

# FutureView

## Freedom and choice in pensions What it means for you

Welcome to the latest issue of FutureView. In this newsletter we cover a number of important changes being introduced to the way that people can take their pensions, commonly referred to as “freedom and choice” and discuss how these may affect you. Please take the time to read the information in this newsletter, as it will help you to understand how these recent changes might impact you.

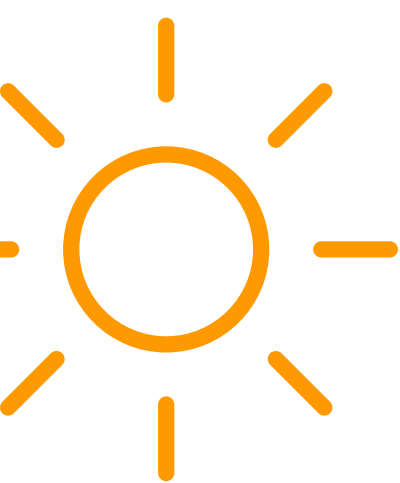
### Tell us what you think

We'd like to know what you think about this newsletter and if you have any questions about the topics covered in general. Please get in touch by contacting [pensions@lbbd.gov.uk](mailto:pensions@lbbd.gov.uk)



*April 2015*





## Freedom and Choice

In last year's Budget the Government announced big changes to rules around pensions. The changes that have been announced are aimed at giving members of pension schemes greater flexibility and choice over how they use their pension savings at retirement.

Some of the changes will apply to all types of pension scheme, while others are directed specifically at giving members of defined contribution (DC) schemes more flexibility in how they use their pension savings at retirement. The LGPS is a different type of pension scheme called a defined benefit pension scheme, so in this newsletter we set out how the various changes might affect you.

### What are the changes?

The changes will affect people differently depending on what type of pension scheme they are in.

The following changes will only affect members of DC schemes;

- Allowing members to take as much of their pensions as cash as they wish. This could be all at once or as a series of cash withdrawals, spread over time. The first 25% of pension taken as cash is tax free with the rest being taxed in generally the same way that any other personal income, such as a salary, is taxed;
- Ensuring that members of DC schemes receive free, impartial guidance at the point of retirement.

The following changes affect members of all types of pension schemes, including members of the LGPS;

- Increasing the limits where small pension "pots" can be converted into a one off cash payment (known as "trivial commutation");
- Increasing the minimum age at which you can retire (other than ill-health), from 55 to 57 with effect from 2028. This would then continue to rise in line with future increases in State Pension Age.

Although we have a lot of the detail behind these changes there are still some important areas that are still to be confirmed and further changes could be announced. Things could still change significantly before they are introduced.

### Some terminology explained

**Defined Benefit (DB) schemes** – often known as "final salary" schemes.

The amount you'll get depends on your salary and on how long you've worked for your employer.

The LGPS is a defined benefit scheme.

**Defined contribution schemes** – often referred to as DC or "money purchase" schemes. Money is invested by a pension provider. The amount you get when you retire usually depends on:

- how much has been paid in;
- how long you've been paying in for;
- how well your investments have done; and
- how much "income" an insurer is prepared to give you with the funds you have available.

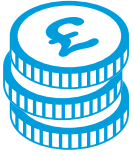
The value of a DC pension pot can go up or down.

**Annuity** - the annual retirement income provided to a person by an insurance company from the proceeds of the person's DC pension pot.

### So how might these changes affect you?

The majority of the new changes are aimed mainly at members of DC schemes rather than defined benefit pension schemes like the LGPS. There are still consequences for you as members of the LGPS though, which we will go on to describe in the remainder of this newsletter.





## Taking pension as cash

Until now anyone paying into the LGPS has been limited over their options at retirement. While members of the LGPS receive a guaranteed benefit, those in a DC scheme have a number of options over how to use the "pot" they have built up to buy their own pension (known as an annuity). However, the cost of buying an annuity has been getting more and more expensive. This means that anyone with this type of pension has been receiving less retirement income than they might have expected. The Government is keen to help these individuals, by giving them more flexibility over how and when they make use of the pension "pot" they have built up.

As a result, from April 2015 anyone who has pension savings in a DC scheme will be able to take up to 100% of their "pot" as cash. The first 25% of this cash sum would be paid tax free, with the rest being taxed in the same way that normal personal income is taxed.

Unlike the pension from a DC scheme, the benefits you get from the LGPS are guaranteed. The new rules do not allow members of the LGPS with this sort of guaranteed benefit to take it all as cash.

It will still be possible though before you retire to transfer the benefits you have built up in the LGPS to a DC scheme if you feel you could benefit from the new flexibility that DC schemes could offer you. In order to do so, however, you would have to opt out of the LGPS – giving up the significant guarantees that membership of the scheme gives you. Should you feel that making use of the new pension freedoms are right for you there are a number of options over how you can make use of your retirement savings. In this newsletter we can only summarise the key points you should be aware of. There are many pros and cons to each of the options available to you and each person's individual circumstances will be different. And this is where the need for independent financial advice is necessary, to help you in making the right decisions for you and your family.



## Independent financial advice

In the past it has rarely been considered beneficial to transfer benefits from the LGPS to a DC scheme, because of the significant guarantees you would be giving up.

Transferring pension benefits between schemes is highly complex and it has always been important that you seek independent financial advice before taking any action. This position has been strengthened by the Government as a result of the new flexibilities. If the "cash equivalent" value of your benefits in the LGPS exceeds £30,000 then it will be a requirement for you to take impartial advice from a qualified independent financial adviser before you can transfer your benefits in the LGPS to a DC scheme. When obtaining this advice it may be a requirement that it is provided to you by a suitably qualified transfer "specialist". The Government has recently launched an information service called Pension wise at [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk). This is a free and impartial service that offers guidance to consumers about the options they have in relation to their pensions, and helps you understand the Governments reforms to DC pension schemes enabling members to take all of their pension as a cash sum. We expect this website to be developed further over the coming weeks and months. If you are considering transferring your benefits out of a the LGPS scheme, you should seek your own independent advice regardless of the value of your LGPS benefits.

You will be responsible for arranging and, where necessary, paying for any advice you receive. You can find an independent financial adviser in your area at [www.unbiased.co.uk](http://www.unbiased.co.uk). You can also find more general information about the changes.



## What else might change?

LGPS members can choose to pay Additional Voluntary Contributions (AVCs) which are really a form of DC pension that sits alongside your main LGPS pension. Many people have wondered whether the Government will allow LGPS members paying AVCs to treat them in the same way as other DC pensions and take the whole lot as cash. At the moment we do not know what the Government's decision will be, but as soon as we do we will let you know.



## Taking small pension benefits as a cash sum (trivial commutation)

In addition to the changes outlined above, it has always been possible to take small pension benefits as a one off cash lump sum. This applies to DC schemes and those schemes, like the LGPS, that guarantee benefits. From March 2014 the amount that is considered a "small" pension increased.

This means that if you are over age 60 you can take your entire pension benefits as cash if the following applies:

- If your total benefits from the LGPS are valued at less than £10,000, you can take the entire amount as cash (even if you have more benefits in other pension arrangements). The first 25% is tax free and the balance is taxed in the same way as normal income. The previous limit was £2,000.
- If your total benefits from the LGPS are valued at more than £10,000 but less than £30,000 you can also take this as cash, so long as the total of all pensions you have (including with other companies and pensions you took out yourself) is less than £30,000. Again, the first 25% is tax free and the balance is taxed in the same way as normal income. The previous limit was £18,000.

It is important to seek financial advice before making this decision.





## What should you do?

We recommended you carefully consider your options if:

- You are considering opting out of the LGPS and transferring your benefits to a DC scheme;
- You are paying AVCs and planning to retire soon; or
- You do not currently pay AVCs but are interested in doing so (please contact us for more information about paying AVCs using the contact details below).

You should always check your own personal tax and financial situation before making any final decisions. You can find an independent financial adviser at [www.unbiased.co.uk](http://www.unbiased.co.uk). You will be responsible for paying for any advice you receive. You can also find information at Pension wise – [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) – a free and impartial service that offers guidance to consumers about the options they have in relation to their pensions.

Remember, if you choose to transfer your LGPS benefits to a DC scheme with the intention of taking the cash option, you will need to ensure that you have other sources of income to live on when you retire.



### Beware of fraudsters

The introduction of these new freedoms could provide an opportunity for fraudsters to “scam” you out of your pension saving. This could be through a variety of means, such as:

- cold calls,
- emails,
- doorstep visits,
- claiming unrealistically optimistic investment opportunities
- asking you to transfer your money quickly, even sending documents to you by courier

It is important to be vigilant to make sure you do not fall prey to the scammers. If you do receive any unsolicited calls, emails or visits, you are strongly advised to be cautious.

If you think you may have been contacted by someone who is not your adviser, or you think you may have been a victim of fraud, contact Action Fraud on 0300 123 2040. Or you can go to their website at [www.actionfraud.police.uk](http://www.actionfraud.police.uk)



## Changes to the way the LGPS is governed

In other news, there have recently been some important changes to the governance arrangements of the LGPS from 1 April 2015. All LGPS Funds will, from that date, have to introduce a local Pension Board. These Pension Boards will assist Funds to ensure they are well managed and run in such a way that:

- they comply with the rules of the LGPS as well as other legislation and guidance issued; and
- the administration is effective and efficient.

These new arrangements provide an opportunity for scheme members (be they active, deferred or pensioner) and employers to become more involved with the management of the Fund at a local level. Please get in touch (contact details are shown at the bottom of the page) if you want to know more about your local Pension Board and how you might get involved.

## A reminder on pensions tax

While tax arrangements for pension schemes have not changed recently, we thought it would be useful to remind you of the tax limits that apply to members of pensions schemes at present.

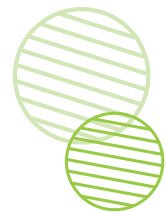
### Annual allowance

This is the amount of pension savings that can benefit from tax relief in the LGPS. Its rate is currently set at £40,000.

### Lifetime allowance

This is a limit on the total value of pension benefits that you can build up tax free during your working lifetime. If you exceed the **lifetime allowance** you would face a tax charge on the value of the excess benefits. Currently the value of the **lifetime allowance** is set at £1.25m.

The above rates can be subject to change.



## Where can I find out more?

For more information:

- Visit the London Borough of Barking & Dagenham Council Website at – [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)
- View the LGPS 2014 Website at – [www.lgps2014.org](http://www.lgps2014.org) – The website includes videos, explaining how the Scheme works. It also includes examples of how different members could be affected – to help you to understand how the changes could affect you – and a comparison of how the new Scheme is different to the old arrangement. So please visit the site to find out more about LGPS 2014.
- Email us at – [pensions@lbbd.gov.uk](mailto:pensions@lbbd.gov.uk)



## Contact details

We hope you've found this newsletter helpful and please feel free to contact us if you have any questions using the details provided below:

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This communication is for information only. It does not take into account your personal circumstances and does not constitute financial advice. Neither the London Borough of Barking & Dagenham Pension Fund or Hymans Robertson can provide you with advice; if you are unsure as to what action to take we strongly recommend that you seek independent financial advice.