# Pension Update - March 2015

There are five issues covered in this update:

- Pensions Choice and the 2014 Budget
- Road plan for increasing employer contributions to auto enrolment and defined contributions arrangements
- Replacing CPI with an inflation measure more fit for purpose
- Flexible retirement options

## Pensions Choice and the 2014 Budget

### What is the government going to do?

### The main change proposed from 6 April 2015

The government announced in its 2014 Budget that it planned to allow all those who have been contributing to defined contribution pension arrangements, the option of being able to take their whole pot of money as a cash sum from 6 April 2015.

Before then, contributors can take a maximum of 25% of their pot as a tax free cash sum but have to use the 75% of the value of their pot to buy a pension for life. When contributors used a lump sum to buy a pension this is usually called an annuity.

After 6 April, contributors who are over 55 can retire and decide to take the whole pot as cash, in which case only 25% will be tax free and 75% will be reduced by their marginal rate of tax (20% for most tax payers and 40% for upper band tax payers)

The government plans to extend this option to members of defined benefit pension schemes that have funds.

### How is this going to happen?

The Taxation of Pensions Act came into effect in December 2014. It sets out the detail as to how people can take their pension pots as cash.

If the person is a member of a funded scheme that does not have the facility to take all the benefits as cash, the member can transfer their 'savings' to what will be called a 'flexi-access drawdown' - or FAD -fund. This is jargon for a fund that allows you to take your savings in a scheme all as cash.

**Who will be affected?**

All our members in defined contribution pension arrangements and those in employer pension schemes that have funds are set to get this option.

This includes all the defined benefit schemes in the private sector and the Local Government Pension Scheme.

It does not include members in the unfunded pension schemes.

This means members of the NHS, Civil Service and Teachers Pension Schemes will not be able to transfer to an arrangement that will allow them to convert their pension into cash.

Issues for UNISON members:

- potential to create cash flow problems for the funded schemes, leading to possible instability;
- generally not in best interests of scheme member, but temptation will be great;
- this flexibility is likely to worsen annuity rates further so for many members of defined contribution arrangements (there will be no choice but to take it as cash and suffer tax;
- potential for new market in pension scams;
- members get taxed on the lump sum in a way they may never have had to on the pension itself

See our article on the potential risks of this scheme, published on Left Foot Forward at http://leftfootforward.org/2015/03/what-are-the-dangers-of-cashing-in-your-pension/

## Road plan for increasing employer contributions to auto enrolment and defined contribution arrangements

UNISON believes the most pressing pension issue at the present time is the inadequate level of employer contributions to defined contribution arrangements where there is no benefit guarantee and the member takes all the risks.

UNISON negotiates hard with employers who are closing their defined benefit schemes - both final salary and CARE (career average revalued earnings) - and replacing it with a defined contribution arrangement, to ensure an employer's contribution is as high as possible.

Low employer contributions mean that the retirement pot is going to be unable to provide adequate income in retirement. It is the fundamental reason why pension pots in the UK are so small.

To illustrate the problem let us compare the situation in Australia where they have had compulsory employer contributions for nearly 20 years with the situation in the UK.

Median size of pot in Australia according to *FT* - A$181,000 (around £100,000).

Average size of pot in the UK (according to ABI) £36,800. The median is near to £20,000..

If we believe the headlines from Scottish Widows, 24% of workers save nothing in the UK and 54% don't save enough. So for many now being auto-enrolled into pension saving schemes for the first time, the pot will only be a few thousand pounds.

So why the difference between UK and Australia?

Is it charges? Is it transparency? Obviously important, but not the reason; even assuming Australia does better than the UK on this - and that is debateable.

The reason is that in the UK, the minimum employer contribution under auto enrolment is currently 1% of a band of earnings rising to 3% by 2017. In Australia. the minimum employer contribution has been 9% for years and is expected to rise to 12% soon.

UNISON will continue to try and raise the profile of this issue and exert pressure for politicians to recognise the problem and agree a road map to increase minimum employer contributions.

## Replacing CPI with an inflation measure more fit for purpose

The difference between the Consumer Pensions Increase (CPI) and the Retail Prices Index (RPI) will be very significant when pensions and state benefits are increased this April.

Pensions linked to CPI - which includes all the public service pension schemes - will go up by 1.2% as opposed to 2.3% if RPI was used.

Only the basic state pension will be protected by the minimum 2.5% while pensions credit will not and only go up by the 1.2%.

UNISON will continue to try and increase awareness of this issue and will push for a review of the index to create one that more accurately reflects the real increase in the cost of living for pensioners and actives in CARE schemes.

## Flexible retirement options

Most pension schemes now have the facility for the employer to agree to a member taking flexible retirement once they reach the minimum retirement age of 55): that is, the member keeps working, but on reduced hours or grade, while able to draw all or some of their pension.

However, flexible retirement is under used. Many employers simply refuse it without properly considering the potential mutual benefits that flexible retirement can achieve for both member and employer if applied correctly.

UNISON will be working on some basic checklist guidance for activists to ensure that all employers have a balanced policy in place.

## DWP withdrawal of national insurance contributions rebate for occupational pension scheme members and employers

From April 2016 pension scheme members in most defined benefit schemes - including the LGPS and the NHSPS -and employers will be hit with a hike in national insurance contributions as they will be losing current national insurance rebate of 1.4% for members and 3.4% for employers.

Most people have not picked up on this and will be caught unawares by a sudden drop in take home pay rom April 2016.

UNISON intends to run a more overt awareness raising piece on this issue to help members prepare for it.