FREEDOM AND CHOICE IN PENSIONS

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Papers with this report	

SUMMARY

At the Pensions Committee in December, Officers were asked to provide a report at the March Committee to Members outlining the implications of the forthcoming changes, announced by the Chancellor of the Exchequer in his March 2014 Budget, on "Freedom and Choice in Pensions".

RECCOMMENDATION

This report is for information only

INFORMATION

What is Freedom of Choice?

In the March 2014 Budget, the Chancellor of the Exchequer announced a change to the way people can take their pensions, effective from April 2015. Currently individuals who contribute to Defined Contribution (DC) arrangements have to take part of their pension pot as an annual pension (an annuity) and may be able to take some as tax-free cash, depending on the Scheme or policy rules. From April 2015, individuals aged over 55 with Defined Contribution pension savings will be able to draw all of these savings as a cash amount, but the amount will be subject to income tax depending upon personal circumstances.

Whilst the LGPS is a Defined Benefit (DB) Scheme, the changes applicable from 1 April 2015, will allow scheme members and members with a deferred benefit, aged 55 plus, to transfer their pension benefits from the LGPS in to a DC arrangement and take their benefits immediately as cash, although restrictions will be applicable regarding the taxation of any payments received. This "Freedom" is not available to members of unfunded Public Sector Schemes.

The receiving DC Scheme will allow the individual:

1) Take the whole value of their transferred fund as cash, 25% tax free and the balance taxed as income;

2) Take smaller lump sum payments, as and when requested, with 25% of each withdrawal tax free and the excess taxed as income;

3) Take 25% tax free and the remainder as regular taxable income, where the member draws money down from the balance, or an annuity is purchased with the balance.

These changes may also allow current LGPS scheme members who have contributed to an Additional Voluntary Contribution (AVC) Scheme to transfer the value of their AVC's to a DC scheme with the same options available as those outlined above. However, as the final regulations have not been published, this is the information that Prudential (our AVC provider) has passed on to all its Local Government clients.

We are also waiting for DCLG / LGA to provide further information and guidance to LGPS administrators which will be circulated as soon as the regulations are available.

Transferring Pension Benefits to an Alternative Pension Arrangement

Subject to a member's election, the LGPS will be able to continue transferring pension benefits to alternative providers after 1 April 2015 as current regulations permit, provided a member has left employment (has a Deferred Benefit in the fund) or opted out of the scheme. However, new legislation imposes a requirement on the member of the FUND to take independent financial advice from an appropriate approved Financial Advisor before proceeding with any transfer of benefits out of the LGPS. This would be at the member's own cost and the member will need to provide evidence that they have received advice before any transfer to another provider can take place. Taking professional financial advice has been made mandatory to help ensure members are not subject to potentially fraudulent activity or inappropriate advice. This could cause a potential administration problem for the Fund as because there is no obligation on the individual to act on or accept the advice given, the scheme administrator will have to be able to evidence that the member has sought appropriate advice to defend any potential future challenge or appeal.

Unfortunately, for members where the value of any transfer payment is less than £30,000 there is no requirement to take financial advice, although it is strongly recommended that professional advice is sought. Prior knowledge of any commission the new provider will take from the benefit and any tax charges that may apply should be understood in advance of taking any action to transfer benefits out of the LGPS.

Take-up Rates

The Government's initial estimate is that approximately 10 to 20% of individuals approaching retirement will investigate the possibility of transferring out to a DC arrangement. However, it will depend upon how companies promote the availability of these new arrangements and the information made available by the Fund. Officers are currently working with Capita Employee Benefits (CEB) to provide information to employees to make them aware of the value of their current scheme membership and to warn them that potentially, a number of companies will make approaches to scheme members to convince them that transferring out is their best option. Several meetings with employees and employers are being arranged to provide further information about these changes. CEB have already noticed a general increase requests for transfer values. As a result of this increase we will be working with CEB and their Communications Team to provide information to all scheme members and scheme employers, as well as providing information to Hillingdon members via Horizon and staff emails. Officers will continue to monitor and target engagement with members.

Safeguards

In addition to the safeguard for individuals to have sought appropriate independent advice, it is expected that there will be regulation amendments to protect pension funds. The Department of Communities and Local Government (DCLG) will have the right to arrange for Schemes to reduce the value of any transfer payment if there is a cost risk to taxpayers. The full details of the method by which any reduction will apply and how the scheme can apply to the Secretary of State to apply such a reduction will be set out in secondary legislation which will be subject to consultation in due course.

FINANCIAL IMPLICATIONS

It is unknown, at this stage, what the level of take up for these new arrangements will be and the resultant impact it will have on the Fund.

LEGAL IMPLICATIONS

There are no direct legal implications arising from this report.