PENSION FREEDOM AND FLEXIBILITIES
AMENDMENTS TO THE PENSION SCHEMES BILL: TRANSFER SAFEGUARDS

At Budget2014, the Chancellor announced a change in the way people can take their pensions. From April 2015, those individuals aged over 55 with defined contribution pension savings will be able to withdraw these savings, subject to their marginal rate of taxation and scheme rules.

For members of public service pension schemes, the government has sought to extend the flexibility as far as possible by allowing transfers to continue out of funded public service pension schemes such as the Local Government Pension Scheme. However, to protect taxpayers from significant cost risk if members of funded public service schemes were to transfer out to a defined contribution scheme and draw down their pension flexibly, the government will introduce a safeguard for transfers from funded public service pension schemes.

The government has therefore laid a series of amendments to the Pension Schemes Bill, three of which affect public service pension schemes :-

- The requirement to take independent financial advice when transferring from a defined benefit to a defined contribution scheme (as opposed to the "Guidance Guarantee" that will be offered to those in defined contribution arrangements as they approach retirement);
- A ban on transfers out of unfunded public service schemes to a defined contribution scheme as previously announced by the government, and
- A new safeguard that will give Ministers a power to reduce CETVs in funded public service pension schemes, should it prove necessary to protect the taxpayer.

Financial advice safeguard

For most people, the government believes that it will be in their best interests to remain in their defined benefit schemes but where individuals do wish to transfer their pension pot to a defined contribution arrangement, it is important that they are fully informed before making any decision. Making professional financial advice mandatory will help to ensure that individuals are not subject to potentially fraudulent activity.

In most cases the individual pension member will need to pay for professional financial advice but responsibility for paying for the advice will fall on the employer if the transfer is from defined benefit to defined contribution within the same scheme, or as a result of an employer led incentive exercise. Those with pension's wealth below £30,000 will be exempt from having to take advice.

Before the pension benefits of any member (or survivor) of a defined benefit scheme can be transferred to a defined contribution scheme , the trustees or managers of the defined benefits scheme must check that the member has received appropriate independent advice. Secondary legislation from HM Treasury will set out what the trustees or managers must do to check that a member (or survivor) has received appropriate independent advice.

Ban on transfers out of unfunded public service pension schemes

Allowing members of unfunded schemes to transfer to defined contribution schemes could lead to large costs for the Exchequer, which ultimately fall on the taxpayer. Giving the same flexibilities to these members would therefore pose a significant cost risk to the Exchequer.

CETV reduction safeguard for funded public service pension schemes

This safeguard will allow Ministers – The Secretary of State in the case of the Local Government Pension Scheme – to switch on reductions in transfer values for transfers from funded defined benefit public service pension schemes to a defined contribution scheme. The amendment to the Pension Schemes Bill will ensure that the power is only exercised in the event that there is a cost risk to taxpayers.

This arrangement will ensure that transfers between schemes like the Local Government Pension Scheme and defined contribution schemes can continue, but subject to both the proposed financial advice safeguard and the safeguard to protect the scheme and the taxpayer.

The government expects to set out a method for calculating the level of the reduction in secondary legislation and expects to consult on these regulations in due course.

General

In summary, three safeguards will be available for transfers out of funded, public service pension schemes:-

- A requirement for the funded scheme to check that a member has taken advice before transferring to a defined contribution scheme;
- Schemes will continue to be able to apply to the Pensions Regulator to delay the payment of transfers where appropriate ,as now, and
- A power that will allow Ministers to require the reduction of CETVs in specific circumstances.

The government amendments to the Pension Schemes Bill referred to in this paper can be found at http://services.parliament.uk/bills/2014-15/pensionschemes/documents.html

Any enquiries about this paper should be sent to the Department at Robert.holloway@communities.gsi.gov.uk or by telephone on 030344 42182.

Department for Communities and Local Government
Workforce Pay & Pensions
2nd Floor, SE Quarter
2 Marsham Street
London
SW1P 4DF

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