

Frequently Asked Questions

Can I get these flexibilities from all of my pension schemes?

No. These flexibilities do not apply to Defined Benefit Schemes. In addition, not all Defined Contribution (DC) Schemes will be offering these flexibilities in their own scheme, so you may need to transfer your DC pension pot to another suitable arrangement to get access to all of these flexibilities.

Will I still be able to receive 25% tax free?

Yes. The exact size of the tax free lump sum will depend on the way you access your pension benefits but the general rule of thumb is that the first 25% of your benefits that you access in a flexible way will be free of tax.

Once I begin to access my benefits in a flexible way is there any change to my future pension savings?

Yes there will be a change. If you receive any pension income under the new flexibility rules then any future contributions to a Defined Contribution scheme will be limited to £10,000 a year.

Glossary

Annuity – a method of receiving a guaranteed income from your Defined Contribution pension where you “buy” the income in exchange for your pension pot. There are a number of different options regarding death benefits and future increases which are decided at the outset.

Enhanced Annuity – if you have a health condition/lifestyle which may result in a shorter life expectancy you may qualify for an Enhanced Annuity that will pay out at a higher rate than a regular annuity.

Defined Contribution pension schemes (often called Money Purchase) are pension benefits where you have a fund value determined by the contributions you (and/or your employer) make, any investment return your fund receives less any charges levied by the fund managers and administrators.

Defined Benefit (often called Final Salary schemes) are pension schemes where your benefit is calculated as a proportion of your salary determined by the number of years you were in the scheme.

Cash Equivalent Transfer Value the value offered to a member of a Defined Benefit pension scheme that would be paid a Defined Contribution scheme in lieu of any further benefit in the scheme.

Pensions Liberation – a way of accessing your pension benefits, usually before age 55, via complicated loans or investments. This will usually be accompanied by excessive charges and potential for large tax charges. Your pension would be at risk and these should be avoided.



Pension Rules Are Changing From 6 April 2015

Foreword

You may be aware that from 6 April 2015 the way that people can access their Defined Contribution pension benefits is changing. In the March 2014 Budget, Chancellor of the Exchequer George Osborne announced a radical change to the way members of Defined Contribution schemes would be able to receive their pension from 6 April 2015. This will have an impact of the retirement plans of millions of men and women across the country that have pension benefits in their current, or previous, employers' schemes and personal pension schemes.



We want you to have as much information as possible on these changes as there is a lot of complication in the detail which doesn't always come across in the headlines you may have seen in the press and on TV. We have therefore asked Broadstone, a firm of pensions specialists who help us with the CWU pension arrangements, to set out the detail of these changes in the remainder of this note.

The changes have a significant impact on the way that Defined Contribution benefits can be taken and care should be taken to ensure the pension funds are used in an appropriate way. The choice to take your pension in a manner that suits you gives greater flexibility but also brings greater complication. In particular you should be careful to consider the tax implications of any choices you make and may be better taking your funds out in.

Please be very wary of scams which are expected to become more prevalent as these new flexibilities come into force. If it looks too good to be true then it probably is. The Government has established the Pension Wise pension guidance service (more on

this below) but where complex and difficult decisions are being made about providing for your retirement people should seek Independent Financial Advice.

The key message as all of these changes take effect is to think carefully about what you want to use your pensions savings for as you can only spend it once, consider the tax and other implications of any choices you might make, and ask for advice and assistance from your scheme and independently.

Any update resulting from the budget will be considered. If these affect your pension I will write to you again.

Yours sincerely

Billy Hayes - General Secretary
www.billyhayes.co.uk

Headline summary of Pension changes from April 2015

- The changes mainly affect the type of pension scheme known as 'Defined Contribution (DC)'. These are also sometimes known as 'Money Purchase' schemes and might be schemes run by your employer or your own Personal Pensions with an insurance company.
- Final Salary (or Defined Benefit) schemes are not affected in the same way by these changes but there is more detail on this later in the note.
- If you have pension savings in a Defined Contribution (DC) pension scheme you can access them from the age of 55 (this minimum age will be increasing with in line with the future changes to the State Pension Age over the coming years so that it will always be 10 years before State Pension Age).
- You will no longer have to buy an annuity with your DC pensions savings.
- Instead you will have complete flexibility to be able to take a regular income direct from your pension pot, or to take it all as cash, or anything in between.
- However, you may need to transfer your pensions pot to another suitable arrangement to access the full range of flexibilities as not all current schemes will be offering all of them.
- Depending on how you access your pension, tax will apply at your normal rate (often called your 'marginal rate') i.e. it will be treated as if you had earned that income as salary in that tax year and taxed accordingly. Therefore taking income or lump sums from your pension may put you into a higher tax band in that year.
- You can still take 25% of the pension pot as a tax free lump sum.

Annuities are changing

An annuity is a guaranteed income for life and the rules around the way the income will be paid will also be changing from 6th April 2015. The new flexible annuities will be able to increase and decrease once in payment which may create a market for more flexible, but still guaranteed, income in retirement.

Death tax changes

The Government also announced changes to the taxation of death benefits after 6th April 2015. This only applies to Defined Contribution schemes, but should death occur before age 75 any income or lump sum paid to the Nominated Beneficiaries would be paid free of income tax. Should death occur after age 75 any income or lump sum paid to the nominated beneficiaries would be taxed at the recipient's normal income tax rate (although receipt of a lump sum/income may put the recipient in a higher tax band). Also for lump sums paid before 6 April 2016 the lump sum will be taxed at 45%. In the vast majority of cases the payments will also be free from Inheritance tax. Depending on the size of the deceased's pension wealth a charge under the Lifetime Allowance (currently £1.25m) may still apply.

Pensions "Liberation" and Scams

There are many unscrupulous individuals who will prey on unsuspecting people promising high rates of return or ways of accessing pension benefits before age 55. These arrangements should be treated with suspicion and avoided if you have any doubts. Further support on the operation of Pension Liberation and scams can be found on the Pension Regulator's website:

<http://www.thepensionsregulator.gov.uk/regulate-and-enforce/pension-liberation.aspx>.

Pension Wise guidance service and advice

When you are accessing your Defined Contribution pension savings you are entitled to a free guidance session with Pension Wise, the Government's guidance service. You are entitled to receive this over the phone, using online tools or a face-to-face guidance session. The Pensions Advisory Service are responsible for providing the telephone service and online information. The Citizen's Advice Bureau will host the face-to-face guidance sessions. If you wish to use the free guidance service you should first visit the Pension Wise website to access information and register for either a telephone or face-to-face guidance session: www.pensionwise.gov.uk.

The Pension Wise is not able to tell you what you should do only the repercussions of certain actions and if you circumstances are complicated and you are not sure what to do you should consider taking Independent Financial Advice. You can find an adviser via the "Unbiased" website www.unbiased.co.uk. The Money Advice Service are also creating their own register which you may want to refer to when it is launched.

Defined Benefits pension savings

It is currently not possible to take your benefits flexibly from a Defined Benefit scheme. Therefore, to access them as a flexible benefit you would need to transfer the pension to a Defined Contribution scheme and take them in a flexible way. This will be a major financial decision, as you will lose the guaranteed benefit and income that the Defined Benefit scheme will provide, and if the Cash Equivalent Transfer Value is more than £30,000 you will have to receive Independent Financial Advice before the transfer can proceed. This may also be the case where the Cash Equivalent Transfer Value is less than £30,000 as the receiving scheme may insist on advice. Members of Defined Benefit schemes are entitled to one Cash Equivalent Transfer Value quotation a year by law, although this statutory right falls away one year before your Normal Retirement Date in the scheme. Therefore, you may need to investigate the option of transferring before you are too close to your Normal Retirement Date. **Please note that transferring a Defined Benefit pension into a Defined Contribution arrangement is a complex financial decision and should be made with care and proper advice.**

Members of funded public sector schemes (e.g. Local Government Pension Scheme) will be able to transfer their benefits. However, members of unfunded public sector schemes (e.g. NHS, Teachers, Armed Forces Civil Service, Police and Fire-fighters) will not be able to transfer those benefits into a Defined Contribution scheme.

Actions

Find out what you have - If you are interested in receiving income or funds from your Defined Contribution schemes that you have been a member of you should contact them to find out the current size of the fund and also if the flexibilities are available from that scheme. You should also establish whether any penalty charges would apply or whether you would lose any benefit that may be valuable to you (guaranteed annuity rates for instance) if you accessed your fund in a flexible way.

Think about what your options are - Once you have found out what you've got, start to think about what that will mean for your retirement plans. Often your scheme will have online tools so you can be able to:

- **Expression of Wish / Nomination of Beneficiaries** - To ensure that any pension scheme you are a member of is able to distribute your funds as you wish and quickly, you should consider completing an Expression of Wish form. You will need to complete one for every scheme you are a member of and they will be able to provide a form to you on request. These should also be updated as your circumstances change.
- **Seek Pension Guidance** - the Pension Wise service is free and you should access it as a good start when considering your rights and options.
- **Seek Advice** - if, after the Pension Wise guidance, you are unsure or lack clarity on the repercussions of a particular course of action you should consider paying for advice that will all of your financial and personal circumstances and give you a recommendation for a course of action.

Beware of Scams and Fraud - there are people out there that will give poor and unreliable advice and you should take advice with caution. The Pension Liberation funds are scams that will have high charges and could also result large tax charges.