Report to Nottinghamshire Pension Fund Sub Committee

xxxx2015

Agenda Item:xx

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 announced changes in the way people can take their Pensions as requested by Elected Members at the Pensions Sub Committee held on 6 November 2014.

Information and Advice

Background

2. In his 2014 Budget, the Chancellor, 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 taking 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 (such as through a personal pension scheme), will be able to withdraw their savings, subject to the schemes own rules and tax.

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. To encourage further pension saving, individuals who are currently receiving part of their pension whilst continuing to invest the remainder (known as income drawdown) and are as a result barred from receiving tax relief on future contributions, will have that restriction lifted, subject to certain limits.

Protections for Public Service Schemes

6. The provisions of the Pension Schemes Bill provide various protections for members and schemes. It is intended that Public Service Schemes will have particular safeguards as follows:

- To protect taxpayers from potential significant costs if large numbers were to transfer out, the Bill has been amended to impose a ban on members of unfunded public service pension schemes (such as the Police & Fire Pension Schemes), from transferring to defined contribution pension schemes.

- Members of funded public service pension schemes (such as the LGPS), will continue to be allowed to transfer out to defined contribution pension schemes, but, subject to the following safeguards:

- The requirement on members to take **independent financial advice** when transferring from a defined benefit scheme to a defined contribution scheme.

- Ministers will be given the **power to reduce 'transfer out' payments** in funded public service pension schemes, should it prove necessary to protect the taxpayer.

- Schemes will continue to be able to apply to the Pensions Regulator to delay the payment of transfers where appropriate.

Financial Advice safeguard

7. The government believes that it will be in most peoples' 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 will help to ensure that individuals are not subject to potentially fraudulent activity.

8. Those whose pension pot is less than £30,000 will be exempt from having to take independent financial advice.

9. In most cases the individual pension 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.

10. 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.

11. Secondary legislation from HM Treasury will set out what the trustees or managers must do to check that a member (or survivor) has received appropriate independent advice.

Transfer Out payment reduction safeguard

12. This safeguard will allow Ministers to reduce the value of transfer out payments for transfers from a funded defined benefit public service pension schemes to a defined contribution scheme in the event that there is a cost risk to taxpayers.

13. The government expects to set out a method for calculating the level of the reduction in secondary legislation and expects to consult on these regulations in due course.

Statutory and Policy Implications

14. 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

15. That the report is noted for information

MARJORIE TOWARD
SERVICE DIRECTOR – HR AND CUSTOMER SERVICE

For any enquiries about this report please contact:
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Constitutional Comments (KK 13.01.2015)

The proposal in this report is for noting.

Financial Comments

No Financial implications

Background Papers

Electoral Division(s) and Member(s) Affected

All