Pension changes in the 2014 Budget

On 19 March 2014 the Chancellor announced sweeping new rules for Defined Contribution (also known as money purchase) pensions and options at retirement which have implications for both Defined Contribution (DC) and Defined Benefit (DB) plans. Some of these changes took legal effect from 27 March 2014. However, it is important to note that not all of the options are currently available under the Scheme. Other changes are still subject to consultation and will require changes to legislation before pension schemes can decide whether to make changes to offer such additional options.

Although these new rules may not directly affect your benefits or options from the Scheme, we thought it would be helpful; to set out below a summary of all the changes just for your information. The Trustee is currently considering the implications for the Scheme and a further update will be provided on the website in due course.

Immediate Changes (effective from 27 March 2014)

Drawdown

- For individuals with DC funds the legislation already allows 'capped drawdown' up to a limit based on the equivalent annuity that could have been purchased with the available funds. This 'capped drawdown' limit will now increase from 120% to 150%.
- The legislation allows a pensioner or dependent meeting certain conditions 'flexible drawdown'. One of these conditions is that the individual is in receipt of a minimum pension income and the minimum pension income requirement has been reduced further to the Budget from £20,000 pa to £12,000 pa.

Trivial commutations and small pension pots

- For individuals aged 60 or over:
    - the overall size of total small pension savings that can be taken as a lump sum has increased from £18,000 to £30,000.
    - the maximum size of other small lump sums has been increased from £2,000 to £10,000 and the number of pension pots of below £10,000 that can be taken as a lump sum has been increased from 2 to 3.
- Again, although these are changes in the relevant legislation pensions scheme rules may need to be amended to allow these options in practice.

These changes will not benefit any pensioner who has already taken their benefits in the form of an annuity, although those using drawdown will be able to take advantage of the increased flexibility.

Proposed Changes from April 2015 (subject to consultation)

The Chancellor has proposed major changes to provide individuals with DC pots greater choice on how and when to take their benefits. Many people have expressed concerns about the need to buy annuities at retirement. Those concerns have included the need to buy an annuity at a time when interest rates are particularly low, which makes the cost of annuities high. A second concern has been that people may not take advice on what to do with their pension savings when they retire.

Face-to face guidance

To help people make the best choices the Government proposes that all individuals with defined contribution pots will be provided with free impartial face-to-face guidance on their choices at the point of retirement. By April 2015, trustees and providers will have a duty to deliver this guidance. In the meantime, the Government will be providing up to £20m over the next 2 years to develop this initiative.

Pension changes in the 2014 Budget

Flexibility at retirement for DC schemes
However, this alone will not avoid the need for people to take out an annuity and, therefore, the Government is proposing to go further and, with effect from April 2015, offer much more flexibility. The existing option to take 25% of the pension pot as a tax-free cash lump sum at retirement will remain. However, the Chancellor is proposing that in future individuals will be able to take further lump sums from their scheme subject to paying tax at their marginal tax rate. Such further lump sums could be any amount up to the full pension pot. These lump sums will be able to be taken at any time after age 55 (initially – see Minimum pension age below*)*.

This new regime will offer significant flexibility. Individuals will be able to take their pension income as and when they wish. It will also offer the ability for individuals to avoid the need to buy an annuity as they could take cash lump sums at any time. **However the option to buy an annuity, if the member so chooses, will remain.**

Immediate flexibility for recent and future DC retirees
For members who are due to retire the Government has introduced increased flexibility for members to consider their options. Once a DC member has taken their Tax Free Cash Sum the member now has 18 months (rather than 6 months) to decide what to do with the rest of their retirement savings. This will also apply to members who have not bought an annuity or who are still in the ‘cooling off’ period of their annuity.

Minimum pension age
The minimum pension age that a member can retire at without incurring a tax penalty is currently age 55. The consultation also proposes to raise the minimum pension age from 55 to 57 in 2028 (State Pension Age increases to 67 at this time). The consultation is also considering whether the minimum pension age should be retained at 10 years below SPA after this date).

Next steps
All of the above will require legislation, which will take some time to enact. We will also need to consider which options will then be made available from the Scheme. However, the Government has taken the first steps along this route by issuing a consultation on their proposals, alongside the Budget.

Although the proposed changes will not directly affect members with final salary benefits only, it may be that members will want to consider transferring their benefits to a money purchase arrangement to take advantage of the improved flexibility.

The Trustee strongly recommends that you contact an Independent Financial Adviser for advice if you are considering this option. It may not be in your best interest to transfer your preserved pension benefits from the Pearl Group Staff Pension Scheme.

The Trustee is still considering the implications for members of the Pearl Group Staff Pension Scheme but if you have any specific questions at this time please contact the Scheme Administrators on 01733 393020 or pearl@firstactuarial.co.uk