

Pension news for the
Defined benefit section

Life after work



The Budget Changes Freedom and Choice in Pensions

In his 2014 Budget Statement, the Chancellor announced some radical changes to the way pensions can be paid at retirement. These are different to any pension proposals made in the March 2015 budget recently. We are writing to you now about the 2014 changes as they have only just been finalised by the government.

Most of the changes affect members of defined contribution (DC) pension schemes. In a DC pension scheme, members have a pot of money, which is used to buy a pension when they retire, but there is no guarantee of the amount of pension until retirement.

As a member of our defined benefit (DB) section your pension works in a different way and your pension is calculated using a formula (based on your salary and your service) - so there aren't any individual pots for DB members. Because of this, the proposed changes do not affect you directly, unless you have paid AVCs on a DC basis (see below).

What has changed for DC members?

When they retire, members of DC schemes typically use their pot to buy a pension annuity from an insurance company. The form of this pension is decided by the member – so for example they could choose a higher starting pension that doesn't get

increased once it is in payment, or a lower starting pension with a bigger pension for their spouse. They can also take 25% of the pot as tax free cash.

The budget has changed the rules for DC schemes so that:

- Members no longer have to buy a pension by the age of 75
- There is more flexibility about how money can be taken out (income drawdown)
- All the fund can be taken as cash, but only 25% is tax free; the rest is taxed at the member's highest rate

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As a DB member, the changes to the way DC pensions work will not affect your main DB pension directly - your pension will still be calculated as it is described in the rules.

How do the changes affect you?

If you do want to access the new DC pension flexibilities when you get close to retirement you will need to transfer your pension to a DC pension provider, such as an insurance company, and by transferring out you will have to give up all your electricity and defined benefit protections.

Getting advice

If you do choose at retirement to transfer your DB benefits to a DC pension provider, you must take independent financial advice. This requirement was introduced in the 2014 Budget and, among other checks, the Trustees will need to see evidence that you have received advice before any money can be transferred to a DC provider. You can use a service like www.unbiased.co.uk to find an adviser in your area. Remember to check that whoever you speak to is properly qualified, and find out what they plan to charge you before seeing them. You can confirm that a financial adviser is properly authorised by checking the Financial Services Register on the Financial Conduct Authority website (see below).

The Pensions Regulator believes that it is likely to be in the best financial interests of the majority of members to leave their DB benefits where they are.

Additional Voluntary Contributions (AVCs)

If you have built up AVCs in the DB section on a DC basis (i.e. not by buying added years), the DC flexibilities may also apply to how you take cash from your AVC savings.

As part of the 2014 Budget the Government announced that DC scheme members will have access to "good quality, free and impartial advice". This service is called "Pension Wise" and will be available via website and telephone from The Pensions Advisory Service or face to face at the Citizens Advice Bureau. If you have AVCs on a DC basis you will be able to access this free advice in respect of your AVC pot only.

Further sources of help

Independent Financial Advice

Find an independent financial adviser near you

www.unbiased.co.uk

Financial Conduct Authority's Financial Services Register

Register of all firms and individuals regulated by the Financial Conduct Authority

www.fsa.gov.uk/register/home.do

Tel: 0800 111 6768 (freephone)

or 0300 500 8082

The Pensions Advisory Service

www.pensionsadvisoryservice.org.uk

Tel: 0300 123 1047

The Money Advice Service

www.moneyadviceservice.org.uk

Tel: 0300 500 5000

Citizens Advice Bureau

www.citizensadvice.org.uk

Tel: 03444 111 444

Pension wise

Free, impartial advice provided under the Government's "guidance guarantee" for Defined Contribution Scheme members

www.gov.uk/pensionwise

You can also contact the Electricity North West pension team at pensionsandreward@enwl.co.uk