Pensions Management Institute

Learning

Certificate in Pension Scheme Member Guidance Study Manual

MODULE 1

Information, Advice and Guidance on Pension Benefits

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

This module is an overview to assist with the provision of guidance for members. At the end of this module you will be able to:

- Define financial advice and explain the difference between advice and guidance
- Describe the role of the Financial Conduct Authority (FCA) in protecting firms and how members can be protected
- Distinguish between Prudential and Conduct regulation and state who the responsible bodies are
- Explain the differences between Independent and Restricted Financial Advisers
- State who deals with complaints and the process a member should follow There is a very fine line between giving financial advice and being helpful to a member.

You will understand the difference and will be able to point the member in the right direction when being asked questions beyond general guidance or information.

Click on the “Find out more” link below to proceed.

Find out more

What is regulated financial advice?

Regulated financial advice has a specific legal and regulatory meaning. It is a personal recommendation from a qualified individual given after due consideration of the customer’s personal circumstances and objectives.

It is important to clarify the difference between taking advice and the customer marking their own decisions without going through this process (known as ‘execution only’).

In June 2010 the Chancellor announced changes to the way that financial services would be regulated and this came into effect from 1 April 2013.

Note: Prior to 3 January 2018 there were two definitions of regulated financial advice. A “wide” definition in the Regulated Activities Order (RAO) and a “narrower” definition in the Markets in Financial Instruments Directive (MiFID). With effect from 3 January 2018 regulated firms will be exempt from the need to have FCA permission to advise on investments unless the firm is providing a personal recommendation for a specific product. An amendment is being made to Article 53 of the RAO to effect this change.

hoW are Financial services regulated?

Prior to April 2013 financial services were regulated by the Financial Services Authority. This was abolished and since 1 April 2013 regulation has been separated between:

Prudential regulation
- Standards are imposed on firms to control risks
- It involves policy making to guard against a range of possible outcomes and covers the application of the policies through effective supervision
- The Prudential Regulation Authority is responsible for this

conduct regulation
- To ensure the financial markets work well so that customers get a fair deal
- The Financial Conduct Authority is responsible for this

Prudential regulation
The Prudential Regulation Authority has three statutory objectives:
1. A general objective to promote the safety and soundness of the firms it regulates.
2. An objective specific to insurance firms, to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders
3. A secondary objective to facilitate effective competition.

conduct regulation
The Financial Conduct Authority has three statutory objectives:
1. To protect consumers
2. To enhance the integrity of the UK financial system
3. To help maintain competitive markets.

There are four main area of work for the FCA and the PRA:
1. REGULATING
   Authorise and supervise conduct of firms and regulate prudential standards
2. PROTECTING
   Against fraud and money laundering
3. CHAMPIONING
   Standards and training for advisers
4. ENFORCING
   The correct behaviour and pursuing criminal prosecutions.

how are members Protected?

The FCA uses the term “consumer” and in this learning module the consumers we are particularly referring to are pension scheme members.

The FCA ensure that firms stick to the rules and take appropriate action to protect themselves against fraud.

It is also important to ensure that consumers don’t fall victims to scams or get tied into unfair contracts.

money laundering

This is the process by which the proceeds of crime are concealed by converting them into assets which appear to have a legitimate origin.

There are three stages involved:
1. Placement – money from illegal sources is introduced into the financial system.
2. Layering – a series of financial transactions take place to disguise the illegal source.
3. Integration – the wealth is acquired.

The FCA regulation and supervision requires firms to have in place systems and controls in order to reduce financial crime including money laundering. Firms are required to undertake customer due diligence before entering into any financial transactions and are also required to monitor the customer relationship in order to identify unusual requests which could suggest potential money laundering activities.

It is an offence to:
- assist anyone to keep the benefits of crime
- acquire, possess and / or use criminal proceeds
- conceal or transfer proceeds to avoid prosecution or a confiscation order • fail to disclose knowledge or suspicion of money laundering
- tip off someone that they are under investigation.

Whilst firms are regulated to protect against financial crime there are many risk areas where individuals could become victims.

information security

One way of protecting members' data is to ensure that their information is held in a secure place. Firms must have systems and controls in place to protect personal details such as Address, National Insurance Number, Earnings and Account details.

Information Security also includes:
- being aware of who is listening into phone calls or reading documents, particularly when in a public place such as a café or on a train
- being careful to lock away information and not leave it visible for others to read or get hold of
- making sure passwords are changed regularly and not written down for others to find.

Increased use of the internet and on-line banking has made it easier for thieves to steal personal information and sell it on to others for fraud or identity theft.

In 2002 the BBC reported that identity theft cost the UK £1.3billion a year and in 2006 they reported it had increased to £1.7 billion a year.

In 2010 the Independent reported that almost 2million people have had their identity stolen each year at a cost of £2.7billion. In that article the National Fraud Authority (NFA) said that more than £1.9billion of it was money that criminals obtained from using other people's identity and the rest was the cost of preventing and detecting the crime and putting the damage right. The NFA also said that in very serious cases it can take more than 200 hours to resolve the problems.

In 2017 the BBC reported that Identity theft is reaching “epidemic levels”, according to a fraud protection group, with people in their 30s the most targeted group. ID fraudsters obtain personal information before pretending to be that individual and apply for loans or store cards in their name.

A total of 89,000 cases were recorded in the first six months of 2017 by UK antifraud organisation Cifas.

The Annual Fraud Indicator 2017 report undertaken by the UK Fraud Costs Measurement Committee involved Crowe Clark Whitehill, Experian and the Centre for Counter Fraud Studies, University of Portsmouth and underpinned by a group of cross-sector fraud specialists.

This report uses new data from the Office for National Statistics Crime Survey for England and Wales. The report states that; as a whole, fraud against the adult population has declined from an estimated £9.7 billion in 2016 to £6.8 billion. Of this Identity fraud is calculated to be costing £1.3 billion.

- Latest Fraudscape report shows cases of identity fraud rose by almost a quarter in 2022

- Identity fraud now accounts for almost 70% of cases filed to the National Fraud Database

The latest research from Cifas, the UK’s leading fraud prevention service, has revealed that identity fraud is now one of the biggest fraud threats to the UK public, with cases soaring by nearly a quarter in 2022.

This alarming statistic is revealed in the latest publication of Fraudscape, which identifies and analyses the latest fraud trends based on 409,000 cases of fraudulent conduct recorded to the National Fraud Database in 2022.

The report reveals that 2022 saw the highest volume of cases of fraudulent conduct ever recorded to the National Fraud Database. Of this, cases of identity fraud soared by 23%, and now accounts for 68% of all cases filed by Cifas members.

Although the banking sector continued to be heavily targeted, in 2022 there was a significant increase in cases of identity fraud attempted against the plastic cards and telecoms sectors.

Over the last couple of years, the demand for credit card use has grown as a result of households becoming increasingly reliant on credit as the cost-of-living crisis deepens. This, in turn, has made individuals more susceptible to approaches by criminals who offer fake deals for products and services in order to steal personal and financial information.

The telecoms sector has been the target of a surge in attacks by fraudsters, with an increase in ‘fake phone dealer’ fraud where victims are duped into revealing their personal information after being offered upgrades or discounted offers on contracts.

Most victims of identity fraud are over 31 years, and the data shows that there has been a significant rise in victims aged 61+ as criminals turned their attention to targeting older consumers.

You can see how important it is for members to protect themselves and the National Crime Agency website has more information on this. **http://www.nationalcrimeagency.gov.uk/**

scams

The FCA will take action against fraudsters involved in scams using financial or investment products. They issue alerts about firms and individuals based both overseas and in the UK who operate without FCA authorisation.

The FCA's crime prevention work includes their ScanSmart campaign, which targets people most at risk of investment fraud. It provides tools to help investors actively check investments they have been offered out of the blue. The FCA also encourages consumers to report to them when they see potential harm or bad conduct.

Some typical scams are:

on-line Job scams
A person thinks they have got a legitimate job but their bank account is used to transfer money, usually from one currency to another.

Pension scams

Liberation
A pension scheme member is led to believe that by transferring their pension benefits they will be able to access the cash before the earliest retirement age of 55. Members should be wary of adverts for accessing their pension early. Pension Liberation is illegal where members do not have a statutory right to transfer. They are misled about key factors such as tax consequences, fees or how the remainder of their pension fund will be invested. Tax charges and penalties incurred may be up to 55% of the value of the member's transfer pension savings.

Other scams
Alternatively, a member may be induced to transfer their pension benefits to take advantage of unique investment opportunity to get better returns on their pension than they are currently getting. This sort of offer can be a scam leading to the member losing the whole of their pension. The member may also incur the same tax charges and penalties as for a Liberation case.

On-line Banking scams
E-mails appear as if from legal banks asking for verification of identity and account details, more commonly known as "phishing". Alternatively

How to spot a potential scam:
- a company asks for financial details over the phone or in emails
- doorstep sellers using high pressure sales techniques with free demonstrations and limited time offers
- unsolicited calls from a company making a "fantastic" offer

- Guaranteed money -making schemes such as pyramid schemes **remember, if it looks too good to be true, it usually is!**

Whistleblowing

If an employee suspects wrongdoing then they must report it as soon as possible to prevent the company being exposed to money laundering activities. The reporting should not be delayed whilst waiting for proof of the suspicious activity. Often it may be that something unusual has occurred e.g., a person has tried to make an exceptionally large cash payment. Maybe the customer behaved strangely or made unusual requests that don't seem to make sense. Perhaps the transaction that they wanted to make just doesn't add up commercially. It is important to look at all transactions carefully to see if there is anything suspicious.

Employees should follow their own organisation's procedures first which normally involves reporting the suspicion to their nominated officer known as the Money Laundering Reporting Officer (MLRO) who is in turn responsible for investigating and reporting it to the National Crime Agency.

the Prudential regulation authority

The PRA is part of the Bank of England. It is responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

The PRA sets standards and supervises financial institutions at the level of the individual firm.

For example, insurance companies dealing with Annuities or Life Insurance cover will be regulated by the PRA.

What Was the Retail Distribution Review (RDR)?

The RDR rules are a key part of the FCA's consumer protection strategy to give people confidence and trust in firms they use for financial planning.

The RDR aims to ensure that consumers:
- Know how much advice costs
- Know what they are paying for
- Get improved professional standards from investment advisers.

Three key changes introduced by RDR in December 2012 were:

commission
This was no longer a permitted remuneration method for products such as investments and pensions (still permitted for products such as life, critical illness, income protection and mortgage policies).
- Fees must be agreed with customers before providing any services.
- The removal of commission meant that advisers would no longer be influenced into selecting a product according to how much commission they could earn.

Qualifications
- Advisers must be qualified at Level 4 or above in the national qualification framework. This is about the same as completing the first year of a university degree.
- Advisers must obtain an Annual Statement of Professional Standing (SPS) and keep knowledge up to date through continual professional development.

clarity
- Advisers must make it clear whether the advice offered is independent or restricted.

What are the different types of advisers?
As mentioned previously firms and individuals can only provide advice if they are authorised by the FCA to do so.

In this section we will look at the different types of financial adviser.

Why might a member use a financial adviser?
- If they are uncertain or don't feel confident about making financial decisions.
- They don't really understand what they should be investing in.
- They don't have the time to investigate all their retirement options themselves.
- A member who is considering accessing new DC flexibilities may use a financial adviser after a referral from Pension Wise.
- A member must seek appropriate financial advice (from someone who authorised by the UK FCA to carry out pension transfer business) if they are considering a DB to DC transfer with a fund value of over £30,000.

Financial Advisers are qualified and required to hold an Annual Statement of Professional Standing (SPS) certificate.

What does a financial adviser do?

A regulated financial adviser provides advice on:
- retirement planning • investments
- protection.

independent financial advisers – must offer advice on all types of retail investment products across the whole of the market

restricted financial advisers – are those who are limited by either the range of products or areas they offer advice on

Appropriate Financial Advice - there is a requirement for all DB transfer cases over £30,000 to receive "appropriate financial advice" from someone who is authorised by the UK FCA to carry out pension transfer business. The adviser may be either an Independent Financial Adviser or a Restricted Financial Adviser.

All advisers must ensure that they meet the "know your customer" requirements and most approach this by completing a "Fact Find", which is a detailed questionnaire giving information on their customer so that they can understand their financial circumstances and attitude to risk. The information is used to identify which solution / product(s) would be best suited to their client's needs.

independent financial adviser
INDEPENDENT - Free from outside control; not subject to bias or influence.

An independent financial adviser gives a personal recommendation to a customer. They must:
- provide advice on the full range of retail investment products such as life policies, personal pension plans and packaged investments such as investment trusts and unit trusts
- give unbiased and unrestricted advice based on their comprehensive and fair analysis of the relevant market

restricted financial adviser
RESTRICTED - Limited in extent, number, scope or action.

A restricted adviser differs from an independent adviser in the following ways:

recommendations
They may only recommend certain products, product providers or both. Consequently, they may only be able to offer a product from one company or just one type of product.

Product advice
If they work for a product provider, they are often limited to only offering advice on the products that the company offers.

specialist advice
If they chose to focus on a particular market, they may only recommend products from providers in that market.

The firm must disclose the nature of the restriction in their initial disclosure to their customers before providing a service.

independent v restricted
What are the advantages of one compared to the other?
- The adviser has to attain the same professional standards irrespective of whether restricted or independent.

- Where a firm offers both restricted and independent advice the firm cannot hold itself out as independent and must clearly communicate to customers what type of service they are being provided with.
- An independent adviser will have to prove that they have researched the whole market relevant to the customer's needs.

The main difference is that the restricted adviser may be looking at a narrower range of products. From the customer's point of view, they will need to weigh this up against other factors such as cost and convenience.

execution only

We mentioned before that a detailed "Fact Find" is completed. However, a customer may know what they want or may choose not to receive financial advice.

In this case the adviser proceeds on the specific instructions of the customer on an "execution only" basis.

As they are not giving advice on the merits of the transaction then the rules on assessing suitability do not apply. However, "clear and credible" evidence must be provided that an investment transaction is execution only. This is normally a statement signed by the customer or, if it's an online process, there would be a disclaimer box to be ticked. The customer must agree that:

- they are aware that the transaction is execution only
- they have not asked for or received advice
- it is their decision alone to take out the product
- the business is taking no responsibility for the product's suitability.

In transacting business on an execution only basis customers need to be aware that they may be giving up certain regulatory protections should the transaction subsequently prove to be inappropriate.

a Pension transfer specialist

As mentioned previously there is a requirement for all DB transfer cases over £30,000 to receive "appropriate financial advice" from someone who is authorised by the UK FCA to carry out pension transfer business. A Pension Transfer Specialist (PTS) is an individual who:

1. has passed the required examinations as specified by the FCA; and
2. is employed by a firm to give advice on pension transfers, pension conversions and pension opt-outs or to check such advice.

The FCA rules require that only a PTS can give or check advice on pension transfers.

A PTS is expected to:

- check the entirety of the advice process, not just the numerical analysis, and consider whether the advice is sufficiently complete
- confirm that the personal recommendation is suitable
- inform the firm in writing that they agree with the advice, including any recommendation, before the report is given to the client

What is a personal recommendation?

A recommendation that is advice on conversion or transfer of pension benefits, and is presented as suitable for the person to whom it is made, or is based on a consideration of the circumstances of that person.

A recommendation is not a personal recommendation if it is issued exclusively to the public.

how to find authorised firms and advisers Financial services Register

Check the Financial Services Register (a public record of firms, individuals and other bodies that are, or have been, regulated by the PRA and/or FCA) to see if a firm or individual is Authorised and Registered **https://register.fca.org.uk/**

the money advice service

This is an independent organization set up by the government**www.moneyadviceservice.org.uk**

The Money Advice |Service merged with the Pensions Advisory Service and Pensions Wise to form a new single financial guidance body called the Money and Pensions Service on 1st October 2018 and started delivering its functions from January 2019.

Other organisations that can be used to check financial advice are:

- Unbiased at **www.unbiased.co.uk** Members can find independent and restricted 'whole of market' advisers on their website. Restricted 'whole of market' means advisers who can offer available products from all companies, but who may specialise in a particular area, such as pensions.
- Personal Finance Society at http://www.thepfs.org/yourmoney/find-an- adviser Members can find independent and restricted advisers on their website.
- VouchedFor at **www.vouchedfor.co.uk** Members can find independent advisers only on this website.

how can financial advice be Paid For?

Advisers must explain how much their advice will cost and agree how it will be paid for.

Options include:

- Hourly rate
- Percentage of the money invested
- Fixed fee. A set fee according to the work involved.

The customer may ask – is the fee worth it?

Only they can answer that – the recommendations given help them make good quality decisions that may last for the rest of their life.

Hourly Rates are typically:

- Financial Planning £350
- Technical Support £150

Initial discussion is often free of charge to enable all parties to understand where advice and services may be required.

services and typical Fees charged

Analysis and presentation of options - Minimum £500 or £3,000 if complex Implementation of options - Minimum £500

Advice on capital investments 3% of first £100,000, 2% on next £100,000, 0.5% on the excess

On-going services Minimum £500, 0.5% to 1% per annum of funds after advice

are you giving information or advice?

Information

Information or guidance helps people make their own decisions by giving them the information and tools to reach a reasonable outcome on their own.

Advice

Giving advice means the Financial Adviser has more responsibility in the member's decision making. The adviser is directing the member about the best choice in the market and making recommendations based on personal and financial considerations relevant to the member.

If you direct a member, you are giving advice no matter how inadvertently you do it. Avoid answering when members ask what you would do.

you should not say:
"If I were you"
"That sounds like the best option"

it would be better to say:
"You may wish to consider"
"You have a number of options"

Who can a consumer complain to?
If an adviser is used who is not approved by the FCA they will be prosecuted and the consumer won't have any right to compensation if they lose money because of any bad advice they received. **the Financial ombudsman service (Fos)** is an independent public body, set up by law.

If a complaint is not dealt with to the consumer's satisfaction, then the consumer can ask the FOS to look at it.

The role of FOS is to settle individual disputes between consumers and firms providing financial services fairly, reasonably and quickly. Their decisions are binding on firms.

For pension scheme members step 1
If a member has a complaint about their pension scheme, then they should check the scheme booklet which contains the Internal Dispute Resolution Procedure (IDRP) and gives details of who to write to.

Prior to 1 April 2018 step 2
The Pensions Advisory Service (TPAS) was an independent non-profit organization who provided free information, advice and guidance prior to 1 April 2018. TPAS was available at any time to assist members in connection with issues they had been unable to resolve with the trustees or administrators of the pension scheme.

step 3
The Pensions Ombudsman (PO) dealt with complaints about occupational and personal pension schemes and could not normally investigate a complaint against pension scheme trustees or managers until it had been through the IDRP.

Unless there are special circumstances the PO could only deal with problems the member became aware of within the last three years. The PO's decision was final and binding on all parties (the only exception to this was that any party could make an appeal to the court on a point of law if they thought the PO had made an error of law in reaching a decision).

From 1 April 2018
step 2
The Dispute Resolution Team at the Pensions Ombudsman (PO) will deal with all complaints about occupational and personal pension schemes whether pre or post IDRP.

Unless there are special circumstances the PO can only deal with problems the member became aware of within the last three years. The PO's decision is final and binding on all parties (the only exception to this was that any party can make an appeal to the court on a point of law if they think the PO has made an error of law in reaching a decision).

The Pensions Advisory Service (TPAS)'s dispute resolution team moved to the Pensions Ombudsman on 1 April 2018. TPAS will continue to focus on providing pension information and guidance, and became an integral part of the Money and Pensions Service in the autumn of 2018 as previously mentioned.

MODULE 2

Options Available from Different Pension Schemes

This document contains the full content of the learning centre for this module of the online learning programme.

NB- all of the content that is required for assessment purposes is included.

This module is an overview to assist with guidance for members. At the end of this module, you will be able to:

- Distinguish between the main types of pension schemes
- State the options available during the life cycle of pension scheme membership
- Explain how the options operate differently depending on the scheme type and benefit basis
- Describe the options available and how members' benefits are impacted Click on the "Find out more" link below to

  proceed.

What types of Pension schemes are there?

There are broadly two types of occupational pension schemes sponsored by the employer; Defined Benefit (DB) and Defined Contribution (DC).

Defined Benefit Schemes
These schemes offer a full promise about what a member's income will be from their pension savings. They are sometimes referred to as final salary schemes. Career Average Salary Schemes (CARE) are a type of Defined Benefit Scheme.

Defined Contribution Schemes
These schemes do not offer any promise about the income a member may receive from their pension savings. They are also known as money purchase schemes and include Small Self-Administered Schemes (SSASs) and Stakeholder schemes.

Sometimes categorisation is not straightforward:

- Automatic enrolment schemes are normally DC schemes but they don't have to be, they could be on a DB basis.
- Cash balance schemes are DC schemes, unless there is a pension promise.

other types of defined contribution schemes
There are two other types of schemes that are not classed as Occupational Pension Schemes and they both operate on a DC basis:

- Personal Pension Plan (PPP)
- Self-invested Personal Pension Schemes (SIPP)

Some employers sponsor workplace schemes which are a collection of personal pensions – these are called Group Personal Pensions (GPPs).

Legislation governing pension schemes permits the options available to a member in all schemes to be very similar. It is the individual scheme rules laid down by the trustees that differ.

However, SIPPs and SSASs in particular do have a wider scope of investment than other DC schemes. What options may be available from a pension scheme?

on joining
- Pay Additional Voluntary Contributions (AVCs)
- Salary sacrifice
- Transfer In

on leaving
- Short Service Refund Lump Sum (SSRLS)
- Preserved/deferred pension
- Transfer out

Prior to April 2015, options available to members on leaving were broadly similar. However, new DC flexibilities have introduced some key differences which will be explored later in this module.

on death
- Lump sum death benefit
- Spouse/civil partner/dependant's pension
- Contribution refund

on retirement
- Pension
- Pension Commencement Lump Sum (PCLS)
- Uncrystallised Funds Pension Lump Sum (UFPLS) (DC only)
- Flexi-access drawdown (DC only)
- Trivial commutation (DB only)
- Small lump sums

Pension scheme rules
The member should be aware that, aside from legislation, many of the options available in an occupational pension scheme are governed by the Trust Deed and Rules.

These define:
- Who is eligible to join
- Normal Retirement Age
- Salary to be applied
- Contributions payable
- Benefits payable and where applicable:
- Investment choices

What are the options For Joining and active membership?

Joining a scheme

A person can choose whether or not to join their employer's pension scheme and in some cases, they may be automatically enrolled in a scheme.
Alternatively, they may have their own arrangement such as a Personal Pension Plan.

Why should a person join a scheme?

- The New State Pension was launched on 6 April 2016, and replaced the old Basic State Pension and State Second Pension. It is paid from State Pension Age to all who have met its eligibility criteria. The full rate for 2023/24 is £203.85 per week. Is this enough to live on?

The member should also consider that:

- Contributing to a pension scheme will boost their income in retirement
- Contributions are paid directly by the member from their wages so they don't have to remember to contribute
- The employer also pays contributions, usually at least the same amount as the member but often quite a bit more

eligibility conditions

For an Occupational Pension Scheme, the scheme rules define the conditions under which a person is eligible to join the scheme. This could include:

- The minimum and maximum age e.g., the person must be over 21 or under 64
- Waiting period e.g. they can join when they have been employed for six months
- The joining date e.g., the 6 April or the 1st of the month etc.

Usually only one offer to join the scheme is made by trustees. If this offer is declined and later the person decides they do want to join, then they may only be allowed to join at the trustees' discretion. However, all employers must offer at least one workplace pension scheme which complies with the requirements of the automatic enrolment regulations (see below).

Similarly, a member may join and then want to leave the scheme even though they are still employed. This is known as "opting-out". If they later want to re-join the scheme this would be at the trustees' discretion.

For a GPP the employer will normally tell employees when they qualify for membership.

additional voluntary contributions

The rules of an Occupational Pension Scheme will state the contributions to be paid. This is normally a percentage of salary. Each year the member will receive an estimate of the benefits that will be provided when they retire.

If the member thinks the amount will not be sufficient for them to live on then they may have the option to pay Additional Voluntary Contributions (AVCs).

If the pension scheme operates an AVC scheme, the scheme will normally offer a range of investment funds and the member can choose which one to invest their AVCs in.

- Defined Benefit Scheme – the options may be limited to a building society or a with-profits policy
- Defined Contributions Scheme – the options will be more varied in accordance with the investments of the main contributions

The member must decide where to invest their AVCs and this will mainly depend on their attitude to investment risk and how many years are left before they are due to retire. The closer they are to retirement the safer they want the investment to be.

Alternatively (or if the scheme does not operate an AVC scheme) the member has the option of paying extra contributions into their own personal pension that is not related to their employer's scheme. The member needs to be aware that they will be paying management charges which may be paid by their employer in the case of AVCs.

For a GPP, the employer will tell employees what contributions the employer will pay and how much the employees are required to pay. The employee may choose to pay a higher rate of contributions than required by the employer.

salary sacrifice
Another option for the member may be to participate in a salary sacrifice arrangement offered by the employer.

Salary sacrifice means the member agrees to give up the right to get a specified amount of their salary as cash; in return their employer will provide them with a non-cash benefit such as pension contributions, child care vouchers or contributions to a private medical scheme. The most common non-cash benefit is pension contributions.

The "sacrifice" is achieved by varying the member's contract of employment.

As salary is being forfeited rather than being paid to the member, there is no tax or National Insurance (NI) contributions to pay on the salary being forfeited. The advantage is that more contributions are paid into the scheme and the member pays lower NI contributions.

However, there are a few points the member needs to consider:
- Any life cover in the scheme would be affected if it is based on the lower salary.
- If the member leaves the scheme and is eligible to receive a refund of contributions, the salary sacrifice contributions are not refundable as they are treated as employer contributions.
- If the member is considering taking out a mortgage, the lower salary will impact the amount that can be borrowed.

investment of scheme contributions
For a member of a DB scheme there is no choice as to where the contributions are invested. However, a member of a DC scheme does have choices.

A member of a DC scheme will have the option of investing either as Lifestyle or Freestyle and they may wish to seek regulated financial advice before making a decision.

lifestyle
Traditionally, lifestyling is designed for those who are not financially aware of investment risk or who are uncomfortable about managing their own investments. The scheme manages the investment which would typically be:
a) If the member has more than 5 or 10 years until retirement – the contributions are invested in equities where there is the potential for a higher return over the long term.

b) As the member moves closer to retirement a percentage of contributions are moved into more secure funds on a regular basis where there is a lower risk and future contributions are split between the different funds. For example, 60% could be invested in equities, 30% in an index-linked fund and 10% in a cash fund. The exposure to risk is reducing.
c) In the last few years before retirement the investments move into cash.

Freestyle
This option is designed for those who are interested in investments and understand the risks involved; they also need to have the time and confidence to manage and review their pension investments on a regular basis. It allows members to create their own mix of investments using a combination of funds allowed by the scheme.

automatic enrolment
Automatic enrolment started with effect from 1 October 2012 as part of pensions reform in the UK. All employers are now required to have an automatic enrolment scheme in place.

Many people are living longer and retiring without adequate pension provision so this is a way of making sure that certain employees are automatically enrolled in a pension scheme.

Every employer in the UK must meet various obligations and either provide a qualifying pension scheme or alternatively use a scheme from a provider such as an insurance company.

Every employer must automatically enrol workers into a workplace pension scheme if they:
- are aged between 22 and State Pension Age
- earn more than £10,000 a year (2023/24 tax year)
- work in the UK.

Contributions are paid by the employee and their employer.

The member does have the option to opt out of the scheme and if they are considering this, they should think about how they will manage in retirement if they don't have any pension savings. If they opt out within a month of their employer automatically enrolling them then they will get back any money that has been deducted from their salary. However, if they leave later then they will not be allowed to get their money back as it will remain invested until retirement.

Automatic enrolment is a continuous process and the member should be aware that if they do leave the scheme, they will be automatically enrolled back into it after 3 years from the employer's staging date, as long as they still qualify.

Death benefits
When a member dies there may be a lump sum payable and the member has the option of completing a form indicating to whom they would like the lump sum to be paid. This is known as an "Expression of Wish" form. This form is not binding on the trustees as certain Occupational Pension Scheme benefits are payable at the discretion of the trustees, however, it does help them decide who should receive any benefits payable and it also helps to speed up the process.

annual allowance
The Annual Allowance is the maximum amount of pension savings that can be made in any year into a pension scheme for a member without incurring a tax charge. The member will be subject to the tax charge on any savings in excess of the Annual Allowance.

The current Annual Allowance is £60,000 (2023/24 tax year).

However, since April 2015 members with money purchase benefits who flexibly access them in certain circumstances trigger the Money Purchase Annual Allowance (MPAA) of £10,000 (2023/24) in respect of their money purchase savings in a tax year.

If the MPAA is not exceeded, the member retains the standard Annual Allowance for all their pension savings.

If the MPAA is exceeded, the member has an alternative Annual Allowance for any other pension amounts in the tax year (these would normally relate to DB arrangements). Currently the alternative Annual Allowance is £50,000 (2023/24 tax year).

transfer in
If a member has benefits in a scheme from previous employment, they may have the option to transfer them to their new pension scheme.

The old pension scheme will pay over a transfer value which can then be used to provide benefits in the new scheme.

If the new pension scheme is on a DB basis it may provide defined benefits in return for the transfer value.
If it does so then the Scheme Actuary will calculate the amount of benefits the transfer value will provide. It depends on the scheme rules but the member will normally be offered either additional pensionable service or additional pension in lieu of the transfer value amount. However, some DB schemes only provide benefits on a DC basis for transfer-in.

If the new scheme is on a DC basis, or is a DB scheme that provides DC benefits for transfer-in, the member will be told how the money will be invested and how it is likely to grow.

It is simpler for the member to have all pension benefits under one arrangement but they will need to ensure that will not be worse off. For example, if a member is considering bringing a transfer value from a DB scheme into a DC scheme, then they would be giving up a guaranteed level of benefits in return for an unknown amount, they could be much worse off.

If both schemes are on a DC basis, then it mainly depends on whether the member thinks the investment funds in the new scheme are likely to perform better than those in the old scheme.

The member may wish to consider taking regulated financial advice before agreeing to transfer benefits into the new scheme. Since April 2015, it has been a legal requirement that where there is a DB to DC transfer and the transfer value is over £30,000 the member must take appropriate financial advice. **ssass and siPPs**

small self-administered scheme (ssas)
This is an Occupational Pension Scheme on a DC basis. However, when a member joins, they are normally also a Trustee so there are more regulatory duties attached to be a member and there are much broader options for investing contributions. Contributions are made in the name of members but may not be earmarked for them. The benefits are determined by the scheme rules.

self-invested Personal Pension (siPP)
This is also on a DC basis but it is not an Occupational Pension Scheme. Contributions are usually earmarked specifically for the member as with a Personal Pension plan but they have wider investment powers.

What are the options on leaving a scheme?
The options available on leaving a pension scheme depend on the scheme rules and on how long the member has been in the scheme.

short service refund lump sum (ssrls)
The option of a short service refund lump sum (SSRLS) is only available to members of DB schemes with short service periods of up to two years. It is a refund of the member contributions only. Tax is deducted from the contributions at prescribed rates and the member receives the net amount.

A SSRLS is never available from a DC scheme, except in the case of a member who has opted out of automatic enrolment.

Defined Benefit Scheme
A SSRLS can only be paid to members who leave the scheme with less than two years' pensionable service.

Members with less than 3 months' pensionable service normally receive a SSRLS automatically on leaving the scheme whereas members with between 3 and 24 months may normally choose between a SSRLS and a transfer value.

With a transfer value the member does not lose the benefit of contributions paid by the employer but you should note that the new scheme does not have to accept a Transfer Value.

Defined Contribution Occupational Pension Scheme
A SSRLS can only be paid if they leave with less than 30 days pensionable service.

Deferred benefits or a transfer value
These are the options available to members under age 55 with longer periods of service.

Defined Benefit Scheme
For members with more than two years' service.

The benefits accrued remain in the scheme until retirement. The pension is calculated at date of leaving and increases each year to offset the effects of inflation. This is normally referred to as a deferred pension or a paid-up pension.

Defined Contribution Scheme
For all Personal Pension scheme members (including GPPs). Also, for occupational pension scheme members with more than 30 days' service. The member's pension pot remains invested until they decide to take their benefits and will fluctuate in line with the performance of the investments.

over age 55
In addition to a Deferred Pension or a Transfer Value, if the member is over 55,(57-6/04/2028)there is also the op
retire or access benefits

For members of an Occupational Pension Scheme, permission will usually be required from the:
- employer and also possibly the Trustees for active members
- Trustees and also possibly the employer for deferred members.

For members of DB schemes, contributions will normally cease and the amount of pension accrued to the early retirement date will be reduced to take into account the fact that it will be paid for a longer period of time than anticipated.

Members with DC benefits have more flexibility in the options available to them from age 55 which we will look at later.

If a member wants to take their benefits early, they need to remember that they won't be entitled to any State Pension yet so they should consider if the income received from their pension benefits will be enough to meet their income needs in retirement.

Which option on leaving is better?

The decision on whether or not to transfer pension scheme benefits on leaving a scheme will depend on the member's personal circumstances.

transfer value
- How generous is the transfer value from a DB scheme? The member should assess and compare the deferred benefits with benefits offered in the new scheme
- The member may want more flexibility in retirement than the deferred pension can provide.
- Specialist advice should be considered and possibly a full transfer

analysis completed to help the member make an informed decision.

deferred Pension
- For members of DB schemes remember that the amount of pension at the leaving date is known.
- It is guaranteed to increase until retirement and after.

If a member of a DB scheme wishes to transfer to a DC scheme and their transfer value is over £30,000, they must obtain appropriate financial advice.

What are statutory transfer rights?
Since April 2015 each type of benefit has been a separate category with separate transfer rights.

Db benefits
A member has a statutory right to transfer their benefits if they cease accrual and apply to transfer one year or more before the scheme Normal Retirement Age.

DC benefits
A member with DC benefits has a statutory right to transfer the value of their benefits at any time.

One of the impacts of this legislative change relates to members of a DB scheme who have paid Additional Voluntary Contributions (AVCs). Previously all the benefits had to be transferred at the same time but now the AVCs are classed as DC benefits so two separate benefit rights exist. The member can now transfer the AVCs and leave the DB benefits in place or vice versa.

NB: Since 6 April 2015, changes under the Pensions Schemes Act 2015 stopped transfers from unfunded public service pension schemes, such as the Teachers' Pension Scheme, to pension schemes, whether in the UK or abroad, based on DC or flexible access arrangements.

Where can a pension be transferred?
The member has the option of transferring pension benefits to:
- Another registered pension scheme including:
    1. A section 32 Buy-out Policy – this is a policy issued by an insurance company to the member in which the range of benefits will be similar to those in the transferring scheme, but to which the member cannot continue to pay contributions.
    2. A Personal Pension Plan or Stakeholder Plan – the member can continue to pay contributions.
- Recognised Overseas Pension Scheme (ROPS).

beware of Pension scams

Pension scams are on the increase in the UK.

"One-off Pension Investments", "Pension Loans" or upfront cash are being used to entice savers. For most people the offer will be bogus. Members who are taken in will lose most, if not all, of their savings.

Pension scams can take many forms and some will appear to be legal; some scammers will even suggest that the Government has asked them to contact the members.

Some companies will advertise that members can transfer to their scheme and access "one-off investment opportunities", receive a cash bonus or gain access to their pension pot before age 55.

Members can obtain a lot of help and information from the Pensions Regulator's website which includes booklets, videos and warning signs. **http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension- scams.aspx** A Reminder:

transfers – 6 April 2015
- Members with DB pension benefits valued at more than £30,000 who want to transfer from the DB scheme to a DC scheme are required to obtain appropriate financial advice.
- Separate transfer rights exist for each category of benefit.
- Members with DC benefits can transfer them at any time.

ssrls
Members who joined a DC occupational pension scheme since 1 October 2015 are not be entitled to a SSRLS if they have been a member for 30 days or more.

contracting-out
Contracting-out ended on 5 April 2016.

What are the retirement options?

The main options a member has on retirement are:
1. A full pension OR
2. A Pension Commencement Lump Sum (PCLS) PLUS
3. Flexible Retirement Options

Regardless of the option chosen, if the benefits, together with all other benefits which the member receives from registered pension schemes, exceed the Lifetime Allowance the member will be subject to a tax charge on the excess.

The standard Lifetime Allowance (LTA) is £1,073,100 (2023/24). It is being abolished from 6/04/2024. From 6 April 2023, the LTA Tax Charge on pension savings in excess of the LTA was removed.

For some members the standard LTA would have adversely affected the amount of retirement savings that can be taken without incurring an extra tax charge so a member may be protected against this, in which case they will have a certificate from HMRC confirming this.

This section is an overview of the main options. They are discussed in more detail in the Retirement module.

a residual pension
Or, for a scheme that provides flexible benefits

retirement options

Defined benefit scheme
In a DB scheme, the retirement pension is normally based on:
- Pensionable Service
- Final Pensionable Salary
- Accrual Rate

For example, a member has 20 years' Pensionable Service and the Final Pensionable Salary at Normal Retirement Date is £60,000 per annum. The scheme has an accrual rate of 1/60th for each year of Pensionable Service.

option 1.
The member has the option of receiving a full pension of:

(Pensionable Service) x (accrual rate) x (Final Pensionable Salary) = pension 20 x 1/60 x £60,000 = £20,000 per annum

option 2.
Part of this pension can be exchanged for a Pension Commencement Lump Sum (PCLS). The maximum amount which is tax free is 25% of the value of the member's pension based on the formula:
(20 x pension) / (3 + (20 / commutation factor))

The commutation factor is different for each scheme depending on the advice from the Scheme Actuary, it is the amount of pension that is given up for each £1 of cash lump sum. In our example, if the commutation factor was 15, the PCLS would be:
(20 x £20,000) / (3 + (20 / 15)) = £92,307.69

The member has to give up part of the pension to receive the PCLS so the residual pension becomes:
£20,000 – (£92,307.69 / 15) = £13,846.15 per annum

The member does not have to take the maximum amount of PCLS offered, they can take a smaller amount if required.

Trivial Commutation
For members of DB schemes, if the benefits available on retirement are small then they may be able to exchange it all for a one-off lump sum. This is known as "trivial commutation lump sum" (TCLS).

Currently, the member must be over age 55 to qualify. The total value of all their benefits across all pension arrangements must be less than a limit set by the government. The current limit is £30,000. (2023/24)

The commutation must take place within a 12-month window and once paid it discharges the scheme from any future liability so for example when the member dies, their spouse cannot make a claim for a spouse's pension.

Defined Contribution Scheme
In a DC scheme, the pension is based on:
- The value of the member's fund; and
- Annuity rates.

Options available to members of DC schemes depend on whether the scheme allows flexible access.

For those that don't, the member has the same options as for a DB scheme member i.e., they can chose either a full pension or a PCLS plus a smaller pension, but the calculation is different. For example, a member has a fund value at retirement of £89,910 and the annuity rate is 14.

option 1.
The member's full pension would be £89,910 / 14 = £6,422.14 per annum

option 2.
The maximum amount of PCLS the member may take is 25% of their fund. In our example, it would be: £89,910 x 25% = £22,477.50. The fund value has now reduced to £67,432.50 so that is the amount used to purchase a pension. The pension would be: £67,432.50 / 14 = £4,816.61 per annum.

The member does not have to take the maximum amount of PCLS offered, they can take a smaller amount if required.

The annuity rate depends on the type of pension the member wants as it is tailored to suit their financial circumstances. For example, a spouse's pension may be required or a guarantee period. These options are discussed in more detail in the Annuities module.

DC Flexibility
If the scheme rules allow this, a member has the following options from age 55:

Flexi-Access Drawdown (FADD)

A member may not wish to take all of their pension income on retirement: they may be continuing work on a part-time basis or already have sufficient income for

a period of time. At the retirement date the member can take up to 25% of the fund as a PCLS and leave the remainder in a drawdown fund. Further drawdown payments can then be made or the funds can be used to purchase an annuity. FADD gives the member flexibility to receive income when it is needed.

Uncrystallised Funds Pension Lump Sum (UFPLS)
With this option there is no "one" retirement date. The member can phase receipt of benefits with each withdrawal consisting of 25% tax free cash and 75% is taxed as income. With this option the funds cannot be used to purchase an annuity.

Small Pots
For members of DB or DC schemes, if the value of the benefits is very small then they are costly for the scheme to administer and not particularly beneficial to the member so they may have the option of a "Small Pots Lump Sum" payment up to £10,000. Unlike the trivial commutation payment mentioned earlier, the member's benefits in other pension arrangements are not taken into account. This option is also available under a personal pension scheme, where the member can have up to three such lump sums under the same scheme.

retirement date
For an Occupational Pension Scheme, the Normal Retirement Age for members is stated in the scheme rules, but members are normally allowed to retire earlier if they wish and also possibly to retire later. Members will normally need to seek consent to retire early.

Defined Benefit Scheme
Early Retirement – The pension will be calculated in the normal way but it will be reduced by an early retirement factor to offset the cost of paying it for longer than anticipated.

Late Retirement – In some schemes the pension contributions must cease at Normal Retirement Age so that no further benefits accrue. A late retirement factor would be applied from Normal Retirement Age until the member does retire so the pension would benefit from some increase. In other schemes members are allowed to continue to contribute and accrue further benefits.

Defined Contribution Scheme
The benefits will always be based on the value of the member's fund when they actually retire.

Regardless of the scheme benefit basis the member will need to seek consent to retire early.
- Active scheme members normally require consent from their employer.
- Deferred scheme members normally require consent from the Trustees.

For personal pension plans (including GPPs) members can take their benefits at any time after they reach age 55 – no consent is required.

Ill-health Retirement

If a member is too ill to work then they may be allowed to retire on ill-health grounds at any age. This will be subject to an independent medical report and not just the opinion of the member's GP.

Defined Benefit Scheme

Schemes have different terms and conditions; the scheme rules will state how a pension is to be calculated such as:

- The pension accrued to the early retirement date has an early retirement factor applied – in other words there is no difference for ill-health.
- The pension accrued to the early retirement date does not have an early retirement factor applied.
- The pension is calculated to include some or all prospective service up to Normal Retirement Age.

Defined Contribution Scheme

The pension will be based on the member's fund at retirement. However, a member may be able to obtain an impaired life annuity which will give them a higher pension.

What death benefits are available?

These are typical benefits and not always in all schemes.

db schemes

The member does not choose which benefits are payable on death, they are defined in the scheme rules and depend on the member status in the scheme i.e., active, deferred or retired.

As mentioned earlier when we looked at joining a scheme, the member should complete an Expression of Wish form to assist the trustees in distributing any lump sums.

Death in Service

- Multiple of salary as a lump sum
- Return of member contributions
- Spouse/Civil Partner/Dependant's Pension (percentage of salary or member's pension).

Death After Leaving

- Return of member contributions
- Spouse/Civil Partner/Dependant's Pension (percentage of salary or member's pension).

Death After Retirement

- Balance of 5-year guaranteed pensions
- Spouse/Civil Partner/Dependant's Pension (percentage of salary or member's pension).

dc schemes

Again, these are typical benefits and are not always in all schemes.

The main difference from a DB scheme is that any death benefits payable depends on whether the member is in receipt of an annuity and the options chosen when the annuity was purchased.

Death in Service

- Multiple of salary as a lump sum
- Return of the fund or
- Fund value used to provide a Spouse/Civil Partner/Dependant's Pension.

Death After Leaving
- Return of the fund or
- Fund value used to provide a Spouse/Civil Partner/Dependant's Pension.

Death After Retirement
- Depends on the benefits the member chose when purchasing the annuity on retirement. It may be that nothing is payable.

Flexi-access drawdown
If a member with FADD dies the beneficiary can be a dependant, nominee or successor.

Dependant
- Spouse or Civil Partner
- Child up to age 23
- Person who was financially dependent on the member at the time of death.

Nominee
- Any individual other than a dependant who is nominated by the member.

Successor
- Anyone nominated by a previous beneficiary i.e., a person who inherits unused drawdown funds on the death of a dependant, nominee or successor.

The options available to a member include:
- Dependant's Pension
- Dependant's Drawdown Pension
- Nominee Drawdown Pension
- Flexi-Access Drawdown Lump Sum Death Benefit
- Charity Lump Sum Death Benefit.

What happens on divorce?

If a member is going through a divorce the court is required to take the value of both parties' pension rights into account when valuing the matrimonial assets.

This is also covered in more detail in the Divorce module.

options
The member must provide a transfer value to the court and the options for dealing with the benefits are:

Offsetting
- The pension rights are offset against other financial assets such as the family home.
- This option will only be available if there are other assets of a comparable size to the pension rights.

Earmarking
- An attachment order is made against the member's benefits that comes into effect when the benefits come into payment.
- The earmarked pension ceases when the member dies.
- The pension reverts to the member if the ex-spouse dies or remarries.

Pension Sharing
- The pension rights are shared at the time of the divorce thereby offering a “clean break”.
- The ex-spouse will acquire pension benefits in their own right.
- The ex-spouse’s pension may remain in the member’s pension scheme or the scheme rules may insist that ta transfer value is paid for the ex- spouse to set up their own arrangement.

What other types of scheme are there?

A few schemes have been mentioned which have some differences from a traditional DB or DB scheme.

cash balance scheme
In a DC scheme the member bears all the investment risk as the scheme simply pays out whatever benefits the amount in the pot will support

In a Cash Balance scheme, the amount paid in each year is fixed regardless of what the scheme does with the actual contributions. This promise or guarantee breaks the connection between amounts paid in and the pot made available to provide benefits.

Consequently, some of the risk is transferred to the scheme as any guaranteed or promised amount must be made available to the member irrespective of the level of funds held.

career average revalued earnings scheme (care)
Similar to a DB scheme but benefits are calculated based on the average of revalued pensionable earnings over the whole period of pensionable service.

Pensionable earnings are revalued each year to allow for inflation.

The revaluation is based on an index such as the Retail Price Index or the Consumer Price Index.

hybrid scheme
A DB scheme with elements of a DC scheme design, known as an underpin scheme.
- Benefits are calculated on a defined benefit basis BUT each member has their own pension pot.
- The benefits paid to the member are the greater of the two-benefit basis.
- A DC scheme could have a DB underpin.

Or, the member has benefits on a DB basis AND on a DC basis in the same scheme. This is common where a DB scheme has closed. The benefits are calculated and revalue to retirement. Future contributions are paid on a DC basis.

MODULE 3

Financial Considerations when Making Pension Benefit Decisions

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

This module is an overview to assist with guidance for members. At the end of this module, you will be able to:

- State the main sources of income and how expenditure may differ in retirement
- Identify the main allowances and how tax impacts on the net income
- Explain the effect of the Annual Allowance and the Lifetime Allowance and when to test benefits
- Understand when this may be applicable and the link with continuing employment Click on the "Find out more" link

  below to proceed.

What are the main sources of income?

This module considers the financial factors that the member needs to take into account when making decisions on pension benefits, we will look at:

- The main sources of income
- Tax allowances and how they may impact benefits
- The effect of continuing employment or scheme membership on income
- How income and expenditure differ in retirement.

First of all, we will look at the main income sources.

new state Pension

The New State Pension replaced the Basic State Pension (BSP) and State Second Pension (S2P) on 6 April 2016. A man is eligible to receive it if he was born after 5 April 1951 and a woman if she was born after 6 April 1953. It is contributory benefit, and eligibility to partial benefit is dependent on having paid (or been credited with paying) Class 1 National Insurance contributions for at least ten years. A contribution history of at least 35 years is necessary to receive the benefit at its full rate. In 2024/25, the full rate for the New State Pension will be £221.20 per week. Increasing from £203.85 pw in 2023/24.

It is paid from State Pension Age (SPA) and the current position is shown in the table below:

date of birth	**state Pension age**
6 December 1953 to 5 October 1954	65-66
6 October 1954 to 5 April 1960	66
6 April 1960 to 5 March 1961	66-67
6 March 1961 to 5 April 1970	67
6 April 1970 to 5 April 1977	67
6 April 1977 to 5 April 1978	Increases to age 68 in stages over the year
After 5 April 1978	68

Previously SPA depended on whether the member was male or female.

Males born before 6 December 1953	SPA = 65
Females born before 6 April 1950	SPA = 60
Females born between 6 April 1950 and 5 December 1953	SPA = 60-65 on a sliding scale

For example, a female born on 6 January 1953 has an SPA of 62 years 10 months.

The New State Pension can be deferred which may be particularly useful if the member is continuing to work. During deferment it will increase by 1% for every 9 weeks. This equates to 5.8% for each year it is left. Unlike deferring the Basic State Pension (see below), there is no alternative one-off lump sum option.

In payment, the New State Pension is increased annually according to the provisions of the 'triple lock.' This means that the annual increase will be the greatest of:

- The Consumer Prices Index (CPI)
- The growth in National Average Earnings

- 2.5%

The 2024/25 increase was based on the 8.5% growth in national average earnings.
The 2023/24 increase of 10.1% was the Consumer Price Index in September 2022.

state pension age before 6 April 2016

Members who attained State Pension Age before 6 April 2016 were not entitled to the New State Pension described above but were instead entitled to the Basic State Pension (BSP) and the Additional State Pension.

The BSP was paid to everyone but the amount varied depending on the number of years the member paid National Insurance Contributions (NICs). In order to have received the maximum amount, the member must have paid NICs for 30 years. The most a person can currently (2023/24) get is £156.20 per week. This will increase by 8.5% from 6th April 2024.

The Basic State Pension can be deferred which may be particularly useful if the member is continuing to work. During deferment it will increase by 1% for every 5 weeks. This equates to 10.4% for each year it is left (a greater rate of increase than is now applied to the New State Pension). If the member doesn't claim it for 12 months, then they can choose to receive a one-off lump sum which will include interest at 2% above the Bank of England base rate.

additional state Pension

The Additional State Pension, unlike BSP, depended to some extent on a member's earnings. Unless the member was contracted-out, they would have contributed to:

- The State Earnings Related Pension Scheme (SERPs) between 1978 and 2002 and/or;
- The State Second Pension (S2P) from 2002 until it ended in 2016.

Schemes could contract out of both these schemes in return for a reduction in employers' and employees' NI contributions. Members of contracted out schemes did not accrue benefits under the Additional State Pension Scheme, they were provided with the equivalent pension under their employer's scheme instead.

state benefits

Other State benefits that the member may receive include Pension Credit which is made up of two parts:

- Guarantee Credit – a guaranteed level of income for those over female SPA, paid from the same age as the New State Pension
- Savings Credit – an extra cash sum payable from State Pension Age to those who satisfy certain criteria including:
    1. The claimant (or his / her partner) attained SPA before 6 April 2016; and

2. Savings credit can still be claimed after 6 April 2016 if the claimant reached SPA before that date.

There is also:
- Disability Living Allowance (for those born before 8 April 1948)
- Personal Independence Payment (for those not eligible for the Disability Living Allowance)
- Attendance Allowance (for those aged over 65 and who have not previously received the Disability Living Allowance or Personal Independence Payment)
- Carer's Allowance
- Winter Fuel Payment – for those born on or before 25 September 1957 (for winter 2023/24 - this date of birth is reviewed every year)

Members can find their SPA and obtain quotes for the New State Pension and Pension Credits they may be eligible for online at **www.gov.uk** or by telephoning 0800 731 7898 for help making a claim or telephoning 0800 731 0175 to get a State pension forecast.

other sources of income

The individual may have income from personal financial arrangements such as:
- Earned income from employment
- Pension income from Occupational or Personal Pension Schemes.
- Interest from savings from banks, building societies etc.
- Portfolio income from selling investments for more than the purchase price (capital gains), share dealing, buying and selling assets such as antiques, collectibles etc.
- Passive income from assets purchased or created e.g., rent, intellectual property

are there any limits For Pension savings?

There are two important allowances.

annual allowance

The member should be aware of the Annual Allowance (or Money Purchase Annual Allowance if applicable). It is the maximum amount of pension savings a member can make each year that benefit from tax relief including any contributions paid by their employer. There is no restriction on the amount that can be saved, but only a certain amount will get tax relief and if the Annual Allowance is exceeded an Annual Allowance charge may be payable.

The rules apply to everyone who is a member of a registered pension scheme.

The current (2023/24) Annual Allowance is £60,000 and the Money Purchase Annual Allowance is £10,000 (2023/24)

lifetime allowance (lta)

This is the amount of pension savings an individual can accumulate from all registered pension arrangements, anything above this amount will be subject to a lifetime allowance charge.

If the member had built up substantial pension savings as at 6 April 2006, then they may have applied to HMRC for protection against the lifetime allowance charge. Members may also have applied for Fixed Protection 2012, Fixed Protection 2014 and Fixed Protection 2016, they can also apply for Individual Protection 2014 or Individual Protection 2016.

A member could have applied for a Lifetime Allowance which is higher than the standard Lifetime Allowance. The current (2023/24) standard Lifetime Allowance is £1,073,100.

From 6 April 2023, the LTA Tax Charge on pension savings in excess of the LTA was removed. This means that, if you take your pension benefits and they are in excess of the LTA after this date, they will not be subject to the LTA Tax Charge. They will instead be subject to the same rate of tax as your other pension benefits (i.e., they will be subject to income tax at your marginal rate).

The LTA framework will be completely abolished from 6/04/2024.

It is important to note that, whilst the LTA Tax Charge has effectively been removed, the maximum level of tax-free cash (also called the pension commencement lump sum or PCLS) has not been increased: the maximum tax-free cash amount was frozen at £268,275 (i.e., 25% of the standard LTA for the 2022/23 tax year) other than for members with an existing protection

A lifetime allowance test was triggered on certain events such as:

- Taking benefits such as on retirement
- Reaching age 75
- Transferring the pension to a qualifying recognised overseas pension scheme (ROPS)
- Increases to a pension that are above a certain level
- On the payment of certain lump sums such as due to serious ill-health and for some types of death benefit lump sums.

Starting to take pension benefits is the most common event that triggers the test. The member must advise full details of all pensions they are entitled to as they are jointly responsible with the scheme administrator for paying any tax charge due.

Each time the member takes pension benefits the scheme administrator calculates how much of the lifetime allowance as been used up.

If the lifetime allowance has been used up then the member will be told the tax charge that is due.

lta calculation example

The (2022/23) Lifetime Allowance is £1,073,100.

A member is retiring and the pension is calculated as £10,000 p.a. This amount is multiplied by a factor of 20 to get a cash value.
The percentage of the LTA used up is therefore:

(£10,000 x 20) / £1,073,100 x 100 = 18.64%

You have seen that income can come from a variety of sources but how much will the member actually receive?

The amount actually received depends on whether the income is taxable or not.

What about tax allowances?

Everyone can receive a certain amount of income before tax is deducted.

We will look at the four main types of allowances.

Personal allowance

Personal Allowance is the income anyone can receive each year from all sources before tax is deducted. The Personal Allowance for 2023/24 is £12,570. The Personal Allowance reduces by £1 for every £2 the member receives above £100,000. This means your allowance is zero if your income is £125,140 or above.

blind Person's allowance

The blind person's allowance is added to a person's tax-free Personal Allowance.

If the member is married or in a civil partnership and cannot use all this allowance due to low income, it is possible to transfer the allowance to their spouse or civil partner, even though they are not blind.

The amount for 2023/24 is £2,870.

married couple's allowance

The Married Couple's Allowance includes civil partnerships.
There is a slight variation depending on when the person was married.

Before 5 December 2005
If either the member or spouse / civil partner was born before 6 April 1935 the husband's income is used to work out the Married Couple's Allowance.

After 5 December 2005
If either the member or spouse / civil partner was born before 6 April 1935 the income of the highest earner is used to work out the Married Couple's Allowance.

The Married Couple's Allowance for 2023/24 can reduce a tax liability by £1,260 to a personal allowance of £13,830 per year. The Married Couple's Allowance can be transferred to a spouse or civil partner. The married couple's allowance won't increase the amount of income you receive before tax, instead as a 'restricted 'allowance it reduces your tax bill by 10% of the allowance you are entitled to. If you received the minimum allowance of £1,260 (2023/24) your tax bill will be reduced by £126.

If either the member or the spouse / civil partner were born on or before 5 April 1935 it may be possible to claim Marriage Allowance instead. For the 2023 to 2024 tax year, it could cut your tax bill by between £401 and £1,037.50 a year.

Maintenance Payments Relief
If either the member or the ex-spouse was born before 6 April 1935 and payments are being made under a court order, this allowance may reduce the member's tax bill. The maximum reduction in the tax bill is 10% of £3,510 for 2020/21.

What are the different tax rates?

Earnings are taxed at three different rates. The rates differ between Scotland and the rest of the United Kingdom.

In England, Wales and Northern Ireland, rates for the 2023/24 year are:

tax band	tax rate %	earnings taxed £
Basic	20	12,570 – 50,270
Higher	40	50,271 – 125,140
Additional	45	Over 125,140
in Scotland, rates for the 2023/24 year are:		
Starter rate	19	12,570 – 14,732
Basic rate	20	14,733 – 25,688
Intermediate rate	21	25,689 – 43,662
Higher rate	42	43,663 – 125,140
Top rate	47	Over 125,140

tax on savings interest

With effect from 6 April 2016 savings interest has been paid gross. Prior to this a tax deduction was made unless the individual had an exemption certificate. Most people can earn some interest from their savings without paying tax and the starting rate for savings and the Personal Savings Allowance were also introduced from 6 April 2016.

Their allowance for earning interest tax-free is made up of the following:

- Personal Allowance
- starting rate for savings - depending on your other income
- Personal Savings Allowance - depending on your Income Tax band

This allowance applies each tax year. The tax year runs from 6 April to 5 April the following year.

Personal Allowance

Members can use their Personal Allowance to earn interest tax-free if they haven't used it up on their wages, pension or other income.

Starting rate for savings

Members may also get up to £5,000 of interest tax-free. This is their starting rate for savings.

The more they earn from other income (for example wages or pension), the less their starting rate for savings will be.

- If other income is £17,500 or more

    Members are not eligible for the starting rate for savings if they have other income of £17,500 or more.

- If other income is less than £17,500

    The starting rate for savings is a maximum of £5,000. Every £1 of other income above the

Personal Allowance reduces the starting rate for savings by £1.

example

Sarah earns £16,000 of wages and receives £200 interest on her savings.

Her Personal Allowance is £12,570. It's used up by the first £12,570 of her wages.

The remaining £3,430 of her wages (£16,000 minus £12,570) reduces her starting rate for savings by £3,430.

Her remaining starting rate for savings is £1,570 (£5,000 minus £3,430). She won't pay tax on her savings interest.

Personal savings allowance

Members may also receive up to £1,000 of interest tax-free depending on which Income Tax band they are in. This is their Personal Savings Allowance.

income tax band	tax-free savings income
Basic rate	£1,000
Higher rate	£500
Additional rate	£0

The Personal Savings Allowance applies to interest from:
- Bank and building society accounts
- Savings and credit union accounts
- Unit trusts, investment trusts and open-ended investment companies
- Peer-to-peer lending

The allowance also applies to interest from:
- Government or company bonds
- Life annuity payments
- Some life insurance contracts

tax on dividends

Members may get a dividend payment if they own shares in a company. With the introduction of a Dividend Allowance from 6 April 2016 most people can earn some dividends without paying tax. The rules are different for dividends from tax years before April 2016 (https://www.gov.uk/tax-on- dividends/previous-tax-years).

The Dividend Allowance from 6 April 2016 was £5,000 but will reduce to £2,000 for dividends paid on or after 6 April 2018. This allowance applies each tax year. The tax year runs from 6 April to 5 April the following year. From the 2023/24 tax year the dividend allowance is decreasing to £1,000.

Dividends that fall within a member's Personal Allowance do not count towards the Dividend Allowance. Above the Dividend Allowance the tax you pay depends on which income tax band you fall.

tax band	tax rate on dividends over the dividend allowance (2023/24)
Basic rate	8.75% Between 12,570 and £50,270
Higher rate	33.75% Between £50,271 and £125,140
Additional rate	39.35% Above £125,140

In Scotland tax is charged on dividends using the English rates.

tax codes

During employment the taxpayer pays tax on earnings and the amount is deducted by the employer in accordance with the tax code, known as PAYE (Pay As You Earn). This method of collecting tax will not change when the member retires, the pension provider will deduct the tax before paying the net amount.

The tax code is calculated from:
1. Total Tax Allowances such as the Personal Allowance
2. Total income which tax has not been paid e.g., untaxed interest or part-time earnings

1–2 = Total tax-free income

The total tax-free amount is then divided by 10 and a letter added that relates to the member's individual circumstances.

If someone has a tax code of 1257L it means:
- They are entitled to the Basic Personal Allowance
- They have one job and no untaxed income, unpaid tax or taxable benefits (for example a company car

If someone has a tax code of 1389M it means:
- They have taken advantage of the Marriage Allowance for the 2023/24 tax year.

The tax code spreads the tax-free amount equally over the year.

If a member has more than one job or more than one pension when they retire they may have more than one tax code.

The Personal Allowance will apply to the main pension or job.

The BR code (Basic Rate) will apply to the second job or pension if basic rate tax is payable on all income from this source. Similarly, if the person is subject to the higher rate tax on the whole of the second income they will have a DO tax code.

Different tax codes will apply in other circumstances.

net income example

Income from a Company Pension and the State Pension

Let's look at an example of a net income calculation for someone retiring in England at age 65 in the 2023/24 tax year.

The member will receive:
- a company pension of £6,000 p.a. plus
- a State pension of 10,636.60 p.a.

Work out the tax code
- The member is entitled to the personal allowance of £12,570.
- Deduct the State pension of 10,636.60
- The amount that can be earned tax free is £1,933.40 (£12,570 - £10,636.60)
- The tax code become 193L (£1,933.40 / 10)

Work out the tax

The company pension is £ 6,000.00 Less the tax-free amount £ 1933.40 The taxable amount is 4,066.60

This amount of taxable income is in the basic tax band so the rate to be applied is 20% Tax on £4,066.60 @ 20% £ 813.32

The amount of tax to be deducted is therefore 813.32.

Work out the net income

The company pension is £ 6,000.00 Less the tax £ 813.32

The net pension is £ 5,186.68

(This is paid to the member by the pension provider). Plus
The State Pension £10636.60

(This is paid to the member by the State).

Total income £15,823.28 (£5,186.68 + £10,636.60)

inheritance

If a member receives an inheritance this may mean that they have disposable capital which they invest. In this circumstance tax may be due on the investments or on any assets received which are sold enabling them to invest more.

- Income tax is paid on items that generate money e.g., interest, dividends, rent
- Capital Gains Tax (CGT) may be payable if the member sells, gives away or exchanges assets that increase in value from the date of death. The CGT allowance for 2023/24 is £6,000. (£3,000- 2024/25)

Income from means tested benefits could also be affected.

expenditure

The member needs to consider their expenses such as:

- Mortgage / loans / credit cards;
- Regular payments such as council tax, water rates, rents etc;
- Food;
- Heating.

How will expenses differ when a member retires?

There will no longer be travel expenses for getting to work but staying at home means higher heating costs. There may still be family to support. What standard of living does the member wish to enjoy in relation to holidays and entertainment.

retirement checklist

Let's recap on the information you have seen so far. Check out each step the member needs to take when retiring.

income - The member needs to identify where all the sources of income will come from.

tax – Once the income sources are known, the member needs to check which are taxable and which are not and take into account tax allowances.

timing – The member needs to know when the income will be received – from what age will the benefits be received, what will the payment dates be and how often will the income be received.

Also, will it be paid in fixed amounts or will it increase, if so by how much each year.

amount – Once the member has all this information, he can work out how much the net amount will actually be.

expenditure – The member should work out all the expected outgoings once retired.
Is the amount of net income sufficient to meet the member needs – Remember retirement could last for 20-30 years.

What is a typical query?

A member of a DB scheme contacts you to ask if it's a good idea to take the maximum cash allowed when he retires.

What could you do?

- Recommend the member gets independent financial advice?
- Discuss the situation with the member?

Recommend the member gets independent financial advice?

- This may be the final outcome but first of all, use the information you have learnt to be more helpful in improving the member's experience.

discuss the situation with the member?

- Mmm … there are a few things the member can consider that will help him make a more informed decision. I'll go through them with him.

Some options you can discuss are…..

lump sum

- It's nice to have a lump sum to spend or repay debts. It could even be used to invest elsewhere to earn interest to boost income.

Purchased life annuity

- Another option would be to use the money to buy a Purchased Life Annuity (PLA) to provide higher income.

income and expenditure

- You discuss the income and expenditure areas that the member needs to work out.
- You should also point out that taking cash will reduce his income forever so he needs to consider if the amount of pension given up for the cash is worth it.

The member could do a simple comparison like the one in this table to see if they would be better off taking the Pension Commencement Lump Sum (PCLS) or not.

	if Pcls is taken £	if Pcls is not taken £
PCLS	12,500	0
Pension p.a.	2,742	3,647
Total received after 5 years	26,210	18,235
After 10 years	39,920	36,470
After 15 years	53,630	54,705
To age 82 (average life expectancy)	59,114	61,999

Note that life expectancy is important in this decision.

now what do you do?

It was a simple question but the answer is not always easy! You have given the member some things to think about to help him make an informed decision.

Now you can suggest that he talks to an independent financial adviser.

Purchased life annuity (Pla)

A PLA works on the same basis as a standard annuity by converting a lump sum into guaranteed income however, the money can't come directly from a pension. A PLA can be purchased using any other capital including a PCLS and any other savings.

A PLA is paid with basic rate tax deducted, those who are not liable to basic rate tax can reclaim it and those who are subject to higher rate tax will pay that through their tax return.

- the capital part is not taxed
- the interest part is taxed as unearned income and is paid with 20% basic rate tax deducted

continuing employment

Employees have the right to ask their employer if they can continue working past retirement age.

Currently - 2023/24 -10% of the UK working population are over SPA.

The member may want to work on a part-time basis and only receive part of their pension.

state Pension

The member needs to find out what they may be entitled to and decide whether to claim it or defer until a later date.

Pension scheme

The pension scheme rules will state if:

- Contributions can continue to be paid so benefits can continue to accrue.
- Contributions must cease and the pension be deferred. The pension paid on retirement will be increased for late payment.
- A PCLS can be taken and the pension deferred.
- A member has to transfer benefits to access DC flexibilities.

If employment continues after taking pension, automatic enrolment may still apply so pension contributions may have to continue.

tax implications

If the income from the State pension, earnings and other sources totals more than the allowances permitted by HMRC then they will be taxed through their employer's PAYE system.

If the member has income from the State pension and other sources these may affect their tax coding which in turn, affects the amount the employer deducts from their earnings under PAYE. If the member has income which is not "earned", this may also affect their tax coding.

Flexible access drawdown
This is an alternative to an immediate annuity purchase and is available to members with Defined Contribution benefits.

The member can take up to 25% of the fund as a tax-free lump sum with the remaining fund being used as income drawdown or to purchase an annuity.

Trustees need to agree to offer this option and if they chose not to, the member would have to transfer to another pension arrangement that does have the flexibility options.

The member should always seek regulated financial advice to ensure that this type of arrangement is suitable for their future income needs.

advantages and disadvantages of income drawdown
The main advantage is that the member can access a pot of money when needed and is not forced into purchasing a pension with the money – they could buy a new car or go holiday with it.

They can also draw out multiple lump sums (taking into account any scheme restrictions) over a period of time. However, this could mean that the member leaves themselves with no pension income when reaching retirement.

The importance of planning ahead

When planning for retirement or other decisions involving finance the member also needs to think about the financial impact on their dependants should they predecease them.

Guaranteed Pension
If the member's pension has a guarantee period and they die before it expires then any balance paid as a lump sum can normally be paid tax free if the member dies before age 75. Any balance paid as pension will be subject to income tax.

State Pension
If the member is not married then their partner will not be able to rely on the member's NI record to claim extra State Pension (subject to satisfying the relevant conditions).

State Benefits
Examples of State benefits that may be payable for the 2023/24 financial year are:
- A funeral expenses payment (also called Funeral Payment) if the dependant is on low income
- A bereavement support payment of an initial lump sum of £2,500 and a further 18 monthly instalments of £100. A higher rate is payable if you get child benefit (or if you do not get it but are entitled to it) of £3,500 initially followed by 18 monthly payments of £350 and if the spouse is under SPA when the member dies

The following State benefits will not be payable after 5 April 2018.
- A bereavement allowance if the spouse was aged between 45 and SPA and the member died before 6 April 2017. This allowance was paid for up to 52 weeks.
- A bereavement payment of £2,000 if the member died before 6 April 2017 and if the spouse was under SPA when the member died or if over SPA subject to certain conditions.

Inheritance Tax

By planning ahead, the member can maximize any inheritance tax reliefs and exemptions that may be available.

The member should make a will to ensure that their assets go to those they want to receive their benefits. If they don't leave a will the member dies "intestate" and any assets will be shared out amongst their next of kin in a strict priority order – a partner the member is not legally married to may get nothing.

Inheritance tax is paid on death if the value of the member's estate is above the Inheritance Tax Threshold.

There is normally no inheritance tax to pay if the member leaves everything to their spouse or civil partner, a charity or a community amateur sports club.

The excess amount above the Inheritance Tax Threshold is taxed at 40%. From 2023/24 everyone is allowed to leave an estate valued at up to £325,000 plus the new "main residence" band of £175.000 giving a total allowance of £500,000 per person. For estates worth less than this, beneficiaries won't have to pay inheritance tax. Inheritance tax must be paid from the estate within 6 months of death and before a grant of probate is issued. A reduced rate of Inheritance Tax (36%) may be payable on some assets if the member leaves 10% or more of the "net value" to charity in their will. Other reliefs may also apply to reduce the Inheritance Tax to below 40%.

Probate

This is the means by which the will is provided so that a person's executors can deal with their estate and distribute their property in accordance with it.

If a member leaves a will, the executor applies for a grant of probate.

If the member does not leave a will, then the next of kin normally applies for a grant of representation.

If the member is not legally married or in a civil partnership, their surviving partner cannot apply and are not automatically entitled to benefit from the estate.

If the member is separated but not yet divorced then the spouse will inherit some of the estate and can apply for the grant.

MODULE 4

Lifestyle Factors that Impact on Pension Benefit Decisions

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

This module is an overview and some aspects are discussed in more detail in other modules. At the end of this module you will be able to:

- The lifestyle factor which should be taken into account when making decisions at or in retirement
- The impact of retirement age on a pension
- Health factors to be considered
- The importance of marital status
- The impact of inflation
- The impact of taking funds as cash rather than pension

Click on the "Find out more" link below to proceed.

how does age impact income?

Let's see how a member's age can affect the amount of pension that could be paid.

db schemes

Tony is nearly 55 years old and a member of a DB scheme which has a Normal Retirement Age of 65. He is thinking of retiring at 55 and has been told that his accrued pension earned to date amounts to £20,433.44 p.a. However, if he takes early retirement he will only receive £12,260.06 p.a.

Why will his pension at age 55 be reduced by 40%?

If Tony retires at 55 his pension will be paid for 10 years longer than expected, this is because the Normal Retirement Age for the scheme is 65.

An early retirement factor is applied to the pension accrued to date to offset the cost of paying the pension early.

David is 60 years old and his accrued pension earned to date is £20,433.44 p.a., if he takes early retirement he will receive £16,346.75 p.a.

In this case the accrued pension is reduced by 20% as it will only be paid for 5 years longer than expected.

Age has a big impact on early retirement from a DB scheme.

dc schemes

If a member of a DC scheme purchases an annuity, the amount of income received is based on the amount of money in the member's fund and the annuity rate for his or her age at the time of purchase.

We will see what could influence a member's decision and how age and health could impact the amount received.

cash or income?

From age 55 a member has the option of taking some of their pension savings as cash and many members think this is the best option as the lump sum is tax free. Members should be made aware that they do not have to take the full amount of PCLS offered; a smaller amount can be taken if preferred.

There are many financial considerations to making this decision. In this module we are concerned with lifestyle factors.

The main ones that have an impact on this decision are:

- Life expectancy; and

- Health

life expectancy

What is the average life expectancy?

According to the Statistical bulletin: National life tables, UK: 2016 to 2018 from the Office of National Statistics published on 25 September 2019.

- A newborn baby boy could expect to live 79.3 years and a newborn baby girl 82.9 years if mortality rates remain the same as they were in the UK in 2016–2018 throughout their lives.
- Improvements in life expectancy at birth for males in the UK have slowed from 13.6 weeks per year between 1980 to and 2009 to 2011, to 6.0 weeks per year between 2010 to 2012 and 3.7 weeks per annum between 2015 to 2017; for females improvements have slowed from 10.0 weeks to 4.2 weeks per year for the same periods.
- In 2016–2018 a man in the UK aged 65 has an average further 18.6 years of life remaining and a woman 21 years.
- A male born in 2016 to 2018 has a 20% chance, and a female a 33% chance, of surviving to at least age 90.
- Between 2010 to 2012 and 2014 to 2016, the rate of increase in life expectancy at birth more than halved to 6.0 weeks per year for males and 3.6 weeks per year for females. Part of the reason for this could be that some of the factors that have historically driven life expectancy improvements, such as reductions in smoking and circulatory disease, may largely have been realised.

- The current life expectancy for U.K. in 2023 is 81.77 years, a 0.15% increase from 2022. The life expectancy for U.K. in 2022 was 81.65 years, a 0.15% increase from 2021.

Source: Office for National Statistics

If the member is in good health, doesn't need a cash lump sum and expects a long and happy retirement then it may be more important to have the higher pension coming in on a regular basis that is guaranteed.

If the member is not in good health then the option of taking some cash may be more attractive if they do not expect to live for many years.

The longer a member survives after retirement, the financially better off they will be by taking income even though it is subject to income tax.

db schemes

A member's pension will (unless the PCLS is provided separately) be reduced as a result of their taking a PCLS. The more a member takes as a PCLS, the greater the reduction in their pension will be.

dc schemes

The PCLS option will materially affect the amount of both the pension paid to the member and any spouse's pension. The PCLS is deducted from the fund value, the amount left is then used to purchase the pension.

Flexible benefits

A member could access their funds as either a one-off lump sum or multiple lump sums. These are known as Uncrystallised Funds Pension Lump Sums (UFPLS).

The member needs to consider carefully what future income requirements they may have.

- If they expect to live for a long time, is their fund large enough to sustain multiple lump sums?
- Similarly, if funds are drawn down to provide income, is this sustainable or should an annuity be purchased so that income is guaranteed?

What is the impact of age in dc schemes?

If a member has a fund value of £150,000 and a basic single life pension is to be purchased then the amount of pension the member receives will depend on the annuity rates for their age.

Here you can see the indicative pension that £50,000 would buy for an individual retiring with effect from 1 November 2023 if aged 60, 65 or 70:

	annuity p.a
at age 60	£3,076
at age 65	£3,401
at age 70	£3,827

Annuity rates give you more pension if you are older because you are not expected to live as long. Age has a big impact on retirement from a DC scheme.

What is the impact of health status?

"The greatest wealth is health" - Virgil

The member's state of health is one of the main considerations particularly for those with money purchase benefits who intend to purchase an annuity as annuity rates are affected by factors such as:

- Poor health
- Being a smoker
- A family history of medical conditions

medical conditions

The medical conditions that are taken into account by insurance companies are wide and varied. For example:

- Being under or overweight
- High blood pressure or cholesterol
- Type 2 diabetes

If medical conditions exist, the member should consider an "impaired life annuity." The annuity rates are enhanced as life expectancy is deemed to be shorter than for a person in good health. We will learn more about this next.

impaired life annuity

David had a heart attack and could no longer work. The annuity that was originally quoted was £780 per annum. When he looked at impaired life annuities and his heart attack was taken into account; the amount increased to £969 per annum.

Heart attacks and strokes are common medical conditions, particularly as we get older.

How much an annuity provides will increase if a member has an impaired life annuity instead of a normal annuity. For example, the amount of annuity a smoker receives would be higher than for a non-smoker as they are not expected to live as long.

The table illustrates the difference that being a smoker could make assuming the fund value is £100,000 and the member is purchasing an annuity at age 60.

smoker's annuity	non-smoker's annuity
£6,632.00	£6,152.00

db schemes and ill-health

The scheme rules will state the level of benefits to be paid to a member with ill-health. For example, the early retirement factor may not be applied or the member could receive benefits based on prospective service to Normal Retirement Age.

The Trustees will decide if enhanced early retirement benefits can be paid, based on medical evidence received.

What is a Pension increase exchange offer (Pie)?

A PIE offer is where the trustees give a scheme pensioner the opportunity to give up pension increases on one tranche of their pension in exchange for a one-off permanent increase to the pension.

example:

A 70-year-old receives a scheme pension of which £1,000 p.a. was earned before April 1997. This part of the pension increases at 5% p.a.

The PIE offer is to increase this part of the pension by 35% so the pensioner would receive £1,350 p.a.
However, in exchange, no further increases would be given and this part of the pension would be fixed at £1,350 p.a.

age and health

Both affect whether or not PIE offer should be accepted. PIE offers only usually apply to Defined Benefit schemes.

Would the member be better off?

Break-even Point

There is a break-even point where the value of the current pension (plus the normal increases) matches the value of the new pension. The member is told how many years it will take to reach this point.

POOR HEALTH

- If the member is in poor health and doesn't expect to live for the number of years it will take to reach the break-even point, then it may be better to take the offer and receive the higher pension now.

GOOD HEALTH

- If the member expects to live for years beyond the break-even point then the PIE offer may not be beneficial to them, the current pension and higher pension increases should be retained.

In this example the value of the pensions, if they are paid for 14 years, are similar. However, if the pension continues to be paid for 15 years, the value of the PIE pension is less, so it will take 14 to 15 years to reach the break-even point.

14 years	£13,306	£13,375
15 years	£14,229	£14,005

The member needs to consider their life expectancy when deciding whether or not to accept a PIE offer.

What about marital status?

Legally married?

A member may have been in a relationship for many years but if they are not legally married or in a civil partnership, this could impact on their decision.

state Pension

Historically, a legal spouse could inherit some of a member's state pension, but an unmarried partner could not. However, since 6 April 2016, with the introduction of the New State Pension, a legal spouse has not been able to inherit any of the member's State pension unless they qualify under limited transitional provisions.

Pension scheme rules

The Pension Scheme Rules may only provide for a pension on the member's death if financial dependency exists.

Financial dependence

Insurance companies may insist on financial dependency being proven.

What about death benefits?
Death benefits may vary between DB and DC schemes.

db members
The member normally has no choice over whether or not to provide a pension on death, it is a standard benefit under the scheme rules.

The pension payable is determined by the scheme rules and can only be paid to a dependant. There is no impact on the income the member will receive on retirement.

However, some scheme rules permit a member to surrender some of their own pension in order to provide more pension for their spouse.

dc members
When a member of a DC scheme purchases an annuity, the benefits are tailored to suit their personal circumstances. The member does have to make a choice:
- Whether or not provide a pension on death
- How much the pension should be

Under a flexi-access drawdown arrangement the pension could be paid to a dependant, nominee or successor.

For DC members, the choices affect the amount of income received.

What is the impact of inflation?
Food prices have risen since 2007 ranging from 19% to 47%.

The member needs to consider the future costs of everyday items such as:

beer per pint
1993 - £2.04
2003 - £2.18

2013 - £3.00
2015 - £3.31
2023 - £4.57

Petrol per litre
1993 - £0.46
2003 - £0.77
2013 - £1.36
2015 - £1.14
2023 - £1.57

average loaf of bread
1993 - £0.40
2003 - £0.53
2013 - £1.30
2015 - £1.35
2023 - £1.48

milk per pint
1993 - £0.34
2003 - £0.37
2013 - £0.46
2015 - £0.46
2023 - £0.95

MODULE 5

Joining an Occupational Pension Scheme

This document contains the full content of the learning centre for this module of the online learning programme.

nb. all of the content that is required for assessment purposes is included.

At the end of this module, you will be able to:
- Understand the importance of saving for a retirement pension and the benefits of joining a pension scheme
- Describe the joining process including eligibility conditions and disclosure regulations, including automatic enrolment schemes
- Explain the options available for different types of schemes including salary sacrifice
- State the benefits that are insured and the importance of Free Cover Level The state pension is not enough!

It is never too late to join a pension scheme and avoid an empty pension pot!

You can now explain the benefits and some of the choices a member has during their membership of a pension scheme.

Click on the "Find out more" link below to proceed.

Why join a pension scheme?
The biggest risk of not saving is that you won't have enough money to retire on and do the nice things in life such as holidays.

There is a general pensions industry suggestion that people need to aim for a retirement income of 60 to 65% of their pre-retirement income, including the Basic State Pension.

For example, if you earn £30,000 per annum, you need to save enough for a retirement income around £18,000 per annum to maintain your lifestyle.

Everyone who pays National Insurance Contributions is entitled to at least part of the Basic State Pension at retirement, the full rate will be £169.50 per week or New State Pension, whose full rate is £221.20 per week (2024/25 rates).

Even with the reforms that introduced the New State Pension on 6 April 2016, many people will find it hard to live on State pensions alone.

Remember also that the government has been changing State Pension Age. It's getting later and later, so some people have to wait longer to receive their State Pension.

Pension contributions are a tax efficient way of saving – we will look at how this works later.

Why make pension saving?

There are a number of reasons, including:

- Pension contributions benefit from tax relief
- The employer usually pays contributions so it's like receiving additional pay and it provides a significant boost to pension savings
- The pension scheme often provides other valuable benefits such as life assurance and spouse's benefits
- In a defined benefit (DB) scheme a pension at retirement is guaranteed and the amount normally increases each year when in payment
- Defined contribution (DC) funds do not have to be taken in the form of a pension
- Many employers pay the administration costs and investment fees
- Many schemes offer early retirement over a minimum age (currently 55)
- A member may be able to retire earlier on ill-health grounds
- A member may be able to choose to increase their benefits by paying Additional Voluntary Contributions (AVCs)

What about pension costs?

Here are a few typical questions relating to pension costs.

how much do i need to save for a pension?

This is a big question that really depends on how much you need to be able to retire comfortably and how much you can afford to pay. It gets more expensive to purchase pension benefits the older you get therefore it is important to start saving as early as possible.

Members of DB schemes normally pay a percentage of salary as per the scheme rules, with the employer funding the rest of the cost of providing the pension. If the member thinks they will need more than the estimated pension at retirement, they could pay Additional Voluntary Contributions to the scheme (if permitted) or pay contributions to a personal pension scheme.

For DC schemes this is particularly important and there are several options that can be considered.

annuity purchase

If the member intends to use some or all of the pension fund to purchase an annuity, the table shows figures for a male using the Age UK Pensions Calculator as at 4 August 2020 to give an indication of costs.

age	retirement age	retirement income p.a.	Pension savings needed per mo
25	65	£15,000	£641
25	60	£11,225	£641
30	65	£15,000	£765

You can see that a 25-year-old would need to save £641 per month to get a pension of approximately £15,000 per annum at age 65. If he decides to retire at age 60, that same amount would only produce a pension of £11,225 per annum. Alternatively, if he waited until age 30 to start contributing his savings would need to increase to £765 per month to provide the same pension at age 65.

Whilst for young people retirement may be too far off to think about and then there are other financial commitments such as children and the mortgage etc. pension savings should not be forgotten. It's never too late to start!

Flexi-access drawdown

Where a member does not intend to purchase an annuity with their DC funds they can consider this alternative where funds are drawn down and used as income. The member needs to ensure that the fund is big enough to provide the required level of income.

What do i need to consider?

The basic questions for people to consider are:

- How far away from retirement are they?
- How much can they afford to contribute?
- Do they have other assets such as other pensions, investments or property that will provide income on retirement?

A company pension makes saving easy as contributions are deducted by the employer before the net pay is received.

The scheme rules will state how much a member needs to pay and it is normally expressed as a percentage of salary. The member contribution is often matched by the employer, in fact the employer usually pays a lot more!

What is the maximum amount of contribution i can pay?

A member can pay as much as they like into a registered pension scheme. If certain conditions are satisfied, tax relief on member contributions will be available up to 100% of their relevant UK earnings or £3,600 if higher. If, however, the Annual Allowance (2023/24 …£60,000) is exceeded (see description of Annual Allowance below), there may be a tax charge payable by the member.

The Annual Allowance is the maximum amount of pensions savings an individual can have each year that benefits from tax relief. Pension savings include monies paid by the member, employer or a third party. For DC schemes, the pension savings are the contributions paid in the period however, for DB schemes, the pension savings are the increase in the value of the member's benefits during the period.

A Money Purchase Annual Allowance (MPAA) of £10,000 was introduced with effect from 6 April 2015 for members who flexibly access money purchase benefits. If a member had money purchase input after flexibly accessing money purchase benefits, they would pay a charge on the money purchase input that exceeded £10,000. If they also had DB benefits then an alternative allowance also applied to those inputs which was £30,000 i.e., £40,000 - £10,000. The MPAA reduced to £4,000 pa in 2018 but with effect from 6 April 2017. However, on 6 April 2023 it rose to £10,000 again - the corresponding alternative allowance will be increased to £50,000 i.e. £60,000 - £10,000.

Since 6 April 2016, the Annual Allowance has been tapered for those members whose income exceeds (currently 2023/24) £260,000. This means your allowance will decrease by £1 for every £2 that exceeds £260,000. Those with an 'Adjusted Income' of £360,000 or more will see their allowance reduced to a minimum of £10,000. Anyone with 'Adjusted Income' of less than £260,000 a year will not be affected by the tapered annual allowance.

how does tax relief work on the contributions?
There are two methods (subject to member residency status):

relief at source (England, Wales and Northern Ireland) – this means that pension contributions are deducted from pay after tax and national insurance contributions have been deducted. The pension scheme provider then claims the tax back from the government at the basic rate of 20%. For example, a member contributing £100 will only have £80 deducted from their salary but £100 will be invested. It works the same way for higher rate tax payers. In the case of higher rate tax payers, the member has to reclaim the tax relief on their higher tax rate above the 20% on their annual self- assessment return to HMRC.
relief at source (Scotland) – this means that pension contributions are deducted from pay after tax and national insurance contributions have been deducted. The pension scheme provider then claims tax back from the government at the basic rate of 20% irrespective of the Scottish tax rate applied. For pension scheme members who are Scottish taxpayers liable at no more than the Scottish starter rate of 19%, or who pay no tax, HMRC will not recover the difference between the Scottish starter and Scottish basic rate. Pension scheme members who are Scottish taxpayers liable to Income Tax at the Scottish basic rate of 20%, intermediate rate of 21%, the Scottish higher rate (42%) or the Scottish top rate (47%) will be able to claim additional relief on their contributions up to their marginal rate of tax in the usual way, either in their Self-Assessment tax return (**https://www.gov.uk/self-assessment-tax-returns**) or if they don't complete a tax return by contacting HMRC (**https://www.gov.uk/government/organisations/hm-revenue- customs/contact/income-taxenquiries-for-individuals-pensioners-and-employees**).

HMRC are continuing to explore the most appropriate way to cater for the new income tax rates and bands announced by the Scottish Government and the Relief at source (Scotland). But the rates mentioned in the previous paragraph are applicable for 2023/24.

net pay arrangement – in this case the employer takes the pension contributions from a member's gross pay before tax is deducted which effectively means full tax relief is given. For example, for a basic rate tax payer, if a £100 pension contribution is deducted from their gross salary and paid to the scheme, their net pay would only be reduced by £80.

Why may an individual not want to join a scheme?
There are a number of reasons:
- They don't intend to stay with the employer very long
  The options available on leaving the scheme depend on how long they are a member. The earliest age a member can access benefits is 55.

- They don't like the investment choices offered
  The member may prefer to set up their own arrangement with a wider range of funds e.g., a Personal Pension Plan.

- They can't afford it
  Low paid workers and younger people often join, opt out and join again later when they have more money.

NB A point for a person to consider is that they may not be entitled to any life cover if they don't join the pension scheme when they become eligible.

What is automatic enrolment?
There are many workers who don't have any savings for their retirement so to encourage all workers to save for this, in as easy a way as possible, the Government introduced Automatic Enrolment. Since 2012, all employers must enrol their eligible employees into a workplace pension scheme if they are not already in one.

The scheme must meet certain conditions and for employers who already have a pension scheme in place that meets the conditions, there may be no change and the scheme can be used for Automatic Enrolment. All eligible employees will now be automatically enrolled as the phasing in period ended in 2018, unless they have opted out and then they will be automatically re-enrolled every 3 years. Again, with the choice to opt-out.

employers and government scheme

All employers have been required to have a scheme in place since February 2018.

Some employers choose to use a national scheme such as the one set up by the government – National Employment Savings Trust – more commonly known as NEST.

Schemes must meet prescribed quality requirements in order for them to be deemed suitable for

automatic enrolment. For money purchase schemes there is a minimum total contribution that must be paid. For DB schemes there are different requirements. Other types of schemes will need to meet what is known as the Test scheme standard.

There are some specific differences to be aware of when dealing with members of automatic enrolment schemes which we will look at now.

eligibility

For the purpose of these schemes' workers are classified as shown below. You can see that there are three types of workers:

- Eligible jobholders
- Non-eligible jobholders
- Entitled Workers

eligible jobholders

- Workers aged between 22 and State Pension Age who earn at least the earnings threshold amount
- They must be automatically enrolled
- They don't need to do anything

non-eligible jobholders

- Workers aged 16 to 21 or State Pension Age to age 74 and earning at least the earnings threshold amount

OR

- Aged 16 to 74 and earning between the lower limit of the qualifying earnings band and the earnings threshold amount
- They must be offered the right to join and the employer must pay contributions
- To join they must complete an "opt-in" notice

entitled Workers

- Workers aged 16 to 74 who earn less than the lower limit of the qualifying earnings band
- Employers must ensure Entitled Workers have access to a pension scheme if they request one. It doesn't have to be a qualifying pension scheme and the employer does not have to contribute.
- To join they must complete a "joining notice" The earnings threshold amount is £10,000 per annum.

Eligible jobholders will receive information about the scheme and their rights. They do not need to do anything and contributions will be automatically deducted from their automatic enrolment date.

The qualifying earnings band is a band of gross annual earnings that fall between two amounts known as the:
1. lower limit of the qualifying earnings band (£6,240 for the 2023/24 tax year), and the
2. upper limit of the qualifying earnings band (£50,270 for the 2023/24 tax year)

The above amounts are reviewed each year by the Department of Work & Pensions (DWP).

opt-out Period
If an eligible job holder decides not to remain in the scheme there is an opt-out period which starts

the later of the date the worker:
- Becomes an active member or;
- Is provided with written enrolment information

They must complete a valid opt-out notice for their employer who must then unravel their records and refund any contributions deducted so that the worker's position is the same as if they had never joined the scheme.

This is a specific rule for automatic enrolment schemes. If a member leaves the scheme at any other time after the opt-out period they will have the same options and be subject to the normal rules on leaving a pension scheme.

contributions and investment
Many automatic enrolment schemes will be set up on a DC basis and the long-term total minimum contribution rate set by the government is 8% of earnings, this is split between:
- The employer who pays at least 3%
- Tax relief at 1%
- Any member rate required to meet the full 8% rate

There is a specific criterion that members cannot be required to make an active choice on where to invest contributions, consequently the employer's scheme must provide a default investment option that members will automatically be invested in.

The scheme is designed to be simple and easy for the member.

What is involved in joining a scheme?
For those who are not automatically enrolled into the pension scheme, the pension scheme rules will state when a person can join and the benefits available.

In this section we will look at what happens when an employee joins an employer's scheme.

eligibility conditions
An employee can normally join the employer's pension scheme when they meet the eligibility conditions. These could include:
- Minimum age for entry e.g., over age 18 or 21
- Maximum age for entry e.g., under age 60 or 65
- Permitted entry dates e.g., at the scheme renewal date such as 6 April or on a set day each month
- Waiting period e.g., after 6 months' continuous employment

Previously it was normally the case that only one offer to join the scheme was made and if the member declined then they may only be allowed to join later at the trustees' discretion. Similarly, if someone joined and then opted-out, they may not be allowed to re-join at a later date. Opting out is where the member leaves the scheme but remains employed.

However, as employers must now automatically enrol employees into a suitable pension scheme, if a member declines to join or opts out they will be automatically re-enrolled within three years (re- enrolment date is dependent on employer's staging date) if they are eligible. Thereafter automatic re-enrolment occurs every three years.

contributions and investment

The employer will deduct the relevant amount of contributions from the date a member joins the scheme and invest them together with the employer's contributions. Contributions must be passed

from the employer to the trustees by the 22nd of the month following the month of deduction where payment is made electronically (19th if payments are made by cheque).

Defined benefit scheme

The cost of the scheme benefits is calculated by the scheme actuary. The member's contributions are a percentage of salary and the employer will pay the balance of the cost of the liabilities in the scheme; this is considerably more than the amount the member pays.

All the contributions are invested with the fund managers chosen by the trustees.

If a member thinks that the scheme benefits will not provide sufficient income in retirement, they may wish to pay Additional Voluntary Contributions (AVCs) (if permitted by their scheme). The member normally has some choice in where these can be invested.

Alternatively, a member can choose to pay AVCs into a policy not connected with the employer, these are known as Freestanding AVCs. Or, the member can choose to make contributions to a personal pension plan.

Defined Contribution Pension scheme

A member of a DC scheme normally has some options on where contributions are invested. The scheme will have a Default Investment Option for those who don't want to choose their own investments from the range offered, traditionally this has been known as a lifestyle option where contributions are automatically switched into safer investments around 5 or 10 years before a member reaches normal retirement age.

However, the ability to access benefits flexibly from age 55 will impact on the member's investment strategy. Their decision will depend on how financially aware they are and they may wish to seek financial advice in this matter.

Risk benefits

Employers often provide benefits to be payable on the death of an employee and this is provided through a Group Life Assurance Scheme.

Sometimes this cover exists at a lower level as soon as a person joins the employer or has completed their probationary period. These are known as life assurance only members and the amount of cover is normally 1x to 2x salary.

Once they join the pension scheme the amount of cover is often higher, up to 4 x salary and also a dependant's pension may be payable.

Unless it is a large pension scheme this benefit is normally insured under a group policy. No forms or medicals are usually required provided the benefits insured are below the Free Cover Level (FCL) which is the maximum amount the insurance company will pay out without medical evidence. The FCL is set by the insurance company based on the: • total amount insured for the scheme

- gender and age profile of members
- geographic locations where the members are based
- industry or type of work.

If the member's benefits do exceed the FCL they will be required to complete a questionnaire giving health details and possibly attend a medical. In some cases the benefits may be restricted by the insurer. It is important to ensure that any documents sent to the member such as the annual statement of benefits reflect any restricted life assurance amount. If the amount shown is not restricted then the employer could be liable to pay the excess in the event of the member's death.

Forms

When joining a scheme, aside from the automatic enrolment scheme, the member will need to complete an application form which authorises the employer to deduct pension contributions from their wages.

It is also important for the member to complete an Expression of Wish or Nomination Form. This tells the trustees who the member would like the lump sum death benefit to be paid to. The scheme benefits are set up under trust and usually the lump sum is paid at the discretion of the trustees.
Provided the trustees do not determine to pay the lump sum to the member's estate, the lump sum does not form part of a deceased member's assets and is not subject to inheritance tax. The Expression of Wish form is not legally binding but the trustees will take the member's wishes into account. The member should always keep this form up to date as their circumstances change.

disclosure requirements

Members must receive basic information about the scheme automatically within one month of joining where automatic enrolment applies and the scheme has received jobholder information; or if a person is choosing to join the scheme, basic details should be provided within 2 months of joining. Some schemes issue a membership certificate.

In addition, if changes are made to the scheme, they must be notified automatically within 3 months of the effective date of change.

A member with DB benefits has the right to request an annual statement of their benefits whereas, members with any form of DC benefits must receive a statement automatically every twelve months. It is however common practice for DB schemes to issue annual benefit statements for active members.

The annual statement must include certain information such as the member's basic details, benefits accrued to the date of the statement and potential benefits at retirement date. In addition, for DC benefits the annual statement must include a Statutory Money Purchase Illustration (SMPI Statement).

For members with DC benefits, the annual statement must continue to be provided automatically even if they leave the scheme, whereas, for members with DB benefits, no such requirement exists. Deferred DB members with money purchase AVCs must receive a DC annual statement in respect of their AVCs but there is no requirement to also provide a statement for their DB benefits.

What is the default investment option?

We mentioned earlier that when joining a DC scheme, the member will have a default investment option that traditionally was a Lifestyle option aimed at members who want to take some of their benefits as a Pension Commencement Lump Sum (PCLS), with the remainder being used to purchase an annuity.

Although a member can access benefits flexibly from age 55, there will be some who want to continue with the traditional options.

Let's look at some questions a member may ask before making a decision.

- Do I understand enough about investments to make my own decisions?
- Would I prefer to have someone else manage my pension savings?
- Do I intend to work until retirement and purchase an annuity?

- Would I prefer an investment strategy which automatically switches my investments as I approach retirement?

If the answers are mostly "yes" then the lifestyle option would be better.

traditional lifestyle investment strategy
Members' funds are automatically invested and they do not have to make any decisions. The trustees (in conjunction with their scheme advisers) make the decisions on their behalf.

growth Phase
The aim is to maximise potential investment growth over the long term by investing in equities, these are more risky investments but tend to give higher returns in the early years when members can afford to ride the ups and downs of the investment market.

Protection Phase
As members approach retirement age, the investments are automatically switched into safer funds where there is more certainty. Depending on the scheme rules these switches usually start either 5 or 10 years before retirement.

Since the new flexibility options were introduced from 6 April 2015 this type of strategy is no longer appropriate for many people and schemes are revisiting their default investment options.

The scheme's default investment option is suitable for members who are not financially aware or who don't want to have to pay attention to their investments.

It is designed to meet the needs of a typical member, and will be based on the trustees' assumptions of the benefits the members will take and the date at which they will take them.

Freestyle investment
This is for members who want to create their own investment strategy from the available fund choices. It is suitable for members who are financially aware of investment types and the associated risks and who want to take control.

It is essential that members actively manage their investments and keep track of their funds by regularly reviewing their performance.

A member needs to consider:
- How to achieve their investment performance goals – they will want to minimise losses when markets drop and maximise gains when markets grow.
- How do they feel about investment risk – can they afford to take more risk and are they willing to, have they sufficient time before retirement to make up for any losses.
- How many funds do they want to invest in and should they be a mixture of companies or economic sectors or socially responsible funds.
- What types of funds do they want to invest in such as equities, property bonds, cash or a mixture of all types?

asset classes
The member will need to understand the types of investments, how they perform and the associated risks. The aim is to balance the right level of risk at the right time. The main asset classes are outlined in the table below:

asset class	characteristics	risk and return Profile
Equities	Company shares traded on the stock market	Value goes up and down, higher risk funds but most likely to achieve best returns over the long term.
Property	Industrial, retail or commercial	Prices go up and down but not as volatile as equities. Over the long term they are likely to earn more than bonds or cash but not as much as equities.
Corporate bonds	A type of loan where the borrower pays interest and pays the loan back when it matures. Bought and sold in the same way as equities.	Prices go up and down but are considered less risky than equities or property and the investment return will be less.
Gilts	Bonds as above but issued by the UK government.	Used to protect against changes in the cost of annuities. Lower risk rating and less investment returns. Index-linked gilts give protection against inflation increases.
Cash	Short term investments such as bank deposits or other money market securities.	Over the longer term the growth will be low and the value may not keep up with inflation.

switching investments

Freestyle

Schemes normally allow members to switch investments a number of times each year. The member will need to decide if it is just future contributions they want to be invested in the new funds or if the total fund value is to be moved. Some schemes may apply a limit on the number of free switch requests each year and levy a charge for any switches requested above this limit.

Sometimes the member needs to complete a switch form however it is becoming more common for members to be able to perform this exercise directly via the pension scheme's website.

default investment option

Many schemes perform switches on a monthly or quarterly basis, others will perform the switches on the member's birthday or anniversary of joining the pension scheme, or on a fixed annual date.

With automatic switches, no account is taken of what is happening in the market at the time, consequently a switch may take place from a good performing fund into one that is not performing so well. However, the overall risk will be reduced as retirement age approaches.

What is a transfer in?

We will now look at various things members should consider if they want to transfer in benefits from a previous scheme.

transfers in

If a member has benefits in a scheme from previous employment, they may wish to consider transferring it into the new scheme they are joining. An advantage of doing this is that all pensions are in the same place but there are two factors to consider first.

1. Will the scheme allow a transfer in and if so, are there any time limits. There are no legal requirements for a scheme to accept a transfer, if the scheme rules do allow it they may state it has to be done within 12 months of joining the scheme or something similar.
2. How the benefits compare between the old scheme and the new scheme.

The member would need to provide a letter of authority so that a transfer value from the previous scheme can be obtained. The member should be made aware that the previous scheme has 3 months in which to provide the information.

Once the information is received the member will be told of the benefits the new scheme will offer in lieu of the transfer value amount.

It is important to note that benefits are not transferred on a like for like basis and the member may wish to seek regulated financial advice before making a decision.

Defined benefit scheme

If the transfer buys defined benefits in the new scheme, the Scheme Actuary will determine how much benefit the transfer value will purchase in the scheme. This will normally be stated as:

- extra pension at retirement or;
- extra pensionable service

A member may have been in the previous scheme for 10 years and have a pension at date of leaving of £6,000 per annum. The benefits will not be the same in the new scheme. There are lots of things that could be different in the new scheme such as salary definition, accrual rate, funding assumptions etc. The benefits offered may seem lower but for example if extra pensionable service is offered, the pension will be calculated using that extra service and based on the salary near retirement.

The extra pension or service would also be taken into account if the member dies before retirement so the benefit could possibly be higher in the new scheme when compared with death benefits for deferred pensioners in the old scheme.

The member needs to determine if the pension in the old scheme is likely to produce a higher pension in retirement than the benefits offered in the new scheme. The member should compare accrual rates and check if the old scheme has any benefits that cannot be replaced in the new scheme.

Defined Contribution scheme

If the new scheme is on a Defined Contribution basis the transfer value will be added to the member's pension pot (or, if the new scheme is a DB scheme accepting transfers in on a money purchase a new pot will be created) in which case the decision to transfer is around investment performance and charges.

If the old scheme was also on a Defined Contribution basis then the member needs to consider if the investment funds in the new scheme are likely to perform better and provide a higher fund value at retirement than those in the old scheme, do the investment options suit the member's investment strategy any better or offer more flexibility.

Other factors they might like to consider are:

- quality of administration
- Any charges that apply – if they are not met by the employer are they higher or lower?
- Any options the new scheme may have that the previous scheme doesn't

It is important to note that transfer values from Defined Contribution schemes are not guaranteed so the amount actually received may be lower than the amount quoted. There is nothing the member can do about this as it is based on the value of the fund when it is disinvested.

risk area – A member should not generally consider transferring benefits from a Defined Benefit scheme into a Defined Contribution scheme. They would be giving up a guaranteed pension amount for an unknown pension amount however, there may be circumstances specific to the individual where transferring fixed benefits into a money purchase arrangement is beneficial.

Members may transfer into a DC scheme from a DB scheme in order to access benefits flexibly. However, there are various procedures that must be followed if the transfer value exceeds £30,000, including a requirement to take financial advice from an authorised person.

schemes in wind-up
There are circumstances under which a pension scheme may be wound-up, for example, where a DB scheme is being replaced by DC arrangements.

If a member's previous scheme is going through this process it can take several years to complete and it may not be possible to obtain a transfer value during this period.

Pros
Some of the pros of transferring from one scheme to another might be:
- The new scheme may offer a better benefit package than the old scheme. For example, the new DB scheme could have better early retirement options, pensionable salary definition or accrual rate etc. The new DC scheme may offer the full range of flexible access options.
- The DC scheme provides a better range of investment options and / or if the member has to pay charges, they may be lower.
- The member's pension funds are all in one place and therefore easier to manage.
- If the member had a poor relationship with their previous employer, transferring the pension breaks the connection.

cons
Transferring from a scheme with any form of guaranteed benefits to one which doesn't have the same, or similar guarantees, would impact the benefits received on retirement. The member would be giving up those guaranteed benefits.

What is salary sacrifice?
The trustees may offer members the opportunity to join a salary sacrifice arrangement whereby the member agrees to give up the right to an amount of pay in return for the employer paying that same amount into the pension scheme. The sacrifice is achieved by varying the member's employment contract.

This is advantageous to the employer as it reduces payroll costs and they may also benefit from tax cuts. The contract cannot be changed easily so they don't have to switchback to providing a higher salary.

From the member's perspective, they need to think carefully before agreeing as generally they cannot change their mind. They need to make sure they will benefit from it and check the impact on other benefits.

Their salary is reduced but so are the income tax and national insurance contributions. In effect, more contributions are paid to the scheme without affecting the member's take home pay.

The amount given up and paid to the scheme is treated as an employer contribution. The employer may also pay their National Insurance savings into the scheme for the member.

Potential issues around salary sacrifice

Reducing pay may mean a member loses or reduces their entitlement to statutory payments such as maternity pay, paternity and adoption pay, sick pay, tax credits. Many of these are based on the earnings on which an employee pays national insurance contributions so as these will be lower, the benefits may be affected.

For a DB scheme member, the pension at retirement is often based on a "notional" salary (the higher amount if salary sacrifice was not in place), this is to ensure that the member is no worse off. However, in some schemes the benefits may reduce if they are based on the lower salary, in these cases the member should check if it is possible to get out of the contract a few years before retirement so that the higher salary is used for calculating the pension benefits.

If a notional higher salary is not applied then death benefits would be affected as again, they would be based on the reduced salary.

Mortgage – for these purposes the member's actual salary is used and as it is lower it may affect the amount they can borrow.

What is the impact of life events?

There are some events that can occur during scheme membership that may impact on pension benefits.

Parental leave

This covers maternity, paternity and adoption leave.

The benefits from a DB scheme are based on the member's salary before the leave begins and contributions continue to be paid.

The member's contributions will be based on their actual salary received during parental leave whereas the employer contributions are based on the salary before leave commences.

If a member extends parental leave from the statutory period that extra period is classed as unpaid leave and will not count towards pensionable service. Membership before and after the period of unpaid leave must be treated as continuous service. A member can make up the deficit for the unpaid period when they return to work by paying additional contributions to cover the contributions they should have paid whilst on extended leave.

secondment overseas

If a member is seconded abroad to work for an overseas resident employer, they can remain a member of the UK pension scheme irrespective of how long they remain abroad.

If the member transfers abroad permanently and loses UK taxpayer status, they can remain a member of the UK pension scheme but may not receive UK tax relief unless they meet certain conditions.

sabbatical

If a member has an extended period of leave, the impact on their pension benefits depends on whether or not they continue to receive pay.

If their pay continues then contributions continue to be paid and benefits continue to accrue.

If they do not receive any pay for the sabbatical then the period is classed as a break in service and no pension benefits are earned.

The member should check with the employer if life cover remains in place during the sabbatical.

change in Working hours

Members may change their working pattern and move from full time to part time or vice versa, they may also do this a number of times during their scheme membership. For members of defined Benefit schemes the benefits are calculated using pensionable service so this has to be adjusted by the change in working hours.

example:

A member works full time and joins the scheme on 1 October 1991 with a retirement date of 30 September 2023.

From 1 July 2016 the member reduces their hours from 5 days to 3 days per week.

Assuming the member remains in the scheme until retirement date the pensionable service will reduce from: 01.10.1991 to 30.09.2023 = 32 years to:

• 24 years 9 months plus 4 years 4 months = 29 years 1 month

Full time	**Part time**
30/06/2016	30/09/2023
01/10/1991	01/07/2016
24 yrs 9 mths	7 yrs 3 mths x 3/5 = 4 yrs 4 mths

bankruptcy

If a member becomes bankrupt, they will be assigned a trustee in bankruptcy or official receiver who will take charge of their financial affairs. The member has a duty to provide information about their pension scheme benefits.

If the member doesn't live in England or Wales, they can declare themselves bankrupt in England or Wales if they live outside the EU or in Denmark.

They can't declare themselves bankrupt in England or Wales if they live somewhere else in the EU, Scotland or Northern Ireland. Alternative conditions apply in these jurisdictions.

After 29 May 2000

If the member has a bankruptcy order made in England or Wales on or after this date then all schemes approved by HMRC remain outside the bankrupt's estate and cannot be claimed by the trustee in bankruptcy.

Before 29 May 2000

If a member was made bankrupt in England or Wales before this date then the trustee in bankruptcy may claim all or part of the pension whether it is due now or in the future.

They cannot claim benefits from an Occupational Pension Scheme if it has a forfeiture clause which means that when a member is made bankrupt, they automatically lose their rights to pension benefits from the scheme. If this clause does not exist the trustee in bankruptcy may claim those rights.

In the case of a Personal Pension Plan the trustee in bankruptcy can claim the pension rights from the date of the bankruptcy order regardless of a forfeiture clause being in place.

The trustee in bankruptcy will tell the member which part, if any, is being claimed as an asset.

Regardless of when a member is made bankrupt the trustee in bankruptcy cannot claim any part of their State Pension or SERPS/S2P pension.

The member can find information on **https://www.gov.uk/government/publications/guide-to-bankruptcy/guide-to-bankruptcy**obtain advice from

- the Citizens Advice bankruptcy advice guide
https://www.citizensadvice.org.uk/debt-and-money/debt-solutions/bankruptcy-2/bankruptcy-explained/bankruptcy-overview/

- the Money Advice Service's guide on options for writing off your debt
https://www.moneyadviceservice.org.uk/en/articles/options-for-clearing-your-debts-england-and-wales

The member can also contact the National Debtline for bankruptcy advice.
https://www.nationaldebtline.org/

MODULE 6

Leaving an Occupational Pension Scheme

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

At the end of this module, you will be able to:
- Identify who is eligible and explain the process to the member
- State who is eligible, how the benefits are calculated and how they will increase in the different scheme types. Explain what happens if they die before retirement and how to claim benefits at retirement
- Explain how they differ between defined benefit and defined contribution schemes, what members need to do and the types of schemes to which the member may transfer
- Understand the leaver process and requirements to help manage member expectations In this module you will see the

  options on leaving a scheme.

Often it is important to look at the options alongside lifestyle factors and financial considerations.

Why might a member leave an occupational pension scheme?
There are various reasons why a member may leave a pension scheme, sometimes they have no choice.

by choice
- New Job- the most obvious reason, the member has a new job with a different employer. The member must leave the current employer's pension scheme.
- opt out - this is where a member decides they no longer want to be a member of the scheme but they remain employed with the company.

no choice
- Redundant- if a member is made redundant, they are leaving their employer and therefore must leave the pension scheme.
- Wind up – if the employer is in financial difficulties the scheme may cease and all members have to leave.
- Scheme Closure- if the employer closes the scheme to future accrual, all active members become deferred members.

What are the options on leaving?
You will remember from previous modules that the options available depend on the scheme rules and there are statutory requirements relating to Transfers.

db schemes
Less than 3 months
- Short Service Refund Lump Sum (SSRLS) Less than 24 months
- Short Service Refund Lump Sum (SSRLS)
- Transfer Value

More than 2 years and under age 55
- Deferred Pension
- Transfer Value *

More than 2 years and over age 55
- Deferred Pension
- Transfer Value
- (Statutory Discharge up to 12 months before NRD)
- Early Retirement

- If the member is in what's called an 'unfunded' pension scheme (usually public sector pension schemes), they won't be able to transfer their pension to a DC arrangement. Examples of an unfunded public sector pension scheme are the Teachers' Pension Scheme, the Civil Service Pension Scheme and the National Health Service Pension Scheme. You will be able to transfer your pension if you're in a Private sector defined benefit scheme, or a funded public sector pension scheme (such as the Local Government Pension Scheme).

dc schemes
Less than 30 days
- Short Service Refund Lump Sum (SSRLS) More than 30 days and under age 55
- Deferred Pension
- Transfer Value

More than 30 days and over age 55
- Deferred Pension
- Transfer Value
- Decumulation

Care is needed in this area!

Before we look at the different options there are a few things that need to be considered.

avcs
They must not be forgotten! In a DC scheme these benefits may be held with different investment managers. They may provide DC benefits in a DB scheme and therefore, usually, will be treated differently e.g., transfer rights will be different and exercisable separately.

transfer in
A member may have received a transfer in from another scheme, in which case there may be no entitlement to an SSRLS. An SSRLS is never an option if there has been a transfer in from a personal pension arrangement.

opt out
This is where a member leaves the scheme but remains employed. They normally have the same options as any other member but scheme rules will need to be checked first.

automatic enrolment
The term "opt-out" means something different in the joining window of automatic enrolment schemes. Workers who have been automatically enrolled into their employer's scheme may "opt out" within 30 days of having been enrolled. This is considered later in this module.

What notifications are made in respect of leavers?

When a member leaves a scheme, the employer will inform the administrator usually either by providing a leaving service form or, notification could be through an electronic interface. There will normally be a specific process in place and sometimes a member will call to ask about their options, having left the scheme but the administrator doesn't know the person has left.

Benefits cannot be calculated until the leaving service notification has been received. Depending on the scheme size, leavers may be dealt with on a bulk basis each month so it may be a few weeks after a member has left before this notification is received. The member's record will need updating with some information so that the benefits can be calculated.

db schemes

Member contribution data is normally updated on an annual basis at each scheme renewal date. The leaving service notification will state the member contributions from the last renewal date to the date of leaving.

dc schemes

Member data is normally updated on a monthly basis as contributions need to be invested each month. The leaving service notification will state the final month's contribution that the member paid.

What issues can cause delays in Providing a member's leaving service benefits?

To help manage member expectations when they leave a scheme, there are a few common issues to be aware of that may cause a delay in providing details of a member's leaving service benefits.

date of leaving v Payroll runs

An employer normally runs its payroll on a regular basis and may use an external contractor for this.

Delays can occur particularly for monthly paid people due to timing issues. For example, if someone leaves the scheme early in the month but the payroll is not run until the end of the month it may be a few weeks before the scheme administrators are notified of leavers.

Final contributions

Contributions must be paid across to the trustees' bank account before the 19th of the month for nonelectronic payments, and the 22nd of the month for electronic payments, following their deduction.

For members of DC schemes in particular, this may mean that final contributions are not received until several weeks after the member has left. As benefits are based purely on the value of the pension fund, it is not possible to advise members of their units or the fund value until the final contributions have been received. This issue does not arise with members of DB schemes unless they pay Additional Voluntary Contributions.

scheme renewal date

Most schemes have an annual renewal date when all the members' data is updated including salary data.

In a DB scheme the benefits are salary related so if the member leaves around the time of the renewal date, the latest salary information may not have been received from the employer.

In some instances, the employer may even be involved in pay disputes which can cause further delays.

other Parties

For members of defined benefit schemes who pay Additional Voluntary Contributions (AVCs), those benefits are normally held separately from the main scheme benefits, for example with an insurance company or building society.

AVCs can now be transferred independently of the main DB scheme benefits but when a member leaves it is better to provide all the information to the member at the same time. However, as the other parties involved have their own work priorities and timescales, this is not always possible.

disclosure regulations

Just a final note of which the member may not be aware but which administrators must always keep in mind.

Many schemes have agreed target times in which to provide the member with their leaving service options but there are also disclosure regulations that must be adhered to.

2 months Leavers must be automatically provided with a statement of their options within 2 months of the trustees receiving notification that pensionable service has ended.

3 months If a member requests a transfer value, they must be provided with the information within 3 months of the request.

Regardless of this it is helpful to provide a member with leaving service options as soon as possible after they have left.

What is a short service refund lump sum?

In this section we will look at leavers who are entitled to a short service refund lump sum (SSRLS).

ssrls

If a DB member is entitled to a refund of contributions, it will be in respect of their own contributions only. The employer contributions are retained in the fund as part of the scheme assets.

If a DC member is entitled to a refund of contributions, the employer's share would normally be offset against future employer contributions.

Some scheme rules may allow for interest on the contributions to be paid. However, if interest is paid and this takes the amount actually paid to the member over the sum of their contributions to the scheme, the surplus wouldn't be an SSRLS but would be taken as a scheme administration member payment.

The amount refunded must not be more than the total contributions paid by the member, plus any interest or investment growth.

Tax is deducted from the refund payment at the rate of:

- 20% up to £20,000

- 50% on the balance.

As the scheme administrator is liable to the tax charge the member usually receives the net amount after the tax has been deducted and the administrator pays the tax due to HMRC.

Some scheme rules state that all leavers should be treated as if they are vested and an SSRLS is not a leaving service option.

ssrls calculation

A typical calculation is shown in this example:

Total member contributions paid to the scheme		£2,500
Less tax at 20% Net refund paid to member	(£500)	£2,000
Example if contributions are over £20,000:		
Total member contributions Less tax on £20,000 at 20%	(£4,000)	£25,000
Less tax at 50% on the balance	(£2,500)	
Total tax deducted Net refund paid to member	(£6,500)	£18,500

interest or investment growth

Scheme rules may provide for investment growth to be included in the refund of contributions.

A member cannot receive more than the actual amount of contributions paid by them so interest or investment growth could be included to bring the total payment up to this limit and be treated as part of the SSRLS for tax purposes.

Alternatively, the scheme rules may provide for interest to be paid in addition to the contributions being refunded and to qualify as a scheme administration payment, it must be at a reasonable commercial rate. In these circumstances the scheme administration payment would be made without deducting tax and the member would declare any interest amount on their tax return to HMRC.

Example including interest:		
Total member contributions paid		£361.63
Plus AVCs paid		£427.20
		£788.83
Less tax at 20%	(£157.77)	
		£631.06
Plus interest/investment growth		£91.79
Net refund paid to member		£722.85

state earnings related pension scheme (serps)/state second Pension (s2P)

If the member was in a scheme that was contracted-out of SERPS or S2P then both the member and their employer will have paid lower National Insurance contributions so on leaving the member needs to be reinstated into SERPS/S2P.

The amount to be repaid to the National Insurance Contributions and Employer Office (NIC&EO) is based on NI earnings during scheme membership and is known as the Contributions Equivalent Premium (CEP).

The member has to pay his or her share of the CEP known as the Certified Amount (CA) and it is deducted from the member contributions before tax is deducted. See example below:

Total member contributions paid	£2,500
Less CA	(£500)
	£2,000
Less tax at 20% on £2,000	(£400)
Net refund paid to member	£1,600

After contracting-out for DB schemes ended in 2016, reinstatement by payment of a CEP will only be available for members who left before 6 April 2016 and will only be available for 3 years from 6 April 2016.

salary sacrifice

If a member participated in a salary sacrifice arrangement where they gave up part of their salary in return for more contributions being paid into the scheme, the contributions are generally classed as employer contributions and not refundable. However, an employer may offer an ex-gratia payment based on notional contributions, this would be paid via the employer PAYE payroll and subject to tax and National Insurance deductions in the normal way.

Remember: a SSRLS is no longer applicable for DC scheme members who joined on or after 1 October 2015 and left with more than 30 days service so salary sacrifice is unlikely to apply. For a member of a DB scheme, it would only arise where there is a switch from ordinary contributions to salary sacrifice within the two-year period.

refund Payment

In DB schemes the trustees' bank account normally holds sufficient monies for refunds to be paid without the need for funds to be disinvested.

In DC schemes the member's fund needs to be disinvested before the refund can be calculated and paid.

Where disinvestment is required there may be a delay in making the payment to the member; Trustees' signatures may be required and some investment managers only have dealing dates at certain times of the month, whereas others deal on a daily basis.

The refund payment discharges the scheme of all liability to benefits for the member.

What happens to the benefits of leavers Who remain in the Pension scheme?

In this section we will look at leavers who benefits remain in the pension scheme when they leave (deferred members). This generally applies to:

DB schemes – Members with more than 2 years' pensionable service

DC schemes – Members who joined the scheme before 1 October 2015 and left with more than 2 years' pensionable service, or, members who joined the scheme on or after 1 October 2015 and left with more than 30 days' pensionable service.

The deferred benefits are calculated at date of leaving, they may also be referred to as preserved or paid-up benefits.

The benefits will increase from date of leaving to retirement date in different ways depending on the benefits basis and the scheme rules.

benefits at date of leaving

For a member of a DB scheme the pension calculated at date of leaving is based on three things defined in the scheme rules:

1. Pensionable Service
2. Final Pensionable Salary

3. Scheme Accrual Rate

Set out below is a basic calculation based on the following:
- Pensionable Service of 20 years
- Final Pensionable Salary of £60,000
- Scheme accrual rate of 60ths.

DB Pension per annum: 20 x 1/60th x £60,000 = £20,000

For a member of a DC scheme the pension cannot be calculated at date of leaving because a pension can only be purchased when the member actually retires. At date of leaving the only benefit that can be calculated is the value of the member's investments. In the case of unitised funds this would be:
- the number of units in the member's pension fund purchased by both the member and employer contribution, plus any units from transferred-in benefits and/or AVCs
- Unit price at date of leaving

Set out below is a basic example of a unitised fund calculation at date of leaving based on the following:
- 15,000 units at leaving
- Unit price of £1.65

DC fund value: 15,000 units x £1.65 = £24,750

Due to the different forms in which the benefits are provided, it is often difficult to compare the benefits provided by the two different types of schemes. DB benefits are generally regarded as more valuable, but for an accurate analysis, members can speak to an Independent Financial Advisor to get an idea of how the two compare. It is now a legal requirement for a member to obtain appropriate financial advice if they wish to transfer from a DB scheme to a DC scheme if the transfer value is over £30,000.

The member may have transferred-in benefits and they must be included. The form of benefits provided by the transfer-in will depend on how the receiving scheme treats transfers-in. If the receiving scheme provided DB benefits in exchange for the transfer value, then the member would usually be granted additional pensionable service, or they may be granted a fixed pension which is payable at Normal Retirement Date. If the receiving scheme provided DC benefits in exchange for the transfer value, then the additional benefits would be in the form of additional DC funds.

The member will receive a statement of benefits at date of leaving. Some schemes may also show estimated benefits at retirement by applying notional increases to either the pension or the fund value however, these are for illustration purposes only and cannot be guaranteed.

increases to benefits after leaving a defined benefit scheme
When a member leaves a DB scheme the pension will increase from the date of leaving to retirement date.

Care! It is important to determine when a member left a scheme as different increase rates apply. Also some schemes may apply different rates for different periods.

The pension is generally calculated into two elements and each one is treated differently.
1. guaranteed minimum pension (gmp)
This applies to members in contracted-out service in schemes between 6 April 1978 and 5 April 1997. The scheme rules will state whether the GMP increases annually either:
- in line with Average Earnings (Section 148 orders) or;
- at the fixed rate set by the government – currently 3.25%

The rate of increase applies to all leavers, it is not something a member can choose.

The increase is applied for each complete tax year from date of leaving to age 60 for females and age 65 for males. There is also an additional increase for females whose retirement date is between age 60 and age 65.

2. excess Pension

This is the amount of pension earned in excess of the GMP. If a scheme is not contracted-out, or a member has no GMP because they did not accrue any benefits in the scheme before 1997, then the whole pension is treated as excess pension. The excess pension is divided into two further elements:

- Pension earned up to 5 April 2009 – this increases either by the increases in the Retail Prices Index (RPI) (or Consumer Prices Index (CPI) depending on the scheme rules) up to a maximum of 5% per annum.
- Pension earned after 5 April 2009 increases as above but with a cap of 2.5% per annum.

The increase applies to each complete year from date of leaving to the scheme's Normal Retirement Age.

If a member left the scheme before 1 January 1991, then some of their pension may not be guaranteed to increase in deferment.

The member's leaving service statement will show each part of the benefit and how it will increase. There is no obligation on trustees to provide deferred members with regular updates of their pension entitlement, the member may of course request an update which may or may not be provided. If the member has any DC benefits such as AVCs then an annual statement will be provided in respect of these benefits. See "Increases to benefits after leaving a defined contribution scheme" below.

It is important for members to notify the scheme if they change their name or address so that they can be contacted when they approach retirement, this will normally be done 3 months before their retirement date. However, if a DB member also has DC benefits, they would be contacted between 4-6 months before their retirement date.

increases to benefits after leaving a defined contribution scheme

When a member leaves a DC scheme their fund will remain in the existing investment. If the investment is in unitised funds, the number of units remains fixed.

No guarantees apply to the value of the investment which will fluctuate up to the time benefits are taken. For example, the fund could be performing well but on the day the units are disinvested, the stock market could crash and the value would then plummet. This is why a member in the traditional lifestyle strategy will find that their funds have been placed into safer investments 5 to 10 years before retirement. However, with the introduction of the new flexibility for DC members, many lifestyle strategies are being revised to reflect the fact that members may chose not to buy annuities.

Legislation states that leaving service statements just have to show the member's rights and options (if any) however, most schemes will provide more information such as the number of units in each investment fund. Each year the member will receive a Statutory Money Purchase Illustration (SMPI) Statement showing the current value of their funds and an estimate of the projected benefits at Normal Retirement Age and the assumptions used. This is for illustration purposes only and cannot be guaranteed but it will give the member an idea of the amount of pension the fund may purchase. As mentioned previously this requirement also applies to AVC arrangements.

It is important for members to notify the scheme if they change their name or address so that they can be contacted when they approach retirement. They will be provided with an estimated quotation of benefits 4-6 months before they are due to retire.

death after leaving a scheme

When a member leaves a scheme and then dies before the benefits come into payment the benefits normally paid out are shown below. However, remember the scheme rules may differ.

DB scheme member

- A refund of contributions – this relates to member contributions only and is usually payable at the discretion of the trustees.

PLUS

- A spouse, civil partner or dependant's pension – this is often 50% (but not always) of the member's pension at date of leaving increased to date of death. If the scheme was contracted-out then the widow must receive a pension of at least 50% of the member's GMP. In the case of a widower, this only applies to the GMP earned after 6 April 1988. The pension will increase in the same way as the member's pension would have increased if it had been in payment. There is more information on pension increases in the module "Pension Scheme Retirement Benefits".

DC scheme member

- The value of the member's fund relating to their contributions will be payable. Normally the trustees will have discretion as to whom it is paid.

OR

- Part or all of the fund may be used to provide an income for the member's spouse, civil partner or dependants in the form of an annuity or income drawdown.

Death benefits are discussed more fully in the module "Pension Scheme Death Benefits".

additional voluntary contributions (avcs)

If a member pays AVCs they can be left in the scheme and taken with the main scheme benefits.
Alternatively, they can be transferred leaving the main scheme benefits behind.
The provider will issue a statement each year showing the current value of the AVCs.

In this section we will look at the transfer value option available to members.

What transfer value options are available to members?

In this section we will look at the transfer value option available to members.

What is a transfer value?

The term transfer value is used to describe the cash value of a pension fund when it is moving from one pension scheme to another.

The transfer value may be a Cash Equivalent Transfer Value (CETV) or a Cash Transfer Sum if not a CETV as defined in legislation.

Why would a member want to transfer pension benefits?

Members want to transfer the value of their pension benefits from one scheme to another for various reasons. The most common are described below:

Portability – It's not very often that people stay with the same employer all their working life so people want to move their pension with their job. A pension scheme is an important part of a remuneration package and the new scheme may provide for better treatment of the transferred benefits. The new scheme may have better terms than the old scheme for active members but that doesn't mean it is necessarily a good idea to transfer the pension.

better returns or investment choices – The new scheme may have a wider choice of investment funds or investment managers; the investment returns may be better than those currently in place. It is essential that the member understands the choices and whether they are suitable for his or her aims.

Flexibility – The current scheme may not offer the new flexibilities available to members age 55 and over.

cost – If a member has to contribute towards the running costs of a scheme, charges in a new scheme may be lower.

consolidation – if a member has several pensions from different jobs, he or she may want to put them all in one place.

how is a transfer value calculated?
The calculation depends on the scheme benefit basis.

dc scheme – The transfer value is based on the value of the fund when disinvested. For this reason, any transfer value quoted cannot be guaranteed and the amount actually paid out could be lower or higher than previously quoted.

db scheme – The transfer value calculation is much more complicated and the trustees take advice from the Scheme Actuary on various assumptions used. This type of scheme aims to provide a set level of pension at retirement no matter how the scheme investments perform. The transfer value is the best estimate of the cost of providing the benefits for that individual member based on age, service etc. The transfer value also has to take into account the scheme's investment strategy, how the trustees intend to invest over the lifetime of the deferred member.

If a scheme is underfunded a reduction may be applied to the transfer value. In this case it may be better for the member to wait.

The transfer value quoted is guaranteed for a period of 3 months from the date of calculation and must be received by the member within 10 working days.

As previously outlined if the member is in an 'unfunded' pension scheme, they won't be able to transfer their pension to a DC arrangement.

What does the process involve?
In most cases when a member leaves the scheme they are advised if they have the option to transfer but the transfer value amount is not actually calculated.

The member may receive an option form which includes a tick box to request a transfer value. If not, a member must request a transfer value. Sometimes the request will come from an IFA or the member's new scheme, in which case the information cannot be released to anyone apart from the member unless they have a signed letter of authority stating who it can be released to.

The transfer value quotation will include all necessary forms for the member and the new provider to complete in order for the transfer to proceed. The transfer value quotation should also include a warning from the Pensions Regulator about pension scams. At this time, the member may wish to take regulated financial advice to ensure they understand what benefits they are giving up and what benefits they will receive.

For DC benefits, the member's fund will need to be disinvested before the transfer value can be paid to the new scheme or pension provider.

A few points of which the member should be aware:

- a member can request a transfer value quotation once in any 12-month period, if they request one before the 12 months has expired since the last quotation then the trustees are not obliged to provide one. If they do, they may charge the member a fee, and usually do;
- although a member has a right to request a transfer value, their new scheme does not have to accept it;
- a member of a DB scheme does not have a statutory right to, and therefore cannot normally, transfer their DB benefits if they are within 12 months of the scheme's Normal Retirement Age;
- members with DC benefits have a statutory right to transfer those benefits at any time until the point the member starts to take those benefits;

- if a member wishes to transfer from a DB scheme to a DC scheme, they must obtain independent financial advice if the transfer value is over £30,000

to what can a transfer value be paid?

A transfer value can only be paid to a scheme registered with HMRC, these include:

- another occupational pension scheme
- a section 32 buy-out policy – a private policy for an individual where the range of benefits provided must be the same as those in the transferring scheme. The member cannot continue to pay contributions to this policy.
- a Personal Pension Plan or Stakeholder Plan – the member can pay contributions into these plans; or

A transfer value may also be paid to a Qualifying Recognised Overseas Pension Scheme (QROPS). The scheme must meet certain HMRC conditions to be classed as an authorised payment.

Since 8 March 2017, a transfer from a registered pension scheme to a QROPS will be subject to 25% tax charge if none of the following requirements are met:

- the member must be resident in the country to which the transfer has been paid
- The member is resident in an EEA country and the transfer has been paid to an arrangement in another EEA country
- The receiving QROPS has been established specifically for providing retirement benefits for employees of that organisation (and the member is employed by that organisation)
- The receiving QROPS is an overseas public service pension scheme and the member is employed by an employer participating in that scheme
- The receiving QROPS is an occupational scheme and the member is an employee of the scheme sponsor

If a transfer value is paid to a scheme that is, neither a registered scheme nor a QROPS, then it is classed as an unauthorised payment carrying a 40% tax charge for the member. Additional tax charges may also apply.

What are Pension scams?

There are two main types:

Firstly, Pension Liberation (also known as trustbusting) scams are where pension benefits are transferred to an arrangement that allows the member access to their funds before age 55.

In rare cases such as terminal illness it is possible to take benefits before age 55 but in most cases the promise of being able to release funds before then is a scam and will result in tax penalties. These scams should not be confused with pension unlocking which allows a person aged 55 or over to release up to 25% of their pension fund as a tax-free cash sum.

There are companies advertising that if a transfer value is paid to them, they can convert it to immediate cash for the member due to a legal loop hole. This loophole does not exist! It is illegal. If the member is being misled, some key consequences of transferring to one of these arrangements include tax liability, fees incurred, and the remainder of their money may not be appropriately invested.

Secondly, there are scams that induce members to transfer their benefits to a scheme where they can make questionable investments that will apparently provide good investment returns. However, once transferred their money just disappears.

People are being targeted via websites, emails, text messages and cold calls. Professional advice should be taken before considering entering into discussions with these companies and when dealing with transfer requests, professionals and trustees can watch out for things such as:
- transfer requests to unregistered schemes or newly registered schemes with HMRC
- constant chasers or reminders, i.e., undue pressure to process the transfer quickly
- several transfer requests to a company that has not previously requested transfers. In his 2016 Autumn Statement, the Chancellor announced that the Government intended to ban 'cold calling' in relation to pension transfer advice. This came into effect on 9 January 2019. Failure to adhere to the regulations could result in the information Commissioner's Office issuing non-compliant organisations with fines of up to £500,000. In addition, the organization may also be liable to pay compensation to the victim of the cold call.

The Pensions Regulator website has a lot of information and various leaflets. If anyone is concerned or has been approached for this type of transfer, they should contact the Action Fraud line on: 0300 123 2040.

Remember - If something sounds too good to be true it usually is!

advantages of independent financial advice

leaving option	advantage
If a member is considering opting out of a scheme where both the member and employer contribute and replacing it with a personal pension plan.	An IFA would be able to compare the two pension arrangements and explain what the member might lose or gain.
If a member is planning on transferring from one Defined Contribution scheme to another, in particular if the member is within 10 years of wanting to access these benefits.	An IFA will help the member compare investment vehicles, terms and conditions and the charges between each arrangement to help the member decide which represents the best deal for him or her personally.
If a member is planning any kind of transfer, he or she should also consider benefits other than pension such as death benefits.	An IFA will be able to compare all the benefits and tell the member what he or she might lose as a result of transferring to another arrangement including any lump sum death benefits and spouse's / civil partner's pensions.

Don’t forget – If a member is considering transferring from DB to DC with a fund value of over £30,000 then they must take financial advice from an appropriate financial adviser and the trustees must check that this has been done.

so which option is better?

The decision will depend on the member’s personal circumstances.

transfer value

How generous is the transfer value? The member should assess and compare the benefits left in the old scheme with benefits offered in the new scheme.

- The member may want more flexibility in the way benefits can be taken than the current scheme offers.
- Specialist regulated advice should be considered and possibly a full transfer analysis completed to help the member make an informed decision.

leave the benefits in the scheme

For members of DB schemes, remember that the amount of pension at the leaving date is known and:

- It is guaranteed to increase to retirement and beyond.

more than two years’ pensionable service and over age 55?

In addition to a Deferred Pension or a Transfer Value, if the member is over age 55 there may also be the option to access benefits early.

For members of DB schemes, permission will normally be required from the employer if an active member wishes to retire early.

Contributions will cease and the pension will be lower than at Normal Retirement Age as it will be paid for longer. For members with DC benefits they must be told about their options when they are approaching age 55.
The benefits available are explored in more detail in the module “Pension Scheme Retirement Benefits”.

What about those Who opt-out?

A member may decide that they wish to opt-out of the pension scheme even though they continue to be employed at the company.

This decision should not be taken lightly as the member is giving up valuable benefits and protection for their family. Some people simply find that they can’t afford the contributions but others are wary of pensions and the financial industry in general and simply want to walk away.

leaving the scheme – continuing in employment

introduction

A member may decide that they wish to leave the pension scheme even though they continue to be employed at the company.

This decision should not be taken lightly as the member is giving up valuable benefits and protection for their family. Some people simply find that they can’t afford the contributions but others are wary of pensions and the financial industry in general and simply want to walk away.

leaving the scheme – continuing in employment

For a member wishing to leave a non-automatic enrolment scheme the options available are normally the same as for people who are leaving the company.

The member may only be allowed to rejoin the scheme at the trustees' discretion. They will, however, still be covered by the automatic enrolment requirements and automatically enrolled into their employer's automatic enrolment scheme as appropriate.

automatic enrolment

You will remember from the module "Joining an Occupational Pension Scheme" that every employer has a legal duty to help workers save for retirement and certain workers will be automatically enrolled if they meet the eligibility conditions.

opt-out period

Specific rules apply for opting-out of an Automatic Enrolment scheme. Members may choose to leave whenever they want. However, there are specific opt-out provisions that apply for a limited period after the member has been automatically enrolled.

For Occupational Pension Schemes the opt-out period is one month from the later of:

- the date the worker became an active member or;
- the date the worker was provided with written enrolment information

refund of contributions

The member will be refunded with any contributions paid once they have opted out of the Automatic Enrolment scheme and their record will be unravelled to put them in the same position as if they had never joined the scheme in the first place.

A member may not be able to get their contributions refunded if they decide to leave the scheme at a later date.

re-enrolment

Unlike other schemes, opting out is not the end of the matter for the member as the automatic enrolment process is repeated every three years based on the employer's staging date. If they are still eligible they will be automatically enrolled to the scheme again at that time.

how can members trace their benefits?

When benefits become payable, the member will be contacted at the last known address on file. However, if the member has since moved; the documents may be returned. Trustees, pension administrators, providers and employers do everything possible to trace the member and can ask the DWP to forward on correspondence to the member via the letter forwarding service.

For members it's easy to lose track of pension funds over the years and they may not remember if they are entitled to any benefits or if they took a refund or a transfer.

- They may have moved house, changed jobs a few times and paid into a series of pension schemes during their working life.
- A company may have merged or been taken over by another company and schemes merged.
- An employer may have gone into liquidation, into the Pension Protection Fund or been bought out.
- The scheme administrator or provider may have changed.

Pension tracing service
There are various free tracing services available but the government one is the Pension Tracing Service. It can be accessed via a link on **www.gov.uk** or directly at www.gov.uk/find-lost-pension

A member needs to provide as much information as possible including:

- Name and address of employer that provided the scheme
- Scheme name or any part of a name that the member can recall

If the Pension Tracing Service can find the pension it will give the member the address of the scheme provider for the member to contact them directly.

The DWP is currently working with the pensions industry to develop an online 'Pensions Dashboard' which will allow members keep track of all their accrued rights within registered pension schemes.

MODULE 7

Transferring Pension Benefits

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

At the end of this module, you will be able to:
- List the types of arrangements to which a member can transfer benefits
- Describe the information that must be supplied to members if an incentive exercise takes place
- Explain the rules around overseas transfers
- Identify the warning signs of pension scams

In this module we look at some of the wider issues concerned with pension transfers.

Transferring a pension is a major decision and members should weigh up all the options carefully to try to ensure they will be no worse off. They should also keep copies of all documents and not be rushed into making a hasty decision that will affect them for many years to come.

Members should consider taking financial advice from a regulated adviser and we have seen that in some situations taking appropriate independent advice is a legal requirement.

What type of arrangement can I transfer to?

A member can transfer to:

1. A registered pension scheme which is a
- Occupational Pension Scheme
- Personal Pension Plan (PPPs)
- Stakeholder Pension Plan (SHPs)
- Self-Invested Personal Pension (SIPPs)
- Group Personal Pension Plan (GPPs)
- A buy-out (insurance) policy

2. A Recognised Overseas Pension Scheme (ROPS)

some common questions

Can I transfer my benefits to an ISA?
- No – a member can only transfer from one pension arrangement to another.

Can I transfer my old pension scheme to a new one?
- Not necessarily – schemes do not have to accept a transfer (except for Stakeholder schemes).
- If a member wants to transfer DB benefits to a DC arrangement, they must seek appropriate independent advice from a regulated financial adviser if the transfer value is over £30,000.

My defined benefit scheme is in deficit. Should I transfer out?

- It is best to seek regulated advice first. It may be a short-term problem and a member is likely to be offered a reduced Cash Equivalent Transfer Value (CETV). If left, the scheme funds may improve.

What incentives may be offered to transfer?

Due to the high costs of funding defined benefit schemes, employers are looking at ways to reduce risks or costs associated with their schemes by offering the option to transfer benefits where the transfer value amount is more than the statutory minimum.

The Pensions Regulator has a statutory duty to protect members and they have taken a keen interest in employer incentive exercises as members may be disadvantaged if they don't make properly informed choices.

code of Practice

The Government policy is to promote saving for retirement so, inducing people to transfer benefits which may mean that they are giving up some rights, goes against the government's aim.

The Code of Good Practice on Incentive Exercises was launched in June 2012 and a revised Code with Boundary Examples published in January 2016.

The objectives of the Code are to ensure that all incentivised transfer and similar exercises in the future are:

- done fairly and transparently;
- communicated in a balanced way and in terms that members can understand;
- available with appropriate regulated and qualified independent financial advice that is paid for by the employer;
- able to achieve high levels of member engagement;
- provided with regulated access to the independent complaints and compensation process.

Details can be found on the Pensions Regulator's website and http://incentiveexercises.org.uk/the-codeof-practice. Compliance is voluntary but it will be used by the Pensions Ombudsman and the Financial Ombudsman Service when dealing with complaints.

incentive exercises to transfer benefits

Introduction

Incentive exercises can be costly for employers but what about the members?

What do members need to be aware of when they are offered an incentive to transfer their benefits?

Let's look at some key questions a member may ask.

What are the risks?

With a transfer incentive exercise there is a greater risk that a member may suffer a loss of benefits in the long term. This loss could be due to:

- life expectancy
- investment choices
- economic and market environment in the future.

Offers are often set below "cost-neutral" terms in order to reduce the employer's pension liabilities, this means there is a greater risk that the member will be worse off. When designing incentive exercises, trustees are often advised to start with the presumption that they are not in the best interest for most members.

What information should I receive?

The offer should be clear, fair and not misleading in any way so that the member understands the implications and can make decisions that are right for them.

The information should:
- be honest and contain no inaccuracies, ambiguity or exaggeration, it should not omit or hide anything;
- not cause fear or distress to the member without good reason; and
- be open and transparent – in other words the member should be made aware of the reason the offer is being made.

All communications should be unbiased and information from the employer should simply inform the member of the offer and the process. It should not attempt to influence the member's decision in any way other than to encourage them to engage with the adviser process.

The initial employer communication should include:
- a clear statement that the member does not need to accept the offer and the default position if the member takes no action;
- a description of the offer – what is being given up, what is being offered, the risks and benefits of all alternatives;
- the reason the employer is giving the offer;
- warnings of potential risks of accepting the offer;
- contact details that are easy to find including those for the Pensions Advisory Service (TPAS) and the Pensions Ombudsman;
- an explanation of the roles of the Pension Protection Fund (PPF), Financial Conduct Authority (FCA) and the Pensions Regulator (TPR);
- prominent statements that the Code is being followed and that any other areas of compliance have been met; and
- charts, tables and/or figures that illustrate risks and benefits in a fair and balanced way. For example, illustrations of risk should include a suitably wide range of possible future inflation, investment returns and annuity price outcomes.

After receiving regulated financial advice, the member should get a written, tailored recommendation that is in their best interests and that explains the reason for the recommendation.

should I take independent financial advice? Yes!

The employer should make fully independent and impartial advice accessible to the member and it should be promoted in the strongest possible terms. The offer should require that members take advice from an authorised financial adviser. As the employer has initiated the exercise, it should pay for the advice and any associated services such as help-lines and the Transfer Analysis Report.

The contract between the member and the regulated adviser should make it clear that the member has legal recourse to the adviser, if necessary, in the future and clearly state the complaints process, limitations in liability and refer to any Professional Indemnity Insurance.

The regulated advice should include at least one face to face or telephone meeting with the member and advice must be tailored to the individual and their circumstances as a whole.

It is a legal requirement for members to take appropriate independent advice from a regulated financial adviser if they are considering transferring DB benefits to a DC arrangement where the transfer value is over £30,000.

how long do I have to make a decision?

Members must be given sufficient time to make up their mind with no undue pressure applied. Suggested timescales for the member are listed below:
1. At least three months to make the decision from the date the member received the information and offer.
2. Once the member has received the final piece of regulated advice, they should be given two weeks to make a decision.
3. Once the member has returned the option form there should be a two-week cooling off period.

I have been offered some extra money, can I accept it?

A member should not receive any cash incentive that is only available if the offer is accepted.

Cash payments that are designed to encourage the member to engage with advisers before making a decision are allowed but should be of small material value such as a £50 retail voucher. However, it must be made clear that accepting this payment will not put the member under any pressure to accept the transfer offer.

What is a transfer value analysis (tva)?

When a member of a defined benefit scheme receives regulated financial advice prior to 1 October 2018 in connection with transferring their benefits, it is a regulatory requirement that a detailed report is prepared by the regulated financial adviser, unless the member is going to crystallise their benefits (e.g., retire) within 12 months of transferring them.

The TVA report is designed to assist the member in deciding if transferring their benefits from an existing scheme to an alternative pension contract is appropriate based on what is known about the member's personal

What does the tva report include?

Calculation of the annual rate of growth (critical yield) required to provide retirement benefits equivalent to those in the existing scheme.

A comparison of projected benefits at NRA for the existing scheme and the potential benefits in the new scheme plus a comparison of projected early retirement benefits.

A comparison of benefits payable in the event of death before and after retirement.

Information about the PPF and estimated benefits if the scheme applied to the PPF at the date of the report.

new FCA rules and guidance

The FCA's new rules and guidance include:

- Personal recommendation: requiring all advice on pension transfers to be a personal recommendation.
- Role of the pension transfer specialist (PTS): clarifying the role of a PTS when checking advice.
- Analysis to support advice: replacing the current transfer value analysis (TVA) requirement with the following: a requirement to undertake an 'appropriate pension transfer analysis' (APTA) of the client's options; and a prescribed Transfer Value Comparator (TVC) indicating the value of the benefits being given up and the cost of purchasing the same income in a DC environment.
- Opt-outs: applying a consistent approach for pension opt-outs where there are potential safeguarded benefits.

The FCA is maintaining their guidance that an adviser should start from the assumption that a transfer will be unsuitable.

Most of the rule changes came into force on 1 April 2018. The majority of the remaining changes, which cover the transfer value comparator and the appropriate pension transfer analysis, came into force on 1 October 2018. The final changes, on the assumptions to use when revaluing benefits, came into force on 6 April 2019.

the role of a Pension transfer specialist

A Pension Transfer Specialist (PTS) is an individual who:

1) has passed the required examinations as specified by the FCA; and
2) is employed by a firm to give advice on pension transfers, pension conversions and pension opt-outs or to check such advice.

The FCA rules require that only a PTS can give or check advice on pension transfers.

A PTS is expected to:

- check the entirety of the advice process, not just the numerical analysis, and consider whether the advice is sufficiently complete
- confirm that the personal recommendation is suitable
- inform the firm in writing that they agree with the advice, including any recommendation, before the report is given to the client

What is a personal recommendation?

A recommendation that is advice on conversion or transfer of pension benefits, and is presented as suitable for the person to whom it is made, or is based on a consideration of the circumstances of that person.

A recommendation is not a personal recommendation if it is issued exclusively to the public.

What should the appropriate pension transfer analysis (apta) include?

The FCA has concluded that Advisers will be best placed to assess the needs and circumstances of their individual clients. So do not intend to provide detailed rules and guidance on the relevant elements to include for each individual. In addition, they consider that it is for firms to decide whether a critical yield approach remains valid in some circumstances.

The Transfer Value Comparator (TVC) to be included in the APTA would show, in graphical form the:

- cash equivalent transfer value (CETV) offered by the DB scheme
- estimated value needed to replace the client's DB income in a defined contribution environment, assuming investment returns that are consistent with each client's attitude to investment risk and that they purchase an annuity.

What about overseas transfers?

A member moving abroad may want to transfer pension benefits to a scheme in their new country.

A Qualifying Recognised Overseas Pension Scheme (QROPS) is one that has told HMRC that they meet the relevant conditions to be a Recognised Overseas Pension Scheme (ROPS) as defined in the Finance Act 2004. The requirements to be met to be a ROPS changed with effect from 6 April 2017.

As described in Module 6, since 8 March 2017, a transfer from a registered pension scheme to a QROPS will be subject to an overseas transfer charge of 25% unless certain requirements are met.

If a transfer value is paid to a scheme that is, neither a registered scheme nor a QROPS, then it is classed as an unauthorised payment carrying a 40% tax charge for the member. Additional tax charges may also apply.

common questions

How does the member know if their scheme is a ROPS?

- There is a list on the HMRC website (updated at least twice a month) which the public can view. https://www.gov.uk/government/publications/list-of-qualifying-recognised- overseas-pension-schemes-qroups/ list-of-recognised-overseas-pension- schemes-notifications
- Not all schemes are on it so if the member cannot find their scheme listed, they would have to check the status with their new scheme directly.

What if the overseas scheme is not a ROPS?

- If the transfer is paid to a scheme that is not a ROPS, both the member and the UK scheme will have to pay a tax charge as it will be considered an unauthorised payment.
- If the UK scheme is not satisfied that the overseas scheme meets the requirements it will refuse to make the transfer payment.

Will a transfer into the ROPS be automatically allowed?

- This is the same as transfers between UK schemes.

- If the new scheme does not allow transfers to be received, a transfer cannot take place.

Will a ROPS transfer be taxed?

- The schemes on the ROPS list have told HMRC they meet the relevant conditions to be a ROPS. However, HMRC can't guarantee they are ROPS or that any transfers to them will be free of UK tax.
- Further due diligence needs to be carried out and it is the member's responsibility to find out whether they have to pay tax on any transfer of pension savings.

after the rops transfer

When a transfer takes place, the UK scheme will notify HMRC within 90 days (a 60-day time limit applied to transfers prior to 6 April 2017).

If the member is under age 75, the UK scheme will perform the LTA test and advise the member of the percentage. If the transfer value is more than the member's available LTA, the excess is taxed at 25%.

If the ROPS subsequently makes any unauthorised payment, it must be reported to HMRC by the member.

If the ROPS invests in taxable property, the member will be charged. However, this tax charge doesn't apply if the member is a non-UK resident and hasn't been a UK resident at any time during that tax year, or the previous 5 tax years, in relation to when the investment was made.

are there any other types of transfer?

Other types of transfer include:

- Asset transfers;
- Partial transfers; and
- Transfers of pensions in payment. These are described in more detail below.

asset transfers

Transfers are valued in cash terms but if a transfer between schemes involves an asset such as commercial property, the asset must be valued in cash terms by an appropriately qualified, independent person before the transfer can take place.

This type of transfer normally relates to Self-Invested Personal Pensions (SIPPs) or Small Self-Administered Pension Schemes (SSASs).

Partial transfers

This has traditionally been most common where a member wanted to transfer from a contracted-out scheme to a non-contracted-out scheme and the transferring scheme allowed a transfer of excess benefits only.

Members now have a right to take a partial transfer where they have both DB and DC benefits i.e., there is a separate right of transfer in relation to each type of benefit. Partial transfers are therefore likely to increase with members wanting to take advantage of the new flexible benefits with their AVC funds, whilst leaving their DB funds undisturbed. The Trustees cannot force a member to transfer all categories of benefits. This is a statutory right therefore the scheme rules would be over-ridden if they have not been amended to allow such a partial transfer.

The right to a statutory transfer in respect of a particular category of benefits only applies if the pension rights have not been crystallised i.e., not already in payment or been designated for the payment of drawdown benefit.

Pension in payment

If a member is already in receipt of a scheme pension and is looking to move it to another provider, the transfer must be on a like for like basis i.e., the type of pension must remain the same, and there are other provisions e.g. the rate of pension normally cannot go down.

All of the pension must be transferred at the same time.

A dependant's pension can also be transferred.

What deadlines are applicable?

The deadlines for dealing with transfers are prescribed by:

- The Occupational Pension Schemes (Transfer Regulations) 1996; and
- The Pension Schemes Act 1993.

We will now find out more about deadlines.

legal

The deadlines for dealing with transfers are prescribed by:
• The Occupational Pension Schemes (Transfer Regulations) 1996 (as amended); and • The Pension Schemes Act 1993

transfer in

A member should receive a statement of prospective benefits in respect of a transfer value

within 2 months of the request.

transfer out - db

If a member has benefits in a defined benefits scheme the transfer value must be calculated within 3 months of the request and passed to the member with 10 working days of the calculation date.

The transfer value will normally be guaranteed for 3 months and must be paid within 6 months of the calculation date.

transfer out - dc

If benefits are held in a defined contribution scheme, a quotation must be provided within 3 months of the request and paid within 6 months of the application to transfer.

Remember, a transfer value cannot be guaranteed and the amount eventually paid may differ from the quotation as the amount depends on the value of the fund at the time they are disinvested.

divorce

If a transfer value is requested and the scheme is aware that it is required for divorce purposes, a quotation should be provided within 6 weeks of the request or by the date specified by the court. However, the trustees or administrators may be able to charge for providing an expedited transfer value.

Divorces in England and Wales are treated differently to divorces in Scotland. There is more detail regarding these differences in Module 8 – Divorce and Pension Benefits.

What is a Pension scam?

Millions of people fall victim to scams every year and scammers' tactics are constantly changing to try and get hold of people's pension pots and avoid the regulator.

The potential market is huge and unscrupulous companies are taking advantage of the difficult economic climate to entice people into transferring their pension to schemes with seemingly excellent investment returns or; suggesting cash can be immediately accessed when legislation would not permit this without tax consequences. It is understandable why many people may find things they are offered attractive, but they often aren't told of the consequences, or are told that the consequences don't apply to them.

What are pension scams?

They come in various disguises but they all aim to get hold of a person's pension savings.

Typical tactics to lure people include:

- Free pension reviews
- Promises of better returns savings
- Pension loans
- Upfront cash

Even with the new flexibilities, a member cannot access their pension as cash until they reach age 55, unless they are in ill-health. A common scam is where members under age 55 transfer benefits to an arrangement where usually they take some of the benefit as cash immediately, i.e., below the age 55.

Pension loans or cash incentives entice people into transferring their benefits but they are either not informed, or are misled, about key consequences e.g. tax consequences, fees involved or how the remainder of their pension savings are being invested. There is a focus on members generally being misled into risky transfers even where cash incentives may not be offered e.g., unregulated schemes offering high rates of "guaranteed returns" and misleading members about the value of current benefits.

You should note that this is not the same as "Pension Unlocking". This is where a member aged over 55 can release 25% of their total fund as a tax-free cash sum (PCLS). Pension Unlocking means a member will have less available to provide the rest of their retirement benefits in retirement so it is only suitable for certain people in certain circumstances.

What's the catch?

A member can only use their pension scheme once so if they liberate it early, there may be nothing left when they retire. The risks include:

- Investment risk – the investment vehicle used may not be safe, many are dubious investments outside the UK.
- High fees – commission or arrangement fees typically range from 10% to 30%.
- Misleading information – the member may not be advised of the high tax consequences of such a transfer.
- Tax charge – HMRC will charge 40% on the amount transferred but it could be up to 55%. The member must tell HMRC; if they don't, and then HMRC find out, additional penalties and interest may be charged on top of the tax charge.

Warning signs

Some of the warning signs that scammers may be involved are below to help you question the member and find out a bit more:

Unsolicited text messages or calls – how did the member get to hear about the company to which they wish to transfer? These texts or calls are often the first point of contact to attract people, however it is unlikely that reputable companies would request personal information this way. In the 2016 Autumn Statement, the Chancellor announced a ban on cold calling concerning pensions advice, although at the time of writing this ban has yet to be implemented. An amendment to the financial guidance and claims bill was unveiled in early March 2018 and a ban on pensions cold calling was implemented on 9 January 1019.

Poor credit rating – information about Bankruptcy and County Court Judgement is in the public domain. Companies use this information to target vulnerable people who are likely to need short-term cash. Loans or cash bonus – has the member been offered these as an incentive to transfer?

Transfer overseas – promises of high returns if the money is invested in overseas companies - the investment may not exist at all and often when money is transferred abroad, it is harder to trace.

Constant chasers – why is the member in such a hurry to complete the transfer? It could be because the scammers are in a hurry as they are concerned about being caught by the authorities!

Legal loopholes – the member may have been told that the transfer can take place due to a legal loophole. Such a loophole does not exist, the member needs to understand the financial impact of proceeding.

High investment returns – is the member being promised investment returns such as over 8%?

Single investment – a financial adviser would normally suggest a spread of investments.

MODULE 8

Divorce and Pension Benefits

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

At the end of this module, you will be able to:

- Identify the three ways of dealing with assets on divorce
- Describe the advantages and disadvantages of each method of dealing with assets on divorce
- Explain the process involved with pension sharing including pension debits and credits, internal and external transfers
- Understand the stages that members have to go through and the requirements at each stage

In this module you will see that there are three ways to deal with pension benefits on divorce and some of the advantages and disadvantages of each. A member may not have a choice if a PSO is issued but it is important that they understand the impact on their benefits whether they have a pension debit or credit applied.

What is a divorce?

An irretrievable breakdown of marriage if you have been married for at least a year. There must be good reasons that can be evidenced e.g., adultery, irreconcilable differences, living apart for either 2 years where both parties agree to the divorce or 5 years if one party disagrees.

A divorce petition needs to be filed with the court. Then there are two stages:

1. Apply for a decree nisi – a document that says that the court doesn't see any reason why the divorce can't proceed.
2. Apply for a decree absolute – at least 6 weeks after the decree nisi certificate is received. This will end that marriage.

These provisions changed 6 April 2022 to a couple mutually citing "irretrievable breakdown" as the sole grounds and the minimum time period before divorce will be 6 months. A member can find out more about applying for a divorce on the gov.uk website.

overview

Pension funds can be the largest asset after the family home. First, we look at how the law relating to pensions and divorce has evolved in recent years:

1973 - the matrimonial causes act 1973

This Act gave the courts in England and Wales the power to take into account the value of pension arrangements when settling the matrimonial estate, although this was not compulsory.

Northern Ireland had a similar law that was introduced in 1978.

1985 - the Family law (Scotland) act 1985

Either party to the marriage can apply to the court for an order to split the matrimonial property.

In Scotland, the value of the pension benefits had to be offset as part of the financial settlement although the ex-spouse had no direct access to the pension. There was no such provision under English Law.

1995 - the Pensions Act 1995

This Act gave the courts in England, Wales, Scotland and Northern Ireland the power to make an "earmarking order", in other words a percentage or fixed amount of the member's benefits could be earmarked for the spouse to receive in the future.

This can be used for divorces petitioned (i.e., started) on or after 1 July 1996 (England and Wales). 19 August 1996 (Scotland) or 10 August 1996 (Northern Ireland).

The Act also made it compulsory for courts to take pension rights into account when determining the value of the matrimonial estate, thus effectively bringing England and Wales into line with Scotland.

1999 - the Welfare Reform and Pensions Act 1999

This Act introduced the option of pension sharing on divorce and became effective for divorces occurring on or after 1 December 2000.

For the first time pension rights had to be treated as any other assets and could be transferable from one spouse to another on settlement. Both the husband and wife have separate, independent pensions. Courts did still have the option to choose offsetting or earmarking.

2004 - the Civil Partnership act 2004

With effect from December 2005 this Act allows same sex couples to enter into a civil partnership, with rights and responsibilities similar to the legal status of married couples.

The Act introduced discretionary powers for a court on the dissolution of a civil partnership which included powers to make pension sharing and earmarking orders.

2013 - Marriage (same sex couples) Act 2013

This Act introduced for England and Wales on 17 July 2013, was introduced to make provision for the marriage of same sex couples.

It meant that same sex couples were given the same rights under law.

The Divorce, Dissolution and Separation Act 2020

The Divorce, Dissolution and Separation Act 2020 amends the Matrimonial Causes Act 1973 and the Civil Partnership Act 2004 to remove fault-based concepts in proceedings for divorce, dissolution and (judicial) separation. This is a fundamental change which will affect the way in which the courts deal with applications. They came into force on 6 April 2022.

The new divorce laws removed the need for evidence of adultery, desertion or unreasonable behaviour. A couple can mutually cite "irretrievable breakdown "as the sole grounds for wanting a divorce. The positive being it won't cause further bad feeling between couples. There will be a minimum period of 6 months from the date of the divorce petition to decree absolute to allow the parties a meaningful period of reflection and the opportunity to turn back the applicant will be required to reaffirm the decision to seek a divorce before it is granted.

What are the different ways of dealing with pension benefits?

There are three ways of dealing with pension benefits upon divorce.

1. Offsetting
2. Pension Attachment/Earmarking
3. Pension Sharing

We will look at each one in turn.

offsetting

This is the simplest way to deal with the pension benefits. The total value of the pension benefits are offset against other assets – for example a greater share of the family home is given to the ex-spouse in return for the member keeping all of his or her pension.

advantages:

- Settled out of Court
- Achieves a clean break Disadvantages
- How is a fair value achieved?
- The value of pension may be higher than other assets
- Pension values may fluctuate more than house prices

Simple scenario

Jack and Jill are in the process of getting divorced.

- Jack is a member of a final salary pension scheme which promises to pay a pension at retirement. The value of this pension is £500,000.
- Jill has no pension rights but the matrimonial home is also valued at £500,000. Jack gets to keep his pension. Jill gets ownership of the family home.

Not so simple scenario

Mr & Mrs Jones are getting divorced after 22 years of marriage.

- Mr Jones retired at age 65 and receives a pension that includes a spouse's pension payable on his death. He also has some savings.
- Mrs Jones is age 45 and still working and is a member of a good pension scheme that includes a spouse's pension payable on her death.

The capital value of Mr Jones's pension rights exceeds that of Mrs Jones, a significant part relates to a widow's pension paid on his death. Once divorced Mrs Jones would not benefit from this.

It was decided that "offsetting" was the most appropriate solution. Mr Jones also had to pay some money to Mrs Jones from his savings.

Why do you think age could be an important factor in this scenario?

At 45 Mrs Jones is still young enough to continue working for a higher pension at retirement, but:

1. Prior to the divorce Mrs Jones would have been entitled to a widow's pension when her husband died. As she is 20 years younger there is a strong possibility she would have received this pension and for a long period after his death.
2. The pension scheme to which Mrs Jones belongs also had a widower's pension if she dies first but as there is a twenty year age difference, Mr Jones would be unlikely to receive it – due to mortality she would be expected to outlive him.

This scenario shows that the loss of potential future benefits should also be taken into account.

Pension attachment/earmarking

If this option is selected, part of the member's benefits are set aside for the ex-spouse/civil partner as directed by the Court. The amount is specified at the time of divorce/dissolution and an Attachment Order is made against the member's benefits. It takes effect when the member's benefits come into payment.

Both pensions and lump sums (including death lump sums) can be earmarked except in Scotland, where orders can only be made against lump sums.

A copy of the application to the Court is sent to the scheme administrator outlining the order to be sought (Form P2). The trustees may request further information about it, object to it and be represented at any hearing.

If the application is an agreed Order, the trustees have 21 days to object. Once an Order has been made the ex-spouse/civil partner must serve it on the pension scheme.

Earmarked pensions
Some aspects to consider regarding earmarked pensions

- There is no clean break for the member and no guarantee of benefits for the ex-spouse/civil partner.
- The ex-spouse/civil partner only receives the benefits when the member does.
- If the member dies, the earmarking order falls away.
- If the ex-spouse/civil partner remarries or the ex-civil partner forms a new civil partnership, the earmarking order ceases, although generally lump sum earmarking orders don't fall away on remarriage or on forming a new civil partnership.
- The ex-spouse/civil partner will need to know how the income will affect tax payments.
- The pension to the ex-spouse/civil partner is taxed as though paid to the member and the ex-spouse/ civil partner has no income tax liability at all.
- Any earmarked lump sum will still be tax free.

Pension sharing

Introduction
The Pension Sharing option applies to divorce proceedings from 1 December 2000 only.

The member may not have a choice as the Court can order pension sharing to take place. The Order is sent to the scheme administrator who must implement it as directed.

It separates the member's pension entitlement so there is a clean break; it offers greater flexibility than earmarking/offsetting.

It applies to all pension assets belonging to the couple except for Scotland where it only applies to pension assets built up during the period of marriage/civil partnership.

Some Basic Rules
To enable a Pension Sharing Order (PSO) to be implemented, the member must provide the scheme administrator with the decree absolute.

A PSO cannot be made where:

- There is already a PSO on the pension arrangement in respect of the same marriage; or
- If an earmarking/attachment order exists in respect of any marriage

It does not apply where a member has less than 3 months' pensionable service, unless they have preserved pension rights.
You should note that a UK pension provider cannot comply with an order for pension sharing that has been made against it by an overseas court. A UK court order would need to be granted before the scheme could act on it. Without a UK court order the scheme would be accused of assignment of benefits which is prohibited under the Pensions Act 1995 and would result in unauthorised payments being made.

Pension Debit and Pension Credit
The PSO states the percentage of the member's benefits to be given to the ex-spouse/civil partner. It can be anything between 1% and 100%.

The member's pension is reduced accordingly. This is known as a "Pension Debit".

If a member has benefits in a DC scheme, the amount is simply deducted from the value of the member's pension pot. The ex- spouse/civil partner will then transfer their benefits, either internally (so that the benefits are held under their name in the same scheme as the member) or externally, to a different pension scheme. The ways in which those benefits can be paid out to them on retirement will depend on the scheme into which they transferred them.

However, if the benefits are in a DB scheme, it is more complicated and the scheme administrator has to keep track of the pension debit. The PSO percentage is applied to the member's pension rights and that amount is revalued in accordance with statutory revaluation orders, the amount is then deducted from the member's benefits at retirement.

See below an example of how this works in practice.
Now

- Active member, age 50, earns £30,000 p.a., NRA is 60
- Accrued pension = 1/60 x 20 x £30,000 = £10,000 p.a.
- PSO states 40%
- Pension debit = £10,000 x 40% = £4,000 p.a.

NRA

- Accrued pension = 1/60 x 30 x £60,000 = £30,000 p.a.
- Pension debit of £4,000 p.a. is revalued in accordance with the scheme rules and increases to £6,000 p.a.
- Pension to the member after applying the debit = £30,000 - £6,000 = £24,000 p.a.

With either scheme, the member will need to consider how they can rebuild the funds they have lost.

The ex-spouse/civil partner receives a corresponding "Pension Credit". This benefit is completely independent of the member's benefits and will be used either as an internal or external transfer. The pension credit amount counts against their LTA unless it arose from benefits that came into payment after 6 April 2006, as they will already have been tested against the LTA.

When the ex-spouse/civil partner retires, they will be able to take a PCLS from the benefits provided in respect of the pension credit, unless the member's benefits were already in payment when the pension share occurred.

External Transfer
The scheme rules will state if an eternal transfer is allowed and, in many cases, they insist on it.

An external transfer simply means that the ex-spouse/civil partner must transfer the pension credit to a suitable qualifying arrangement.

If the scheme is in deficit the pension credit may be reduced by the percentage by which the scheme is underfunded at the valuation date. In such cases, the requirement for an external transfer cannot be imposed. The ex-spouse/civil partner can choose to delay an external transfer until the scheme becomes fully funded again.

If the ex-spouse/civil partner does not respond to requests for information about the arrangement to which the pension credit should be paid, the trustees can propose an alternative arrangement on his or her behalf.

Internal Transfer
With an internal transfer, the pension credit remains in the scheme and the ex-spouse/civil partner is treated as a deferred scheme member.

The ex-spouse/civil partner becomes entitled to all other benefits of the scheme, although they do not have to mirror those of the scheme. For example, the ex-spouse/civil partner can make further contributions (subject to scheme rules), retire at scheme Normal Retirement Age and take a PCLS at retirement.

If the member's scheme is underfunded then the ex-spouse/civil partner can still choose an external transfer with a reduced pension credit.

Protected benefits
Pension sharing may have an impact on members who have protected benefits.

Primary Protection – Pension Debit
If the member has this, HMRC must be notified and the protection reduced accordingly. The reduced personal LTA will apply to all future Benefit Crystallisation Events (BCE) after the benefits have been reduced by the pension debit.

If the pension debit brings the value of the member's benefits to below £1.5million, primary protection will be lost. The member will revert to the standard lifetime allowance.

Primary Protection – Pension Credit
Primary Protection is not affected if a member receives a pension credit. This may lead to the member's benefits exceeding their personal LTA on retirement.

Enhanced Protection – Pension Debit
If the member is in a DB scheme, they may be able to rebuild some or all of the lost pension rights but need to take care that "relevant benefit accrual" does not occur as that will result in enhanced protection being lost.

For members of DC schemes, if any contributions are made by a member to restore pension rights, this will result in the loss of enhanced protection.

"Relevant benefit accrual"
The relevant benefit accrual test for a defined benefits arrangement is done when benefits come into payment or are transferred. Contributions may continue after 5 April 2006 without causing loss of enhanced protection. Benefits may continue to accrue after 5 April 2006 (for example rebuilding lost pension rights following a pension debit as outlined in this module). But the extent to which further benefits may accrue is set in legislation. For an explanation of the method to test relevant benefit accrual please see link to HMRC's Pensions Tax Manual below. **https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm092400**

NB You will not be expected to answer questions on how to test whether there has been relevant benefit accrual but you should be aware that rebuilding lost pension rights may cause enhanced protection to be lost.
Enhanced Protection – Pension Credit
Where the member is the ex-spouse/civil partner receiving the pension credit and they have enhanced protection on the scheme, if they set up a new arrangement to accept the pension credit, they will lose their enhanced protection. They should ensure that the credit is transferred into the arrangement where they have the enhanced protection. If the member is in a DB scheme the pension credit could later result in relevant benefit accrual having occurred by the time they retire or transfer, so enhanced protection could then be lost.

Fixed Protection – Pension Debit
This protection will be retained but members may wish to revoke it if they want to make further contributions or accrue additional benefits to make up the pension debit shortfall.

Fixed Protection – Pension Credit
Where the member is the ex-spouse/civil partner receiving the pension credit and they have fixed protection, they can retain it if the pension credit is transferred to an existing registered money purchase arrangement.

Pension sharing Problems

Some of the common problems are shown below:

- There could be delays in collating information, particularly where the member has several pension arrangements.
- If the member has several schemes, which one should have the pension debit? The member needs to consider carefully, as we have seen earlier particularly where there are protected benefits involved.
- Payment of charges – these can be expensive (in excess of £1,000). On the Pensions and Lifetime Savings Association (PLSA) website there are example charges **http://www.plsa.co.uk/portals/0/documents/0180_Pension_sharing_charges_naPF_guidance_0711.pdf** . Delays can occur if one party refuses to pay the charges, even though they are required to do so by the Court Order. In general charges can be recovered by asking for direct payment by the member and/or ex-spouse/civil partner, or by deduction from the benefits. However, the latter method can be used only if the charges are not required to be paid before the implementation of the pension share.
- Sometimes the Court forgets to send the scheme administrator the PSO, or it's not properly stamped.
- If an external transfer is taking place to an overseas scheme, additional checks may be required.
- If the member is already in receipt of their pension, then there could be some overpayments while the PSO is being implemented. These overpayments will have to be taken into account and could affect income tax. It is important that the scheme makes it very clear to the member, if an overpayment is expected, that it will be reclaimed once the PSO has been implemented – this is a common area for complaints to arise.

A divorcing couple agree to equal pension benefits and a PSO is received for 50%.

The CETV from the DB scheme is £200,000 so £100,000 is transferred into a Personal Pension Plan for the ex-spouse.

On retirement a few years later, it transpires that the share of the DB scheme benefits is much greater than the share in the Personal Pension Plan.

What do you think the problem was in this case?

The couple agreed to equal benefits but what did they actually mean?

- A simple split of the transfer value amount 50/50 does not provide for "equal benefits".
- It was found that to equalise benefits, the amount transferred to the PPP should have been higher to account for the fact that the retained share in the DB scheme was subsidised by the employer, whereas the amount transferred to the PPP was not.
- In this case, a further payment had to be made to cover the shortfall of "equal benefits" including loss of growth between the transfer date and retirement date.

It was suggested that pension sharing on an income basis could have been a fairer approach for both parties.

What are the stages in the Pension sharing Process?

As part of the Divorce proceedings a couple can apply for ancillary relief. Financial matters are seen as ancillary (of secondary importance) to the divorce proceedings. The ancillary relief proceedings help the court achieve a clean break between the parties.

The overall objective of ancillary relief rules is that the Court can deal with cases justly and:

- save expenses;
- deal with cases in ways that are proportionate to the money involved and complexity of the case;
- deal expeditiously and fairly; and
- allot court resources appropriately to the resource and needs of the case.

There are 5 stages in a Pension Sharing process.

1. stage 1 – information to be provided

The member must apply for ancillary relief using Form A. The Court then fixes an appointment date and within 7 days of receiving notification of the date, the member must send a copy of the Form A to the scheme administrator.

The scheme administrator must provide the following information:

- the value of the member's accrued pension rights. The day on which the CETV request is received is known as the Valuation Date;
- a statement summarising the way the transfer value is calculated;
- the pension benefits included i.e., lump sum death benefits, estimated PCLS and pension benefits on retirement, spouse's benefits on death;
- AVC details;
- earliest date benefits can be paid;
- whether the scheme offers membership to the ex-spouse/civil partner and whether this requires employer and/or trustee approval (internal transfer);
- whether the scheme would transfer the ex-spouse/civil partner benefits to another qualifying arrangement (external transfer); and
- a schedule of charges for dealing with the PSO.

The basic information must be issued within 6 weeks of the request if the scheme is told that it is in conjunction with divorce proceedings and the scheme may charge for providing the information.

It is important to note that:

- If the member already has a transfer value statement that is less than 12 months old, that is sufficient for the first appointment date.
- The ex-spouse/civil partner is not entitled to receive any information at this stage.

Once the person with the pension rights has received the information from each pension arrangement; they have 7 days to send a copy of this to the other party.

2. stage 2 – a possible Pension sharing order (Pso)

The scheme administrator will receive notification that a PSO may be made. At this stage the additional information to be issued includes the information listed below:

- Name and address of the scheme
- Type of scheme
- If the scheme is being wound up
- Details of any restrictions on the CETV
- If there are any previous Court Orders
- If any of the pension rights are not shareable
- If the member is a trustee

The information must be issued within 21 days of the request.

3. stage 3 – receipt of formal Pso

When the PSO is received it should contain an annex and it must be stamped by the Court.

The scheme administrator must discharge its liability within 4 months from the first day they receive the information below:

- The Order of provision for ancillary relief, including the annex;
- Decree of divorce or nullity of marriage; and
- Information required by the Provision of Information Regulations 2000.

It is important to ensure that charges have been paid by the appropriate method chosen by the scheme. The PSO will state the percentage of the benefits to be passed to the ex-spouse. State Pensions cannot be subject to a PSO.

4. stage 4 – implementation

The time limit from the date of the PSO or receipt of the full information (if later) to implement the pension share is 4 months however, this can be extended by the Pension Regulator for example if a scheme is in wind-up.

If this deadline is missed the Pensions Regulator may impose penalties.

tPR fines	information not provided within	Pso not implemented required deadlines
In the case of an individual trustee or manager	Up to £200	Up to £1,000
All other cases	Up to £1,000	Up to £10,000

Transfer Day – this is the day the PSO takes effect. It may also be known as the effective date.

Valuation Day – this is a day chosen by the scheme within the 4-month implementation period. It starts on the transfer day or, if later, the day the scheme has received all the information to implement the PSO.

How the PSO is implemented depends on whether an internal or external transfer is taking place.

5. stage 5 – Post implementation

Once the trustees have implemented a PSO they must issue a notice of discharge of liability to both the member and the ex- spouse/civil partner.

It must be issued within 21 days beginning on the day on which the discharge of liability in respect of the ex-spouse/civil partner's pension credit is completed.

how does the treatment of pension rights on divorce differ between England & Wales?

The treatment of pension rights differs according to jurisdiction and it may be appropriate for members to consider under which legal jurisdiction they wish their divorce settled.

Difference between England & Wales and Scotland

England & Wales

- Both pensions and lump sums can be earmarked.
- Pension sharing can only take place by Court orders.
- All pension assets are taken into account.
- The Pension Sharing Order will state the percentage of the rights to be shared.

Scotland

- Only lump sums can be earmarked.
- Pension sharing can take place by Court order or by qualifying agreement between the parties.
- Only pension assets accrued during marriage are taken into account.
- The Pension Sharing Order will state the percentage of the rights to be shared or specify an amount to be transferred.

how are state pensions affected?

Some elements of a member's State Pension entitlement are also taken into account on divorce or dissolution of a civil partnership.

The implications will differ depending on whether the individual reaches State Pension Age before or after 5th April 2016. (i.e., they are eligible for the old or new State Pension).

reach state Pension age on or before 5th April 2016

Previous rules did not allow the Basic State Pension to be split or shared on divorce or dissolution of a civil partnership, but an individual might be able to claim a Basic State Pension that is based on their ex-spouse's or ex-civil partner's National Insurance Contribution history. This does not affect the amount of Basic State Pension that their ex-spouse or partner receives. However, if the individual remarries or enters a civil partnership before they reach State Pension age, they lose this right.

Any Additional State Pension benefits such as State Earnings Related Pension or the Second State Pension (S2P) can be shared on divorce or dissolution of a civil partnership through a pension sharing order. If a pension sharing order is granted, the individual's Additional State Pension may increase or decrease, depending on the Court's decision.

reach state pension age on or after 6th April 2016 (even if defer taking your state Pension)

If an individual divorces, or dissolves a civil partnership, on or after 6 April 2016, it may be possible to be granted a pension sharing order over part of an ex-spouse's or partner's 'Protected Payment'. This is any Additional State Pension benefits built up before 6 April 2016. The main element of the New State Pension is not allowed to be shared.

MODULE 9
Pension Scheme Death Benefits

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

In this module we will learn about how death can affect pension benefits. At the end of this module, you will be able to:

- Describe what to when someone dies and state the information required.
- Explain the importance of expression of wish forms and factors trustees must consider when applying discretionary powers.
- State the benefits payable from pension schemes and the State benefits.
- Understand when Inheritance Tax is payable and by whom.

In this module we will see how important it is for a member to keep their expression of wish form up to date and some of the problems trustees face in deciding who should receive benefits. We will also look at the types of benefits payable and where tax charges may apply. This information will help you when dealing with family members during a difficult situation so that you can explain what happens and the common problems that can occur.

What has to be done When someone dies?

When someone dies it can be a very confusing time so first of all we will look at what needs to be done.

First few days

There are three things to do in the first few days after someone dies:

1. Obtain a medical certificate from the GP or hospital – this is required to register the death.
2. Register the death at the council Register Office within 5 days of the date of death.

If possible you should take the person's birth and marriage certificates and medical card, you will also have to tell the registrar certain things such as place of birth, occupation, address, whether they were getting state benefits. You will be provided with the death certificate and other documents required to arrange the funeral. You can purchase additional death certificates if required (see "Who else needs notifying" section below) for sorting out the person's affairs.

3. Arrange the funeral either yourself or with a funeral director.

coroner

If a death is reported to a coroner, then you can't register the death until the coroner gives permission

A death will be reported to a coroner in the following circumstances:

- the cause is unknown;
- it was violent or unnatural;
- it was sudden and unexplained;
- the person was not visited by a medical practitioner during their final illness;
- a medical certificate is not available;
- the person was not seen by the doctor who signed the medical certificate within 14 days before death or after they died;
- death occurred during an operation or before the person came out of anaesthetic;
- the medical certificate indicates that the cause is industrial or poisoning.

Post mortem

The coroner may decide that a post mortem is required to find out how or why the death occurred and no-one can object to this.

If subsequently no further examination is required the coroner will release the body for the funeral.

If the coroner decides to hold an inquest, they will provide a certificate to prove the person is dead and when the inquest is over, they will tell the registrar what to enter in the register.

Who else needs notifying

Most councils have a "Tell Us Once" system which can be used to notify all government departments such as:

- HM Revenue & Customs;
- National Insurance Contributions and Employer Office;
- Child Benefit Office;
- Tax Credit Office;
- DVLA;
- Council Tax.

Other organisations such as pension schemes, banks and other financial organisations will also need to be contacted individually, they will each require an original copy of the death certificate and will have their own requirements and procedures to pay out benefits.

What pension scheme death benefits are available?

From previous modules you will know that the benefits payable on the death of a member differ according to the scheme rules/policy terms and the status of the member.

benefits payable could be:

- Lump Sum
- Refund of Contributions
- Dependant's Pension

member status could be either:

- Life Assurance Only member
- Active member
- Deferred member
- Pensioner member

What is a life assurance only member?

A life assurance only member is covered from lump sum death benefits but does not accrue pension benefits. As a consequence of provisions in the European Pensions Directive, effective from 22 September 2005, it is more usual for life assurance only benefits to be provided through a separate group life assurance scheme but some occupational pension schemes may still have life assurance only members.

Life assurance only cover through an occupational pension scheme may be provided where:

- The member has not yet met the eligibility conditions for joining the occupational pension scheme.
- The member has "opted-out" of the pension scheme but still qualifies for life cover.

The death lump sum payable in respect of a life assurance only member is usually less than the amount payable in respect of an active member.

What is a standalone group life assurance scheme?

A standalone group life assurance scheme (GLAS) is a registered scheme set up under trust to provide active members of the GLAS scheme with lump sum death benefits only - pension benefits do not accrue. A GLAS scheme may be set up to run alongside an occupational pension scheme or a group personal pension scheme and have different categories of member with different levels of cover; for example, a higher level of cover for active members of the occupational pension scheme,

What is an expression of wish?

The biggest payment on the death of an active member is the lump sum death benefit.

When a member joins a scheme, it is important he/she completes an expression of wish form which is designed to give the trustees an indication of the deceased member's preference for the settlement of death benefits.

The benefits are payable at the trustees' discretion so this form is not binding. A completed expression of wish form does, however, help the trustees make a decision more quickly at a difficult time for the family.

The form should be kept up to date as family circumstances change.

Forms can normally be obtained from the trustees or the pension scheme administrator.

illustrative scenario where there is no expression of wish

A member dies who was separated from his wife and in a new relationship. The member leaves a couple of children who are not dependent on him.

The member did not leave an expression of wish form. This is quite a common scenario.

Problems occur if a member does not leave any documentation indicating who the benefits should go to in the event of death.

In this scenario the trustees didn't know what the member wanted or what his relationship was with his spouse or his children. Further investigations will need to take place before the trustees can make any decisions on who should receive the death benefit payable.

What lump sum death benefits are available?

Lump sum and dependant's pension

- The lump sum is often a multiple of salary.
- In addition, a pension may be paid to a spouse or dependant.
- Unless the scheme is very big, these benefits are normally insured up to a certain amount known as the free cover level (FCL).

Free cover level/limit (Fcl)

- This is the maximum amount an insurance company is prepared to insure a member of a group policy without any forms or medical information being required.
- The member is automatically covered and each year the benefit statement from the scheme will show the amount of cover.

exceeding the Fcl

- If a member is entitled to benefits that exceed the FCL, those benefits may be restricted to the FCL amount until a medical has taken place.
- Depending on the medical results, the limit will either be removed or remain in place.
- In some cases, an additional premium may be required.

What is the Procedure For death in service?

We will now consider the normal procedure when an active member of a pension scheme dies. It is an upsetting and confusing time for the family so it will help them to understand what is required.

It is important that death cases should be given a high priority and dealt with by everyone as quickly as possible and in a sensitive manner.

1. notification

A notification of death form is normally sent in by the employer or a family member may telephone the pension administrator or pension provider directly.

The original death certificate must be obtained and in some cases, this will need to be passed onto other parties in connection with the scheme benefits due, consequently it may not be possible to return the death certificate immediately.

The scheme administrator should also obtain the expression of wish form – this may be held by the administrator or the trustees, and may be in a sealed envelope marked “only to be opened on death”. Although members are encouraged to complete these forms and keep them up to date, one is not always available.

Other information that is required to help the trustees settle the benefits is:

Spouse, civil partner or partner

Name, address, date of birth and their certificates. If it is not a legally recognised partnership then it would be helpful for the trustees to know the duration of the relationship.

Children under age 23

Names, dates of birth, marital status, address and if they are in full time education.

Other dependants or relatives

Names, address, dates of birth, relationship to the deceased and if they were financially supported by the member.

Legal Personal Representative

If one exists – the name, address and relationship to the deceased.

Probate Information

If available, a copy of the Will or Grant of Probate/Letters of Administration. In Scotland probate is called “confirmation”.

2. Calculation of benefits
The benefits will be calculated in accordance with the scheme rules and the information sent to the trustees along with the expression of wish form (if they don't already hold it and if one exists) and any other information that has been made available from the family.

If the member paid AVCs or has defined contribution benefits the amounts will be provisional as the actual amount will not be known until the benefits are realised.

Where benefits are payable at the discretion of the trustees such as the lump sum – no details should be given to anyone without the agreement of the trustees.

3. obtaining monies
Whilst the trustees are making their decision the monies due should be realised and paid into the trustees' bank account, for example:

- A claim form is completed for the insurer to release the lump sum amount to the trustees
- Contributions will be disinvested for any refund of contributions due including AVCs.

4. trustees' discretion
Pension scheme trustees (including trustees of a standalone GLAS) must always act in the best interests of the scheme beneficiaries who include anyone who is entitled to, or who might receive a benefit from the scheme either now or in the future. In the case of a member's death this relates to:

- spouse or civil partners
- dependants such as children or other relatives who are financially dependent on them
- former husbands and wives who have been granted pension credits following divorce.

The trustees decide who should receive the lump sum payment, as this is a discretionary payment it does not form part of the deceased member's estate and is free of tax. If, however the trustees decide that the lump sum should be paid to the deceased member's estate inheritance tax may then be payable.

Trustees will also decide who should receive any dependant's pension in accordance with the scheme rules.

Trustees must also consider the beneficiaries' interests and act impartially; this includes taking account of all the relevant facts and weighing up the interests of each individual against the needs of the others. Professional advice should be taken if necessary and all decisions should be recorded.

In certain circumstances the trustees may release monies to pay for funeral expenses in advance of a decision as to the beneficiaries of the death lump sum. Any expenses paid in advance will then be deducted from the final payment.

5. settling benefits
The dependants' pensions should be set up as soon as possible after the death of the member.

Once the trustees make their decision the lump sum benefits can also be paid out as per their instructions. Again, this should be done as quickly as possible as quite often the money is required to pay for funeral expenses.

If any dependant's pension is not a fixed amount and if the monies are to be used to set up a dependant's pension, then quotations may need to be obtained and the dependant may have the option of purchasing their own pension on the open market.

disclosure regulations

The disclosure regulations state how quickly people should be notified of benefits payable following the death of a member.

- An adult with rights or options must be notified within two months of the trustees or Administrator receiving notification of death.
- A legal personal representative, or other person, representing someone with potential rights, must be notified within two months of the request being made.

time limit for payment of lump sum benefits

The lump sum death benefit should be paid within 2 years of the earlier of:

- The day the scheme administrator first knew of the death; or
- The day the scheme administrator could first reasonably be expected to have known of the death.

NB This module does not cover the treatment of lump sum death benefits paid prior to 6 April 2016. For information on such lump sum payments see **https://www.gov.uk/hmrc-internal-manuals/pensions-taxmanual/ptm073000**

Main types of lump sum death benefit

Defined benefits lump sum death benefit – a lump sum paid from a defined benefits arrangement that is not

- a pension protection lump sum death benefit,
- a trivial commutation lump sum death benefit, or
- a winding-up lump sum death benefit.

Uncrystallised funds lump sum death benefit – paid from a money purchase arrangement or a cash balance arrangement from funds that have not yet been put in to payment.

Other types of lump sum death benefit include:

- a pension protection lump sum death benefit *,
- an annuity protection lump sum death benefit *,
- a drawdown pension fund lump sum death benefit *,
- a flexi-access drawdown fund lump sum death benefit *,
- a trivial commutation lump sum death benefit,
- a winding-up lump sum death benefit,
- a charity lump sum death benefit, or
- a life cover lump sum.
- described later in this module

For information on such lump sum payments see **https://www.gov.uk/hmrc-internal- manuals/pensionstax-manual/ptm073000**

Payment made within the two-year time limit.

If the member was aged under 75 when he or she died, a defined benefits lump sum death benefit or an uncrystallised funds lump sum death benefit, paid on or after 6 April 2016 within the two-year period is payable tax-free, unless the lifetime allowance charge is payable.

Payment made after 2 years

If the member was aged under 75 when he or she died and a defined benefits lump sum death benefit or an uncrystallised funds lump sum death benefit is paid on or after 6 April 2016 after the 2-year time limit has expired, the lump sum death benefit is subject to the recipient’s marginal rate of tax or, if not an individual, a special lump sum death benefit tax charge of 45%.

member aged 75 or over when they died.
Regardless of the date of payment, if the member was 75 or over when they died, this two-year time limit for paying the lump sum does not apply.

If the member was 75 or over when they died, the lump sum death benefit is subject to the recipient’s marginal rate of tax or, if not an individual, a special lump sum death benefit tax charge of 45%.

The recipient is responsible for any tax charge. HMRC will decide what portion of the tax bill each recipient will pay, it is apportioned equitably.

What would some examples look like?
We will now look at some scenarios to help you understand how trustees come to their decisions.

Many families have complicated relationships and sometimes beneficiaries don’t understand why they aren’t automatically entitled to the scheme benefits.

scenario 1 **situation:**
- a member dies who is in the process of a divorce.
- The decree absolute has not yet been issued but a financial settlement has been reached.
- There is no expression of wish form but the member’s will leaves the estate to the children.

outcome:
- The scheme rules state that if there is no expression of wish form but a legal spouse exists, the spouse gets the lump sum death benefit.
- The trustees pay the money to the spouse.

disagreement:
- The children make a complaint.

do you agree with the trustees’ decision?
Let’s see what the Pensions Ombudsman said.

scenario 1 – pensions ombudsman decision:
- The Pensions Ombudsman found that the trustees acted correctly even though the outcome was not what the member wanted.
- Money could only be paid in accordance with the rules and these were clear if no expression of wish existed.
- There was no decree absolute so there was a legal widow.

scenario 2 **situation:**

- A member dies leaving a will which states that his fiancée should inherit his house but that everything else should go to his daughter.
- An expression of wish form also exists, dated 3 months after the will, saying that the lump sum death benefit should go to his fiancée who was financially dependent on him.

outcome:

- The trustees considered the documents and that the fiancée would inherit the house • They also took legal advice and decided that the will was clear and took precedence.
- The trustees pay the money to the daughter.

disagreement:

- The fiancée makes a complaint.

do you agree with the trustees' decision?

Let's see what the Pensions Ombudsman said.

scenario 2 – pensions ombudsman decision:

- The Pensions Ombudsman found that the will was clear and an expression of wish form is not legally binding.
- Whichever way the trustees had decided the decision was not perverse.

scenarios 3 **situation:**
- A member dies leaving an expression of wish form stating that the lump sum death benefit should go to his daughters.
- The form was dated some time ago and he had since remarried

outcome:
- The trustees pay the money to the daughters.

disagreement:
- The member's widow makes a complaint.

trustees' response:
- The trustees responded that as the widow received the spouse's pension and the member's estate would pass to her, the member might have wanted the lump sum to be paid to his daughters.
- The trustees also believed that it would be an invasion of personal privacy to investigate the financial situation and the extent of the dependency of any potential beneficiaries.

do you agree with the trustees' decision?
Let's see what the Pensions Ombudsman said.

scenario 3 – pensions ombudsman decision:
- The Pensions Ombudsman found that it was wrong of the trustees to try and guess what the member would have wanted and they did not agree that investigating financial circumstances was an invasion of privacy.

What decisions can trustees make?

Trustees have a duty to consider all potential beneficiaries and we have seen from the scenarios that they can have some difficult decisions to make.

Let's look at how they can reach decisions.

Also, the reading material in the Resource Centre "How to avoid the Pensions Ombudsman" gives some helpful information in Section 7. of the document.

beneficiaries
The trustees must work out who the potential beneficiaries are. This means asking lots of questions which is difficult when dealing with a bereaved family so at all times the trustees must act with sensitivity.

A beneficiary is anyone who is entitled to, or who might receive, a benefit from the scheme, now or in the future. The scheme rules will define who can be classed as a beneficiary and on the death of a member these may include:
- widow, widower or civil partner of the member
- dependants of the member such as children or others who are financially dependent on the member
- organisations such as charities.

A beneficiary may be entitled to a portion of the lump sum, a dependant's pension or both.

member's wishes

A common problem for the trustees is that an expression of wish form does not exist, in this case the rules will also state the procedure for the trustees to follow.

If the form is out of date and for example the member has remarried or has other children, it could mean that new relationships come under the definition of beneficiaries within the rules.

A child or partner may have been omitted from an expression of wish form. The trustees cannot just accept this, they must find out why if no explicit reason has been given by the member.

The trustees must consider the expression of wish form and the weight that is to be attached to it.

They must investigate the family circumstances and all relationships with the member by talking to the member's family, friends and colleagues from work. They should also obtain, if available, a copy of the member's will to identify individuals who have any interest in the member's estate.

Financial dependency

When identifying potential beneficiaries, trustees should consider the age of the potential beneficiary and the relationship with the member.

They must make proper enquiries to find out the current circumstances and obtain evidence to see if the potential beneficiary was financially dependent on the member when the member died and to what extent the dependency existed. This is to help ensure that funds are equitably distributed.

Does the potential beneficiary meet the definition of financial dependency in the scheme rules?

For example:

- A cohabitee (no marriage certificate exists that is recognised by UK law) with their own income may not meet the definition.
- A person may be a dependent due to a disability – physical or mental impairment.
- An ex-spouse in receipt of payments from a financial provision order may be regarded as financially dependent on the member. If a child is involved the trustees must consider whether the financial provision is for the ex- spouse and/or for the benefit of the child – both could be regarded as financially dependent on the member in their own right.

A financially dependent child could be an adult, for example if they were a carer for the member or, their financial relationship was one of mutual dependence. The scheme rules would set out the criterial to determine mutual dependence.

For lump sums there is no requirement for a beneficiary to be financially dependent on the member but, dependence may be a factor in the exercise of trustees' discretion.

exercising discretion

The trustees must build up a picture of the member's life, pull all the information together and record the factors being taken into account.

Once this is done any inconsistencies should be identified and investigated further so there is a clear picture.

Decisions must be based on the facts, not assumptions or who the trustees consider to be most in financial need.

Keeping a record of the factors helps trustees assess whether their decision could be viewed as one which "no other reasonable decision maker faced with the same evidence would come to" (as quoted by the Pensions Ombudsman).

The Pensions Ombudsman also advises that trustees should inform interested parties of their decision and give reasons if appropriate.

What is Probate?

Based on the law in England and Wales this is the legal term given to the process to be followed when someone dies, it is normally undertaken by the executor of the will.

The Probate Registry gives the executor a document called a Grant of Probate which is a questionnaire listing the deceased assets and family members. It needs to be provided along with the death certificate.

Probate is required:

- To release monies over £5,000 in a bank account.
- To sell a property.
- To sell or transfer shares.
- To release funds under a death benefit policy.

The time taken for probate to be completed depends on the complexity of the case. It is normally between 16 to 20 weeks.

it is important to make a will

Introduction

"The lack of money is the root of all evil" ~ Mark Twain.

You can see from the previous case studies that the expression of wish form is not binding on the trustees and if a will exists it should be taken into account although, it is also not binding.

If a will does not exist then the estate is subject to Intestacy Rules that set out an Order of Entitlement and who can apply for probate. The person applying is known as the Administrator and the legal document is known as the Grant of Letters of Administration. In Scotland the position is different and probate is called "confirmation".

Many people think that it is not important to have a will but consider the following scenarios.

I don't need a will - 1

"I don't need a will, the family will take care of my assets when I die." A member dies leaving 5 children, 4 of which live outside the UK.

Without the others knowing, the son living in the UK takes out a grant of letters of administration to the estate.

He subsequently empties his mother's bank account and spends it.

consequence of not having a will in place - 1

The other 4 children are powerless to stop this as no will was made appointing executors.

I don't need a will - 2

"We are living as common-law husband and wife so I don't need a will as she will get everything when I die."

Tony and Cheryl are a happy young couple with a 3-year-old daughter. They plan to marry one day but haven't got around to it yet. Tony is the sole financial provider and gives Cheryl money every week, they have their own bank accounts.

Tony dies suddenly in a car accident.

consequence of not having a will in place - 2

Under the rules of intestacy Cheryl is not entitled to any of the estate as they were not married.

Tony's bank account is frozen.

Their 3-year-old daughter inherits everything including the home and all the money but won't be able to access it until she is 18.

Cheryl has no option but to make a claim against the estate – effectively claiming against her own daughter.

This is a costly process.

What are protected benefits?

If a member had pension rights valued at over £1.5m at 5 April 2006 then they may have applied for protection. Since then, there have been other forms of protection in 2012, 2014 and 2016 that members could apply for.

Consequently, some members do not have the standard LTA and will have a certificate from HMRC giving them an individual LTA amount that is higher than the standard LTA.

The standard LTA is currently (2022/23) £1,073,100m.

From 6 April 2023, the LTA Tax Charge on pension savings in excess of the LTA was removed. This means that, if you take your pension benefits and they are in excess of the LTA after this date, they will not be subject to the LTA Tax Charge. They will instead be subject to the same rate of tax as your other pension benefits (i.e., they will be subject to income tax at your marginal rate).

The Chancellor also announced his intention to completely abolish the LTA from 6 April 2024/25 tax year.

It is important to note that, whilst the LTA Tax Charge has effectively been removed, the maximum level of tax-free cash (also called the pension commencement lump sum or PCLS) has not been increased: the maximum tax-free cash amount was frozen at £268,275 (i.e., 25% of the standard LTA for the 2022/23 tax year) other than for members with an existing protection.

HMRC has confirmed that anyone who (a) had applied for a protection by 15 March 2023 and (b) retained a valid LTA protection as at 6 April 2023, will retain their entitlement to a higher tax-free cash amount. Depending on the type of protection held, they will, from 6 April 2023, be able to accrue new pension benefits, join new arrangements or transfer without losing their protections..

It is vital to check if protection exists, and in some cases, it may need to be recalculated on death.

What dependant's pensions are payable?

On the death of a member a pension may be payable.

In this section we will look at who may receive a pension and how much it may be.

HMRC definition of a dependant

HMRC define a dependant as someone who is:

1. Married or in a civil partnership with the deceased at the time of their death.
2. A child of the deceased member who at the date of death is:
   a. under age 23 or;
   b. over age 23 and, in the opinion of the scheme administrator, is dependent on the member due to physical or mental impairment.
3. None of the above but in the opinion of the scheme administrator, is financially dependent, mutually financially dependent, or dependent due to physical or mental impairment.

It is important to note that a stepchild cannot be treated as a dependant under definition 2. above unless the member had legally adopted them.

scheme rules definition

The scheme rules may differ within the HMRC definition, for example:

- They may not pay a pension to a partner if they were not married or in a civil partnership.
- The pension may be reduced if the spouse or civil partner is more than 10 years younger than the deceased member.
- The pension may cease if the spouse or civil partner remarries.

- Children's pensions are not paid for life but to an upper age as defined in the scheme rules, for example up to age 18 or age 21 if in full-time education.
- The number of children's pensions may be restricted e.g., to a maximum of 4 children, or if more than 4 children, the maximum based on 4 children may be shared equally.

amount of scheme pension

The amount of pension paid to a dependant will depend on the scheme rules, it is often:

If the scheme is a defined benefit scheme
To the spouse – 50% of the deceased member's pension at date of death.
If the scheme was contracted-out the pension must be at least equal to 50% of the deceased member's guaranteed minimum pension (GMP). If the spouse is a widower, then this minimum relates to the GMP earned after 6 April 1988 only.

To children – this often totals 50% of the spouse's pension.

The pension will increase in the same way as the deceased member's pension increased.

If the scheme is a defined contribution scheme or money purchase arrangement
The dependants' pensions will be based on the value of the member's fund at the date of death and the age of the dependants. They must be given the right to choose the insurer and they can tailor it to their circumstances, such as whether or not it should remain level or increase, and the frequency of payments.

Regardless of the scheme benefit basis:

- If the dependant is not the member's child it is paid until their death or remarriage.
- If a child's pension is payable, it will cease when they reach the relevant age or if they die.
- If a pension is paid due to financial dependency it may cease if that dependency changes.

As can be seen from the above setting the pension up may not be the end of the matter. The dependant may have an obligation to inform the trustees or the insurer of any change in circumstances from time to time.

trivial pensions

If the dependant's pension is a small amount, then very often, they will have the option of commuting it for a one-off lump sum which discharges the scheme of all liability to further benefits.

The maximum amount that can be paid from a scheme £30,000 and the whole amount is taxed as pension income. The scheme administrator will deduct tax using PAYE and pay the net amount to the dependant.

The pension can be trivially commuted at outset or at a later date. There is no time limit for making this payment.

Commuting a small pension for a one-off lump sum saves the scheme on-going administration costs. However, is it beneficial for the dependant?

The dependant needs to consider how this may interact with any means-tested state benefits they may receive such as housing benefit or council tax. If a lump sum is taken it will increase their capital and therefore may impact on their eligibility to claim these benefits.

Similarly, additional capital may also reduce or extinguish entitlement to pension credit.

A dependant may wish to consider taking regulated financial advice before choosing to take a trivial lump sum instead of the pension.

state benefits

Provided the member paid the relevant national insurance contributions then the spouse or civil partner may receive the following benefits from the State.

- A funeral expenses payment (also called Funeral Payment) if the dependant is on low income
- A bereavement support payment of between £2,500 and £3,500 if the member dies on or after 6 April 2017 and if the spouse is under SPA when the member dies
- A widowed parent's allowance if the member died before 6 April 2017. A taxable benefit for those under State Pension Age with at least one child who qualifies for child benefit. It is also paid if the spouse or civil partner is expecting the member's child at the date of death.

The following State benefits will not be payable after 5 April 2018.

- A bereavement allowance if the spouse was aged between 45 and SPA and the member died before 6 April 2017. This allowance was paid for up to 52 weeks.
- A bereavement payment of £2,000 if the member died before 6 April 2017 and if the spouse was under SPA when the member died or if over SPA subject to certain conditions.

state pension

The Basic State Pension cannot be passed on to someone else when the member dies. However, if this pension had been deferred to a later date, then the spouse or civil partner may be able to claim some of the deferred amount.

The spouse or civil partner may be able to claim some of the deceased member's additional state pension.

If the spouse or civil partner does not qualify for the full amount of the Basic State Pension in their own right, they may be able to claim some of the deceased member's qualifying years. If the spouse or civil partner is over State Pension Age, they can check this with the Pension Service. If they are under State Pension Age then any pension, they may inherit from the deceased member will be included when they claim their own state pension.

Under the new single tier State Pension which was introduced on 6 April 2016, there is no ability to inherit or derive rights from a spouse or civil partner.

benefits for minors

The family situation may mean that the lump sum death benefit from the pension scheme is destined for a young child who is classed as a minor.

If the money due to the minor is paid to a parent or guardian, issues for the trustees include:

- Will the money actually be used for the minor or will it be misused?
- Does the parent or guardian have the ability to invest the money wisely?
- Should the money be held in trust until the child is older e.g., 23 or 25?
- Can the parent or guardian deal with the investment and tax issues involved in trusts?

Trustees have a duty to ensure that the money benefits those for whom it is intended.

trusts for minors

The Trustee Act 2000 for England & Wales, imposes a high-level duty of care on any trustee. This means:

- Trustees must not profit from, or cause loss to, the trust.
- The Standard Investment Criteria must be met – for example if the beneficiaries are entitled to both income and capital, the trustees must invest to achieve both.
- Investments must be diversified and suitable for the trust.
- Trustees must understand tax implications and how administration costs impact the trust.

The scheme rules should be checked to ensure that payment can be made to another trust.

If the fund is small and will only run for a short period, the pension scheme trustees may set up and run the trust themselves.

For large sums of money or more complicated trusts the pension scheme trustees may prefer to use an external professional trustee company.

The benefit is paid to the professional trustee who liaises with the parent or guardian over the needs of the child.

The professional trustee invests the money, produces annual accounts and deals with all tax reporting and compliance. They make payments for educational or other purposes as necessary during the term of the trust.

overpaid pensions

This occurs in two main circumstances:
1. Children's pensions – quite often these continue to be paid after the child has reached the relevant age limit or finished full-time education. The main reason this occurs is that the end date has not been set on the administration system or diarised.
2. Death of a pensioner – the pension continues to be paid after the member has died. The main reason this occurs is due to payroll not being advised to cease the payment on a timely basis.

Trustees have a duty to get the money back and will write to the child/estate requesting repayment of the overpaid amounts.

concealment fraud

This type of fraud occurs when an individual fails to notify the trustees or insurance company of a pensioner's death and continues to receive the deceased pensioner's benefits.

Some schemes will periodically perform a Certificate of Existence exercise where they send a form to all pensioners who must sign and return it to basically confirm that they are still alive. Some pensioners find this a strange request and may even complain but, as payments to deceased members are estimated to cost UK pension schemes £millions per annum, this type of fraud is a major concern to pension schemes. An indication of the scale of the problem is provided by the latest National Fraud Initiative Report as outlined below.

Statistics published in the National Fraud Initiative (NFI) Report 2020 indicated that during the exercise, (reporting period 1 April 2018 to 4 April 2020) the NFI identified 2,876 cases where pensioners had died, but payments were continuing. Actual overpayments detected £7.3m and estimated future losses prevented total £48.2m for 2020 and the estimated plus detected losses amounted to £136.9m in 2018. Their pension future losses prevented calculation is based on the annual pension multiplied by the number of years until the pensioner would have reached the age of 85. Data for the NFI is provided by some 1,300 participating organisations from across the public and private sectors.

In 2022 The London Borough of Brent reviewed 92 pension matches where an NFI match indicated the pensioner had died. In eight of these cases, they were not aware of the death, including a case going back to 2016. Payments were stopped and recovery of overpayments totalling over £32,000 is in progress.

Of course, an individual could still fraudulently complete this form and forge the pensioner's signature, consequently many schemes now employ agencies to perform regular checks on their behalf. The agencies use various methods to verify the recipient is still alive, they have access to the Register of Deaths and links with the Identity and Passport Service.

if a member is divorced

Any dependant's pension depends on how the member's benefits were treated at the time of divorce.

Attachment Order
The ex-spouse and member benefits are inter-dependent so quite often when the member dies the order lapses, so the ex-spouse could get nothing.

If the member was already in receipt of a pension the amount earmarked for the ex- spouse ceases as the member's pension ceases.

If the member dies in service, then any benefits will be paid as indicated on the attachment order.

Pension Sharing Order
There is no impact when the member dies as the ex-spouse's benefits are independent.

The ex-spouse has pension benefits in their own right.

The benefits payable when the ex-spouse subsequently dies will depend on the terms of the scheme or contract that holds the ex-spouse's benefits.

Flexible drawdown
A pension scheme which provides money purchase benefits may offer flexible drawdown for the dependant's pension.

This has no limit; the dependant may draw as much or as little as they like.

The dependant must not be an active member of a scheme in the tax year that they opt for flexible drawdown.

A child can also qualify to receive their pension as flexible drawdown. They can make contributions to a pension scheme in future years but all the contributions will be liable for the Annual Allowance charge.

Pension increase exchange (Pie) offer
The member may have agreed to a PIE offer before they died and this could mean that the dependant's pension does not increase.

A dependant could also be offered a PIE from the trustees and before coming to a decision they will need to consider their health and life expectancy in the same way as for offers to other members.

What happens on the death of a preserved member?
If a member has left the scheme and subsequently dies the scheme rules will define the benefits payable and the main ones for both defined benefit schemes and defined contribution arrangements are considered in turn.

If the member was made redundant or retired early on ill-health grounds, life cover may still be in place.

The procedure for dealing with death is similar to if the member died in service. The certificates are still required and family information to ensure that the benefits are paid out correctly.

Defined benefit scheme
The benefits payable on the death of a preserved member are normally:

Pension – A dependant's pension based on a proportion of the member's benefits when they left the scheme. The proportion is often 50%. These benefits are increased as per the scheme rules and current legislation up to date of death and they are made up predominately of two parts:
1. Guaranteed Minimum Pension (GMP) – if the scheme was contracted-out before 6 April 1997.
2. Excess pension – the amount above the GMP, if any.

The increases applied to each part depend on when the member left the scheme as they have changed over the years.

Refund – A refund of the member's contributions may also be payable.

Defined Contribution scheme

The benefits payable on the death of a preserved member of a money purchase arrangement including personal pensions are normally:

Lump sum – The value of the member's fund may be paid as a lump sum at the discretion of the trustees;

OR

Pension – The value of the member's fund may be used to purchase a dependant's pension. The dependant has the option of purchasing the pension on the open market and tailoring it to suit their circumstance; for example, they can decide whether it should be:

- A level pension or if the amount should increase each year
- Frequency of payment e.g., monthly, quarterly etc.

uncrystallised Funds

An uncrystallised death benefit arises where death has happened before the pension fund has been put in to payment for the member.

Death before age 75

There is no limit on the benefits that may be paid, now the LTA has been removed.

If, however the uncrystallised funds lump sum death benefit is not paid within two years of notification of death, the payment will be subject to the recipient's marginal rate of tax or, if not an individual, a special lump sum death benefit tax charge of 45% is payable.

Death after age 75

A benefit crystallisation event will have occurred at age 75 and so benefits will not be tested against the Lifetime Allowance again. The uncrystallised funds lump sum death benefit will be subject to the recipient's marginal rate of tax or, if not an individual, a special lump sum death benefit tax charge of 45% is payable.

What happens in the case of death after retirement?

In this section we will look at the benefits that may be payable if a member dies who is retired and is in receipt of a pension.

stop the pension

The pension should be stopped immediately and the death certificate obtained.

If the pension was paid in advance the trustees or the insurance company are obliged to reclaim the amount in respect of the period after the date of death so the family will receive a letter requesting this.

Pension Protection lump sum

For members of defined benefit schemes a lump sum may be payable known as the pension protection lump sum.

When the member retired the pension was guaranteed to be paid for a certain number of years (normally 5 years) and if death occurred before the period expired, the balance of the remaining period is paid as a lump sum.

The scheme rules will normally set limits on who they will pay this benefit to and the trustees will refer to the member's expression of wish form to assist with their decision. Inheritance tax will not apply if the payment is made at the trustees' discretion.

This benefit would not have been tested against the Lifetime Allowance but there is a maximum amount, which if exceeded, is subject to a special lump sum death benefit charge.

The scheme administrator or insurance company is liable for the charge and may deduct tax depending on how old the member was when they died. On or after 6 April 2016, if the member was under age 75 when they died, the lump sum payable is tax free. If, however the member was 75 or over when they died, the lump sum death benefit is subject to the recipient's marginal rate of tax or, if not an individual, a special lump sum death benefit tax charge of 45%.

annuity Protection lump sum

This lump sum will only be provided if the deceased member was in receipt of a pension as a lifetime annuity or a scheme pension from a money purchase pension or cash balance arrangement.

If the member chose a guaranteed period when they retired and they die before that period has expired, the balance is paid as a lump sum.

On or after 6 April 2016, if the member was under age 75 when they died, the lump sum payable is tax free. If, however the member was 75 or over when they died, the lump sum death benefit is subject to the recipient's marginal rate of tax or, if not an individual, a special lump sum death benefit tax charge of 45%.

dc scheme dependant's Pension

In a defined contribution scheme or other type of money purchase arrangement the member may have purchased an annuity when they retired. At that time, they had the option of purchasing a joint life pension.

If a joint life pension was purchased then their dependant will receive the amount stated. If the joint life pension was purchased "with overlap" then they may receive two payments for a period of time.

1. The dependant's pension they are entitled to, paid until they die; and
2. The balance of the guaranteed pension continues to be paid in pension form (as opposed to an annuity protection lump sum). In other words, the member's pension continues to be paid to the dependant until the end of the guarantee period.

If the member had chosen a single life pension at retirement, then all payments cease on their death.

db scheme dependant's Pension

In a defined benefit scheme, the dependant's pension is normally a percentage of the member's pension before any was commuted for a Pension Commencement Lump Sum. The amount is often 50%.

As with death in service dependant's pensions, the scheme rules will state who is classed as a dependant and their birth and marriage certificates will be required before this pension can be set up.

drawdown pension fund lump sum

If a member receiving a drawdown pension dies then the remainder of the fund may be paid as a lump sum. It cannot be more than the value of the fund left when the member dies including any investment growth.

A Drawdown Pension Fund Lump Sum is only payable in respect of capped drawdown that began on or before 5 April 2015.

Flexi-access drawdown fund lump sum

This lump sum can only be provided if it is paid from a money purchase arrangement and is paid on or after 6 April 2015. A flexi-access drawdown fund lump sum death benefit can be paid whatever age the member was when they died. There is no time limit for the payment of this lump sum.

If the member was aged under 75 when he or she died, a flexi-access drawdown fund lump sum death benefit paid on or after 6 April 2016 within the two-year period is payable tax-free.

If the member was aged under 75 when he or she died and a flexi-access drawdown fund lump sum death benefit is paid on or after 6 April 2016 after the 2-year time limit has expired or if the member was 75 or over when they died on or after 6 April 2016, the lump sum death benefit is subject to the recipient's marginal rate of tax or, if not an individual, a special lump sum death benefit tax charge of 45%.

The deceased member may have taken independent financial advice to limit the inheritance tax liability by setting up a trust. Inheritance tax planning is a specialist area and any queries from relatives regarding this should be referred to the member's adviser.

inheritance tax

This is paid when someone dies if the value of their estate exceeds the Inheritance Tax threshold which is currently £325,000 for the 2023/24 tax year. There is an additional tax-free allowance worth £175,000 for 2023/24 if it was the deceased's main residence giving a total allowance of £500,000.

The estate includes:

- Property
- Investments
- Chattels and gifts or trusts set up within 7 years before the member died.

The tax charge is:

- 40% on any excess amount above the threshold or,
- 36% on some assets if 10% or more of the "net value" of their estate is left to charity.

Married couples and civil partners can increase the threshold, up to a certain limit, when the second partner dies.

Executors or personal representatives must transfer the first spouse or civil partner's unused Inheritance Tax threshold to the surviving spouse or civil partner when the first spouse or civil partner dies.

• It is recommended that specialist advice is taken for Inheritance Tax planning. *

Who pays inheritance tax?
The executor or personal representative must pay any Inheritance Tax due from the person's estate within 6 months of the member's death. After this, interest will be charged on any amount outstanding.

Some or all of any Inheritance Tax due must be paid before a grant of probate can be issued.

The executor or personal representative may have to borrow money to meet this liability as it is common for the money from the estate to be tied up in assets that have to be sold, for example – the house.

Inheritance Tax generally comes out of a deceased's estate before the inheritance amount is passed on.

A beneficiary or "donee" will usually owe Inheritance Tax if:
- it says in the will they should pay any Inheritance Tax due or;
- if the deceased estate is unable to pay it.

A beneficiary or "donee" has to pay Inheritance Tax if they:
- receive a share of the deceased's estate;
- receive a gift within 7 years' of the person's death;
- benefit from assets in a trust or receive income from the assets at the time of death;
- are the joint owner of a property (this excludes the spouse or civil partner).

examples

gifts
Someone gives you a gift and they die less than 7 years later. The value of the estate, including the gift, is over the Inheritance Tax "IHT" threshold and there is not enough money in the estate to pay the tax.

You must pay the Inheritance Tax on that gift.

Joint Property
Someone dies and they are a joint tenant with you but you are not their spouse or civil partner.

IHT is paid on the deceased's share of the joint property if the total value of their estate is over the threshold. As the surviving joint owner, you are responsible for paying the tax.

If the deceased's will stated that the joint property is held as "tenants in common" and should be given "free of tax", the IHT will come from the rest of their estate. However, if there is not enough money in the estate you will have to pay the difference.

MODULE 10

Pension Scheme Retirement Benefits

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

n this module we will look at some of the issues a member faces when retiring. At the end of this module, you will be able to:

- State when a member can retire from a scheme and take their scheme benefits, including on ill-health and their State Pension.
- Describe the different options available including commutation and flexible benefits available for members with defined contribution arrangements.
- Explain the retirement process, how to claim benefits and when they will be paid.
- Understand the increases for different tranches and when they are applied.

In this module you will see there are a number of things for a member to consider when they retire or decide to access their benefits. It is advisable for a member to seek independent financial advice before making decisions and members with DC benefits should always speak to Pension Wise for help with their options.

When can a member retire?

Employees can no longer be forced by employers to retire at a certain age except in specific circumstances such as poor job performance. However, the date from when a member can receive benefits from the pension scheme, depends on the scheme rules.

The pension scheme rules state the Normal Retirement Age (NRA) for the scheme.

For members of defined contribution schemes, they usually have the option to select a target retirement age (TRA).

can a member retire early?

The earliest age from which a member can retire, or access their benefits, is currently age 55. The minimum pension age will increase to age 57 in 2028 to coincide with the rise of state pension age to 67. If a member retires early from an occupational pension scheme, they will normally require permission from their employer. It they are an active member or if they are a deferred member, from the trustees or the employer or both. No consent is required for Personal Pension Plans

In earlier modules, we have looked at financial, health and lifestyle factors that a member needs to take account when considering early retirement.

If a member is sick, they may be able to take their benefits before age 55 on ill-health grounds. Also, certain occupations have allowable retirement ages before age 55 for particular reasons e.g., professional sports people or those in hazardous occupations. These special Normal Retirement Ages have been approved by HMRC and the prescribed schemes and occupations are listed in the Registered Pension Schemes (Prescribed Schemes and Occupations) Regulations 2005.

When is pension information available? **quotation requests**

- A member can request a retirement quotation at any time.
- The quotation must be provided within 2 months of the request.

db schemes

- For members approaching Normal Retirement Age, a quotation is usually issued 3 months beforehand so that they can see the options available and take regulated financial advice.
- This also enables the member to provide the required documents at least 1 month before retirement so the benefits can be paid on time.

information about flexible benefits

Members with DC benefits have more decisions to make on how they wish to take their benefits.

If they wish to use some or all of the funds to purchase an annuity, they also have decisions to make on how the annuity should be tailored to suit their circumstances.

Information about the options available must be sent to members at least four months before a member reaches their retirement date. It must also include information about flexible benefits if this has not already been given in the previous 12 months.

In practice, quotations are often issued 6 months before retirement and then updated 3 months later. Further quotations will be issued much closer to the retirement date because the fund value and any annuity rates used can fluctuate.

If a member requests information for a retirement date that is earlier than their NRD they must be given the information within 20 days of the date the retirement date is specified.

Money and Pensions Service

Members with flexible benefits must also be made aware of the Money and Pensions Service. This normally forms part of the information sent out at least 4 months before the retirement date.

Members must also be made aware of the Money and Pensions Service if they request information about taking flexible benefits and:

- Are over, or within 4 months of the minimum pension age (currently 55); or
- Meet ill-health conditions

The Money and Pensions Service is a free service to help guide members, aged 50 or over, on the options available to them and what they need to do next.

[Note: Pension Wise merged with the Money Advice Service and the Pensions Advisory Service to form a new guidance body on 1 October 2018 and started its delivery function from January 2019. It is called the Money and Pensions Service.]

tracing a lost pension

Not many people stay in the same employment and pension scheme all their working life, so a person may be nearing retirement age but has lost information from the various pension schemes over the years. Here are two contact details to help member.

the Pension tracing service

If the scheme contact details are not known the Pension Tracing Service can assist: **https://www.gov.uk/** find-pension-contact-details Freephone: 0800 122 3170

Companies House

If the company no longer exists, Companies House may know what happened to the organisation. **www.gov.uk/government/organisations/companies-house enquiries: 0303 1234 500.**

In addition, the Association of British Insurers has an online Register of Consolidations. This can help to find out which company is now responsible for pension schemes that have been transferred to different firms.

Pensions dashboard

During the 2016 Budget, the government made a commitment that Pensions Dashboards would be created by the pensions industry, enabling everyone to view details of all of their pensions together. Government has indicated that every provider will eventually move to sharing data with their customers this way. The project deadline for implementing Pensions Dashboards was to be April 2019. The Pensions Scheme Bill 2020 published on 7 January 2020 sets out the structure for the provision of a 'qualifying pension dashboard service'. However, an enormous amount of work is still required to deliver the Pensions Dashboard. It was put on hold due to Brexit and the November General Election and has been further delated due to the fallout from the Coronavirus pandemic.

In August 2023, amendment regulations published by the Department for Work and Pensions (DWP) came into force, setting a legal deadline of 31 October 2026 for occupational pension schemes in scope to have completed connection to the dashboards ecosystem. FCA are revising their rules to make equivalent requirements for pension providers they regulate. This followed a written ministerial statement in June 2023 where it was announced that dates for schemes to connect to the ecosystem would be set out in guidance. It provides flexibility for Pensions Dashboard Programme to deliver a complex programme involving a large number of pension providers and schemes that meets the requirements set out in law.

One of the biggest decisions is whether there should be a single version of the dashboard, accessed via the new Single Financial Guidance Body (SFGB) website (which consumer bodies have been supporting), or a different route involving multiple dashboards.

Providers, including Aegon, LV= and Aviva, support the multiple dashboard approach which would allow them, along with banks and other financial services firms, to plug into the pensions dashboard centralised data. These firms could then create their own front-end dashboard version on their own websites.

In a report into pension freedoms released by the Work and Pensions Select Committee on 5 April 2018, MPs called on the government to create a "default" single public pensions dashboard designed to create "better informed, more engaged pension savers.

In the meantime, a Pensions Dashboard Project Group is making sure that everything will link together safely and smoothly. This Group is also recommending the standards that all Dashboards and pension schemes will have to meet for sharing information.

Seventeen pension firms are currently participating in the project: Abbey Life, Aon, Aviva, Fidelity, HSBC, L&G, Liverpool Victoria, NEST, NOW Pensions, the People's Pension, Phoenix Group, Prudential, Royal London, Scottish Widows, Standard Life, Willis Towers Watson and Zurich.

how much will my pension be?

You know the answer to this question is not straightforward!

It very much depends on the type of scheme, retirement age, membership status and options chosen.

In this section we will look at defined benefit schemes.

active member status

From other modules you have studied you know that for active members of defined benefit schemes the amount of pension at normal retirement age depends on how long they have been a member of the scheme, the accrual rate and the salary definition. As a basic example, if a scheme has 60ths accrual, the member has 30 years pensionable service and the final salary is £25,000, the pension would be:

• 30/60 x £25,000 = £12,500 per annum

However, if the member with the same details was retiring before normal retirement age, an early retirement factor would be applied. This reduction is to take account of the fact that the member will be receiving the pension for a longer period of time. Some early retirement factors are prescribed in the scheme rules. As an example, if a member was retiring 5 years early, the factor may reduce the pension by 20% so the member would receive £10,000 per annum. Early retirement may be possible without a reduction applying, such as in redundancy or ill-health cases.

As a result of equalisation there may be different tranches of benefits for which separate calculations need to be made. The scheme rules should be checked for further details regarding this.

Pensionable Service can also be discontinuous owing to periods of non-pensionable absence such as extended maternity leave, strike action and sabbatical. If a member did not elect to make up missed contributions on returning to work, the pensionable service may be less than the dates suggest. The scheme rules may also allow for prospective pensionable service to Normal Retirement Age to be included, for example in ill-health cases. However, this may result in a tax charge for the member if the pension input amount in the year of retirement exceeds the Annual Allowance.

Periods of part-time employment will be reflected by pro-rated pensionable service or pro-rated salary according to the scheme rules.

If a scheme had previously been contracted-out, the pension must be at least equal to any GMP at the GMP due date. If it is not, the member may not be able to retire early.

deferred member status

If the member has already left a defined benefit scheme, the accrued pension at date of leaving will already have been calculated at that time.

Some of the pension may increase between date of leaving and retirement, and some of it may not. Legislation regarding this has changed over the years so the pension has to be split between different tranches of service and the relevant rate for the periods of those tranches applied. The most common tranches are:

- Pre-6 April 1978 benefits
- Guaranteed Minimum Pension (GMP)
- Pre-6 April 1997 excess benefits above the GMP
- 6 April 1997 to 5 April 2009 benefits
- Post April 2009 benefits

For leavers after 1 January 1991 the statutory revaluation applies to the whole of the pension accrued in excess of the GMP for each complete year between date of leaving and the retirement date. The revaluation amount is the increase in the Consumer Prices Index up to a maximum of 5% for benefits accrued before 6 April 2009 and; a maximum of 2.5% for benefits accrued after that date.

For leavers before 1 January 1991 the position is slightly different. Members who left between 1 January 1986 and 31 December 1990 – statutory revaluation applies to excess benefits accrued after 1 January 1985 only; and members who left before 1 January 1986, don’t receive any statutory revaluation increase on their excess benefits.

If the pension includes a GMP in respect of contracted-out benefits, different revaluation rates apply depending on when the member left the scheme and the method of revaluation adopted by the scheme.

If a deferred member is retiring before normal retirement age, an early retirement factor will be applied to reflect the longer period over which the pension will be paid.

If a scheme had been contracted-out, the pension must be at least equal to the GMP at the GMP due date. If it is not, the member may not be able to retire early.

Preserved benefits from Public Service schemes are increased as appropriate in line with the provisions of the Public Service Pensions Act 2013 or the Pensions (Increase) Act 1971 as amended.

bridging Pension

Some schemes allow bridging pensions when a member retires before age 65 or 60. Bridging pensions may also be known as “temporary pension” or “state offset” and are designed to smooth income and alleviate possible financial hardship before the state pension becomes payable.

Originally, a bridging pension had to cease at 65 by law but with the legislative changes to State Pension Age, the trustees may have amended the scheme rules to take into account the new state pension ages, in which case, the pension may be paid for longer.

When planning retirement finances, it is important for the member to understand that their income from the scheme will reduce at a certain time and be replaced from a different scheme. The member needs to be sure to understand when this reduction will take place, the impact it will have on their income and if there will then be any gap before they actually become entitled to receive the state pension.

The State Pension and the Bridging Pension may not directly correspond – the bridging pension from the scheme may only be broadly similar to the Basic State Pension.

late retirement

A member may wish to continue working to maintain their lifestyle, even on a part time basis. When members need to make such decisions, the factors they need to consider include their health and for how long they think they will live. Continuing to work for a few more years may be financially beneficial to help with the fact that, in general, we are living longer. For some people who started retirement saving later in life, it is a financial necessity to continue working. There is no longer a Default Retirement Age, and attempting to compel a member to retire at a scheme’s NRA is no longer lawful.

The scheme rules will either allow:

1. The member to continue contributing to the scheme and accrue further benefits (up to age 75 for most schemes);

or

2. Membership must cease whereupon the benefits are calculated at normal retirement age but can remain in the scheme. When the member eventually retires, the pension is increased by a late retirement factor so the member receives a higher amount to reflect the later payment. The member will need to investigate if the increase applied would provide a higher amount than if they received the pension and invested it.

If a member is allowed a choice, they must also consider the death benefits payable. Life assurance may be provided under a separate scheme so the member will need to check if/how late retirement impacts on these benefits.

What are the most common options when retiring from a db scheme?

1. Full Pension

The member receives a pension until they die

2. Pension Commencement Lump Sum (PCLS) plus Residual Pension

The member commutes part of their pension to receive up to 25% of the value of their benefits as a tax-free lump sum.

The remaining fund is paid as a pension until the member dies.

Some schemes provide a PCLS in addition to the scheme pension, i.e., the member does not have to commute part of their pension. This generally relates to public sector schemes.

Freedom and Choice flexibilities were introduced in April 2015. In July 2016 the FCA launched the Retirement Outcomes Review to assess how competition was evolving after the pension freedoms. The review focused on outcomes for consumers who did not take regulated financial advice. The FCA published the interim findings of this Review in July 2017 and published the final report on 28/06/2018. To date, there has been a notable trend for members with DB benefits to consider a transfer to a DC arrangement in order to attempt to benefit from the new DC decumulation options. **https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-summary.pdf**

should a db member take the cash?
Most people do take the cash. A member does not have to take the maximum amount offered, they can take a smaller amount if they prefer.

Pros:
- It's tax free
- It could be used to supplement income
- It is often a once in a lifetime opportunity for a cash sum for home improvements, pay off the mortgage etc.
- The spouse's pension is usually not affected.

cons:
- Pension income is permanently reduced. A member needs to consider – How much income do they need? What is their health and life expectancy?
- If the PCLS is taken and invested, it probably won't generate the same amount of income given up, particularly as pension income increases each year.
- Commutation factors may not offer value for money in that the PCLS is worth less than the value of the pension foregone.

"The scheme administrator says I can't take my retirement benefits now, why not?"

This can be quite common for members of defined benefit schemes that were contracted-out before 06/04/1997 and the member wants to retire early.

If the scheme was contracted-out, the pension must at least equal the GMP at the GMP due date (age 65 for men, age 60 for women). If the member wants to retire a number of years early, the benefits after the early retirement factor has been applied may be too low to meet this requirement. Consequently, early retirement is not permitted at that time.

The member could ask for details at the earliest age at which this requirement will be met but if the benefit is predominantly GMP, they will have to wait until their GMP due date.

What are the dc options?

A member with DC benefits has the right to access flexible benefits from age 55. The member has the option to use the benefits for:

- Uncrystallised Funds Pension Lump Sums (UFPLS)
- Flexi-Access Drawdown (FAD)
- Annuity purchase

A scheme does not have to offer UFPLS or FAD. However, it must still tell the member about them and the member has a right to transfer their benefits into an arrangement that does offer these flexibilities.

We will now consider these options.

What is UFPLS?

This is where you can withdraw the whole fund as cash or take a series of withdrawals as and when you need access to cash.

Each payment is a separate crystallisation event (and used to be tested against your LTA). For each payment, 25% can be taken tax free with the remaining 75% taxed as income at the member's marginal income tax rate.

This effectively means you don't have one "retirement date". A few things you need to consider with this option are:

- If you want to secure regular income the money can't be used to purchase an annuity.
- The amount of income tax you pay may increase if the amount of cash you take pushes you into the next tax bracket.
- If you take a series of UFPLS in particular, how long will it be before the pension pot runs out of money - and what will you live off then?
- If you have primary protection then this option is not available. Nor is it available if you have primary or enhanced protection with lump sum rights over £375,000.

example:

A member is 58 and has a pension pot of £80,000.

She's happy with the investment performance so doesn't want to change anything right now, but wants £15,000 for a well-deserved holiday.

Initial portion £15,000 25% tax free = £3,750 75% taxable = £11,250

Left Invested in scheme £65,000

how does FAD differ from UFPLS?
You can only take one tax free cash sum of up to 25% of the value of the fund at the point of retirement, which is when the fund crystallises (and is the only time the LTA test used apply).

The remaining 75% of the drawdown fund remains invested, but when you do take further payments, the whole amount taken each time will be taxed as income.

As with UFPLS you still need to think about the tax implications and budget properly to make sure you don't run out of money.

Money Purchase Annual Allowance (MPAA)
Once benefits have been accessed flexibly, any further contributions that receive tax relief will be limited to the MPAA. An MPAA of £10,000 was introduced with effect from 6 April 2015, the MPAA reduced to £4,000 pa with effect from 6 April 2017. From 6 April 2023 it reverted to £10,000. There is more information about Annual Allowances in the module "Joining an Occupational Pension Scheme".

UFPLS v FAD summary

UFPLS	FAD
Each payment is a separate crystallisation event (BCE6)	Member crystallises all drawdown funds at point of retirement (BCE1)
No one "retirement" date	Member can take up to 25% of fund as PCLS into drawdown fund
Each payment consists of 25% tax free cash, 75% taxed income	Each drawdown payment is taxed as income
Paid directly from scheme	Drawdown could be provided within scheme or by transfer to another vehicle
Historically each payment tested against the LTA Cannot be used to purchase an annuity	Historically LTA tested at retirement only Can be used to purchase an annuity

What if I want regular income?

This can be achieved by using all, or some of the pension pot to purchase an annuity. The amount of pension received will depend on the value of the fund, your age and the annuity rate when you retire for the benefits you decide to take. For example, you can choose if the annuity is:

- Single or joint life;
- Level or increasing;
- Paid for a “guaranteed period”;
- Payment frequency.

Before purchasing an annuity, you will be asked to complete a questionnaire about your health, lifestyle and income requirements. It may also include questions about your finances. The information is used to ensure that quotations provided meet your needs as currently once purchased, the annuity cannot be changed.

There is more information about annuities in the module “Annuities and Pension Benefits”.

open market option (omo)

This only applies where a member is looking to purchase an annuity. It allows the member to “shop around” and buy their annuity from the insurance market rather than taking the pension offered by the scheme.

Why should a member do this?

The default rates offered by their own pension scheme may not be competitive. The member may qualify for an Impaired Life Annuity which pays higher income if there is a health problem.

What other commutation options are available?

These will depend on the type of scheme.

If a member of a DB scheme is retiring over age 55 (or earlier on ill-health grounds) they may be able to take a Trivial Commutation Lump Sum (TCLS) if the value of their pension savings across all pension arrangements is £30,000 or less.

For an Occupational Pension Scheme, a member may be able to take the whole of the pension in that scheme as a small lump sum payment if the value does not exceed £10,000.

For Personal Pensions, a member can have three small lump sum payments each of up to £10,000. With these options, the first 25% is tax free but income tax is paid on the remaining 75%.
If the member is already in receipt of a pension and decides to commute it for cash, they should be made aware that the whole lump sum is taxable.

Unlike a Trivial Commutation Lump Sum where all of the member’s crystallised and uncrystallised rights are compared and valued, a small lump sum payment is only compared against that particular scheme or arrangement.

What is ill-health early retirement?

Requesting early retirement on ill-health grounds is a stressful situation for members, particularly as requests are often rejected and the member doesn’t understand why.

Rejected requests form the basis of many complaints with which TPAS or the Pensions Ombudsman get involved.

Here we will look at some of the common questions.

What is ill-health retirement?

Legislation requires the scheme administrator to have qualified medical evidence that the member is not only unable to carry out their current occupation (either physically or mentally), but also that they will not be capable of returning to that occupation at a future date. This could be due to injury, sickness, disease or disability.

Ill-health pensions may be paid at any time, including before age 55.

For members of defined benefit schemes, normally the pension is not reduced for early payment, and it may possibly be enhanced, for example by basing the amount on prospective pensionable service up to the member's normal retirement date.

The rules will define what ill-health means to the particular scheme but it normally means that a member is permanently incapacitated and no longer able to carry out duties due to physical or mental illness. Some scheme rules will refer to any job, not just the member's job.

For members with DC benefits who use them to purchase an annuity, they may be entitled to better rates with an enhanced or impaired life annuity. For members of a DB scheme where an annuity is being purchased on ill-health better rates may be available reducing the cost of the scheme annuity purchase for the scheme trustees.

Ill-health pensions or annuities with enhanced rates are often subject to periodic review to ensure continued eligibility.

is serious ill-health different? Yes.

HMRC defines serious ill-health as having a life expectancy of less than 1 year. Due to this short period, all the member's benefits in excess of any GMP can be exchanged for a cash sum which is tax free.

The member should not have used up all of their lifetime allowance at the point payment is made. Any payment made that exceeds the available lifetime allowance creates a chargeable amount at the rate of 55%. This chargeable amount is normally deducted by the scheme administrator before paying the serious ill-health lump sum, so the member receives the net amount.

If the member is married or has a civil partner at the point of crystallisation then 50% of the benefits relating to contracted-out rights must be retained by the scheme to provide a survivor's pension.

What medical evidence is required?

The member must provide a report from their own doctor. In addition, the trustees will require a further report from an independent medical examiner and they will normally meet the cost for this.

Information will include a prognosis in relation to the impact on their ability to work both now and in the future i.e., are they likely to remain unfit for work or could improvements in their condition be expected so they could resume some or all duties.

The independent examiner may come to a different conclusion to the member's doctor.

Medical information is complicated but the trustees need to know whether or not there is reasonable medial evidence to conclude that the health problem is likely to be permanent or cause permanent or temporary impairment in the member's ability to carry out his/her job.

The evidence may suggest that although the current role cannot be performed, the member is capable of carrying out other work. In this case the trustees may look to find the member an alternative role.

What do the trustees consider?

In order to carry out their duties fully and avoid a complaint being upheld, the trustees must be able to prove that:

- They have taken all reasonable steps to obtain relevant information;
- They have correctly applied the scheme provisions; and
- They have followed a process that is consistent for them.

Above all, the trustees must reach a decision that is not perverse i.e., one which other decision makers, with the same evidence, would make.

If there is uncertainty over whether a member may be able to work in future, the trustees must make their decision on the balance of probabilities.

For example – a person may require an operation but it's not known if it will help improve the condition. A decision on the probability of the operation being successful should be made at the time but alternatively, the trustees may defer a decision and advise the member that on current evidence the incapacity does not appear to be permanent but they are willing to wait until after the operation to find out.

Trustees also have the ability to award early retirement benefits temporarily enabling them to re- assess a member's medical condition and ability to obtain gainful employment, at a later date.

What benefits are payable?

For members of defined benefit schemes, the benefits are normally either:

- An unreduced pension – the pension is calculated to the date of retirement but the early retirement factor is not applied;

or

- An enhanced pension – the pension is calculated to the date of retirement plus a percentage of future service to NRA is included. In more generous schemes, the total pensionable service to NRA may be included. No early retirement factor would be applied. However, such enhancements may well cause the annual allowance to be exceeded – in some cases, to a significant extent. In such cases, the resulting tax liability may be met by applying a 'scheme pays' offset to the starting rate of pension.

The above provisions are expensive to provide and a member could be receiving them for many, many years. Consequently, the rules that allow ill-health early retirement have strictly defined terms.

For members of defined contribution schemes the situation is much simpler. The rules will still define the conditions under which a member can apply to take their benefits before age 55 for ill-health reasons but generally there is no additional cost to the scheme. The benefits are still based on the value of the member's fund and, if an annuity is to be purchased, their age at the date of the purchase. The difference is that a member may be able to obtain enhanced or impaired life annuity rates which provide a higher amount of pension than those for a healthy person at the same age.

do I need to be on sick leave to apply for ill-health retirement?

No, a member does not normally have to be on sick leave when making an application.

how are spouse's benefits affected?

If the member is in a defined benefit scheme, the spouse's benefits payable on the death of the member are not affected by ill-health early retirement.

If retirement is on serious ill-health grounds, a survivor's pension will be payable in respect of contracted out rights only.

For members of defined contribution schemes, it will depend on how the member has accessed the benefits.

What happens if the application is not successful?
If a member's application is not successful, they can go through the scheme's internal dispute resolution procedure (IDRP). Information regarding what to do will be in the scheme booklet, but members would normally have to write to a specific person and include all relevant facts and evidence.

The member can contact The Money and Pensions Service during the IDRP process or afterwards if their application has not been successful, and ask The Money and Pensions Service to investigate their case.

After going through the above, if the member is still not happy with the decision, the case can go to the Pensions Ombudsman. Currently, the member must contact The Money and Pensions Service before going to the Pensions Ombudsman. The ombudsman's decision is final and binding to the extent that it is correct in law.
If the Pension Ombudsman's decision is in their favour, the benefits will be paid to the member in accordance with the ill-health provisions and possibly backdated.

If the Pensions Ombudsman upholds the trustees' decision to reject the claim, the member will not be allowed to receive the ill-health benefits. The member will then need to decide if they want, or can afford, to retire early on the normal benefit basis. If they are under age 55, they will need to wait until they reach that age before applying for early retirement on normal grounds.

As mentioned earlier the Pensions Advisory Service merged with the Money Advice Service and Pension Wise to form the Money and Pensions Service on 1 October 2018. The Money and Pensions Service will continue to focus on providing pension information and guidance.

What is a PHI scheme?
Some employers provide permanent health insurance (PHI) cover. This is not a pension scheme benefit but is closely related to pension scheme membership.

If the member is covered by PHI, they may be able to receive income until Normal Retirement Age (NRA), when PHI ceases as the scheme pension becomes payable. The PHI cover is provided by an insurance company and the amount of income depends on what the employer has selected under the policy but it will not be the same as the member's salary. For example, PHI could be up to 75% of the member's salary less the Statutory Sick Pay. Some PHI policies will also cover pension contributions whilst the member is off sick.

Medical evidence is also required for PHI claims and if the claim is agreed, the evidence will be reviewed, normally annually by the insurer. If the member is showing improvement in their condition, the cover may cease or be reduced, so it is not guaranteed to be paid continually to NRA.

What else impacts a member's benefits?
Just as a recap of previous modules, other factors that can affect a member's benefits on retirement are:

transfers
Transfers from previous schemes will provide extra benefits either because they have bought additional service, a fixed amount of additional pension or an additional DC investment.

divorce debit/credit
A pension debit reduces the member's benefit.
A pension credit increases the amount of income a member receives.

Maximum benefits

Once the benefits have been calculated they used to need to be checked against the member's available Lifetime Allowance (LTA) and any previous Benefit Crystallisation Events also needed to be taken into account. Any benefits paid above the limit used to incur a tax charge.

For members of defined benefit schemes, the value is calculated as 20 times the pension. For members of defined contribution schemes, the fund value at the retirement date is used.
Some schemes still retain the pre-A Day Inland Revenue limits too and checks will be made against these.

The LTA is currently £1,073,100 (April 2023). An example of this calculation, although now historic, for someone taking a PCLS of £104,954.79 and a residual pension of £16,217.86 p.a. is:

PCLS LTA% RESIDUAL PENSION LTA %	(£104,954.79 / £1,073,100) x 100 ((£16,217.86 X 20) / £1,073,100) x 100	= 9.78% = 30.23%
TOTAL LTA % USED	9.78% + 30.23%	= 40.01%

What is the Payment Process?

A member is retiring, all the relevant forms have been sent in and he or she wants to know when the benefits will be paid.

Despite the best of intentions, sometimes benefits are not paid on time so we will look at some factors a member should be aware to avoid a period of financial hardship immediately after retiring.

1. Defined contribution schemes
For members of defined contribution schemes, the money in the member's pot needs to be disinvested before any benefits can be paid.

Timing is crucial!

If the pension pot is disinvested too soon there is potentially a period of investment loss. The scheme should have a financial management policy in place which states how far in advance a disinvestment can take place. Administrators need to ensure that the following are taken account of in the timing:

- Trustee or authorised signatory requirements;
- Documentation requirements such as original birth and marriage certificates; and
- Investment managers' dealing dates

The member may receive several quotations leading up to the time the benefits are to be accessed but the value of the fund is not known until the monies are actually received. If there has been a change in the value of the investment, this will have an impact on the final benefits so for example the final PCLS amount may differ from the amount originally quoted.

If the money is being used to purchase an annuity and there has been a change in the fund value and/or the annuity rate, this will have an impact on the amount of income the member will receive.

Also, with regard to any annuity to be purchased, it can take several weeks before the member actually receives any income, even though the purchase price is paid to the insurance company on the required date. Most insurance companies take 4 to 6 weeks to set up an annuity and unfortunately, there is nothing that can be done about this so the member needs to be aware of this time gap. When the member does receive the first payment, it will be backdated to their retirement date.

2. Defined benefit schemes
Due to the way defined benefit schemes are funded timing is not so crucial. However, a disinvestment may be required to cover any PCLS so it is important to ensure there are sufficient monies available in the scheme bank account in order to make the payment on time.

In some circumstances the benefits may need to be recalculated, particularly if the retirement date falls around the scheme renewal date and final salary details need to be updated.

The pension will be paid by the scheme and the rules will state when the first payment will take place for example, on the first of the month after the member's retirement date etc. The member should also be made aware of whether the payment is made in advance or arrears. If the payment is made in arrears, the first amount may only be small so the member needs to ensure they have sufficient income for the period until the next payment date.

3. AVCs

If a member has paid AVCs they may be invested separately from the main scheme assets and if an external party is involved, there may be a timing delay in settlement of which the member should be made aware.

4. Pay as you earn (PAYE)

The pension quoted to a member is always the gross amount. As the pension is income, it is subject to tax, normally on a PAYE basis. National Insurance Contributions do not apply, only tax.

If a member is not able to provide a P45 on retirement then the pension will be taxed under the emergency code until HMRC notifies the pension provider of the tax code to use. Once the correct tax code is applied, if too much tax has been deducted, the scheme will pay any refund due through subsequent pension payments.

With effect from State Pension Age (or date state pensions commence if payment is deferred) the member's personal allowance is reduced to take into account any state pension the member receives.

Example of the State pension collected via a company pension scheme

Scheme pension is	£7,000
State pension is	£6,981
Personal Allowance is	£12,570

Step 1

Personal Allowance	**£12,570**
Less the State Pension	**£6,981**
	£5,589

Remaining amount of income the member can receive tax free

Step 2

Scheme pension	**£7,000**
Less remaining income Allowance	**£5,589**
	£1,411

Amount of scheme pension the member will pay tax on

5. overpayment of benefits

Sometimes a pension is overpaid due to an error in the benefit calculations. It can also happen if the pension is paid in advance and the member dies so some of the pension needs to be reclaimed.

The law states that no-one is allowed to profit from a mistake therefore the scheme trustees normally ask for the overpayment to be paid back to the scheme. If it is a large amount that needs to be repaid, it may be possible for the member to agree with the trustees that it can be repaid in instalments over a period of time so that they do not suffer financial hardship.

The member may want compensation for distress or inconvenience and a small amount may be agreed upon. In such cases, the member should be advised of the process that applies for making such applications for compensation.

What about state Pensions?

State Pension Age (SPA) is now between age 60 and age 68 depending on when a person was born and their gender.

The State Pension is based on National Insurance Contributions (NICs) paid and the number of years over which these have been paid. A member can find out how much their state pension will be by contacting:

- **www.gov.uk/calculate-state-pension** if they are under age 55
- **www.gov.uk/state-pension-statement** if they are over age 55
- Or telephoning the helpline on 0800 731 0175

For those reaching SPA on or after 6 April 2016, a new State Pension came into force, known as the single tier pension (STP).

How to find information

- The website has an on-line calculator that those under age 55 can use.
- For those over age 55, they can obtain a statement by completing a BR19 application form.
- If a person is within 30 days of SPA, they will need to call the Pension Service on 0800 731 7898 or Textphone: 0800 71 7339

How to make a claim

- A person can claim online to get the State Pension paid directly into their bank when they are within 4 months of SPA.
- A person can defer taking their pension if they intend to continue working.

The amount of Pension

- The full amount of the basic state pension will be £169.50 per week from April 2024.
- It is paid every 4 weeks and increases each April.

- The new STP for new pensioners from April 2024 will be £221.20 per week.

State Pension & retiring abroad

If a member intends to retire abroad, they can still claim the State Pension, however, there are a few things they need to bear in mind when considering this.

PENSION PAYMENTS

Payments can be made to a bank in the country in which they live; or

- To a bank or building society in the UK; or
- If a member intends to divide their time between countries they must decide where it will be paid. A member can't choose to have their State Pension paid in one country for part of the year, and a different country for the rest of the year.

AMOUNT & TAX

The amount will be paid in local currency so will be subject to fluctuations in exchange rates.

- UK tax may need to be paid – this depends on the member's taxable income and whether or not they are classed as a UK or non-UK resident. The HMRC Residency helpline will assist in determining residency.

INCREASES

The pension will only increase if the person lives in the UK for 6 months or more each year; or

- Lives in the European Economic Area (EEA); or
- Lives in Gibraltar; or
- Lives in Switzerland; or
- Lives in a country that has a social security arrangement with the UK (except Canada or New Zealand).

It is currently unclear what impact Brexit will have on these arrangements.

What about Pension increases for db schemes?

When a member retires, they want to know how their pension will increase each year as part of their financial planning.

db increases

With regards to the examples shown in this section, it is important to note that:

- The increases shown are the minimum in law and scheme rules WILL be different, for example, not all schemes moved from 5%LPi to 2.5%LPI; and
- Many schemes still use RPI not CPI, for price inflation because of their rules;
- Sometimes schemes grant discretionary increases.

contracted-in schemes

Pension element	minimum increase each year
Pension earned up to 5 April 1997	Nil – the scheme does not have to provide any increase
Pension earned between 6 April 1997 and 5 April 2005	The change in the Consumer Price Index up to a maximum of 5%
Pension earned from 6 April 2005	The change in the Consumer Price Index up to a maximum of 2.5%

For any tranche, a scheme may give higher increases or the pension tranches may be different periods but a scheme cannot provide anything less than shown in the table.

If part of the pension was purchased by AVC benefits, they are exempt from these statutory increases.

Previously contracted-out schemes
Part of the pension may be in respect of the GMP which has to be split out between the GMP earned pre and post April 1988. Any pension in excess of the GMP is known as the excess pension.

The table below shows each tranche of pension and the increase to be applied.

Pension element	minimum increase each year
Pre 88 GMP	Nil – any increase is paid by the State
Post 88 GMP	The change in the Consumer Price Index up to a maximum of 3%. The State is responsible for paying any increase above 3%.
Pension in excess of the GMP earned up to 5 April 1997	Nil – the scheme does not have to provide any increase
Pension earned between 6 April and 5 April 2005	The change in the Consumer Price Index up to a maximum of 5% 1997
Pension earned from 6 April 2005	The change in the Consumer Price Index up to a maximum of 2.5%

For any tranche, a scheme may give higher increases or the pension tranches may be different periods but a scheme cannot provide anything less than shown in the table.

If part of the pension was purchased by AVC benefits, they are exempt from these statutory increases.

retirement before the GMP due date
If a member of a previously contracted-out scheme retires before the GMP due date (age 60 for women and age 65 for men), for the period up to GMP due date all of their pension is treated as excess pension.

When they reach the GMP due date, the pension is then split between the GMP and excess pension and the relevant increases applied.

bridging Pension
If the member is in receipt of a bridging pension, this will normally cease at SPA or, if the scheme was contracted-out, at the GMP Due Date.

If the member has any GMP, the ongoing pension will be split to reflect the GMP and the relevant increases will be applied going forward.

Females over age 60

For female members of contracted-out schemes, the GMP Due Date is age 60 but very often the scheme normal retirement date and State Pension Age is later.

On retirement the GMP at age 60 is increased by the scheme by 1/7th x 1% for each week late and statutory increases are applied to the post 88 GMP (the change in the Consumer Price Index up to a maximum of 3% pa).

The State will not pay any increases due on the pre 1988 GMP until the member reaches SPA. Just to recap on the different dates:

GMP Due Date is fixed at age 60 for females and age 65 for males.
State Pension Age depends on when the member was born. A member can find this date by going to the website: **www.gov.uk/calculate-state-pension** if under age 55, and **www.gov.uk/state-pension-statement** if over age 55.

MODULE 11

Annuities and Pension Benefits

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

In this module we will learn about annuities and the factors that a member needs to consider when purchasing an annuity.

At the end of this topic you will be able to:
- State the different annuity types.
- Describe where the funds come from to purchase an annuity.
- Explain how an annuity can be tailored and used as part of a retirement solution.
- Identify what affects the cost of an annuity.

In this module you will see that a member has quite a few options when purchasing an annuity and they can impact greatly on the amount of income received. It is essential that the member obtains several quotations and has enough information to make an informed decision; the member should also seek independent financial advice.

Remember – once purchased, currently the annuity cannot be changed!

What is an annuity?

An annuity is a product normally purchased from an insurance company which, in exchange for a lump sum, pays out income on a regular basis from retirement for the lifetime of the member.

The amount of income and the frequency of payment depends on a variety of factors, some of which the member can choose.

It is important for a member to understand:
- The type of annuity that would be best for them
- How it can be tailored to suit their circumstances
- The impact of the benefits they choose

Once purchased, the type of annuity cannot currently be changed so it is essential to make the right choices at the outset.

There are various types of annuity:

conventional annuity
- The most common type, also known as lifetime annuities or compulsory purchase annuities.
- As soon as the pension funds are paid to the insurance company, an income starts to be paid to the member.
- They provide a guaranteed income stream for the remainder of the annuitant's life. The annuitant could be the member's spouse/dependant if the annuity was purchased on a joint life basis.

investment annuity
- a type of lifetime annuity where part of the income is guaranteed and part is linked to investment performance.
- The member selects the guaranteed level of income required and additional income paid based on the investment returns received.
- Income would be higher if investments are performing well but only the minimum guaranteed amount would be paid if investments are not performing.

Fixed term annuity
- Also known as temporary annuities, they pay an income for a fixed term or until the member dies, if earlier.
- This type of annuity is likely to offer a higher amount of income than a conventional annuity due to the shorter payment period.
- HMRC consider short-term annuities (less than five years) to be a form of drawdown.

deferred annuity
- A type of annuity that allows a person to defer receipt of income payments until a future date.
- There are various types that can be set up with a lump sum, or more often, the annuitant makes regular payments into it. During this accumulation phase the payments gather interest.
- The distribution phase is when the provider begins to pay out the annuity which is paid for life.
- There is no access to any tax-free cash.

Purchased life annuity
- This is purchased with a lump sum and is generally for people who want to maximise their income on retirement and receive a guaranteed income for life.
- Purchased Life Annuity rates generally provide a lower level of income than Compulsory Purchase Annuity rates but the tax treatment is more favourable consequently, a higher net income is generally payable.
- Payments received consist of two parts – capital and income. The amount of capital depends on various things such as age and gender and is free of tax; the interest element is taxable.

Flexi-access drawdown
An alternative to buying a lifetime annuity.
- The member leaves their pension pot invested and takes an income directly from it.
- The member controls the amount of income that is withdrawn.

open market option (omo)
A defined contribution pension scheme will allow a member to "shop around" and buy their annuity from the insurance market rather than taking the pension offered by the scheme.

Why would a member do this?
- The default rates offered by their own pension scheme may not be competitive.
- The member may qualify for an Impaired Life Annuity which pays a higher income if there is a health problem.

the Purchase Price of an annuity

Where can the member get the money from to purchase an annuity? The cost of purchasing an annuity is known as the purchase price.

For a defined contribution scheme member, where units are purchased, it is calculated as: the number of units in the pension fund x the unit price at retirement

For example:
- 41255.604 units x £1.56 = £64,358.74

Which is the amount available to purchase an annuity.
- Each time the member paid contributions into the pension scheme an amount of units was purchased which keeps accumulating until retirement.
- The unit price is provided by the investment fund manager. It will fluctuate daily depending on how well the fund is performing so the actual purchase price is not known until the units are disinvested.

A member has the option of taking part of their pension benefits as a tax-free cash sum (usually up to 25%) therefore, the amount available to purchase an annuity would be reduced accordingly.

For a defined benefit scheme member, the benefits are calculated in accordance with the scheme rules and the insurance company then calculates the cost of providing those benefits.

A member usually has the option of surrendering part of their pension benefits in exchange for a tax-free cash sum. The insurance company will calculate the amount required to provide the residual pension and any dependant's pension payable. The occupational pension scheme will pay the pension commencement lump sum amount chosen by the member.

additional voluntary contributions (avcs)
The member may have paid AVCs whilst a member of an Occupational Pension Scheme to increase their pension in retirement.

The funds from these AVCs can be used to purchase an annuity.

occupational Pension schemes
These are employer sponsored schemes and the most common type where an annuity has to be purchased on retirement is a defined contribution/money purchase scheme. However, there are some defined benefit schemes who extinguish future liability by purchasing a member's pension (and any dependant's pension payable) with an insurance company when they retire.

Other arrangements
A couple of other pension arrangements the member may have are:
- Self-Invested Personal Pension Schemes (SIPPS)
- Automatic Enrolment Pension Scheme

Personal Pension Plan
The member may have an individual personal pension plan if they have not always been in a scheme arranged by an employer or if they have contributed to a personal pension plan rather than making AVCs. An employee may also have a personal pension plan through membership of an employer's workplace group personal pension arrangement.

combining pension funds

A member may have worked in different companies and have more than one pension fund when they come to retire. It may be possible to combine them to purchase one annuity.

advantages

- Retirement income comes from one source so is easier to manage.
- The amount of income is usually maximised due to a higher purchase price.
- Only one set of initial charges when purchasing the annuity.

disadvantages

- The charges to surrender the different pension arrangements may be high.
- The scheme rules may not allow it.
- The pension scheme may provide a guaranteed annuity rate (GAR) that provides a higher level of income through the scheme than the open market can offer.

can an annuity be tailored?

The annuity should be tailored to suit a member's circumstances at the time of retirement. A member needs to decide if they want an annuity that is:

- Single or joint life
- Level or increasing
- With or without overlap
- Paid monthly, quarterly, half-yearly or annually.

In addition, the member will need to consider if:

- A "guarantee" period is required
- He or she would like the amount of income to reduce at some point in the future.

We will now consider these choices in more details.

choices - the shape of the annuity

The annuity is tailored to suit the member's personal circumstances so they need to choose what is best for them.

Some of the choices will affect the amount of pension the member receives. Note – not all annuity providers will offer all shapes of annuity.

single life or Joint life?

A single life annuity will provide a higher pension than a joint life annuity but when the member dies, their spouse or partner will not receive anything.

If the member is married or has a partner then they need to consider if they want any income to be passed on if they die first.

The member can choose the percentage to be paid in the event of death, most people choose 50% but remember, the greater the "dependant's" pension, the less their own pension will be from the outset.

The member should also consider the health of their spouse or partner as if they are likely to die first, any allocation of pension would be lost.

Prior to April 2015, income could only be paid to a "dependant" however, that restriction has been removed which means that joint life annuities can be set up to be passed onto any nominated individual when they die.

level or increasing?
A level pension remains just that, the income at the outset remains the same amount every year until the member dies.

The member needs to consider the effects of inflation. If the member expects to live for a long time, then in future years the income will be worth less in real terms than at the start.

With an increasing pension the member can choose either:

- An escalating annuity – the member chooses the percentage rate that the pension will increase by each year e.g., 3% or 5%

Or

- An index-linked annuity – the increase is linked to an index such as the Retail Prices Index (RPI) or the Consumer Prices Index (CPI). This could also be limited e.g., the pension will increase by the CPI up to a maximum of 3%pa.

If the pension is to increase then the amount at the start will be lower than a level pension.

For lifetime and short-term annuities purchased after April 2015 a member will also be able to decrease the amount of income received. This relates to the greater flexibility being made available; when the annuity contract is set up a member can choose to take taxable lump sums hence the amount of income may need to reduce over time.

guaranteed?
Once purchased, a lifetime annuity is payable for life. The member can also, however, choose a guaranteed period. This means that the insurance company guarantees to pay the annuity for a specific number of years. Typically guarantees are for 5 years and the maximum guarantee period was 10 years. For annuities set up after April 2015 the 10-year limit no longer applies.

For example, if a member has a 5 year guarantee but dies 3 years after retiring, there are two years

left of the guarantee. Two years' worth of pension payments would then be paid out to the member's beneficiaries either as a lump sum or as continuing pension payments.

With or Without overlap?
If a member is purchasing a joint life pension with a guarantee period, then they will also need to choose when they want the spouse's pension to start. The main thing the member needs to consider is whether the spouse needs two incomes so soon after the member's pension started.

With overlap
This means that if the member dies within the guaranteed period their annuity will continue until the end of the guarantee period and the spouse's pension will also be paid from the member's death, so the spouse will receive two incomes during the remainder of the guarantee period.

Without overlap
This means that if the member dies within the guaranteed period their annuity will continue until the end of the guarantee period. However, the spouse's pension will not start until the end of the guarantee period, so the spouse will only receive one income during the remainder of the guarantee period.

income Frequency?
When purchasing an annuity, the member can normally choose how often they wish to receive the income:
- Monthly
- Quarterly
- Half-yearly
- Annually

If the annuity is small then the insurance company may not offer a choice; very often small annuities are paid annually.

The member needs to think about this alongside any other income they receive to make sure they have sufficient monies at the appropriate times to support their expenditure.

The member will also need to decide whether payments should be made in advance or in arrears.

annuity comparison
Look at the table to see what difference some of the choices you have just learnt about could make to the income. NB indicative annuity amounts not based on current annuity rates.

male aged 60 purchase price level annuity of £100,000, annuity increasing			
	£Pa	3% £Pa	5% £Pa
Single life, no guarantee	4,744.75	3,305.62	2,508.65
Single life, 5-year guarantee	4,694.75	3,255.62	2,458.65
Joint life, no guarantee	4,585.19	3,139.40	2,347.74
Joint life, 5-year guarantee	4,535.19	3,080.40	2,297.74

What other issues must be considered?

There are a number of other issues to consider and some of these are covered below.

death after retirement

The issues that arise in this scenario were covered in Module 9 – “Pension Scheme Death Benefits”.

Previously contracted-out schemes

If the member was in a scheme that was contracted-out pre-April 1997 on a final salary basis then the scheme is responsible for paying a pension at least equal to the Guaranteed Minimum Pension (GMP) from their GMP due date (65 for men, 60 for women).

The annuity purchased must take this into account and increase the GMP element of the annuity each year in accordance with legislative requirements i.e.

- Pre 88 GMP – no increase is applied
- Post 88 GMP – must increase in line with increase in the Consumer Price Index up to a max of 3% p.a. The rate is notified by the Government.

When to purchase an annuity

Since April 2015, a member’s DC pot does not have to be used to purchase an annuity. It will continue to be a common way of turning pension savings into income for life, but as there are now greater flexibilities available to members, an annuity may only be one part of a member’s retirement solution.

Annuity rates vary with market conditions and it may be best for the member to wait until rates get better. Generally, the older a member is the more pension they will receive as they are not expected to live as long. Alternatively, the new flexibilities allow the amount of income from an annuity to be varied so for example, a member could choose to take less when they start to receive their State Pension.

These options allow the member to consider their changing needs during retirement and long-term care to be included in any decision making.

deferring an annuity

Deferring an annuity does not necessarily mean getting a higher pension!

The member should consider:

The amount of investment they are likely to receive **v** The difference in the amount of income they by leaving the money where it is until the date they could receive now and at the later date. want to purchase an annuity. **deferring an annuity - example**

A member is 60 years and 8 months old.

A level annuity purchased now would provide an income of £6,183 p.a.

The member would receive £26,793 extra up to the age of 65 (£6,183/12 x 52 months).

If he was 65 now

A level annuity would provide an income of £6792pa

This is an extra £609 p.a. (£6,792 - £6,183)

but

In this example, by deferring their annuity to age 65, the member would need to live for approximately 44 years to break even (£26,793 / £609) with the amount they would have received had they drawn their annuity from age 60 years and 8 months.

in reality

The funds would earn interest/investment growth until the annuity is purchased.

mortality drag

A member needs to consider the negative impact of “mortality drag” if they take regular withdrawals from the fund whilst deferring the annuity purchase. Mortality drag is the increasing risk that annuity rates will fall as deferring the annuity purchase continues. The risk grows exponentially the longer the member defers the annuity purchase.

in effect

Will the extra investment return justify the delay?

Poor health

When purchasing an annuity the member must also take into account their health and life expectancy. We looked at this in the Module 4 – "Lifestyle Factors that Impact on Pension Benefit Decisions". But here is a reminder:

annuity rates

Annuity rates are affected by:

- Poor health
- Being a smoker
- A family history of medical conditions.

enhanced annuity

These rates could be up to 20% higher than normal annuity rates. Examples of medical conditions are:

- Smokers
- Overweight
- Blood pressure
- Cholesterol
- Diabetes

impaired life annuity

If a member has a short life expectancy – typically less than 5 years – impaired life annuities offer significantly higher rates.

Cancer and heart problems are examples of serious medical conditions that would qualify for an impaired life annuity.

What is the annuity Purchase Process?

Purchasing an annuity can be quite a long-winded process from the member's point of view. Let's look at the process so you can help the member understand the timescales involved.

1. annuity quotation

The annuity quotation is an estimate of how much the member will receive and it is only valid for a certain amount of time.

The insurance company needs to be provided with all the relevant member information and details of the options they have chosen to tailor the annuity to suit their personal circumstances. The purchase price used should be based on the latest fund value available from the investment manager.

Quotations can normally be obtained from insurance companies within 24 hours of the day of request. Once received, you must check the details carefully before passing the information onto the member as errors can create misunderstandings or unrealistic expectations. Remember, members will be making decisions that may affect their well-being in retirement.

If an annuity is being purchased to provide a DB scheme pension, care is needed to ensure that the benefits as defined in the scheme rules are replicated as otherwise the pension scheme may still be liable for future benefits. An example might be that the scheme rules provide a spouse's pension payable to any spouse whereas the annuity quotation has been provided with a spouse's pension payable only to spouse at date annuity purchased.

The quotation is guaranteed for a fixed period of time, normally 10 days but it may be less. This guarantee relates to the annuity rate used which takes into account the member's age. Say at age 65 for every £10,000 purchase price the member receives £10 p.a. income - due to fluctuating investment conditions in the market this rate is highly likely to change after the guarantee period has expired and instead of £10 p.a. the member could find they only receive £5 p.a. for every £10,000 purchase price (NB these are hypothetical not true market rates). At this stage the purchase price cannot be guaranteed as the funds have not normally been disinvested. This potential fluctuation must be made clear to members.

It is important for the member to realise the timeframe within which they have to make their decision known as they also need to allow enough time for the funds to be disinvested.

2. annuity Purchase

Once the member has accepted a quotation, the funds should be immediately requested from where they are invested. Note – this may require certain authorities to be obtained from trustees so you need to make sure that all parties are aware of the quotation expiry date.

The member must also provide all the necessary completed forms and other documentation such as birth and marriage certificates or passports. Insurance companies will usually only accept original documents. Some providers will accept a "Verification of ID" form completed by an authorised person giving the details from the appropriate certificate and stating that the authorised person has had sight of the original certificate.

Once the funds have been disinvested, the amount is the purchase price of the annuity. It is prudent to check if the purchase price has changed much from the amount used in the quotation. If it has gone down then the member should be informed and provided with an explanation why, this is much better than leaving the member to find out much later when a lower amount goes into their bank account thus the member is disappointed or moved to complain.

Assuming the purchase price is not too different and you are within the deadline, then there should be no concerns for the member.

If the funds are received after the guarantee date has expired then you will need to advise the member and obtain fresh quotations for their consideration. This could mean that another provider is able to offer a better rate and a new form will be required for completion by the member.

3. receipt of annuity income

Although the annuity purchase transaction goes through relatively quickly, it can be several weeks before the member sees the first income payment in their bank account.

Annuity payments are taxed under PAYE so the member should be aware that he or she will receive the net amount, after tax. No National Insurance Contributions are deducted.

You have no control over this part of the process and unfortunately this delay can often turn into a complaint from the member. To prevent this happening, it is important that the member has been made aware at the outset that it may take 6 to 8 weeks from the purchase date before they see their first payment, this will help them plan their finances. When the purchase has been completed then the confirmation letter should state again that it may take 6-8 weeks before they receive any money.

4. annuity Policy
This is normally issued a few weeks after everything has been completed.

Where the funds have come from and/or the scheme rules determines who the policy owner is. For example:
- If the funds are from a personal pension, then the member will be the policy owner and the policy is sent to the member.
- If the funds have come from an Occupational Pension Scheme, then the policy may be in the name of the trustees however, normally it is in the name of the member.

What happens on the death of an annuitant?
The benefits payable on the death of an annuitant will depend on how the annuity has been tailored. As mentioned earlier in "Can an annuity be tailored?", the benefits may be:
1. Annuity Protection Lump Sum Benefit/Pension Protection Lump Sum Benefit
2. Dependant's Annuity/Dependant's Scheme Pension
3. Beneficiary's Annuity

We will look at each one in turn.

1. annuity protection lump sum benefit/pension protection lump sum benefit
An annuity protection lump sum benefit (or a pension protection lump sum benefit if the annuity is a scheme pension) relates to any guarantee that was incorporated if the member died within the guarantee period, and if it was to be paid as a lump sum.

under age 75	age 75 or over
If the member was under age 75 when they died, the lump sum is payable tax free.	If the member is age 75 or over at the date of death, the lump sum is taxable. Whether the lump sum death benefit is subject to income tax as pension income of the recipient or to the special lump sum death benefits charge (45%) on the scheme administrator depends on who receives it. Further details can be found in the Pensions Tax Manual - https://www.gov.uk/hmrcinternal-manuals/pensions-tax-manual/ptm073010 The scheme administrator will usually deduct any special lump sum death benefits charge before the payment is made to the recipient.

Alternatively, if the member's pension was to continue for the remainder of the guarantee period, this would be paid to the recipient and taxed at their marginal rate of income tax.

2. dependant's annuity/dependant's scheme Pension

A dependant's annuity or a dependant's scheme pension would be paid to the spouse or civil partner at the time of the member's death and taxed at their marginal rate of income tax.

3. beneficiary's annuity

From April 2015 the term beneficiary extended the recipients from only dependants to include nominees and successors.

nominee

An individual nominated by the member who is not a dependant.

successor

An individual nominated by a dependant, nominee or successor of the member.

Joint-life annuities may pay out to any beneficiary or a beneficiary annuity may be purchased from a drawdown fund.

under age 75

The beneficiary's income is not taxable if the member died before age 75.

age 75 or over

If the member is over age 75 at the date of death, tax will be payable at the beneficiary's marginal rate of income tax.

Alternatively, if the member's pension was to continue for the remainder of the guarantee period, this would be paid to the recipient and taxed at their marginal rate of income tax.

A beneficiary's annuity can also be purchased using uncrystallised funds, in which case, entitlement to the annuity must arise within two years of the member's death. As uncrystallised funds would be used, it used to trigger an LTA test.

MODULE 12

Communicating with Pension Scheme Members Seeking Guidance

This document contains the full content of the learning centre for this module of the online learning programme.

NB. All of the content that is required for assessment purposes is included.

In this module we will look at some ideas on how to communicate better with members.

At the end of this module, you will be able to:
- Recognise barriers, be clear and concise and apply emotional intelligence to communicate effectively with members.
- Explain the different stages of listening and implement them when talking to members.
- Describe the different types of questions in the question funnel and understand when they should be used.
- Respond sensitively to complaints by letter or phone.

In this module we will look at different communication skills and some hints and tips to help you improve the way you communicate with members.

What is communication?

The word is from the Latin "communis" meaning to share. It is the activity of conveying information by:
- Speech;
- Signals; or
- Writing.

Good communications build your reputation and credibility.

don't lose the message!
- Written communication – jargon, long directionless sentences, unnecessarily complex wording. The message will be lost.
- Verbal communication – dull and mundane, rambling – may project you as being unimpressive (and therefore unintelligent). The message will be lost.
- Listening – always talking and never listening – could be perceived as domineering and arrogant. The message will be lost.

communicate clearly!
- Giving your message – be clear, concise and correct. Maintain simplicity so the member can easily understand. The member wants to know what you can do for them but not spend time figuring out what you're trying to tell them.
- Getting things done – if your communications are understood things will get done efficiently.

the message may not be received in the way the sender intended!
- Ability of the person sending the message – how much they understand the subject affects the communication. When sending a message, we should adapt to the receiver recognising their needs, status, and knowledge of the subject.
- Perceptions, prejudices and stereotypes – people hear what they expect to hear, not what is actually being said, they then jump to the wrong conclusions.
- Content – if the message contains technical information and jargon, instructions will not be understood.

- Method of communication concerns the style and body language. Is it best to call the person, write a letter or send an email?
- Make sure you are communicating with the right person.
- Organisation factors – the longer the communication chain, the greater the chance of error. If the message passes through too many people, it can become distorted.
- Skills and attitude of receiver – this affects how they digest the information in the message.

What is emotional intelligence?

Have you ever wondered why others react to you in the way that they do?

For example, there are two people, one sees you as open and honest, the other as private and withdrawn. Why does this happen and what can you do about it?

Emotional Intelligence has two aspects:

1. it is the ability to express and control our own emotions; and
2. it is our ability to understand, interpret and respond to the emotions of others.

We each have different ways of looking at things and determining how we perceive events and people. If we understand the way someone else looks at things, and us, we can adapt our behaviour to have greater impact.

Dealing with member queries and providing them with the information to make better pension benefit choices can be stressful – the speed in which queries come in and the amount of technical or process knowledge to sift through quickly and accurately to provide a response. This can leave you feeling agitated, frustrated, anxious or stressed, it can keep you from thinking clearly and hamper communications. It can also encourage you to give answers under duress that are misleading, inaccurate or may constitute advice.

When a member contacts you for some help, he or she can sense these emotions and could form a distorted opinion of you and the business and not view the interaction with you as a pleasant experience. To help improve awareness of your impact on others, here are 10 basic questions –

1. how do you see your actions?

Imagine being someone else watching you and judging your actions.

2. how do your actions influence others?

You may see a pattern in the way that you choose to treat different groups of people.

3. do you realise the power of your actions?

Don’t underestimate how a person feels when they interact with you. You have the power to influence.

4. What are the alternative actions you can take?

Don’t just make a decision or deal with something without considering alternatives.

5. What are the needs of others around you?
Understand others' needs and make sure you address them without creating a future problem.

6. how can you adjust to the needs of another?
Identify their needs – they may be emotional, for example if recently bereaved, or have a disability. How can you address or adapt the information you are giving – a different communication channel may be required.

7. do you understand how much the actions you make, now matter?
Be aware – an action may not make much difference now, but could have a larger impact going forward.

8. how can you be a better observer?
Learn how to listen and see things from a different perspective. Pay attention to the way people respond to you.

9. how can you be more open-minded?
Don't judge situations on your own behaviours, attitudes and beliefs.

10. do you realise that awareness is a process?
Understanding how your actions influence others takes time and patience.
Never be tempted to judge or draw conclusions about people on age, gender, race or walk of life – you can be very, very wrong.

When continuing through this module, consider your level of emotional intelligence and how you can improve it.

There are many emotional intelligence tests on the internet – try one and see how you score!

Are we good listeners?

What is the art of listening?

"You've heard me but you're not listening!"

How many times have you heard that?

Hearing is a passive activity, it's just a sound.

Listening is an active process, both mind and body are involved in gaining an understanding of what you are hearing.

For many it's an automatic process but there are actually 5 stages of listening.

1. receiving

Are we listening to what's being said, focusing on what's not being said or just waiting to speak?

Effective reception of a message consists of receiving what is said as well as what is not said. When talking to a member on the phone it is particularly important to:

- Avoid distractions
- Don't interrupt

Without both of the above, you'll miss what they're saying!

2. understanding

When receiving a message, you need to process it and extract the meaning. Try to appreciate the message from the caller's point of view and ask questions to confirm your understanding.

Putting the message into your own words gives the caller the opportunity to clarify any misunderstandings.

Repeat your understanding of the message periodically to ensure not only that you have understood correctly, but also to assure the caller that you have understood his or her requirements.

albert einstein:

"If you can't explain it simply, you don't understand it well enough".

3. remembering

When receiving information, we first use our short-term memory which has very limited capacity. It is good practice to write down key points and actions.

4. evaluating

When you're listening to the message don't evaluate or label something as being inconsequential until you've heard everything. Jumping to conclusions too early can taint the remainder of the message.

Distinguish facts from opinions or personal interpretations.

It is also important to recognise deceptive forms of reasoning. For example, does the member believe something because his friends or family do or because he has read it in the newspaper?

You should ask politely from where a caller received information but never dismiss it as incorrect, it may have been taken out of context from a document supplied by the employer or the pension provider.

5. responding

It is important to support the member throughout their conversation. Face to face this us easily done by nodding, if you're on the phone then an "I see" or "mm-hmm" are verbal nods.

When answering you should take responsibility for what you are saying, rather than answering for others. Focus on the

member, avoid multi-tasking – you can't be responsive whilst answering emails!

Are you a thought-completing listener? i.e., do you listen to some of the message and then finish off their sentence? Apart from being annoying for many people as it can give the message that nothing important is going to be said ("I already know it" syndrome); the member may have a stutter or word finding difficulties. Give the member time to complete their delivery.

What are good questioning skills?

In order to assist the member in making an informed decision, you may have to ask questions to gather information, seek opinions or gauge feelings.

Good questioning skills put you in control of the call and help you anticipate concerns or queries.
A poor response is a result of a weakly constructed question. We will now consider the main question types.

open questions

These help more information to be more forthcoming and freer flowing. Examples are:

- What can I do for you today?
- Tell me what happened?
- What would you like to do?

Probing questions

These are open questions that enable you to gather information and the “5 whys” is particularly useful to gain a better understanding of things.

For example, a member is unhappy and contacts you:
Why – because he didn’t receive his PCLS on time
Why – because we didn’t have sufficient funds in the trustee bank account Why – because we didn’t arrange a disinvestment of funds in time
Why – because we didn’t remember
Why – because we were working on other things

Action – clearly the process needs reviewing for prioritising work. A simple scenario with one powerful word!

closed questions

These are clarifying questions used to test understanding and gain commitment. Examples are:

- Where, what, who
- Can you?
- Would you?
- Could you?

A simple “yes” or “no” answer can effectively stop the conversation.

recall questions

These simply ask the person to recall something from memory.

For example, a typical security question is “What is your mother’s maiden name?”

leading questions

These try to lead a person in a particular direction and tend to be closed questions.

They are good for getting the answer you want whilst leaving the other person with the feeling they had a choice!

Be careful when using these types of questions with members.

question Funnel

This starts with general questions then you would hone in on various points by asking more detailed questions at each level.

Typically, there may be several layers from the top to the bottom of the funnel:

1. Awareness/Statements
2. Clarifiers: Who? What? when? Open questions to help fully understand the situation
3. Probes: Options? Exceptions Obstacles? Probing questions to help broaden or re-frame thinking
4. Action: Closed questions to help identify action

What helps good decision making?

We all make decisions every day and regardless of whether they are big or little decisions, the process is the same.

When helping a member make an informed decision about his or her benefits that will have an impact on the rest of their life, it is helpful to under the 5 stages involved in the decision-making process.

identify the goal

The goal is the decision that is going to be made, for example the member may want to:

- retire at a certain age
- exchange part of his or her pension for cash
- ensure the spouse is provided for if the member dies first
- make up for the loss of pension benefits after a Pension Sharing Order
- transfer benefits to another scheme

This stage also involves identifying and setting out the decision alternatives. For example, if a member wants to retire early, do the decision options only include how he or she wants to take the benefits, or is another option not to retire at the anticipated date at all?

gather information

To make an informed decision the member needs to gather all the information from you and others, who can help guide the decision. The member often needs help in understanding the information.

The more significant the decision the more rigorous the information-gathering process should be.

For example, since April 2015 members of defined contribution schemes who retire can decide whether or not to purchase an annuity. If the member does purchase an annuity, currently it cannot be reversed. Providing information on the different types of annuities available in a manner that he or she understands is essential. The decision whether or not to actually purchase an annuity in the first place is critical – the long-term impact involves tax consequences and an understanding of where future income will come from for potentially the next 20, 30, 40 years.

consider the consequences

What are the likely consequences of the decision?

This is also part of helping a member make an informed decision so he or she understands how the decision will affect not only his or her lifestyle, but also that of his or her family both immediately and in the future.

Using an example of a member deciding whether or not to retire, aside from financial implications the member needs to analyse the reasons why the actual idea of retirement has arisen – is it because he or she doesn't like their current job or their boss, what are they going to do with all the extra time etc.

The member must feel comfortable with the outcome.

make the decision
After all the information has been considered according to its relevance and significance, a decision can be made and implemented.

evaluate the decision
This final step is to determine whether the decision was appropriate.

Some decisions, once made, cannot be reversed; we have already mentioned for example that an annuity, once purchased, currently cannot be changed.

However, there are some decisions where circumstances change and the member requires more help and guidance. These could include changing retirement age, changing investment strategies, joining a scheme that the member previously opted out of etc.

What makes good Written communication?
Written communication may be the only experience a member has with you. The letter or email is a personal statement about you and the situation you are dealing with.

Remember, the member has entrusted you with his or her retirement benefits – do you want them to see you as:
- An incompetent amateur,
- Arrogant and domineering, or
- A rational, skilled professional?

The letter or email needs to be structured like a sandwich. Always keep the purpose of the letter or email in mind.

Written communications a conundrum?
So, which is it – yours faithfully or yours sincerely?

Named addressee i.e. Dear Mr X, Mrs Y etc. ends with “yours sincerely”.

Dear Sir/Madam/To whom it may concern etc. ends with “yours faithfully” as you don’t know the name of the person you are writing to.

Emails are slightly less formal and generally end with “Best wishes”, “Regards” or “Kind regards”.

Using words like, “cool” or “okay” are colloquialisms and not professional.

the opening paragraph
This is to let the reader know what the letter us about, for example, following receipt of a letter, or further to a telephone conversation.

It should be clear from the outset what the letter is regarding.

the body
Information provided should be kept brief, simple and concise.

The content should be structured into subject paragraphs. If it can’t be read and understood in less than 20 seconds, it has limited chance of being digested

We know that pension matters are complicated and compliance information is lengthy so put the main points and actions in first, then provide the details, and possibly summarise actions again at the end.

There are 3 principles to incorporate:
1. Ethos – the integrity of the letter – grammatically correct.
2. Pathos – the emotional effect on the reader.
3. Logos – the relevance and strength of the content.

the closing paragraph

What do you want the member to do after reading the letter?

As with speaking to someone, written communications also need to give the reader some feeling of conclusion as they finish it. The final paragraph should be limited to about four sentences.

Any required actions should be clearly stated.

So, in terms of the structure of the communication, a simple approach would be:
- state what you are writing about;
- state why you are writing;
- explain what should be done with the information (including options);
- explain the next steps.

grammar

Correct spelling, grammar and punctuation enhance the effect of the finished document and convey professionalism.

Punctuation fills writing with silent intonation, it adds clarity and precision so the reader knows when to pause or stop or see where certain parts of a sentence have emphasis.

A comma can change the whole context and meaning of a sentence.

Poor grammar sets the wrong tone and suggests the writer cannot communicate effectively and doesn't really care about the subject matter.

example

A great leader, Jesus Christ, said "I tell you this day you shall be with me in paradise."

"I tell you this day, you shall be with me in paradise."
A comma inserted after "day" suggests that Christ is telling the thief today that he will join him in paradise at some unspecified time in the future.

"I tell you, this day you shall be with me in paradise."
Change where the comma is placed and the meaning changes. Now Christ is saying the thief will join him on that same day in paradise!

the importance of clear communication

A computer program's specification read, in part,

"The exception information will be in the XYZ file, too."

The programmer took this to mean "another place" i.e., the exception information appears in the XYZ file, as well as being held somewhere else.

He assumed, therefore, that the exception information was duplicated somewhere else, so he saw no need for his program to preserve it.

Nothing was implied about this information being duplicated elsewhere, and indeed it wasn't duplicated. As a result, valuable and unrecoverable information was lost.

The writer actually meant, "Another type of information that appears in the XYZ file is the exception information."

Before the different interpretations were discovered, the cost of the lost information had mounted to about $500,000.

A rather a large bill for one carelessly placed "too".

What is the structure of a good telephone call?

You know about how a letter or email should be set out but what about telephone calls?

They should also be structured, there are 8 steps to a good telephone call.

1. good greeting

Saying "good morning" or "good afternoon" is not only a nice way to greet the member, it also ensures that the first words he or she hears are positive.

"Good morning, my name is Jo, how may I help you?"

By giving your name you are making the call more personal; you should then offer your help.

2. Positive first response

The member will state his or her query and again the response needs to be positive. For example, "Of course" or "I can help with that".

Throughout the call show enthusiasm. A tired voice which lacks enthusiasm is unappealing and reflects on the professionalism of both you, and your organisation.

The first 15 seconds of a call....

- Do you hear me?
- Do you understand me?
- Will you help me?
- What will you be able to do for me?
- When will you be able to do this?
- Hello? What is going on here?
- Come on...... I don't have all day!!!

3. question
We have already looked at questioning skills, use these to tease out as much information as possible to ensure you give the member the information or assistance he or she needs.

4. listen
When the member has answered a question, repeat back key points or respond encouragingly.

This ensures details are correct and minimises any silences.

5. Confirm understanding
This is a key stage.

Summarise the points so that you understand what is needed before providing a solution. This gives the member a positive feeling that you have listened and understood.

6. Provide a result
This could be information or a solution and should be done using positive language.

If you can't offer a solution, you can still be positive and helpful for example,
"unfortunately, that can't be done but what I can suggest is. "

If you need to put the member on hold while you check something out, ask him or her if it's ok to do this and tell them how long they will be on hold for. When you get back, thank the member for holding.

7. gain agreement
Ask closed questions to move towards the end of the call.

8. close the call
How you close the call is the last thing the member will remember so ensure it is closed in a positive way!

Thank the member for calling.

A good tip is to let the member hang up first, it gives him or her a final change in case they have forgotten to add something.

how do you handle complaints?

Communicating with members involves dealing with their complaints! There are a number of reasons why members complain and they may be....

angry
Demanding or aggressive. Try to intimidate you.
frustrated
They don't understand why things aren't done. They feel ignored.
self-important
They only want to deal with someone in charge.
confused
Overwhelmed. Unfamiliar with the situation.

Or they may just be in a hurry.

best Practice

When dealing with complaints a lot of the same communication rules apply that we have already looked at. However, there needs to be a greater deal of sensitivity and empathy.

We will take a look at some best practice when handling complaints by letter and phone.

responding to complaint letters

> Dear Mr J
>
> I have received your letter and I'm very disappointed that you felt the need to complain.
>
> I have looked at your records and we have dealt with your case within timescales allowed by disclosure regulations so we haven't actually don't anything wrong.
>
> I agree that we are at fault for not keeping you informed of progress and that things have taken quite a long time so I'm sorry about that. If you are not happy with the service then please contact your HR department as they will be able to tell you is you are eligible to use the IDRP procedure.
>
> Yours sincerely
> Administrator

How would you feel if you got a letter like this in response to your complaint?

We previously looked at projecting the right attitude on the phone, can any of these steps also be used in letters?

opening paragraph

I have received your letter and I'm very disappointed that you felt the need to complain.

The opening paragraph of a letter sets the tone and in this case, it is very abrupt and unprofessional.

This member felt the need to complain regardless of whether you think it is justified.

State the purpose of your letter and frame letters in the right context, using appropriate language and tome to acknowledge their feelings and convey that you understand the complaint. This immediately puts them in the right frame of mind to accept your message.

Acknowledge the complaint and thank them for contacting you and bringing the matter to your attention.

Facts

I have looked at your records and we have dealt with your case within timescales allowed by disclosure regulations so we haven't actually don't anything wrong.

Investigate the case, compile the facts and check for accuracy so that you understand why the member is complaining and whether or not it is justified.

Acknowledge the problem using empathy.

This paragraph is too defensive and doesn't explain anything. It also uses jargon – the member probably has no idea what disclosure regulations are.

don't admit liability

I agree that we are at fault for not keeping you informed of progress and that things have taken quite a long time so I'm sorry about that.

The letter should apologise and sympathise but under no circumstances should you admit liability. Sympathise with the fact that they have cause for complaint without accepting the blame. Use sentences like....
- Whilst we do not accept responsibility for the situation, we want to assist you by.....
- Whilst we regret that previous information provided may have been misunderstood.....

Explain your perspective of the situation and if they are wrong, tell them in a polite and informative way for example:
- As a result of our investigation, we could find no cause for the problems described in your letter...

Use the impersonal "we", "us" and "our" rather than "I" to depersonalise the situation. The complaint is usually against the company not an individual, even if an individual is responsible.

own the Problem

If you are not happy with the service then please contact your HR department as they will be able to tell you is you are eligible to use the IDRP procedure.

Don't blame the problem on others, accept responsibility and own it!

Complainants are only interested in you owning the problem and rectifying it. Blaming other people, departments or processes only discloses weaknesses and undermines integrity.

State the action you are taking to rectify the situation. Reasonable people understand that mistakes or delays occur, they will be pleased that you are sorting it out.

This response has not resolved anything and is not helpful. All members are entitled to go down the IDRP route and details of the procedures will be in every scheme's handbook so you can explain what it is and provide the necessary forms for them to complete. However, always try to resolve the matter with the complainant amicably. Do default to the IDRP or present it in a way that suggests it might be the correct next step.

complaints by phone

When someone is complaining by phone, how should you handle it? Here are 7 steps to projecting the right attitude on the phone.

1. thank you

Thank the person for contacting you and bringing the matter to your attention.

They may have received poor service previously from us or from others, the amount of pension they have been quoted may not have met their expectation or whatever they are complaining about is simply happening at an inconvenient time.

No-one makes mistakes on purpose, there may not even have been a mistake. Remember they have the right to complain!

2. listen

Listen to what they are saying, particularly their emotions and the emphasis being placed on certain things.

This will help you identify what is causing them to be angry or frustrated etc. so that you can concentrate on the primary problem.

3. be Patient

Be patient and don’t interrupt, particularly when they’re in full flow! Wait for the waves of emotion to recede.

Acknowledge the problem then speak softly and in a steady tone. Don’t enter into a verbal battle as they won’t be listening.

Express empathy but don’t acknowledge any fault.

4. Focus

When the person has calmed down and is listening to you, focus on the problem.

5. repeat

Make sure you are addressing their concerns and repeat the problem. Reiterate the priorities as per your understanding.

Ask them to confirm your understanding.

6. own the Problem

Yes, that’s right, regardless of the situation take ownership of the problem.

Explain the action to be taken and that you will personally look into it and follow up on their concerns.

If a person is angry or frustrated don’t say you need to refer it to another department, that will make them feel like they are dealing with someone who is powerless to help

which may make the angry or frustrated again.

7. it's not Personal

Complaints are not personal so don't take them personally.

At the end of the conversation thank them for their understanding, this ends the conversation on a positive note.

And remember you have taken ownership so follow up on the actions!