The PENSIONS Advisory Service

Spotlight

Pension Options after April 2015

This Spotlight looks at the changes after April 2015 for both defined contribution (DC) and defined benefit (DB) pension schemes and explains what the changes may mean for you.

The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or regulated financial advice.

Freedom and Choice in Pensions

In 2014, major changes to pensions were announced by the Government giving people more freedom and choice about how they could access their pension savings. These largely came into force from 6 April 2015. Now, members of a defined contribution (DC) pension scheme have increased flexibility in the options available to them when taking their pension benefits.

This Spotlight looks at the changes for both DC and defined benefit (DB) pension schemes and explains what they may mean for you.

What options do I have for my DC pension pot from April 2015?

There are essentially **6 main options** available to you:-

- Leave your pension pot untouched – *leave it invested*
- Get a secure income – *known as an Annuity*
- Get a flexible income – *known as Drawdown*
- Take your cash in chunks – *known as an Uncrystallised Funds Pension Lump Sum (UFPLS)*
- Cash in your whole pot – *this may be subject to a considerable amount of tax*
- Mix your options – *either now, or at some future point in time*

You now no longer have to buy an annuity when you retire and the drawdown options have been extended. It is even possible to take your entire pension out as cash, but you should be aware of how much tax you will pay if you do so. Benefits can generally be taken from age 55 (or earlier if you are retiring on ill-health grounds or have a protected retirement age).

Taxation Issues

How much tax will I pay on these options?

You will generally be allowed to take 25% of your pension pot as a tax free amount. The rest will be subject to tax at your marginal rate (the highest rate of tax you pay in a tax year). If you take your entire pension as cash, this may push you into paying higher tax rates. Your pension provider will generally deduct tax at source. But as they probably won't know your other income sources in a tax year, they may use an "emergency tax code" which may well deduct too much tax initially. If you pay too much tax, you can reclaim it from HMRC either by visiting https://www.gov.uk/claim-tax-refund or calling them on 0300 200 3300. Alternatively, you can reclaim any overpaid tax by completing a Self-Assessment tax return.

What is the maximum I can save in my pension?

You receive tax relief on any money you put into your pension up to a limit of £40,000 per year, which is known as the Annual Allowance (capped at the amount of your gross earnings or £3,600 if you are not working). You can continue to contribute to a pension when you're receiving a retirement income but, if you've flexibly accessed a DC pension, your Annual Allowance will reduce to £4,000 per year. Over your working lifetime you can build up pension benefits of up to £1,073,100 (2021/22) without facing a tax charge. See also our Annual Allowance Spotlight and Lifetime Allowance Spotlight.

What tax is payable when I die?

If you die before age 75 and have any unused DC pension, then your beneficiary can inherit this tax free. If you are over age 75 when you die, then your beneficiaries will pay tax on any pension inherited payable at their marginal rate. This basis also applies if you have a joint life annuity whereby your partner receives an income after your death. See also our Death & Taxes Spotlight.

Information & Guidance

What information will I receive when I plan to take my pension?

Your pension provider will automatically provide you with information when you approach the retirement age on your pension plan which will include information about the Pension Wise service. This is a free government guidance service offered to everyone over 50 who has a DC pension arrangement.

When you come to take some or all of the money out of your pension plan, your provider will also ask you some questions to make sure you have considered all the relevant issues.

Will my provider/pension scheme offer all of the six options?

The options introduced from 6 April 2015 are permissive, so there is no obligation on any pension provider/pension scheme to offer the full range of options. In particular, some providers may not offer drawdown. If your provider or scheme does not allow a particular option, you will need to transfer to a provider that does – but check whether there are any charges applying if you transfer out or if you will lose any valuable guarantees by transferring (such as a guaranteed annuity rate).

How do I get guidance on these options?

See also the Pension Wise website: www.pensionwise.gov.uk.

The Pension Wise service provides general guidance and information on your pension options, tailored to your personal circumstances. It doesn't provide financial advice and won't recommend a specific course of action (such as which product or provider to choose). For this, you may wish to take regulated financial advice.

What if I need some more detailed financial advice?

The Money Advice Service has a directory that can provide you with a list of regulated financial advisers in your area (https://directory.moneyadviceservice.org.uk/en). It's worth speaking to a few of these to see if they provide the sort of advice you are looking for and find out how much they will charge you for their services.

The merits of shopping around

A financial adviser can also provide you with a comparison of products on the market, so you can see how much money you will receive (from an annuity for instance), and what sort of charges will be made by the provider (from a drawdown policy for instance). Even if you don't use a financial adviser, as with any major purchase you make, it's important to shop around before deciding which product to buy when you retire.

Other types of pension

Are DB pensions affected by the changes?

Most of the changes which came into force apply to DC pensions. If you have a DB pension you may be able to access the new options but you will need to transfer out of your current pension scheme into a DC arrangement. However, because transferring out from a guaranteed DB pension scheme to a DC arrangement is not generally in people's best interests, you will usually need to receive financial advice on the merits of such a switch before you can transfer out, and your scheme's trustees will check you have received this.

See also our Understanding DB Schemes Spotlight.

How are Public Sector pensions affected?

Changes have taken place to various Public Sector pension schemes and you will already have received details of these changes. Most of the main Public Sector schemes are DB so will therefore not generally be impacted by the changes to DC pension options. However, if you are in an unfunded Public Sector scheme (e.g., Civil Service, Teachers'), you will no longer be able to transfer out your pension to a DC pension arrangement.

Are State pensions affected by the new freedoms?

The changes described above only affect private pensions, but you should be aware that the State Pension changed with effect from April 2016. You can get a forecast of your State Pension entitlement from https://www.gov.uk/state-pension-statement.

Can I commute small pensions for cash?

See also Taking small pensions as a one-off lump sum Spotlight.

If your pension is sufficiently small you may be able to give it all up for cash – this is called "trivial commutation". As it is now possible to take your entire Defined Contribution (DC) pension as cash, the concept of trivial commutation for these types of pensions has disappeared. However, if you have a DB pension you may be able to take it as a trivial commutation lump sum up to a limit of £30,000. This £30,000 is the total value across all pensions you hold, but you can also take up to £10,000 from an individual pension scheme regardless of pensions held elsewhere. The maximum number of personal pension pots that can be commuted in this way is 3. The minimum age for accessing pension savings in this way is now 55.

Are there any changes to the way in which my pensions are invested?

Since April 2015 there's been a cap of 0.75% per annum of the fund and other charges made by the "default fund" in a pension scheme used by an employer for auto-enrolment purposes. A default fund is the one in which your contributions will automatically be invested if you don't make a decision on how to invest them. If you're in a scheme governed by a board of trustees, there's also a new code of governance which, amongst other things, will help to ensure that investment funds chosen provide good value to members.

And finally, be careful of scammers

Now that people can access their pensions in many different ways, unfortunately there are many unscrupulous people trying to get hold of your pension pot. This will often involve encouraging you to invest in inappropriate, risky investments whilst paying high charges and could result in you losing most or all of your pension pot.

Cold calls - someone calling you out of the blue, for example offering a free pensions-review, perhaps pretending to be part of a Government initiative – have now been outlawed, so you should be very suspicious. Scammers will also often promise you early access to your pension, and may offer to send round a courier the next day to collect signed paperwork. If this happens it is very likely to be a pension scam, it may be illegal and you should avoid it.

For further information, see http://www.pensionsadvisoryservice.org.uk/pension-problems/making-a-complaint/common-concerns/pension-scams.

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

The Pensions Advisory Service is provided by Money & Pensions Service

Contacting us

Pensions Helpline
Monday-Friday 9am-5pm

0800 011 3797

Online enquiry form

www.pensionsadvisoryservice.org.uk/online-enquiry

Web chat live
8am-6.20pm Monday/Wednesday/Friday
9am-6.20pm Tuesday/Thursday
9am-1pm Saturday

www.pensionsadvisoryservice.org.uk

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