

# Budget Update

March 2014

## What is being proposed in April 2015?

The tax rules will be changed to allow people in DC pension schemes to access their savings in any way they wish (i.e. full withdrawal at their marginal rate, annuity or drawdown) – i.e. they have removed the penal tax rate that acted as a disincentive to members who might have wanted to take all of their money at retirement. The 25% tax free lump sum will remain available.

For instance, a DC member could elect to take all of their pension savings as cash upon reaching age 55 which, after allowing for the tax free lump sum, would be taxed at their marginal rate (i.e. as income) rather than at the penal 55% that currently applies.

The proposed changes are due to be in force by April 2015.

## Is anything changing now?

From 27 March 2014:

- the minimum income requirement for flexible drawdown will be reduced from £20,000 to £12,000;
- the total amount of "pension wealth" which can be taken as a lump sum will increase from £18,000 to £30,000;
- the amount of pension which can be withdrawn under capped drawdown will be increased from 120% to 150%;
- the trivial commutation limit will be increased from £2,000 to £10,000.

## What will the "guidance guarantee" at retirement mean for our scheme/members?

The Government is consulting on introducing a "guidance guarantee" where individuals considering a transfer should be provided with guidance that should be impartial and of consistently good quality; covering the entire range of options and equipping the member to take action; free and face to face.

## What does this mean for DB schemes?

Under these proposals, the level of flexibility that will be offered by DC schemes is likely to prove very attractive and we therefore expect that many members will want to transfer their DB benefits into a DC scheme. In order to obtain this flexibility they are likely to accept less generous transfer values than they would have been. In considering their options it is important that they obtain expert independent financial advice.

The Government, in recognition that it may not be in the best interests for members to transfer, is consulting on the options available. For public service pension schemes, legislation will be introduced to remove the option to transfer to a DC scheme, except in limited circumstances. For private sector DB schemes, the Government is considering:

- removing the right to transfer from DB to DC in all circumstances (this is its default option);
- allowing transfers, but ring-fencing the funds transferred (this would be very complicated to administer);
- capping transfer amounts (say on a yearly basis);
- allowing transfers provided the DB scheme trustees allow it (giving Trustees an additional headache); and
- allowing members of DB schemes the ability to transfer to DC (as now).