The PENSIONS Advisory Service

Spotlight

The Budget 2014

This factsheet outlines the major changes announced in the 2014 Budget, to the way that members of defined contribution (DC) pension schemes can access their pension savings. The changes move away from an individual being required to purchase an annuity.

The changes come in two parts. Transitional changes were introduced on 27 March 2014. The wider changes come into force on 6 April 2015.

The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or independent financial advice.

What changes took effect from 27th March 2014?

- An increase in the trivial commutation limit from £18,000 to £30,000.
- An increase from £2,000 to £10,000 for the maximum lump sum that can be taken from one small pension pot regardless of others. The maximum number of pension pots that can be commuted in this way rose from two to three.
- The minimum income requirement for flexible drawdown dropped from £20,000 to £12,000.
- An increase in the maximum drawdown limit, from 120% to 150%

The proposed changes from April 2015

Payment Flexibility

If you are a member of a defined contribution scheme you will be able to access your pension fund in full without the need to purchase an annuity. The tax free lump sum of up to 25% of the fund will remain available with any balance taxed as income. These flexible rules will apply to Additional Voluntary Contributions (AVCs), cash balance and some hybrid schemes subject to their pension scheme rules.

The new legislation will allow schemes to ignore their scheme rules, to allow them to give the increased flexibility to individuals. But, as the rules are permissive, providers can choose not to offer the new flexibility, so an individual may have to transfer to a new arrangement to take advantage of the new rules.

Currently individuals only have the right to transfer pension benefits up to a year before their scheme normal benefit age, and the Open Market Option does not force providers to offer transfers to other products. The legislation will be amended to allow transfers right up to retirement.

Defined benefit transfers

Transfers from defined benefit (DB) schemes to defined contribution schemes will continue to be allowed (excluding pensions that are already in payment). Transfers from DB to defined contribution schemes will be restricted for members of unfunded public sector schemes, although you may be allowed to transfer in limited circumstances. Some safeguards will be put in place to protect individuals;

You must take advice from a regulated adviser before transferring from a DB scheme, unless your pot is under £10,000 or your pension savings are below £30,000. You will pay for the advice, unless the transfer is to a connected employer scheme or it is 'incentivised transfer', in which case your employer will pay.
Scheme Trustees will be given guidance on how to protect their schemes funding position from the impact of transfers out.

The Guidance Guarantee

All individuals with a defined contribution pension approaching retirement will have access to good quality, free and impartial guidance. The new "guidance guarantee" will give good quality, structured help with decision-making. We are excited to be one of the initial delivery partners for the guidance.

Minimum pension age increased to 57

The normal minimum pension age (the earliest age you can normally access your pension pot) will increase from age 55 to age 57 in 2028. It will increase at the same rate as the increase in the state pension age, from then on, so the minimum pension age will remain ten years below state pension age. The change will apply to all pension schemes aside from those in the public sector that do not link their normal pension age to State Pension age from 2015, namely for the Firefighters, Police and Armed Forces.

Payment options under a Defined benefit Scheme

The rules on triviality and small pots outlined above will continue to apply to defined benefit pension schemes beyond April 2016. The minimum age for accessing pension savings in this way will reduce from 60 to 55.

Will I be able to contribute to a pension scheme after cashing in pension benefits?

Currently individuals in income drawdown cannot receive tax relief on future contributions. To encourage further pension saving, under the new system:

- If you are currently in flexible drawdown you will have a new annual allowance of £10,000;
- If you draw down more than 25% tax-free lump sum from a defined contribution pension you will still be able to make further tax-relieved pension contributions to a defined contribution pension of up to £10,000 per year.
- The lower annual allowance will only apply if you are taking a pot worth more than £10,000. If you take a pot under £10,000 the standard annual allowance will apply.
- If you are in capped drawdown on 5 April 2015, you will benefit from the standard annual allowance until you take advantage of the new flexibilities and withdraw more than the maximum capped drawdown amount – when the £10,000 annual allowance would then apply.

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Currently individuals only have the right to transfer pension benefits up to a year before their scheme normal benefit age, and the Open Market Option (OMO) does not force providers to offer transfers to other products. The legislation will be amended to allow transfers between defined contribution schemes up to retirement.

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

Contacting us

Pensions Helpline **(Monday- Friday 9:00am- 5:00pm)**	**0300 123 1047**
Online enquiry form	www.pensionsadvisoryservice.org.uk/online-enquiry
Web chat live	www.pensionsadvisoryservice.org.uk
Write to us	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB