LCP INSIGHT CLARITY ADVICE

New pension flexibilities from 6 April 2015

Checklist of actions for defined benefit schemes

MARCH 2015

To be completed before 6 April 2015 or as soon as possible thereafter.

February and March 2015 have seen a flood of new regulations and regulator guidance ahead of the introduction of pension flexibilities from 6 April 2015. You (and your members) will have also seen much in the press regarding the changes – many schemes are already seeing an increase in member questions.

Although the new flexibility is primarily for DC, there are considerable knock-on effects for DB schemes too. The ability to offer flexibility does not mean that trustees are obliged to offer it. There are, however, new statutory rights for members and requirements to communicate key information.

This checklist is a quick way to confirm that key issues have been covered and essential elements are in place for 6 April 2015.

Where trustees decide not to introduce certain options (at least at first) this list can be used to note that the options were considered, even if no action is taken at the current time. As the regulations and guidance are still evolving, it is possible that further issues will emerge that will need to be considered by trustees – this check list is not comprehensive.

We have designed this checklist to be high level and we do not provide all the detail here. We have set out brief definitions of key terms used in the Glossary section at the end.

Please contact your usual LCP contact if you need further information.

Have you got everything in place you need to?

What actions could or should you be considering?

We have put this checklist together to help pensions managers and trustees answer these questions.

It is relevant for Defined Benefit (DB) schemes, including those with Defined Contribution (DC) Additional Voluntary Contributions (AVCs).

Useful links (current 20 March 2015, note some are still draft):

http://www.thepensionsregulator.gov.uk/docs/draft-essential-guide-pension-flexibilities-march-2015.pdf

http://www.thepensionsregulator.gov.uk/doc-library/db-dc-transfers-conversions.aspx

http://www.thepensionsregulator.gov.uk/trustees/pension-scams-trustees.aspx

http://www.combatingpensionscams.org.uk/

http://incentiveexercises.org.uk/

http://www.lcp.uk.com/news--publications/publications-and-research/2015/our-guide-to-the-pension-schemes-act-2015/

http://www.lcp.uk.com/news--publications/publications-and-research/2014/taxation-of-pensions-act-guide-2014/

https://www.pensionwise.gov.uk/

1. Retirement benefits and communications	
You must:	
Include wording directing members to **Pension Wise** and take into account the Pensions Regulator's draft guide on communicating the flexibilities to members, if there are any DC funds (including AVCs).	☐
Ensure that **treatment of small benefits** is in line with your rules and any decisions made. *You may wish to incorporate the new minimum age (generally age 55) and new levels where appropriate.*	☐
Update communications to reflect **new DC disclosure requirements** and draft guidance from the Pensions Regulator. *Your administrator should be able to confirm this point.*	☐
Inform members that they have a **right to transfer total DC funds** separately from taking their DB benefits if they wish.	☐
Confirm what options are being made available to **members with DC funds.** *It might be that there is no change from the current position. However, schemes allowing direct access to taxed cash-out or other flexibilities using the new tools (**UFPLS** and **FADs** – see glossary) will need to review their processes and paperwork carefully. Due to the late availability of regulations and guidance it is finely balanced whether a compliant process for taxed cash-out using a **UFPLS** or **FAD** can be in place by day one.*	☐
Put processes in place to comply with **new information requirements** that apply if a member first "flexibly accesses" DC benefits. These include advising the member within 31 days that they are now subject to a reduced annual allowance of £10,000 for all future DC contributions, and monitoring and reporting on the member's position for new DC contributions after each tax year.	☐

You may wish to consider:	
Whether to include a **transfer value** or refer explicitly to any option to take a transfer value of the DB benefits in the retirement option pack. *If any change is made, the wording, including discharges, needs to be appropriate and administration procedures need to be in place to provide the calculations.*	☐
Reviewing retirement options and processes generally to ensure that they are optimal. *If not done already, such a review can include consideration of transfer values including **partial transfer values,** small benefits, options for any DC funds, timing and frequency of communications and provision of any additional guidance or financial advice paid for by the employer.*	☐
Putting a process in place to **monitor take-up** of any options.	☐

2. Transfer values and communications	
You must:	
Include wording directing members to **Pension Wise** and take into account the Pensions Regulator's guide on communicating the flexibilities to members if the member is close to retirement and if there are any DC funds.	☐
Ensure it is clear that members have a **right to transfer total DC** funds separately to the total DB benefits if they wish (and to continue to accrue DB benefits if relevant).	☐
Check and record that the member has **taken "appropriate, independent" financial advice** before a DB transfer proceeds, where required. *This is generally required if the full transfer value of the DB benefits in the scheme is more than £30,000. The employer must pay for this advice in some narrow circumstances where they have communicated to members about their benefits so care is needed in any general communication.*	☐
Ensure the **process and paperwork** appropriately reflects the options available. *This may include the option to take a transfer value at or after normal pension age, or a* ***partial transfer value*** *(if available).*	☐
Make sure the trustees obtain a **proper discharge** of the obligation to pay the benefit. *This paperwork and process might vary depending on whether the transfer value is a* ***statutory*** *or* ***non-statutory transfer value.***	☐

You may wish to consider:	
What approach to take on **non-statutory transfer values** – particularly at older ages – if not done so already. This could include offering **partial transfer values** of DB benefits.	☐
Putting in place a process to **monitor transfer values** quoted and/or paid. *This will pick up any material changes in behaviour which could also impact on other areas such as cashflow management and funding levels.*	☐
Reviewing transfer value terms offered to ensure they remain appropriate. *Actual recent transfer value experience may help shape the view of what is appropriate. Other member option terms might be reviewed too so they are up to date – the comparison between transfer value terms and terms for cash on retirement may be more transparent to members than before.*	☐
Reviewing admin processes to ensure that transfer values are calculated and processed as efficiently as possible.	☐
Implementing some/all of the material from the **Code of Good Practice on Combating Pension Scams** including providing the Pension Regulator's "Scorpion" materials.	☐
Implications of the **Code of Good Practice for Incentive Exercises.** *Check that no offer of member options by the trustees or employer would be covered under the code. Consider applying the good practice principles on a voluntary basis to other communication material.*	☐

3. Other issues	
There are a number of other issues that should be considered depending on the circumstances of your scheme, including:	
Careful treatment of and communications with members with **past tax law protections –** for example: protected retirement ages lower than 55, protected lump sum limits of more than 25% or high earner protections for lifetime allowances greater than £1.25m (£1m from April 2016). *Such protections can be lost on transfer.*	☐
Legal advice and agreement from the employer may well be required on some points to ensure any decisions are compliant with your rules and the legislation and guidance, where appropriate.	☐
A **reduced annual allowance of £10,000** applies for all future DC contributions if a member draws any DC benefits in certain ways from your or any scheme. Consider putting out a communication warning to avoid members (particularly over age 55) inadvertently triggering a large unnecessary tax bill, particularly if your scheme is currently allowing members to make DC contributions.	☐
The options you want your scheme to make available to members with **DC funds on death** may be different from 6 April 2015 than before.	☐

Glossary

Statutory transfer value – Generally members have the statutory right to a transfer value of all their DB benefits from the scheme up to one year before their Normal Pension Age, and all their DC fund at any age up to taking such benefits.

Non-statutory transfer values – often allowed under the Rules where a statutory transfer value is not available – for example **partial transfer values** and/or DB transfer values when within one year of Normal Pension Age or later.

Partial transfers are transfers of only a part of the members DB or DC benefit - for example just the value of the guaranteed minimum pension or the benefit accrued from 6 April 1997. These transfers are **non-statutory** and would have to be permitted explicitly under the scheme rules.

UFPLS stands for “uncrystallised funds pension lump sum”. This is the “headline” new lump sum available from DC funds with 25% tax-free but the remaining 75% taxed as income.

FAD stands for “flexi-access drawdown” – a broader form of income drawdown available for DC funds from 6 April 2015.

Pension Wise is the brand name for the Government backed service that offers free and impartial guidance on the new pension flexibilities. **See: https://www.pensionwise.gov.uk/**

Some of the details are not in final form and may change. This note reflects our understanding of the position on 20 March 2015. For further help please speak to your usual LCP contact.

LCP is a firm of financial, actuarial and business consultants, specialising in the areas of pensions, investment, insurance and business analytics.