

Pension Options after April 2015

This Spotlight looks at all of 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 independent 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 come 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 all of the changes for both defined contribution (DC) and [defined benefit](#) (DB) pension schemes and explains what the changes may mean for you.

What options will I have for my pension pot from April?

There will essentially be **5 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*
- Cash in your whole pot – *may be subject to a considerable amount of tax*
- Mix the 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). The minimum pension age is due to increase to age 57 from 2028 and will then increase at the same rate as the increase in state pension age thereafter.

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 a higher tax rate. 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 completing a P50 tax form, or when you complete a Self-Assessment tax return.

What is the maximum I can save in my pension?

See also the [Annual Allowance Spotlight](#).

You receive tax relief on any money you put into your pension up to a limit of £40,000 per annum, 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 still continue to contribute to a pension when you are receiving a retirement income, but if you are receiving a pension from a defined contribution pension your Annual Allowance will reduce to £10,000 per annum. Over your working lifetime you can also build up a pension pot of up to £1.25m although this will reduce to £1m from April 2016.

What tax is payable when I die?

See also the [Death & Taxes Spotlight](#).

If you die before age 75 and have any unused DC pension, then your beneficiary can inherit this tax free. However, if you are over 75 when you die then your beneficiaries will pay tax on any pension inherited payable at their marginal rate (although if they take the pension in a lump sum before 2016 then a 45% charge will apply). This basis also applies if you have a joint life annuity whereby your partner receives an income after your death.

Information & Guidance

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

Your pension provider will be changing the information they provide you with when you reach the retirement age on your pension plan. This will include information about the Pension Wise service, which is a free guidance service offered by the Government to everyone over 55 who has a defined contribution 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 allow these new options?

The new freedoms are permissive, so there is no obligation on any pension provider or pension scheme to offer the full range of new options. In particular, some providers may not allow you to enter into drawdown. If your provider or scheme does not allow a particular option, you will need to transfer to a provider which 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 guaranteed annuity rates).

How do I get guidance on these options?

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

The Pension Wise service will provide general guidance and information on your pensions options, tailored to your personal circumstances. It will not provide financial advice and nor will it advise on a specific course of action (such as which provider to choose). For this, you may wish to take independent financial advice.

What if I need some more detailed financial advice?

The Money Advice service website (www.moneyadviceservice.org.uk) can provide you with a list of regulated independent financial advisers (IFAs) in your area. It is worth speaking to a few of these to see if they provide the sort of advice you are looking for and how much they will charge you for their services.

The merits of shopping around

A financial adviser can also provide you with a comparison with 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 is important to shop around before deciding which product to buy when you retire.

Other types of pension

Are Defined Benefit pensions affected by the changes?

Most of the changes coming into force apply to DC pensions. If you have a DB pension you may be able to access the new freedoms 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 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 [DB arrangements Spotlight](#).

How are Public Sector pensions affected?

Changes are taking place to various Public Sector pension scheme and you will already have received details of these changes. Most of the main Public Sector schemes are Defined Benefit so will therefore not generally be impacted by the new freedoms. 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 Defined Contribution pension arrangement.

Are State pensions affected by the new freedoms?

The changes only affect private pensions, but you should be aware that the State Pension will be changing from April 2016. If you are over 55 you can get a statement of your State Pension entitlement (see www.gov.uk/state-pension-statement).

Can I commute small pensions for cash?

See also [Trivial Commutation Spotlight](#).

If your pension is sufficiently small you can give it all up for cash – this is called “trivial commutation”. However, 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 Defined Benefit (DB) scheme you will be able to take all the benefits as a trivial commutation lump sum up to a limit of £30,000. This is the total across all DB 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 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?

From April 2015, there will be 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 do not make a decision on how to invest them. If you are in a scheme governed by a board of trustees, there will also be 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 all of their pensions, unfortunately there are likely to be many more 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. If someone calls you out of the blue offering a free pensions-review, perhaps as part of a Government initiative, 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 and you should avoid it. For further information, see 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.

Contacting us



Pensions Helpline
(Monday-Friday 9:00am - 5:00pm)

0300 123 1047



Online enquiry form

www.pensionsadvisoryservice.org.uk/online-enquiry



Web chat live

www.pensionsadvisoryservice.org.uk



Write to us

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

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