23rd March 2022 did not deliver any specific pension changes but was noted for other amendments that have implications for people saving for a pension:

- Tax cuts: the headline of a cut in basic rate income tax from 20% to 19% from April 2024 may benefit households in these difficult times but will also mean that the tax relief given by the Government on pension contributions reduces. This means that scheme members may need to think about paying a bit more towards their pensions to make up for the loss.

  It is worth noting that the Government also saves money by cutting the amount of tax relief it pays out.

- National Insurance (NI) changes: alongside a 1.25% increase in NI contributions to go towards the Health and Social Care Levy, the Chancellor also increased the threshold from when people have to pay it. From July 2022, NI contributions will become payable once a person receives an income of £12,570, up from its current level of £9,880.

  Commentators see this as benefiting low paid workers, especially women who make up the greater number of people working part time jobs.

- Increase in the national minimum wage: Lifted from £8.91 an hour to £9.50 at age

[6] MoneyHelper is a free service offered by the UK Government's Money and Pensions Service (MaPS) which is an arm's-length body, sponsored by the Department for Work and Pensions.

21, the increase could mean that more people are drawn into the scope of Auto Enrolment, prompting renewed calls to reduce the Earnings Trigger (£10,000 for be classed as an Eligible Job Holders) and the minimum age qualification from 22 to 18.

New Normal Minimum Pension Age (NMPA) from 2028

In our “Pensions Update” Reps Bulletin (PEN/046/MAR 2021)[7] we reported that the UK Government was consulting on increasing the Normal Minimum Pension Age from 55 to 57 from 2028.

Law enacted earlier this year has now brought the provision into place from 6th April 2028. This means that from that date, anyone seeking to retire will not be able to claim their benefits (DB schemes) or pension pot (DC schemes) until age 57 at the earliest.

In our last Pensions Update Bulletin we also referred to plans to allow people to retain their age 55 entitlement provided under their scheme’s rules they could take their pension benefits before age 57. To be able to do this, the following criteria must exist:

- the rules of the pension scheme include an actual or prospective right to take scheme benefits before age 57 on 11 February 2021
- the individual was a member of the scheme before 4 November 2021 (or had made a substantive request to transfer to the scheme before 4 November 2021).

HMRC has published guidance[8] which clarifies that a member must have an unqualified right to take benefits before age 57 which means that they do not need the consent of anyone before they can take their benefits. This unqualified right:

- cannot require the consent or the exercise of discretion by the trustees or employer under the scheme’s documentation;
- does not exist if the scheme rules refer to the NMPA or its underlying legislation (for example, permitting benefits to be taken from the lowest age consistent with the Finance Act 2004).

Reps’ Action

We would recommend that reps make this Bulletin freely available to members.

Acknowledgements and references

TSSA wishes to acknowledge all of the sources that appear in the footnotes and which were used to produce this Bulletin.

[7] See Reps Bulletins on TSSA Website

[8] See: https://www.gov.uk/government/publications/pension-schemes-newsletter-136-january-2022/pension-schemes-newsletter-136-january-2022