GREATER MANCHESTER PENSION FUND

# New found freedom with pensions - or is it?

APRIL 2015

***The government's biggest shake up of the pensions industry in almost a century is underway, with some changes already coming into effect last April, but with the big changes happening from April 2015.***

***The changes are called Freedom & Choice in Pensions, and are designed to give people in SOME types of pension schemes far more choice about how to access their pension pots from age 55 onwards.***

***So we've put this factsheet together to help you understand more about the changes and how they affect - or don't affect - your Local Government Pension...***

version1

## The problem with annuities...

Until now, people in personal pensions and even some types of staff pension schemes had to take the pension savings they had built up, and turn them into a pension by ***buying an annuity***. So people in schemes like this faced two uncertainties... first, how well their pot would grow as it was invested, and second, what level of pension the annuity would create.

Schemes like this are known as ***defined contribution*** schemes (DC schemes for short), and the changes you may hear about are largely aimed at giving more freedom and choice to people in **this** type of scheme, by removing the requirement to buy an annuity.

People will still be able to buy an annuity if they want, or they may want to take advantage of various new options, including...

- using their pension to give a flexible retirement income *(flexi-access drawdown as it's called)*
- drawing their pension as cash in stages
- or even drawing all their pension savings as one cash amount.

But people taking their pension as cash in stages or in one go will find that only the first 25% will be tax free, with the rest being taxed as if it was income. So this could mean someone paying tax at a higher rate than usual, depending how much they draw. Then there is the obvious risk that somebody might take all their pension savings in one go, then blow it all on a fancy car or a world cruise, leaving themselves with no money to live on in retirement.

## So does any of this affect my local government pension?

Generally no, here's why...

The changes being talked about are targeted mainly at people in the ***defined contribution*** schemes mentioned above. The Local Government Pension Scheme is **not** this type of scheme, instead it is a ***defined benefit*** scheme.

With our type of scheme, as a member you automatically build up a range of pension benefits which are tied in to your pay. So the weak link of having to buy an annuity simply doesn't exist with your local government benefits.

What's more, our scheme already has a feature which allows you to give up some of your pension from us, and instead take it as tax free cash when you retire. So this is a very easy way of boosting your existing tax free lump sum (for members who joined before April 2008) or creating a tax free lump sum (for members who joined from April 2008).

## Can I ask for a transfer to a defined contribution scheme?

It's not compulsory being in the Local Government Pension Scheme... as long as you are more than one year off your normal pension age, you are free to leave our scheme, and ask for a transfer to a defined contribution scheme. This would then allow you to use the new ***freedom & choice*** rules to access the new pot any time from 55.

But be very careful - before doing this, you need to carefully consider the consequences...

1. your employer would be unlikely to pay as much into such a scheme with you (if at all),
2. a large part of your hard earned pension could be swallowed up in fees and sales commission charged by the company you transfer to, and
3. you will be swapping your very secure **defined** benefits, for much a much riskier personal pension type arrangement, where the value of **everything** you have ever built up could be adversely affected if your investments didn't perform well.

## Getting the right advice

Freedom and choice is fine, as long as people make the right choice! So especially where people are considering transferring benefits like ours (***safeguarded benefits***) into a defined contribution scheme, they will **have to** provide evidence they have sought independent financial advice (at their own cost) where the outward transfer value is £30,000 or more. *The advisor must be authorised by the Financial Conduct Authority and must be qualified to give advice on transfers.*

The Government has also launched a free and impartial service called Pension Wise, to help people understand the new pension options. This will be provided by bodies like The Pensions Advisory Service (TPAS), the Money Advice Service (MAS), and Citizens' Advice. They won't advise people what to do, but will offer guidance by helping them weigh up their options.

Pension wise

And we're sure that if you asked them their opinion on leaving the Local Government Pension Scheme, they would tell you to *proceed with extreme caution!*

## Summary of the 2 main types of pensions

**Defined contribution scheme:** Personal pensions, and some company pension schemes fall into this category. They are so called because members pay in a known amount - a defined contribution - but have no accurate way of knowing what they will get out. Until now members have had to take the pension pot they have built up, and turned it into a regular income, by buying an annuity. The changes applying from April remove the need to do this.

**Defined benefit scheme:** The Local Government Pension Scheme is an example of a defined benefit scheme. In this type of scheme, members pay in a known amount (this is set by the scheme rules). But unlike other schemes, they **do** have a good idea of what their benefits will be - hence defined benefits. Schemes like this already offer members some choice, for example by allowing them to take more tax free cash by giving up some pension at retirement, so they can tailor their package to their own needs.