

# New found freedom with pensions - or is it?



*Over the coming months you'll see a lot of coverage in the papers and on TV about changes to the law surrounding pensions, giving people more freedom on how to draw their pensions. But most of the changes don't have any impact at all on schemes like ours, as this article explains.*

The government will soon be bringing in some of the biggest changes to the pensions industry in nearly a century. The shake up is being called *Freedom & Choice in Pensions*, and plans to give people far more choice about how to access their pension pots.

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, but if they prefer, they will be able to draw all their pension savings as one 'cash' amount. That sounds great, but only the first 25% will be tax free, with the rest being taxed. And 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, for two reasons... First, these changes are targeted mainly at people in **defined contribution** schemes. Your 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 built up a range of pension benefits - benefits which were based on your pay. So the 'weak link' of having to buy an annuity simply didn't apply to your main benefits in the Local Government scheme.

The second reason the changes won't affect your Local Government pension is that the point at which you could choose various options has passed now that you are drawing your pension. So even if the changes did apply to Local Government, it would be almost impossible to unravel the pensions paid to people like you.

So although the media are going to get increasingly excited by these new options, remember, there is no impact on the pension you draw from us.