

**21 May 2015****Agenda Item:7**

## **REPORT OF THE SERVICE DIRECTOR – HR AND CUSTOMER SERVICE**

### **LOCAL GOVERNMENT PENSION SCHEME**

Update on The Protections For Public Service Schemes

#### **Purpose of the Report**

1. The purpose of this report is to provide the Pensions Sub Committee with an update on the recently implemented Pensions Freedoms which have changed the way people can change the way they can take their Pensions.

#### **Information and Advice**

##### **Background**

2. Members will be aware that in the 2014 Budget, the Government, announced changes in the way people can take their pensions. The changes move away from individuals being required to purchase an annuity and instead, offer a number of different options for drawing their pension benefits. Some key points of his announcements are as follows:
3. From April 2015, those individuals aged over 55, with defined contribution pension savings, will be able to withdraw their savings, subject to their marginal rate of taxation and scheme rules.
4. The tax free lump sum of up to 25% of the fund is to remain available, with any remaining balance taxed as income.
5. Individuals who are currently in income drawdown and barred from receiving tax relief on future contributions, will have that restriction lifted, subject to limits.
6. Transfers from LGPS to defined contribution schemes would continue to be permitted subject to a requirement on members to take independent financial advice (at their own expense) for transfer requests first received after 5 April 2015. Members whose pension's wealth is below £30,000 will be exempt from having to take advice.

## **Further information on Protections for Public service Schemes**

7. The Pensions Office has subsequently received advice from the Local Government Pensions Committee (LGPC) and other bodies that:
8. In House Additional Voluntary Contribution (AVC) funds may be transferred out to defined contribution schemes without the requirement to transfer the main LGPS scheme benefits.
9. Transfers of AVC funds, will not have the requirement on the member to take independent financial advice.
10. In House AVC contracts taken out post 31 March 2015 will not now be restricted to a 25% tax free lump sum where benefits are taken at the same time as the main scheme benefits. Members may take up to 100% where this falls within 25% of the total value of main scheme and AVC funds.
11. The safeguards which will allow Ministers to reduce the value of transfer out payments where it is considered that there is a risk to tax payers would be applied on a Fund basis rather than a Scheme basis.
12. The Funds Actuary is currently reviewing the legislation and considering the criteria which may be used to trigger a transfer out related funding review. His initial thoughts are that it would be unlikely that LGPS Funds would need to implement reviews in the short term.

## **Financial Advice safeguard**

13. For most people, the Government believes that it will be in their best interests to remain in their defined benefit schemes but where individuals do wish to transfer their pension pot to a defined contribution arrangement, they believe it is important that they are fully informed before making any decision. Making professional financial advice mandatory for those above £30,000 will help to ensure that individuals are not subject to potentially fraudulent activity.
14. In most cases the individual pension scheme member will need to pay for professional financial advice but responsibility for paying for the advice will fall on the employer if the transfer is from defined benefit to defined contribution within the same scheme, or as a result of an employer led incentive exercise. This does not apply to the LGPS, which only offers a defined benefit scheme.
15. Those with pension wealth below £30,000 will be exempt from having to take advice.
16. Before the pension benefits of any member (or survivor) of a defined benefit scheme can be transferred to a defined contribution scheme, the trustees or managers of the defined benefits scheme must check that the member has received appropriate independent advice.

## **Communication Plan re: pension Changes**

- 17.** Working in conjunction with Trading Standards, the Pensions Office, have delivered a communication plan which draws pension scheme members attention to the potential dangers that unscrupulous firms will try to persuade people into parting with their hard earned pension savings encouraging a transfer of their pension pot to a new scheme or investment which could have very low returns.
- 18.** In addition to make sure pension members do not get stung by a pension scam, Trading Standards is encouraging everyone to be on the lookout for schemes that sound too good to be true because they probably are.
- 19.** Pension members are being reminded to :
  - Be wary of investing pension benefits with companies which could cold call and offering extremely high returns.
  - Be wary of callers offering a free pension review service by phone call, email and text message.
  - Before members transfer their benefits to make sure they have taken independent financial advice from a fully FCA (Financial Conduct Authority) accredited financial advisor.

In addition members are being informed that free and impartial advice about what the pensions' changes mean is available from the Pensions Wise website.

Members are also being reminded that the Local Government Pension Scheme offers great value for money and benefits include:

- Contributions by their scheme employer to individuals LGPS pension funds to build up a nest egg for retirement with lower national insurance contributions.
- A career average pension scheme.
- Life cover, death benefits and a pension for partner and eligible children.

## **Impact on the Pensions Administration Scheme**

- 20.** The Pensions Administration Team has seen an increase in the number of enquiries relating to non interfund pension transfers from both members and financial advisors.
- 21.** From the 1 January 2015 to 31 March 2015 there have been 39 actual transfers out and 108 quotations provided, compared to 23 and 119 respectively for the same period in 2014. Since the 1 April 2015 there have only been 5 actual transfers out, and as at the date of writing this report the Pensions Office has 79 transfers out that are awaiting payment and 169 transfer out quotations awaiting calculation.

- 22.** The Pensions Office will forthwith provide a quarterly report to Pensions Sub Committee detailing the numbers and values of transfers in and out of the Fund during the first year of 'Pensions Freedoms'. From April 2016 the reports will be provided on a half yearly basis.
- 23.** The Pensions Office will continue to liaise closely with the Fund Actuary with regards to the figures produced by these reports and any actions the Actuary recommend resultant from their analysis.

## **Statutory and Policy Implications**

- 24.** This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION**

- 25.** That the report is noted for information and further reports will be presented to Pensions Sub Committee as outlines in paragraph 20.

## **MARJORIE TOWARD SERVICE DIRECTOR – HR AND CUSTOMER SERVICE**

### **For any enquiries about this report please contact:**

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### **Constitutional Comments (KK)**

The proposal in this report is for noting.

### **Financial Comments**

No Financial implications as the report is for noting.

### **Background Papers**

### **Electoral Division(s) and Member(s) Affected**

All

