NEW PENSION RULES FROM APRIL 2015

The communications union

OPPORTUNITIES AND DANGERS

The Government has made changes to pensions legislation which mean that, from April 2015, people with certain types of pension arrangement will have more choices and will be able to access their pensions in a more flexible way.

WILL THIS APPLY TO ME?

The new rules apply to Defined Contribution (DC) or Money Purchase pension schemes, like the **Royal Mail Defined Contribution Plan (RMDCP)** so the new rules apply to everyone in the RMDCP. In this sort of scheme you build up a pot of money rather than a pension based on a formula. Zurich which runs the RMDCP is offering members all the new flexibilities.

The **Royal Mail Defined Contribution Plan (RMDCP)** is not a DC scheme members so RMPP members are only affected if they have paid Additional Voluntary Contributions under the **Flexiplan** or **Bonusplan** arrangements (see the section on this below). Even members who are not directly affected may find themselves targeted by fraudsters running pension scams *(see the section on this below)*.

WHAT ARE THE NEW FLEXIBILITIES FOR DC PENSIONS?

From April 2015 a member with a DC pension pot can choose to access this at any time from age 55 and use their pot in one or more of the following ways:

1. Buy an annuity

In the past – and until April 2015 – the majority of people retiring with DC pension pots had no alternative but to use most of their money to buy a lifetime annuity from an annuity provider (such as an insurance company). A lifetime annuity is a pension that is payable for life which may have pension increases applying to it, and a dependant's pension payable at a certain level after death. However the cost of buying an annuity is very high – which has a lot to do with the fact that interest rates are very low and the moment. This is why, once the new flexibilities come into force, it is possible that fewer people will choose this option.

The option to buy an annuity will still exist from 2015, but the rules about annuity purchase are being relaxed in order to allow annuity providers to come up with some interesting and innovative approaches that would not previously have been allowed. For example it may become possible to buy an annuity with variable pension increases, rather than increases that are fixed each year.
Annuity payments are taxed as income.

2. Flexi-access drawdown or Flexible drawdown

Under a flexible drawdown arrangement, a member can take up to a quarter of their DC pot as tax free cash and designate the rest of the pot for flexible drawdown. This part of the pot continues to be invested and the member can take income (known as drawing down) from the pot as and when they like. All of payments that are drawn down would be taxed as income.

It would be possible to use some of the remaining DC pot to buy a short term annuity which would provide a known income for up to 5 years.

Drawdown arrangements have been available in the past but only for people with big pension pots.
The new arrangements are available to anyone, whatever the size of pot.

3. Uncrystallised Pension Lump Sums

Under this new type of arrangement a member can take their DC pension pot as a lump sum or as a series of lump sums over a period of time. A quarter of each lump sum payment is tax free, with the remainder taxed as income. The pot continues to be invested until the point of payment.

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WHAT ARE THE MAIN DIFFERENCES BETWEEN THE OPTIONS?

	Annuity	Flexible Drawdown	Uncrystallised Lump Sums
Make a once and for all decision at retirement	Yes	No	No
Need to continue to make decisions after retirement	No	Yes	Yes
Income secure for life	Yes	No	No
DC pension pot can stay invested after retirement	No	Yes	Yes
Can take lump sums gradually	No	No	Yes
More flexibility in how and when to take benefits	No	Yes	Yes
25% of DC pension pot tax free	Yes	Yes	Yes

RMPP – FLEXIPLAN AND BONUSPLAN

RMPP contains a DC section for Additional Voluntary Contributions paid under the Flexiplan or Bonusplan arrangements. The new rules will apply to the part of your RMPP benefits built up in these sections.

RMPP does not intend to offer the new flexibilities itself. The only change to RMPP benefits will be that Bonusplan and Flexiplan members may be able to take more of their pension as a cash lump sum though the extra cash will be taxable. However most members will be able to transfer their Flexiplan and Bonusplan AVCs from RMPP to a plan which offers the full flexibilities if they want to. This would not affect the rest of their benefits in RMPP.

DANGERS – WHAT COULD GO WRONG?

Whilst the flexibility to do what you like with your DC pensions pot may be welcome, it creates a danger that you may come to regret your choices. Things to watch out for when considering using the new flexibilities are:

- Underestimating how long the money needs to last. At retirement a 65 year old can typically expect to live for another 20 to 25 years. Also you may not be typical – 20% of men and 30% of women will live for more than 30 years after retiring at 65
- Not allowing for inflation. You need to allow for prices to rise over the years. Inflation at 3% pa would more than double the cost of living over the course of retirement.
- Taxation. As explained above part of your pot is tax free but the rest is taxed as income when you take it. This means if you take a lot of money from your pot in one year you might have to pay higher rate tax on some of it.
- Investment charges during your retirement. The higher the investment charges on your remaining pot the sooner your money will run out. You will need to shop around to check that charges are reasonable and if not consider transferring your pot to a new provider before you retire.
- Investment return during your retirement. You will need to decide how the money left in your pot is invested. Investing cautiously generally means a poorer return so the money runs out sooner, but investing to get a better return generally involves taking more investment risk. You need to consider how much you depend on being able to maintain the payments from your pot and how much you can afford to lose.
- Guarantees. If you can't afford to lose at all and need a guaranteed income then annuity purchase may still be the right choice for you.

And applying to everyone whether or not the new flexibilities affect them:

PENSION SCAMS

Fraudsters target inexperienced investors with offers of high returns on their pension savings and then cheat them out of their pension pot. Advice on how to spot and avoid pension scams can be found at **https://www.pensionwise.gov.uk/scams**

WHERE CAN I GET HELP?

If they apply to you, choosing between the options available is something that you should think carefully about. The Government has announced that, from April 2015 anyone over the age of 55 retiring with a DC Pension will be eligible for free guidance on the options available to them. This initiative is called *"Pension Wise – Your Money, Your Choice"* and can be found at: **www.gov.uk/pensionwise**

The information provided here is not intended to replace this guidance. Also you can always speak to a financial adviser to talk through your options. You can find a list of IFAs on: **www.unbiased.co.uk.**

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