Pensions

PUZZLED BY PENSIONS?

PENSIONS GUIDE 2020/21

Usdaw
Union of Shop, Distributive and Allied Workers

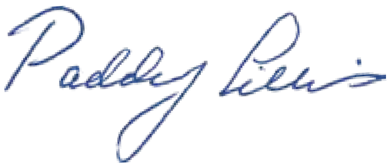

Pensions

INTRODUCTION

Usdaw believes that all of our members have the right to a decent standard of living in retirement. For this we need a fair pensions system where both state and company pensions play a part.

We know that to achieve good company pensions we need activists who understand how pensions work so that we can get pensions onto the bargaining agenda and encourage other members to take advantage of their employer's scheme.

This guide aims to explain the different types of pensions available to Usdaw members and how they work and to help you understand the technical terms used by pension schemes.



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1. OCCUPATIONAL PENSIONS

Since auto-enrolment was introduced in 2012 all Usdaw members will work for companies which offer a workplace pension scheme for them to join.

This section explains the different types of occupational pensions as well as personal pensions.

Occupational pensions are set up by employers to provide pension benefits for their employees.

Usually both the company and the employee make contributions into the pension scheme. It is the company contribution that gives occupational pensions the advantage over personal pensions and other ways of saving. It is also the reason why Usdaw believes that occupational pensions are the best way of achieving a decent retirement income on top of what you get from the state.

Types of pension scheme

There are three main types of occupational pension scheme:

— **Defined Benefit** – where the benefits payable to you are clearly defined in the scheme's rules and are calculated based on your salary and length of service. Contributions are paid into and benefits are paid out of one large pension fund.

— **Defined Contribution** (also called **money purchase**) – where each scheme member has their own individual pension pot. In these schemes only the amount of contributions being paid by the company and employee are defined. The amount of pension you get depends on the size of your pension pot when you retire.

— **Hybrid Schemes** – these schemes pay benefits which are a mixture of Defined Benefit and Defined Contribution.

Defined Benefit (DB)

Defined Benefit pension schemes are considered the best kind to be in. This is because your pension is calculated based on your salary and service which makes it relatively easy to predict how much your pension will be.

The pension benefits you build up are guaranteed and the company carries the risk of having to pay extra contributions if there is not enough money in the fund to pay out all the benefits promised. Company contributions to DB schemes are often at least twice what the employee pays.

DB schemes often come with a number of additional benefits for members such as:

- Pensions for your spouse/partner after you die.
- Pensions for dependent children after you die.
- A lump sum payment if you die before you retire.
- Enhanced pension if you retire early due to ill-health.

You also have the option of exchanging some of your pension for a tax-free lump sum when you retire (this is called **cash commutation**).

DB schemes are always governed by a board of trustees who are legally bound to act in the best interests of the scheme's members (see the section on Trustees).

Final Salary Schemes

Final salary schemes are one kind of Defined Benefit scheme. They pay you a pension based on your salary in the last few years before you retire (your **final salary**) and the number of years you've been in the scheme (your **pensionable service**).

The rate at which your pension builds up is called the **accrual rate** and it is normally expressed as a fraction. A typical accrual rate is 1/60th. If you paid into a 1/60th scheme for 30 years before you retire then your pension would be 30/60ths – or one half – of your final salary.

Lower accrual rates produce a lower pension. So in a 1/80th scheme you would need to pay in for 40 years to achieve a pension of half your final salary.

Different schemes have a different definition of what counts as pensionable salary. In some schemes it might be the whole of your pay where in others it might be basic or contractual pay only.

Career Average Revalued Earnings (CARE) Schemes

CARE schemes are another kind of Defined Benefit scheme. Your pension is based on your average salary during the time you are in the scheme rather than your final salary at retirement.

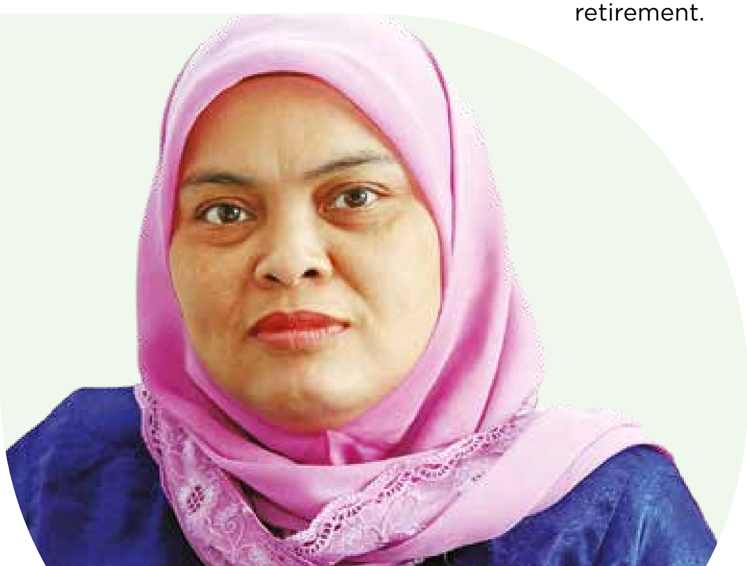
For every year you pay into the scheme you build up – or accrue – an amount of pension. The scheme's accrual rate will either be a fraction (like 1/80th) or a percentage (like 1.5%) of your pensionable earnings for each year.

The pension built up each year is then increased (revalued) for every subsequent year up until you get to retirement age. Usually, your pension is revalued in line with rises in inflation using either RPI or CPI as a measure.

CARE schemes are usually more affordable for companies than final salary schemes because the value of the pension you have built up in previous years is linked to inflation increases rather than wage increases and, over time, inflation tends not to rise as fast as wages. Plus the inflation increases are usually capped at 5% a year or less, which also helps to control the cost of the scheme.

CARE schemes might provide a better pension if you are likely to earn more in the middle years of your career rather than the final years or if you are going to switch from full-time to part-time hours towards the end of your working life. They may also be more suitable if you work variable hours, which is why CARE schemes were originally set up for retail workers at companies like Tesco and The Co-operative Group.

Final salary schemes provide a higher pension for people who have one or more promotions in their career and whose highest earnings are in the last few years before retirement.



Cash Balance Schemes

Sometimes called **Retirement Balance Schemes**, these schemes have features typical of both Defined Benefit and Defined Contribution schemes but they are not treated as being a hybrid scheme.

The benefit promised by the company is a cash sum at retirement.

The value of the cash sum is calculated as a proportion of your earnings in each year that you have been a member of the scheme.

A typical cash balance scheme might provide a cash sum worth 20% of your earnings for each year of pensionable service.

So after 30 years you would have a cash sum of 30 x 20% = 600% of your earnings or, in other words, six years' earnings.

Cash balance schemes split risk between the company and the employee. The company takes on the risk of funding the scheme – making sure that there is enough money in the fund to provide the cash sum promised. The employee takes on the risk that the cash sum may not be big enough to provide a decent pension.

From April 2015, if you are aged 55 or over, you have total freedom over how you take an income or a lump sum from your cash balance pension pot.

Integrated Schemes

Some Defined Benefit schemes take into account your State Pension when working out your pension. Schemes that do this are referred to as being **integrated** with the State Pension system.

Some integrated schemes will apply a deduction to the amount of your earnings which are treated as pensionable. This can reduce the cost of the scheme for both the company and employees but is often unfair on the lowest earners whose pensions are disproportionately affected compared to their higher paid colleagues.

Other schemes will apply a deduction to your scheme pension when you reach your State Pension Age.

Paying for the benefits – valuations

Employees pay a fixed contribution to the scheme but the company's contributions can vary from time to time because they must pay the balance of the cost of providing the promised benefits.

All the contributions are paid into a single fund and then invested in a range of assets including stocks and shares (equities), government bonds (gilts), commercial property or foreign currency.

The law requires every Defined Benefit scheme to undergo a full valuation every three years. The results of the valuation show how much the scheme's assets are worth and how much its liabilities – the pension promises – are.

If a scheme's assets are greater than its liabilities then the scheme is said to be in surplus. These days though a valuation is more likely to show that the liabilities are greater than the assets – in which case the scheme is said to be in deficit.

When there is a deficit the company must increase the contributions that it makes to the scheme to make up the shortfall. A **recovery plan** will be put in place where the company promises to pay so much extra money to the scheme over a period lasting maybe 10 to 15 years to eliminate the deficit.

Often after a valuation the company will also increase the employees' contribution rate to help reduce the deficit. They may make changes to the scheme or decide to close it.

Additional Voluntary Contributions

Members of Defined Benefit schemes usually have the option of paying extra contributions on top of their regular scheme contribution in order to achieve a bigger pension and tax-free lump sum when they retire. These are called Additional Voluntary Contributions or AVCs.

AVCs are provided on a Defined Contribution basis where the money is paid into an individual pension pot of your own, kept separate from the main pension fund.

These days it is no longer compulsory for occupational pension schemes to provide a facility for members to pay AVCs.

Defined Contribution (DC)

Defined contribution schemes are also called **money purchase schemes**.

Unlike Defined Benefit schemes where the amount of pension you get when you retire is predictable, the only sure thing in a DC scheme is the amount of contributions being paid into your individual pension pot.

The contributions paid are invested in line with investment choices that you make when you join the scheme. The value of your pot will rise or fall from time to time in line with investments you have made.

The size of your pension at retirement depends on lots of different factors. These are just a few of them:

— The amount of contributions paid in.

— The amount deducted from your pot in management charges.

— How successful your investment choices were in helping your pot to grow.

— How long your pot has been invested for.

— What the economic conditions are like when you retire.

— If you are considering buying a regular income (an annuity) the cost of this when you retire.

In a DC scheme it is the employee who carries all the risks – the risk that your investments might not do very well or that your pot might not be big enough to provide a decent income when you retire. The company's only concern is to pay the contributions promised in full and on time.

From April 2015 you can choose to:

a. Take the whole of your pension pot in one go, 25% tax-free and the rest taxed as income.

b. Take smaller lump sums, as and when, with 25% of each withdrawal tax-free and the rest taxed as income.

c. Take up to 25% tax-free and a regular taxable income from the rest. The regular income can be drawn directly from your pension pot which remains invested (drawdown) or by buying a secure income for life (annuity).

Sometimes there might be additional benefits for employees who join their company's DC scheme such as a lump sum payment on death before retirement.

The shift from DB to DC

Over the last ten years, as Defined Benefit schemes have become more expensive and risky to run, many employers have made the switch from DB to DC. DC is more affordable because the company usually pays a smaller contribution. Also, in a DC scheme the risk of adequately funding pensions lies with the employee instead of the company.

The first step was for companies to close their DB schemes to **new joiners** and start a new DC scheme for new employees to join.

More recently, companies have closed their DB schemes to the **existing members** too and switched them over to DC. Sainsbury's closed its DB scheme to future accrual in 2013 and Tesco, The Co-operative Group and Morrisons all closed their schemes in 2015.

What makes a good DC scheme?

The key to a good DC scheme is the amount of contributions being paid in – and in particular the amount that the company pays.

Some companies offer to match whatever the employee contributes up to a certain level. More generous companies will offer to contribute more than the employee or will make a contribution even if the employee pays nothing themselves.

In Usdaw's opinion a good DC scheme looks like this:

— **Adequate contributions** – our view is that a total contribution of 15% of earnings is needed to achieve a decent pension with 10% paid by the company and 5% by the employee. The longer contributions are paid the better. This is why it is important that we encourage young people to join their workplace pension schemes as soon as they can.

— **Pensionable earnings** – contributions should be paid on the whole of your earnings and not limited to basic pay or a band of earnings.

— **Low charges** – if your DC scheme deducts management charges from your pot these should be kept to a minimum (see the section on Charges).

— **Death benefits** – joining the company DC scheme should entitle you to a lump sum payment on death before retirement.

— **Ill-health benefits** – joining the scheme should entitle you to some kind of protection if you are forced to stop working due to ill-health.

— **Trust-based** – your company's DC scheme should be managed by a board of trustees who will act in the best interests of the scheme's members, or they should have an independent governance committee.

Personal and Stakeholder pensions

Personal pensions are also Defined Contribution type schemes. These are pensions that you can set up yourself with a bank, building society or insurance company.

The downside to taking out your own Personal pension compared to joining an occupational pension is that there is no contribution from your employer.

Also, the management charges in Personal pensions tend to be higher than they are in company schemes.

Stakeholder pensions were introduced in 2001 as a more affordable alternative to Personal pensions. Stakeholder pensions have to meet the following standards:

— A maximum annual management charge of 1.5% dropping to 1% after the policy is ten years old.

— A minimum contribution of £20 a month.

— No charges for transferring your Stakeholder pension into another pension scheme.

— Offers you a default investment option (see 'Making your investment choices').

In recent years, companies have appointed a pension provider (usually an insurance company) to provide a Personal or Stakeholder pension for their employees rather than set up their own scheme. These arrangements are usually called **Group Personal Pensions** or **Group Stakeholder Pensions**.

Although your employer might offer to make contributions to a Personal or Stakeholder pension for you, strictly speaking they are not occupational pension schemes.

Unlike an occupational scheme set up by your employer, Personal and Stakeholder pensions are not governed by a formal board of trustees who act in the best interests of the scheme's members. Instead you are entering into a contract with an insurance company exactly the same as if you had set the pension up on your own.

The only differences are that your employer is contributing too and because the pensions have been arranged on a group basis to cover the whole workforce the charges are usually lower.

Making your investment choices

The contributions you and your employer pay into your Defined Contribution pension are invested in line with choices you make when you first join the scheme. The size of the pension you get from a DC scheme is largely influenced by how successful those investments are in growing the value of your pot.

The most common types of investment fund you are asked to choose from when you join a DC pension scheme are:

— **Stocks and shares (equities)** in companies based in the UK or overseas. These are usually the most high risk investment because the value of stocks and shares rise and fall on a daily basis. The trade off though is that, over a long period of time, investing in equities can produce the highest returns.

— **Government bonds (gilts)** are issued by the UK and overseas governments who will pay a fixed amount of interest on them over a fixed period of time. Investing in bonds is less risky than investing in equities although the trade off is that they may produce a lower return.

— **Corporate bonds** are essentially the same as government bonds but issued by companies instead of governments. Corporate bonds are a higher risk investment than government bonds because companies go bust more frequently than governments do.

- Investing in **property** – usually commercial property – is less risky but will produce a lower return.
- **Cash** funds invest in bank and building society deposits and are one of the least risky investments although they will produce a far lower return.

The paperwork you get from the pension scheme when you join will normally categorise the investment choices as being high risk, medium risk or low risk.

Even though you can change your investment choices from time to time, most people don't feel confident making the decisions themselves. Because of this, most pension schemes offer you a default investment choice – usually called a **lifestyle fund**.

In the lifestyle fund you are effectively leaving the investment decisions to the experts. They will start by investing your money in higher risk funds like equities which are expected to produce the highest returns. As you get closer to your retirement age they will automatically switch your money into lower risk/lower return investments like bonds and cash. The idea is to try to make sure that there are no nasty surprises as you get closer to retirement such as a sudden drop in the value of your pot.

Lifestyling may be suitable for you if you are intending to purchase an annuity when you retire (ie swap your pension pot for a regular income for the rest of your life). However, if you are considering keeping your pension pot invested and to drawdown your income as and when, this may not be suitable. This is because moving your pension fund to less risky assets is likely to reduce the investment returns you will receive.

Charges

Personal pensions, which are usually provided by an insurance company, carry an Annual Management Charge. This is the pension provider's fee for work involved in handling and investing your contribution money. The AMC is usually expressed as a percentage which is deducted from the value of your pot every year.

Don't underestimate the impact high charges can have on a pension pot. A 1% charge might seem low but if you are paying money in over 25 years this means that you are having 25 x 1% = 25% of your money deducted in charges in that time.

Employers are usually able to negotiate lower charges with their chosen pension provider.

In April 2015 the Government introduced a cap on member charges of 0.75% on the 'default funds' available in Defined Contribution schemes used to comply with the auto-enrolment rules.

Annuities

If you have pension savings in a Defined Contribution scheme, one of the options available to you at retirement is to convert your savings into a secure regular income, payable to you for the rest of your life – in other words you can purchase an annuity.

Insurance companies sell annuities and set annuity rates – that is the amount of income that they are prepared to pay you in exchange for your pension pot.

Annuity rates change on an almost daily basis and can be influenced by a number of different factors. These are just a few:

— **Interest rates** – annuity rates are less generous at times when interest rates are low and become more generous at times when interest rates are higher.

— **Life expectancy** – how much income an insurance company is prepared to pay you depends on how long they think you are going to live for (in other words how long they are going to be paying you for).

— **Where you live** – insurance companies can determine how long they expect you to live by your postcode. People who live in low income areas are likely to get a better annuity than people who live in higher income areas.

— **Your health and lifestyle** – smokers may get a better annuity than non-smokers and people with serious health problems may also be offered a better rate.

— **Your age** – naturally the younger you are when you choose to buy an annuity then the longer it is expected to be paid to you for, which is going to result in a lower rate.

Annuities can be tailored to suit your own personal circumstances. You can usually decide whether you want your annuity to increase in payment or not or whether you want to provide an income for your spouse/partner if you die before them.

You have the right to 'shop around' for an annuity, so you don't have to accept the quotation which your pension provider sends you.

Many people are unaware of this option, which is known as the Open Market Option. By shopping around you can sometimes increase your income in retirement by up to 40%.

Following the new choices available from 2015 it is anticipated that fewer people may want to purchase an annuity.

Access to impartial guidance

From April 2015, the Government has provided free guidance to help individuals to understand their options at retirement. For more information please refer to the section on 'Access to impartial guidance' on page 49.

Alternatively, for more information about the pension changes please contact Usdaw's Pensions Department on 0161 224 2804.

Defined Benefit v Defined Contribution

The table on the next page highlights how the two main types of pension compare with each other.

Defined Benefit	Defined Contribution
You know how much pension you will get – your pension is worked out based on your salary and service so you have a good idea of how much it will be.	**The size of your pension can't be predicted** – you know you are going to get some pension but the amount depends on a number of factors and can't be accurately predicted.
Your employer carries all the risks – the risk that people live for longer and pensions have to be paid for longer or that there isn't enough money in the fund to pay all the benefits promised.	**You carry all the risks** – if average life expectancy goes up or the stock markets go down then it is up to you to make up any drop in the value of your pension pot.
Your pension is linked to your earnings – your pension will be worked out as a proportion of either your final salary or career average earnings.	**The size of your pension pot can vary depending on a number of factors:** — How much you and your employer paid in. — How much was deducted in charges. — Investment performance. — How long your money was invested for. — Economic conditions when you retire. — How you wish to access your savings when you retire.
Additional benefits – DB schemes usually pay a lump sum on death, pensions for your spouse/partner/dependent children on death and ill-health pensions.	**No additional benefits** – DC schemes rarely come with additional benefits.
Larger employer contributions – your employer is likely to pay at least double what you contribute to a DB scheme to meet the cost of the benefits.	**Smaller employer contributions** – in the average DC scheme the employer will match your own contribution up to a certain level. In the best DC schemes the employer pays a better-than-matching contribution.
At retirement you will have the option of taking a pension or a reduced pension and a tax-free lump sum, which is paid out of one large pension fund.	**From April 2015 if you are 55 or over** you will have total freedom over how you take an income or a lump sum from your pension pot.

Hybrid schemes

Hybrid schemes offer benefits which are a mixture of Defined Benefit and Defined Contribution.

For example, a hybrid scheme might make you a salary-related pension promise (Defined Benefit) but at the same time keep track of a notional individual pension pot for you (Defined Contribution). If, when you retire, the notional pension pot will produce a higher pension than the salary related promise then the Defined Contribution benefit will apply. This is called a **DC underpin scheme**.

Other kinds of hybrid scheme will pay benefits on both a DB and DC basis. For example:

- Transfers into a DB scheme may have been used to provide extra benefits on a DC basis. Nowadays however, it is unusual for any DB scheme to accept a 'transfer-in' from an alternative arrangement.
- Schemes which offer members a choice between DB and DC sections.
- Additional Voluntary Contributions to a DB scheme provided on a DC basis.
- Schemes which pay DB benefits on earnings up to a certain level and DC on all earnings above that level.

Ill-health retirement

Most occupational pension schemes – particularly Defined Benefit schemes – provide a pension if you are forced to retire early due to ill-health.

The pension scheme will only pay you an ill-health pension if your condition is permanent and usually only if your condition prevents you from taking on any other job in future.

Other schemes may offer a lower ill-health pension in cases where you can no longer carry on doing your job for your current employer but you might be able to do a different job somewhere else.

Medical evidence of your incapacity will be needed and the pension scheme trustees will want proof that your condition is permanent. Sometimes the company's consent is needed as well as the trustee's.

In cases where the trustees have turned you down for an ill-health pension it is usually difficult to challenge their decision unless it can be proved that they acted in an unreasonable way when arriving at their decision.

Some employers, instead of providing ill-health pensions, may set up a **Permanent Health Insurance** policy with an insurance company that will pay you an income whilst you are off sick. Some policies will provide cover up until your normal retirement date and some may restrict cover for a specified amount of time, for example three years. Some companies will provide a **Critical Illness** policy. Also taken out with insurance companies these policies are usually more affordable for employers because they only pay out a lump sum in cases of the most serious illnesses such as stroke or cancer.

Access to Medical Reports Act 1988

Your employer, pension scheme or insurance company cannot apply to your own doctor for a medical report about you without first notifying you and telling you what your rights are under this Act.

You have the right to see the report free of charge before it is sent. You can have your own copy of the report for a reasonable charge. If you think anything in the report is inaccurate or misleading then you can ask the doctor to change it. If the doctor won't change it then you can attach a statement to the report giving your own opinion.

The Act only applies to reports requested from your own doctor and not to reports obtained from independent or company doctors.

We advise you to make sure you ask for your own copy of any medical report made about you.

Salary sacrifice

Salary sacrifice or salary exchange is an alternative method of paying your regular contribution to the company pension scheme. It is designed to save money for both you and your employer by reducing the amount of National Insurance contributions you have to pay.

You give up or 'exchange' an amount of your wages equal to the amount you regularly pay into the pension scheme. Your employer pays your pension contribution for you as well as their own. Because NI contributions would normally be payable on the amount of wages that you have given up, both you and your employer save money.

These arrangements have become more common over the last few years as companies look for ways to reduce the amount they spend on pensions. Sometimes they are given a different name like SMART Pensions.

Usdaw has a factsheet about salary sacrifice. You can download it from the Usdaw website or order it from the Union's pensions team.

Leaving a scheme early

If you leave your company pension scheme before retirement age there are a number of options available to you depending on what kind of pension scheme you are in and how long you have been in it for.

Occupational Defined Contribution (DC) schemes

If you were paying into your employer's occupational DC scheme prior to October 2015, for less than two years you could still qualify for a refund of your own contributions less tax.

However, since October 2015 members of Occupational DC schemes may only have their contributions refunded if they leave or opt out within the first 30 days of joining the scheme.

Alternatively, your options on leaving are:

- A **deferred pension** – the pension rights you have built up so far remain in the scheme and are paid to you when you reach retirement age.
- A **transfer** of your pension rights into another registered pension scheme.

Defined Benefit (DB)

If you were contributing for less than two years but more than three months:

- A **refund** of your own contributions minus tax.
- A **transfer** of your pension rights into another registered pension scheme (including the value of the contributions your employer made for you).

If you were contributing for less than three months you will usually be given a refund of your own contributions minus tax.

If you were contributing for more than two years, your options on leaving are:

- A **deferred pension** – the pension rights you have built up so far remain in the scheme and are paid to you when you reach retirement age.
- A **transfer** of your pension rights into another registered pension scheme.

Refunds

At some companies where salary sacrifice arrangements have been introduced and you no longer pay your own pension contribution then the option of a refund may not be available.

Refunds cannot be paid if you have transferred pension rights into the scheme from a previous pension.

Refunds cannot be paid from Personal or Stakeholder pensions.

Early retirement

If you are 55 or older you can apply to the pension scheme to start drawing your pension benefits immediately.

Early retirement usually needs the agreement of both the pension scheme trustees and your employer.

Also, pensions paid early will usually be reduced because they are going to be paid for longer.

Personal and Stakeholder Pensions

If you contributed to a Personal or Stakeholder pension provided by your employer then you have the following options if you leave your job before retirement age:

- Stop contributing and leave your pension pot invested until you are ready to start drawing your pension.
- Arrange with the pension provider to carry on contributing to your pension either on a regular or one-off basis – but obviously you will no longer receive employer contributions towards it.

- If you are 55 or older you will have total freedom over how you take an income or a lump sum from your pension pot.
- If you start a new job with a company that offers you membership of their pension scheme then you might be able to transfer your pension from your previous job into the new scheme.

Group Personal Pension Schemes (GPPS) and Group Stakeholder Pension Schemes (GSPS)

You will be entitled to the same options as before for Personal pensions or Personal Stakeholder pensions.

However, if you were automatically-enrolled into either a GPPS or GSPS and you opt out or leave the company within 30 days you will be eligible to receive a refund of your contributions.

Transferring your pension

It is usually possible for you to transfer pension rights from one scheme to another. There are a number of reasons why you might want to do this:

- You might believe that you can get a bigger pension by transferring to a new scheme.
- The benefits in your old scheme may not suit your personal circumstances – for example, if your old scheme pays a pension on death to your spouse/partner but you are single.
- You might not be happy with the investment performance of your old scheme and think that your money will be better invested in a new scheme.

- You might want to merge several small pension pots from different jobs into one large pot for convenience or to pay lower charges.
- If you have a DB pension, the new rules introduced in April 2015 do not apply. You might therefore want to transfer to a DC pension pot to access the new DC choices.

Whatever your reason, we advise you to get independent financial advice because transferring pensions can be complicated and there is a risk that you might lose money.

There has also been an increase in pension scammers and it is of paramount importance that you seek the advice of a registered Independent Financial Advisor (see the section on Getting financial advice).

Transfers between Defined Contribution schemes are usually straightforward. Your old pension provider disinvests your pension pot and pays the value to the new pension provider who reinvests the money. The risk is that there is a delay between the disinvestment and the reinvestment of your money, which causes you to lose out.

Transferring pension rights out of a Defined Benefit scheme is more complicated. The scheme's actuary works out the cost to the scheme of paying your pension at your retirement age and this is the amount of money that is transferred.

Transferring pension rights out of a DB scheme is risky. If you are transferring into a DC scheme then you lose all guarantees about what your pension rights will be worth when you retire – they may be worth more or less.

If you are a member of a DB scheme and the value of your benefits is more than £30,000, you are required to take advice from an Independent Financial Advisor (IFA). The IFA will check that the transfer value you are offered represents good value and the transfer is in your interests.

If your previous employer's DB scheme is currently underfunded then the trustees can restrict your transfer amount. For example, if the scheme is only 80% funded then they might only pay 80% of your full transfer value.

Transfers into a DB scheme are now very rare. Trustees of DB schemes are reluctant to take on extra liabilities which might end up costing the scheme money and so they usually ban any transfers into the scheme.


Pensions

2. STATE PENSIONS

This section explains your State Pension, which is a regular payment from the Government that you can claim when you reach your State Pension Age.

Your State Pension is important because it forms the foundation of your retirement income.

To qualify for a State Pension you must have paid or been credited with National Insurance contributions.

The State Pension was reformed on 6 April 2016 and this section looks at what the changes mean, who is entitled to them and when they are payable.

State Pension reforms

The State Pension changed on 6 April 2016.

The State Pension is a regular payment from the Government which you can claim when you reach your State Pension Age.

Not everyone has the same State Pension Age and not everyone will receive the same amount of State Pension.

Your State Pension Age depends on when you were born and how much you receive will depend on your National Insurance record.

For an introduction to the new State Pension please access the link www.usdaw.org.uk/StatePensionChanges

To find out your State Pension Age go to www.gov.uk/calculate-state-pension

Who will receive the new State Pension

The new State Pension was introduced for people who reach State Pension Age on or after 6 April 2016.

You will be affected by the changes if:

- You are a man born on or after 6 April 1951.
- You are a woman born on or after 6 April 1953.

If you were born before these dates you will not be affected and will continue to receive your State Pension under the current scheme rules.

How much you will get

Existing pensioners

If you have already reached your State Pension Age and you are in receipt of your State Pension you will continue to receive this in line with the present rules. You will continue to get both your Basic State Pension and any additional State Pension (this could be State Graduated Pension, SERPS or State 2nd Pension) which you are entitled to. This will also apply to anyone who has reached their State Pension Age on or before 6 April 2016.

Furthermore, if your current pension entitlement is more than the new full single tier pension, your pension will NOT be reduced.

New pensioners

For any man born on or after 6 April 1951 and any woman born on or after 6 April 1953 you will be affected by the reforms and your pension will be calculated in accordance with the new rules.

The **full** level of the new State Pension will be **£175.20** each week however, not everyone will automatically qualify for this amount.

The amount you receive will be based on your National Insurance record.

Your new State Pension will be based on how many 'Qualifying Years' you have on your National Insurance record and whether you have previously been 'contracted-out' of the additional State Pension at any time prior to 6 April 2016.

If you do not have the maximum amount of **Qualifying Years** and you were **contracted out** of the additional State Pension prior to 6 April 2016 (or both), your 'starting amount' will be **less than** the full new State Pension.

Qualifying Years

From April 2016 you will need 35 Qualifying Years to get the full amount of the new State Pension. Furthermore if you reach State Pension Age after April 2016, for the first time, you will need to have a minimum of 10 years National Insurance contributions or credits to qualify for a State Pension.

Contracting Out

If you have previously been a member of a workplace pension scheme which was 'contracted-out' of the State Additional pension, (you will have paid reduced rate National Insurance to enable you to contribute to your workplace pension) there is a possibility that you will not qualify for the full amount of the new single tier pension. (This will depend on how long you were contracted out for).

Starting amount from April 2016

From April 2016 the Government will look at how many existing Qualifying Years you have and if you have a contracting out record, which will determine your 'starting amount'.

If your starting amount is less than the new full State Pension of £175.20 a week, each qualifying year you add to your National Insurance record, after April 2016, will start to build up an additional amount up until you reach the full level of the new State Pension or when you reach your State Pension Age – whichever happens first.

If your starting amount is more than the full State Pension you will receive this higher amount when you reach State Pension Age. This will occur if you have built up a certain amount previously in the additional State Pension.

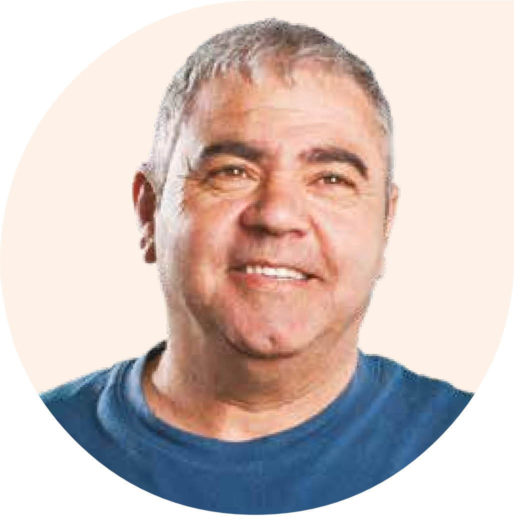
When you will receive your State Pension

You can only claim your State Pension when you have reached your State Pension Age and this will depend on your date of birth.

Historically the State Pension was 60 for women and 65 for men. This started to change in April 2010 as women's State Pension Age began to increase – in stages from 60 to 65 to bring them in line with men.

Between 2018 and 2020 men's and women's State Pension Age will increase from 65 to 66 and from 2026 to 2028 the State Pension Age will rise to 67 for everyone.

The Government announced that it will review the State Pension Age every five years. The review published in 2017 recommended that the State Pension Age should be increased to age 68 for all between 2037 and 2039.



Topping up your State Pension

The new State Pension won't be the same for everyone. What you get will be based on your National Insurance record.

From 6 April 2016, for the first time you will also need a minimum of at least 10 **Qualifying Years** to be eligible to receive any State Pension.

You can get a new online State Pension statement at www.gov.uk/state-pension-statement You can also complete Form BR19 if you are unable to access this online. Contact the Future Pension Centre on 0800 731 0175 for a form. This will estimate what your new State Pension will be based on your National Insurance contributions to date. This will be your starting amount in the new system.

In most cases this is the lowest amount you could expect to receive at your State Pension Age.

If you do not qualify for the new full State Pension there are ways in which you can increase it up to the full amount:

- You can continue to work and pay National Insurance contributions up to your State Pension Age and this will boost your starting amount from 6 April 2016.
- You may find that you have gaps in your National Insurance record and you may be eligible to claim credits for these.
- You can elect to pay voluntary National Insurance contributions to increase your State Pension.
- If you have already reached your State Pension Age you can delay claiming your pension and over a period of time your State Pension will increase in value.

Deferring your State Pension

You don't have to claim your State Pension as soon as you reach State Pension Age.

You can delay (or defer) claiming your State Pension which means that you will get extra State Pension when you do claim it. The extra amount will be paid as extra pension (not as a lump sum) but remember it may be taxable.

How much extra pension depends on how long you delay claiming it. The longer you leave it the more you will get.

You will need to delay at least nine weeks – your State Pension will increase by 1% for every nine weeks that you put off claiming. This works out at just under 5.8% for every full year that you put off claiming.

After you claim, the extra amount you receive will usually increase each year in line with inflation.

Claiming from your spouse/ civil partner

Receiving State Pension from your husband/wife or civil partner

If you reach State Pension Age on or after 6 April 2016, your State Pension will be based on **your** National Insurance record **only**.

There is one exception to this – if you are a married woman or widow who has opted to pay reduced rate National Insurance contributions. This is called a Reduced Rate Election (or perhaps most commonly known as 'Married Women's Stamp').

If you made this choice in the past you may get a new State Pension based on different rules, if these will give you more than the amount of the new State Pension that you would have otherwise got from your own National Insurance record.

If these rules do apply to you, you will not need the qualifying 10 years of your own in order to get any State Pension.

Inheriting State Pension from your husband/wife or civil partner

You may be able to inherit an extra payment on top of your new State Pension if you are widowed or a surviving civil partner. The extra payment may consist of additional State Pension or a 'protected payment' (if any).

This will depend on whether the deceased:

- Reached State Pension Age or died before 6 April 2016; or
- Died under State Pension Age after 5 April 2016.

You might also be able to inherit extra State Pension or a lump sum payment if your late spouse or civil partner reached State Pension Age before 6 April 2016 and put off claiming their State Pension.

If you remarry or form a new civil partnership

If you are under State Pension Age you won't be able to inherit anything from your deceased spouse or civil partner if you remarry or form a new civil partnership before you reach State Pension Age.

If you get divorced or dissolve your civil partnership

The courts can make a 'pension sharing order' if you get divorced or dissolve your civil partnership. If this happens the court can decide if you must share your additional State Pension or protected payment with your former husband, wife or civil partner.

Your State Pension will be reduced accordingly and your former husband, wife or civil partner will get this amount as an extra payment on top of their State Pension.

Pension Credit

If you only qualify for a small amount of State Pension or no State Pension at all, you may be eligible to claim Pension Credit.

Pension Credit is an income-related benefit that tops up your weekly income to a guaranteed minimum amount if you have reached the Pension Credit qualifying age. If you are a couple, the amount you get will depend on your joint income and capital (this will include your savings and investments).

State Pension increases

Every year your new State Pension should go up in line with the triple lock guarantee until 2022 (the date scheduled for the next General Election), and at least with the growth in average earnings thereafter.

If you have extra State Pension or a Protected Payment (over the full State Pension entitlement of £175.20) it will not increase at the same rate. This part of your State Pension will increase in line with inflation (Consumer Prices Index-CPI).

If you live outside the UK, your new State Pension may not go up every year.

Triple Lock Guarantee

Your State Pension should increase each year by the highest of:

— Inflation (Consumer Prices Index); or

— National Average Earnings; or

— 2.5%.

Getting a State Pension Statement

The application for a State Pension Statement is called BR19 and we would encourage all our members to apply for this Statement so that they have an expectation of what they might receive once they have reached their State Pension Age.

The Statement will also help identify if there are any current gaps in your National Insurance records so that you can challenge whether this is correct and if so, you can consider how the shortfall can be addressed by paying additional voluntary NI contributions.

The Pension Service

The Pension Service is part of the Department for Work and Pensions and provides customers with pensions, benefits and retirement information. They can:

— Work out the amount of State Pension and Pension Credit that you are entitled to.

— Pay your entitlements to you and answer your questions over the phone, by post or by email.

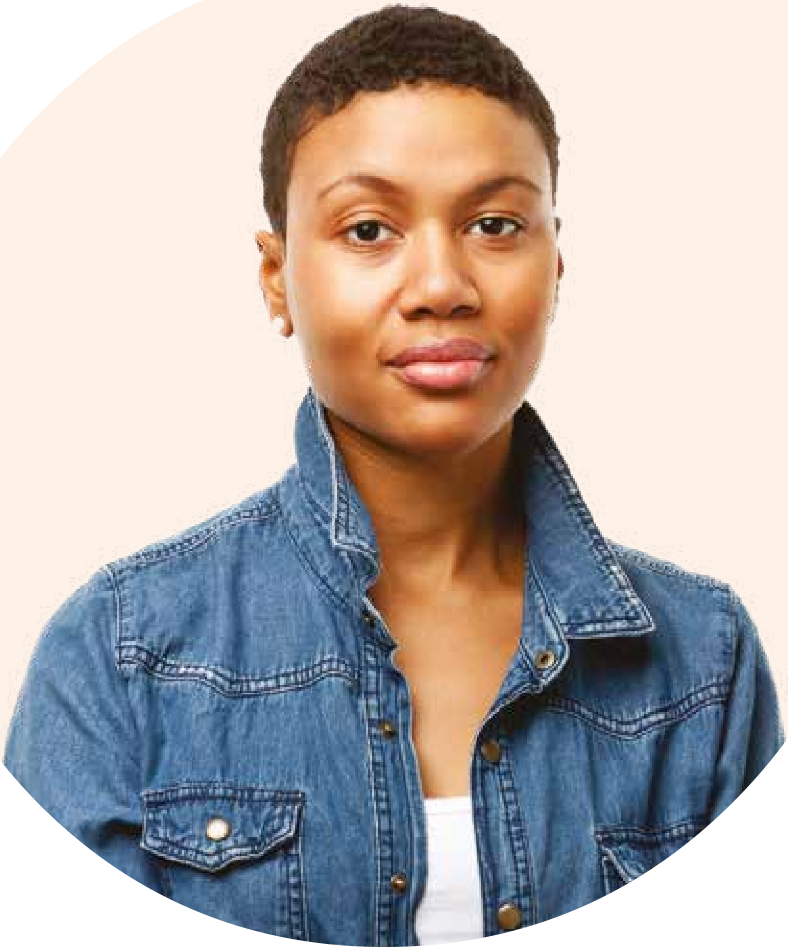
— Tell you how to access other pension-related entitlements and services.

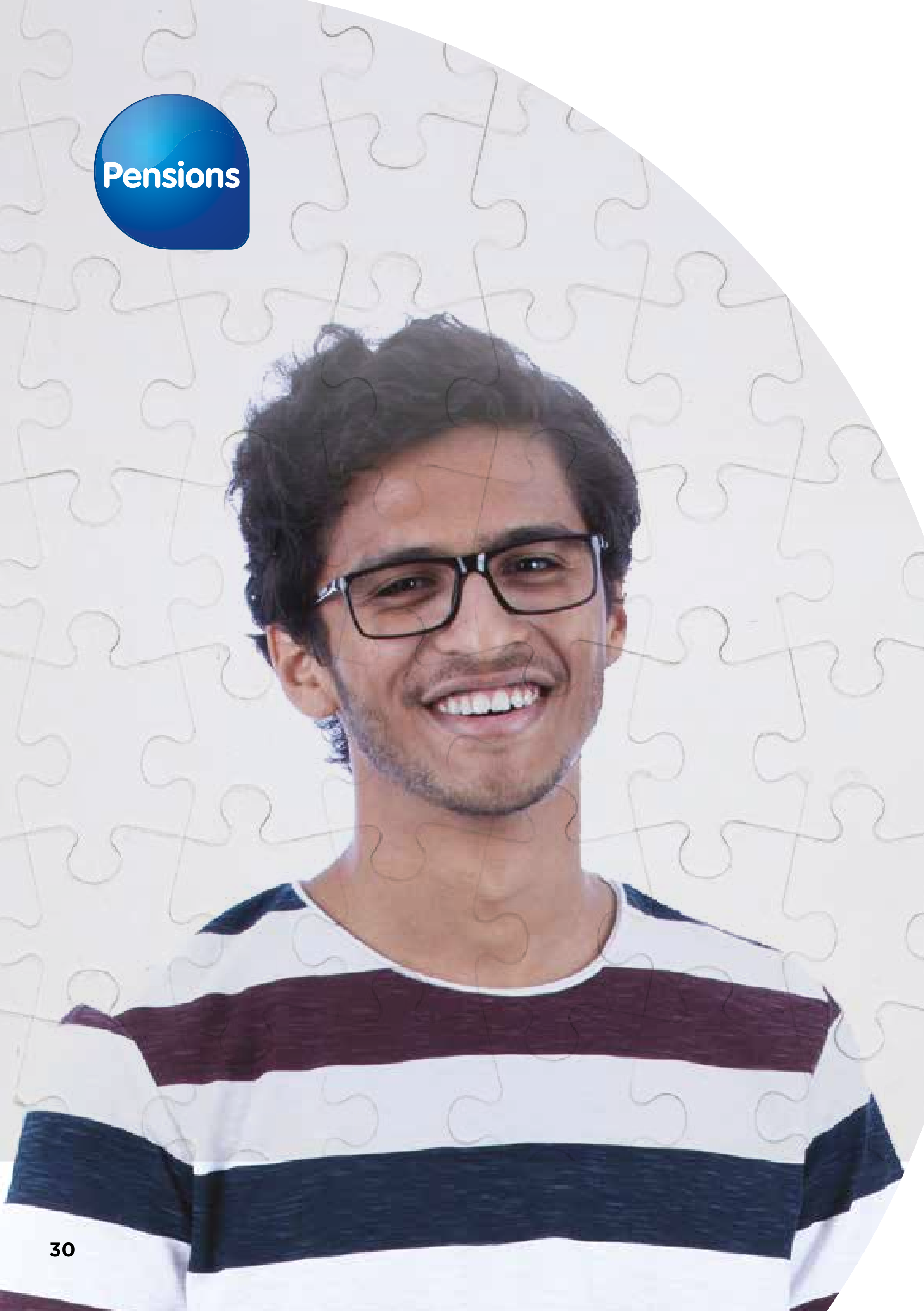
The Pension Service has a network of pension centres supported by a local service.

For more information search for the Pension Service at www.gov.uk or phone the national helpline on 0800 731 7898.

More Information

For more information on all these issues go to www.usdaw.org.uk/pensions





Pensions

3. YOUR PENSION RIGHTS

This section explains some of the laws which govern our pensions system (pensions laws, tax laws and employment laws), the organisations which have a role to play in the system and the rights you have as a member of a pension scheme.

Auto-enrolment – new pension rights from 2012

Since 2001 the only legal obligation on employers to provide pensions was a requirement for them to choose a Stakeholder pension for their employees to pay into.

This rule only applied to employers who employed five or more people and there was no requirement for the employer to pay into the Stakeholder pension themselves.

However, new laws were introduced in 2012 that now affect all employers and give workers a new set of pension rights.

Auto-enrolment

Between 2012 and 2017 all UK employers started automatically enrolling their employees into a workplace pension scheme of a minimum standard. This is called auto-enrolment.

Also, for the first time employers must make a compulsory minimum contribution towards their employees' pensions.

Employers must tell their employees about the pension scheme, deduct contributions from wages and forward those contributions to the pension scheme within statutory timescales.

Most Usdaw members already have the opportunity to join a pension scheme which meets the minimum standard. At the moment it's up to you whether you join or not. Following the 2012 reforms, if eligible, you will be automatically enrolled into your employer's pension scheme with the option to opt out of it if you want to.

Auto-enrolment has been described as the most radical change for working people since the introduction of the National Minimum Wage and it will help millions of workers on low to middle incomes to save for retirement.

Usdaw supports auto-enrolment as it helps thousands more workers to save for retirement who otherwise might not have done so.

Who qualifies?

If you are not already paying into your employer's pension scheme then you will qualify to be auto-enrolled if you meet all of the following criteria:

- You are between age 22 and State Pension Age.
- You earn more than the minimum earnings threshold, which is currently £10,000 a year (£192.00 a week).
- You work in the UK.

You can opt out of auto-enrolment but your employer will have to keep re-enrolling you every three years until you reach State Pension Age.

Young workers aged between 16 and 22 and older workers aged between State Pension Age and 75 don't have to be auto-enrolled but can opt in and are entitled to the same employer pension contribution as everybody else.

People currently earning between £6,240 and £10,000 a year don't have to be auto-enrolled but can opt in and are entitled to the same employer pension contribution as everybody else.

People earning less than £6,240 a year don't have to be auto-enrolled. You can opt in but your employer does not have to make a contribution for you.

The earnings thresholds above are reviewed by the Government every year.

When did auto-enrolment start?

The timetable for employers to stage for auto-enrolment started to take place over a five year period between October 2012 and October 2017.

Every employer has a staging, ie a start date, by which they must have begun auto-enrolment. The start date is based on how many people they employ. The process started with the biggest employers and left the smallest until last.

The Pensions Regulator will notify every employer of their start date 12 months in advance.

Auto-enrolment start date	Number of employees
October 2012	120,000 or more
November 2012 – March 2013	10,000 – 120,000
April 2013 – September 2013	1,250 – 9,999
October 2013 – February 2014	250 – 1,249
April 2014 – April 2015	50 – 249
June 2015 – April 2017	Less than 50
May 2017 – September 2017	New employers set up between April 2012 and 2017
October 2017 onwards	New employer set up from October 2017

Minimum pension scheme standards

The new minimum standard of workplace pension will be a Defined Contribution scheme with a minimum total contribution of 8% of your wages from April 2019. Your employer will be required to contribute a minimum 3% of the total 8%.

Contributions only have to be deducted from a band of earnings – currently between £6,240 and £50,000 a year.

Basic pay, commission, overtime, bonus, statutory maternity, paternity and adoption pay must count towards pensionable pay.

Contributions don't have to be split this way. Your employer might offer to pay more than the minimum or even pay the whole contribution. Similarly, you can pay more than the minimum employee contribution if you want.

Usdaw has a separate guide on auto-enrolment which you can download from the Usdaw website or order from the Union's pensions team.

Tax rules about pensions

The Finance Act 2004, which became law in April 2006 made far-reaching changes to the tax treatment of pensions.

Tax relief

Contributions paid to a registered pension scheme receive tax relief from the Government up to certain limits.

In simple terms, in general any part of an employee's income that is paid into a registered pension scheme is untaxed, with the amount that would have been taken in tax instead going into the pension scheme.

For basic rate taxpayers this means that every £1 you pay into your pension only costs you 80 pence.

Before April 2006 you weren't allowed to contribute more than £15,000 a year towards a pension.

This limit was abolished and replaced with an Annual Allowance and a Lifetime Allowance. These new allowances only really affect very high earners.

The Lifetime Allowance is the amount of pension benefits that you can build tax-free over your working life. The Lifetime Allowance is currently £1,073,100 (2020/21).

The Annual Allowance is the amount of pension benefits you can build up with tax relief in a single tax year. The Annual Allowance is currently £40,000. From 6 April 2016 those with an income of over £150,000 will be subject to a tapered annual allowance which could reduce to just £10,000.

From 6 April 2017, the annual allowance will be reduced to £4,000 if you have withdrawn more than the 25% tax-free lump sum from a Defined Contribution pension pot. This is known as the Money Purchase Annual Allowance. (MPAA)

In a single tax year you can have tax relief on contributions to your pension of whichever is the lower of 100% of your annual earnings or the annual allowance.

Your own company pension scheme may have limits on the amount you can pay in that are more restrictive than the above allowances.

If you don't have any earnings (for example if you don't work) or if you earn less than £3,600 each year, you can make gross contributions of up to £3,600 each year to a Personal pension, Self Invested personal pension or a Stakeholder pension, receiving basic tax relief at currently 20% of your contribution.

Tax-free lump sum on retirement

When you start to draw your pension benefits you can take up to 25% of the value of your benefits as a tax-free lump sum – sometimes called a Pension Commencement Lump Sum.

Again, your own company pension scheme rules might be more restrictive than this.

Contributing to more than one pension

Before 2006 you were only allowed to contribute to one pension at a time. You can now contribute to as many pensions as you like as long as you don't exceed the tax allowances described above.

AVCs

Before 2006 AVCs could only be used to provide extra pension. Now when you start drawing your pension benefits you can choose to take some or all of your AVCs as a tax-free lump sum instead.

Flexible retirement

Since 2006 you can start drawing your company pension and carry on working. This can be attractive for people who want to 'phase in' retirement by receiving their pension and reducing the hours they work. It is up to your employer whether they have a flexible retirement policy and what terms and conditions they attach to it.

Small pensions – Trivial Commutation

If your pension pot at retirement is quite small, up to now you have been able to take all of it as a cash lump sum subject to certain criteria. This is what Trivial Commutation means.

From April 2015 Trivial Commutation no longer applies to Defined Contribution pots (unless the 12 month commutation period commenced before 6 April 2015).

From April 2015 new legislation has allowed more flexibility on how you access your Defined Contribution pension pots. As long as you are aged 55 or over you will be in a position to take as little or as much of your pension pot as cash (subject to taxation), irrespective of the size of your pot.

For Defined Benefit schemes however, Trivial Commutation will still be possible after 5 April 2015.

You may be able to take the whole of your Defined Benefit pension as a **Trivial Commutation lump sum** if:

— You're aged at least 55, or you're retiring at an earlier age because of ill-health, and the total value of all your pensions (ignoring any State Pension) when added together do not exceed £30,000 in total.

You may also be able to take the whole of your Defined Benefit pension as a lump sum if it is a small pot if:

- You're aged at least 55, or you are retiring at an earlier age because of ill-health; and
- The value of your defined pension benefit does not exceed £10,000.

Unlike Trivial Commutation, you do not have to take into account any other defined pension benefits you may have, when giving up a pension for a small pot.

The Government will allow you to give up three pension arrangements under the small pots rule.

Paying tax on your pension

You will pay income tax on your pension the same as you do on any earned income.

The Personal Allowance in the 2020/21 tax year is £12,500.

The Pensions Regulator

The Pensions Regulator is the regulator of work-based pension schemes. This includes any scheme that an employer makes available to employees including Personal and Stakeholder pensions.

The Regulator is given powers by the Government to achieve the following objectives:

- To protect the benefits of members of work-based pension schemes.
- To promote good administration and improve understanding of work-based pension schemes.
- To reduce the risk of situations arising which may lead to compensation being paid from the Pension Protection Fund (PPF).
- To make sure employers comply with their duties (like the requirement to auto-enrol eligible employees into a work-based pension scheme of a minimum standard).

The Regulator's role is to make sure that the people who are responsible for providing and managing work-based pensions fulfil their obligations. This involves working with pension scheme trustees, employers, pension specialists and business advisers; providing guidance and education to make clear what is expected of them and to help them achieve high standards.

The Regulator can impose penalties on those who fail to take their responsibilities seriously or breach important rules and guidelines.

Trustees

Trustees are the people responsible for running occupational pension schemes (which includes all Defined Benefit schemes and some Defined Contribution schemes although usually not Personal or Stakeholder pensions).

They are duty bound to act in the best interests of the scheme's members and remain independent of the company – even if they are directors or board members of that company. The trustees' powers are set out in scheme documents called the Trust Deed and Scheme Rules which they have a duty to follow.

Trustees are usually appointed by the company or by the existing trustees or by whatever method is set out in the Trust Deed.

The law requires at least one third of the trustee board to have been nominated and selected by the scheme's own members – these are called Member Nominated Trustees.

Trustees' legal duties can include:

— Carrying out a full valuation of the scheme at least every three years.

— Recording and keeping minutes of meetings, decisions and transactions.

— Keeping accurate and up-to-date records of the scheme's members.

— Keeping the scheme's assets separate from those of the company.

— Appointing and removing professional advisers (actuaries, accountants, auditors, administrators, lawyers and investment managers).

— Producing a trustees' report and a set of accounts every year.

— Deciding how to invest the scheme's money and producing a Statement of Investment Principles.

— Providing information to scheme members.

— Resolving any complaints brought against the scheme by its members.

— Using their discretionary powers fairly in cases such as applications for ill-health retirement or when deciding who to pay a member's death benefits to.

Trustees are entitled to time off work and are protected by employment law from suffering any detriment or discrimination because of their duties.

Usdaw encourages our members and reps to put themselves forward whenever a Member Nominated Trustee vacancy arises in their company pension scheme. For more information contact the Union's pensions team.

Master Trusts

Since the introduction of auto-enrolment many schemes have been set up under a Master Trust.

A Master Trust is a multi-employer occupational pension scheme where each employer has its own section within the master arrangement.

There is one legal trust and, therefore, one trustee board.

The trustee board makes decisions for each section on things such as investment funds and service providers under a trust-wide governance structure.

The decisions about benefit and contribution levels however, are generally made by the employer.

Some examples of multi-employer schemes which have a Master Trust structure are Nest, The Peoples Pension and Now Pensions.

Independent Governance Committees

Group Personal and Group Stakeholder schemes are generally what is known as 'contract based' schemes. With these types of arrangements there is no requirement for a board of trustees to oversee the running of the schemes.

However, from April 2015, there is a requirement for new Independent Governance Committees (IGCs) to be set up, to help improve accountability and to ensure compliance with new quality standards.

From April 2015 trustees and IGCs now have new duties and will be required to report on all costs and charges.

What happens if your employer becomes insolvent?

Pension Protection Fund (PPF)

The PPF was set up by the Government to compensate members of Defined Benefit schemes where the employer goes bust and there is a deficit in the pension fund.

For a pension scheme to be considered for entry into the PPF the following criteria must all be met:

- The scheme must not have started being wound up before April 2005.
- The sponsoring employer must have become insolvent.
- There must be no chance of the scheme being rescued.
- There must be insufficient assets in the pension fund to pay benefits at the PPF levels of compensation.

The current levels of PPF compensation are:

Member's status	% of your scheme benefits provided by the PPF	Compensation capped?
You are older than your scheme's normal retirement age	100%	No
You are receiving a scheme pension on ill-health grounds	100%	No
You are younger than your scheme's normal retirement age and receiving a scheme pension	90%	Yes
You are younger than your scheme's normal retirement age and not yet receiving a scheme pension	90%	Yes

For scheme members under normal retirement age, the amount of compensation is currently capped at £37,315 (2020/2021) a year for over 65s once the 90% has been applied. This cap is reduced if you start drawing your PPF pension earlier than 65 and increased if you start drawing your PPF pension after 65.

After they start paying you, the PPF will increase your pension every year but only that part of it built up after April 1997. The increase is linked to the Consumer Price Index and is capped at 2.5% a year.

The PPF is not paid for by the taxpayer. It gets its money from a levy imposed on the employers who sponsor schemes that are covered by it and also by taking over the assets of the schemes which are entered into it.

The legislation which covers the PPF does allow for the levels of compensation to be reduced in future if there is a deficit in the PPF's own fund.

Financial Assistance Scheme (FAS)

The Financial Assistance Scheme (FAS) is now administered by the PPF. FAS offers help to people who have lost out on their pension because:

— They were a member of an underfunded Defined Benefit scheme that started to wind up between January 1997 and April 2005.

— The scheme began to wind up and did not have enough money to pay the members' benefits.

— The company cannot make up the shortfall because it has gone bust or no longer exists.

— The scheme started to wind up after April 2005 but isn't eligible to be entered into the PPF because the company went bust before April 2005.

FAS closed to new schemes from 1 September 2016.

Financial Services Compensation Scheme

The FSCS is a compensation fund for customers of financial services firms such as banks, building societies and insurance companies. It can pay compensation to customers of companies who are unable to pay a claim because they have stopped trading or have gone bust.

The FSCS covers the following:

— Banks, building societies and Credit Unions (compensation capped at £85,000 per person and £170,000 for joint accounts).

— Insurance including pensions, life assurance, home and travel (up to 100% of the claim).

— Home Finance including Mortgage Advice (up to £50,000 per person).

— Investments (up to £85,000 per person).

These compensation limits could be different depending on the timing of your claim – for more information go to www.fscs.org.uk/what-we-cover

So if you have a Personal or Stakeholder pension – either one you've taken out yourself or one set up for you by your employer – and in the unlikely event that the provider of that pension goes bust then the FSCS will compensate you.

Winding up a pension scheme

To wind up a pension scheme is to cut the company's ties to the scheme altogether. There are numerous reasons why this might happen, for example:

— The company has gone bust but there was enough money left to cover the scheme's liabilities (the pension promises that have been made to members).

— The scheme is closed to new and existing members and the company wants to remove the liabilities from its books – perhaps to make the company more attractive to a potential buyer.

Winding up a Defined Benefit scheme involves the company making a large one-off payment to an insurance company to take over the responsibility for paying pensions to members when they retire.

Defined Contribution schemes can be wound up too although this is a simpler process than winding up a DB scheme. Each member's pot is transferred into a new policy with an insurance company.

In some cases, members of a DC scheme that is being wound up can be given the option to take their pot as a cash payment (minus tax) even if they haven't reached retirement age.

Buyouts of pension schemes

It is becoming more common for employers with a closed Defined Benefit scheme to use the buyout process to either reduce their pension liabilities or get rid of those liabilities completely.

When a DB scheme is bought out, the responsibility for paying pensions is transferred from the trustees and the employer to an insurance company.

The insurance company works out how much it will cost to pay the pensions promised and the employer pays the amount needed.

Once the buyout is completed the insurance company allocates a pension policy to each scheme member then pays the pensions when they are due.

A full buyout is one where the pension rights of all the scheme's members are transferred to an insurance company. A partial buyout is one where the pension rights of only certain members (usually pensioners or deferred members or both) are transferred.

Scheme members should not find themselves worse off after a buyout although employed members won't be able to carry on paying into the scheme and building up further pension rights. Also, the scheme will no longer be run by a board of trustees who have to act in the best interests of the members.

In the unlikely event of the insurance company going bust after they have bought out your pension scheme then you would be compensated by the Financial Services Compensation Scheme (see the section on FSCS).

Transfer incentives

Another way for companies to reduce their Defined Benefit pension liabilities is to offer deferred members (ex-employees or employees who have opted out but haven't retired yet) an incentive to transfer their pension rights to another scheme.

The company might give you the option of either an extra amount added to the value of your transfer payment or a cash sum to make the offer more attractive to you.

Transfer incentives have been criticised because they are seen as not being in your best interests. There is a good reason why a company is willing to pay extra money for you to transfer your pension rights elsewhere. When you transfer pension rights from a DB scheme to a Defined Contribution scheme you lose all guarantees about how much pension you'll get and you are taking on all the risks yourself.

If you are offered a transfer incentive you should get independent financial advice before you decide to accept the offer (see the section on Getting financial advice).

Pension Increase Exchanges

This is another way for companies to cut their Defined Benefit pension liabilities.

Your pension is guaranteed to receive certain minimum increases every year once it is being paid.

The company will offer you a large one-off increase to your pension on the basis that no future increases will be given (above those required by law).

Accepting the company's offer may or may not be in your best interests. If you're in poor health and don't expect to live for many more years then it might make sense to accept a bigger pension now.

On the other hand, if you are in good health and do expect to live for many more years then giving up future pension increases may leave you vulnerable to inflation and cause you financial hardship later on.

If you are offered a pension increase exchange you should get independent financial advice before you decide to accept the offer (see the section on Getting financial advice).

Consultation on changing or closing a scheme

It's become common for companies to respond to growing deficits in their Defined Benefit pension scheme by making changes which reduce the benefits offered going forward or to close the scheme, either to new entrants, existing members or both.

Employers have a legal duty to consult with employees who are affected by scheme changes or closure and with recognised trade unions.

The consultation period must run for at least 60 days.

The Occupational Pension Scheme (Consultation by Employers) Regulations 2006 lists the changes which trigger a requirement for your employer to consult. Some of the listed changes are:

- Closing the scheme to new entrants.
- Closing the scheme to existing members.
- Increasing the contributions that scheme members pay.
- Changing the scheme's accrual rate.

If your employer wants to reduce the amount of contributions the company pays towards your Defined Contribution pension scheme (including Stakeholder and Personal pensions) this will also trigger a minimum 60 day consultation.

Pension rights built up in the past are strictly protected by section 67 of the Pensions Act 1995. Any changes to benefits built up in the past are only allowed with the agreement of the individual scheme member or if the scheme's actuary certifies that the changes won't reduce the value of the benefits.

Making a complaint against your pension scheme

The trustees of occupational pension schemes must put in place an Internal Disputes Resolution Procedure (IDRP) which covers disputes between the trustees and the scheme's members (and other beneficiaries such as the dependants of members who have died).

The IDRP can be either a one or two stage procedure.

A one stage procedure requires the trustees to formally respond within four months of the date they received your complaint. You must be told of the trustees' decision within 15 days of the decision being made.

The trustees must also give you contact details for the Pensions Advisory Service and the Pensions Ombudsman in case you're not satisfied with their response and you want to take your complaint further.

A two stage procedure involves the trustees appointing a 'specified person' to deal with your complaint in the first instance before it reaches them. This might be the secretary to the trustees or the scheme's administrators.

The specified person must formally respond within four months of the date they received your complaint. They must also tell you how to proceed to stage two of the IDRP if you're not satisfied with the response.

Stage two is normally to have your complaint passed to the trustees to consider. Again, they must formally respond within four months of the date they received your complaint and you must be told of their decision within 15 days of the decision being made.

Again, you must be given contact details for the Pensions Ombudsman.

The Pensions Ombudsman

The Pensions Ombudsman solely deals with pension complaints. It can help if you have a complaint or dispute about the administration (including transfers) and/or management of personal and workplace pensions.

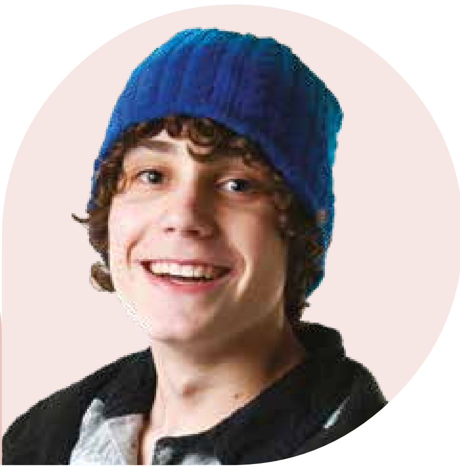
The Ombudsman may ask you to initially pursue your complaint via a pension scheme's Internal Dispute Resolution Procedure (IDRP). If you are still not satisfied after the IDRP process is complete you can take your complaint back to the Pension Ombudsman.

The types of pensions the Ombudsman can look at include:

- Executive, group and personal pension plans.
- Self-invested personal pensions (SIPPs).
- Small self-administered pension schemes.
- Workplace, employer and stakeholder pension schemes.
- Free-standing additional voluntary contribution schemes (FSAVCs).
- Annuities and section 32 buy-out policies.

The types of complaints the Ombudsman will consider include issues with:

- Auto-enrolment.
- Benefits: incorrect calculations, refusal, failure to pay or late payment.
- Charges and fees.
- Death benefits.
- Failure to provide information, act on instructions.
- Fund switches.
- Guaranteed annuity rates.
- Ill-health.
- Interpretation of scheme rules, policy terms.
- Misquote, misinformation.
- Payment/pension increases.
- Pension liberation.
- Transfers.
- Winding up.
- With-profits.



There is no financial limit on the amount of money that the Ombudsman can make a party award you. Its determinations are legally binding on all the parties and are enforceable in court.

Contact with the Pensions Ombudsman about a complaint needs to be made within three years of when the event(s) you are complaining about happened – or if later within three years of when you first knew about it (or ought to have known about it). There is a discretion for those time limits to be extended.

The Ombudsman has also recently introduced fixed amounts for 'non-financial injustice' awards (commonly referred to as 'distress and inconvenience' awards).

An award for non-financial injustice will now usually fall into one of the following five categories: nominal; significant; serious; severe and exceptional.

Awards of up to £2,000 may also now be awarded for non-financial injustice cases depending on the severity of the issue.

Non-financial injustice tends to fall into two categories:

— 'Inconvenience' or 'time and trouble' suffered by an applicant. This refers to the time and effort spent by an applicant in relation to the maladministration and in having to pursue their complaint. This includes needing to go through a complaints process where the maladministration was both avoidable and identifiable at an earlier stage.

— 'Distress' suffered by an applicant. This for example could be concern, anxiety, anger, disappointment, embarrassment or loss of expectation that an applicant may experience. Distress can vary from mild irritation to (exceptionally) anxiety that requires medical treatment.

The non-financial injustice suffered must be caused directly by the maladministration.

The Pension Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
E14 4PU

Tel: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

You can also submit a complaint form online:

www.pensions-ombudsman.org.uk/our-service/make-a-complaint/

Money and Pensions Service

Government launched a new single financial guidance body with effect from January 2019.

The new Money and Pensions Service will combine the previous Money Advice Service, The Pension Advisory Service and Pension Wise into one new organisation.

The main aims of the newly formed body are to improve financial advice to people and to make the guidance easier to access.

Your right to information about your pension scheme

Basic scheme information

Both pension scheme members and recognised trade unions have a right to request certain information about occupational pension schemes. The basic scheme information that must be provided on request and within a reasonable amount of time includes:

- A copy of the Trust Deed and Scheme Rules.
- A copy of the explanatory booklet or members' handbook.
- A copy of the latest or previous actuarial valuation reports.
- A copy of the trustees' yearly report and statement of accounts.
- The Statement of Investment Principles, which tells you how the scheme invests its money.
- The Schedule of Contributions, which sets out the amount of contributions due to be paid to the scheme by the company and the members.

Benefit statements

Defined Contribution scheme members – whether contributing or deferred members – are entitled to automatically get a statement every 12 months which tells you how much your pension pot is worth and the amount of contributions paid in during the year.

Members of Defined Benefit schemes don't have an automatic right to a yearly statement although most schemes do produce one for contributing members only. The statement gives you an estimate of what your pension will be when you get to the scheme's normal retirement age. DB scheme members have a right to request at least one statement a year.

Summary Funding Statements

Trustees of Defined Benefit pension schemes must send a regular summary funding statement to all of the scheme's members and beneficiaries providing them with information about the funding of the scheme. Most schemes will produce this statement once a year.

Leaving a scheme early

If you leave an occupational pension scheme before reaching retirement age you should be sent a statement of your pension rights and options within two months of the pension scheme being notified of your date of leaving by your employer.

Transfers

Deferred members of DB and DC schemes can request one transfer value quote per year and the trustees must provide your transfer quote within three months of getting your request.

Reaching retirement age

DB scheme members should receive details of their retirement options within one month after reaching the scheme's normal retirement age.

Members of Defined Contribution schemes must be given a statement of their retirement option at least six months before you reach the scheme's normal retirement age.

Death

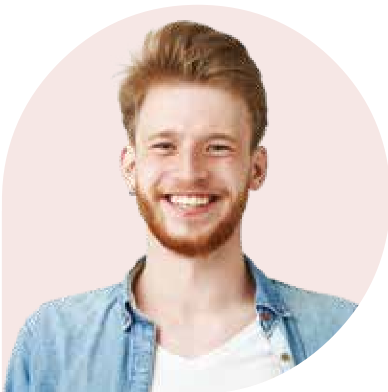
Details of any benefits payable from your pension scheme after your death should be quoted within two months of the pension scheme being notified of your death.

Scheme being wound up

You should be told if your occupational pension scheme is going to be wound up at least one month before the date the wind up process is due to start.

Depending on how long the process takes you should receive a yearly update on the wind up and a final notice within three months of the completion of the process.

If your pension rights are transferred to a new provider following a wind up, each member must receive details of how much money was paid, the date it was paid and contact details of the new provider.



Pension rights for part-time workers

It used to be common practice for employers to exclude part-time workers from joining the company pension scheme. This was outlawed in 1994 and employers had to start allowing part-time workers to join the company pension and to pay contributions that would 'buy back' the years they were excluded as far back as 1976.

If you were ever excluded in the past from joining your employer's pension scheme because you were a part-time worker then you may be able to apply to the employment tribunal to have your pension scheme membership backdated.

To make an application you must either still be working for the company which excluded you from the pension scheme or have left the company less than six months ago.

Contact the pensions team at Usdaw for more information.

Tracking down a lost pension

If you have lost the details of a Personal or company pension you once paid into then the Department for Work and Pensions has a free Pension Tracing Service which may be able to put you back in touch.

Phone the Pension Tracing Service on 0800 731 0193 or search for 'Pension Tracing Service' at www.gov.uk/find-pension-contact-details to fill in an online application form.

Divorce

If you are getting a divorce and you and your ex spouse/partner are dividing up your assets then your pension rights can be taken into account.

There are several ways this can be done:

— The value of your pension rights can be offset against another asset (such as your home for example). This is called Pension Offsetting.

— You can arrange for a pension to be split and paid to two people from the date when it is due to come into payment. This is called Pension Earmarking.

— The value of your pension rights can be split at the date of the divorce and a transfer payment can usually be made into a pension scheme chosen by your ex spouse/partner. This is called Pension Sharing.

The amount of the split is up to either the divorcing couple to agree or the courts to decide.

Many occupational pension schemes will now charge you for any additional administration work that goes into splitting pension rights on divorce – particularly in Defined Benefit schemes where the calculation is not straightforward. This charge may be hundreds of pounds depending on the amount of extra work involved.

Access to impartial guidance

Members of Defined Contribution schemes aged 50 or over are entitled to free and impartial guidance about their pension choices.

This service is available from the Government and is known as Pension Wise (which comes under the new Money and Pensions Service with effect from 1 January 2019).

The service offers you:

— Impartial guidance, online, over the telephone or face to face and aims to explain the choices you have.

— Guidance on how to check the value of your pot.

— Tips on how to shop around for the best deals.

— Help in planning how long your money needs to last for and how to work out how much money you will have in your retirement.

— Information on how your benefits will be taxed, depending on which options you choose.

Please note that these sessions will offer general guidance only and will not form personalised advice.

For a more tailored advice service we would recommend you speak to a registered Independent Financial Adviser (please refer to the next section).

Getting financial advice

Financial advice is not cheap but there are times when it is strongly recommended. For example:

— If you are considering transferring your pension benefits to an alternative arrangement.

— When you are approaching retirement and want to get the best deal.

— When you want to choose a Personal pension to save for retirement.

— If you are getting a divorce and need to choose a Personal pension to transfer your share of your ex spouse's/partner's pension into.

You need to be aware of the important difference between Independent Financial Advisers and tied advisers.

Tied advisers, as their name suggests, are tied to certain companies and will only look at the products being offered by a small number of companies (quite often only one) and so you might not get the best deal that's out there.

You are better off seeing only Independent Financial Advisers because they are able to search the whole of the market to help you try and get the best deal.

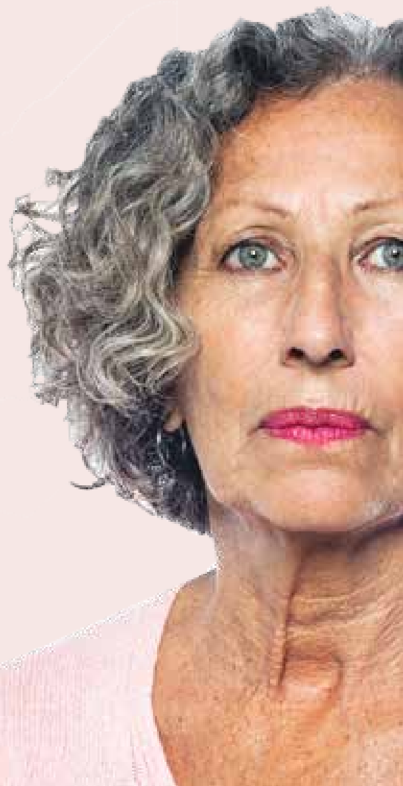
Paying for financial advice

The way advisers are paid and the information they have to give you has changed.

Instead of the adviser being paid commission, they now have to explain to you how much advice will cost and together you will agree how you will pay for it.

This could be charged as:

- An hourly rate
- A set fee according to the work involved
- A monthly retainer; or
- A percentage of the money invested.



Your adviser may accept payment in instalments if you have a regular contribution contract with them, but is not allowed with lump sum investments.

The amount you owe could be paid up front or you may be able to agree with your adviser that they can take it from the sum you invest. The fee will usually be paid in the form of a lump sum.

Fees may vary from adviser to adviser, depending on their qualifications and location, so it may be worth shopping around, if you can, to compare fees and confirm the cost before you see an adviser.

However you pay for advice, your adviser should set out the charges in a clear and transparent way and make sure you understand how much you are paying. You can even negotiate with the adviser on the amount you pay depending on your advice needs.

The changes mean you can be sure the advice you receive will not be influenced by how much the adviser could earn from the investment.

Finding an IFA

Usdaw's pensions team is unable to provide independent financial advice.

To find a registered IFA in your area check your local telephone directory or visit any one of the following websites which can give you contact details for IFAs in your local area:

www.unbiased.co.uk

www.apfa.net

If you would like to discuss this further before making a decision, speak to a member of the Usdaw pensions team on 0161 224 2804.

Pension Scammers

If it sounds 'too good to be true' ...it often is!

It is now an offence to contact pension holders, randomly and out of the blue.

You can still be contacted if you have given someone consent, for example by your existing financial adviser or pension scheme administrators.

However, if you are approached over the phone unexpectedly about your pension and you are in any doubt, hang up!

Contact is usually out of the blue; a text or cold call, by email or sometimes via websites.

The fraudsters appear to be very believable and they will often tell you that if you transfer your pension pot to them they will:

— Guarantee returns of 8% on your savings.

— Give you immediate access to cash – irrespective of your age.

— Promise you non-repayable loans.

Sometimes the scammers will suggest it is part of a Government initiative, or that it is time that you had an annual review. They will claim that their offer is a once in a lifetime opportunity, or that they have found a legal loophole.

The scammers will try and put you under pressure, often sending a motorcycle courier for your paperwork and so they can hand over the cash to you. They will put you under pressure and encourage you to transfer your money quickly.

Pension scams are serious. If you fall victim it is likely that you could lose some but more than likely all of your pension savings.

The scammers don't tell you they will take excessive commission costs or fees for dealing with your transfer, sometimes up to one third of your pension pot.

If you receive cash from your pension before you are age 55 you are likely to be hit by significant tax charges. HMRC will charge you usually more than half the value of the pension pot.

If you are approached by an adviser to transfer your pension pot and you have any concerns, please contact the Usdaw Pensions Section on 0161 224 2804 or email your enquiry to pensions@usdaw.org.uk


Pensions

4. USDAW AND PENSIONS: WHAT WE DO

This section gives you more information about how Usdaw can help you increase your knowledge of pensions and how to get the message out to members about how important it is to be informed about them.

Pensions Awareness Campaign

Usdaw's Pensions Awareness Campaign aims to give our members the facts about pensions in a straightforward and easy to understand way; increase the confidence and knowhow of members, reps and officials; encourage more workers to take advantage of good company pension schemes; and use our campaigning work to raise the Union's profile with members and non-members. The campaign has three main elements:

- Pensions Awareness Campaign Days.
- Pensions Online Home Study Course.
- Usdaw's Pensions Website.

Pensions Awareness Campaign Days

More and more Usdaw reps are holding a Pensions Awareness Campaign in the workplace. A typical campaign involves:

- Setting up a stall in the staff area.
- Making information available about pensions (such as copies of this handbook and the other leaflets and factsheets that Usdaw produces).
- Encouraging Union members to sign up for our Pensions Online Home Study Course.
- Giving people the facts about their own company pension scheme.

Our members often find that personnel managers are reluctant to talk about the company pension scheme. This might be because the personnel manager isn't confident that they know enough about the scheme or they are nervous about being seen to be giving people financial advice.

Our message to our reps is that you don't have to pose as a pensions expert. Just concentrate on giving colleagues basic facts and signpost them to the Usdaw Pensions Section.

People may think that joining the pension scheme still isn't right for them but if we've given them the facts then at least they can make an informed choice.

A Pensions Awareness Campaign Day is also an ideal opportunity to encourage colleagues who aren't yet members of the Union to join. Usdaw represents over 400,000 members mainly in retail and related sectors. The best way to protect and improve rights at work, including pensions, is to join Usdaw. You can join online at www.usdaw.org.uk/join

How to set up your own Pensions Awareness Campaign

1. Contact the pensions team at Usdaw.

2. Tell us when and where you are thinking of holding your campaign – but please give us at least two weeks notice.

3. We will send you the campaign materials you'll need to carry out a successful campaign.

Pensions Online Home Study Course

Usdaw members can sign up for our free online Pensions Home Study Course.

— It will help you understand the different types of pension scheme on offer today and help you improve your pension knowledge.

— You will build up confidence about your pension, which will help you answer other people's pension queries in your workplace.

— The course is straightforward and easy to follow and is completely FREE for Usdaw members.

— The course consists of four small modules, each taking approximately 30 minutes to complete.

— Each module must be completed within two days of receiving your unique course link. You will be able to revisit the course as many times as you like within the two days – your progress will automatically be saved.

— When you complete the course, we will send you an Usdaw Certificate.

To sign up, contact Usdaw's Education Department on 0161 224 2804 or visit www.usdaw.org.uk/pensionshomestudy to sign up.

Usdaw Pensions Website

Usdaw's website has a section dedicated to pensions. The website has the following features:

— Find out about your own employer's pension with the Pension Finder.

— Sign up for the Pensions Online Home Study Course.

— Send a pensions question to the Union's pensions team.

— Keep up-to-date with the latest news about pensions.

— Download our various guides and factsheets about pensions.

The address is www.usdaw.org.uk/pensions

Usdaw's Pensions Team

Usdaw has a specialist pensions team based at the Union's Central Office. Our role is to help members, reps and officials in a number of ways:

— Advising National Officers, Area Organisers and reps in consultation with employers who are changing or closing their pension scheme.

— Supporting members who are applying for ill-health retirement.

— Helping members with general pensions questions.

— Assisting members who have a dispute with their employer's pension scheme.

Usdaw's pensions team cannot provide you with professional financial advice.

To contact the pensions team call 0161 224 2804 or send an email to pensions@usdaw.org.uk

Pensions

5. USEFUL INFORMATION

This section gives you some useful Pensions contact information and statistics.

Useful contacts

The Pension Service (part of the Department for Work and Pensions)

Tel: 0800 731 7898

Website: www.gov.uk
(search for 'Pension Service')

Pensions Ombudsman

10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487

Website:
www.pensions-ombudsman.org.uk

Pension Protection Fund

For member enquiries:

PPF Member Services
Pensions Protection Fund
PO Box 254
Wymondham NR18 8DN

Tel: 0330 123 2222

email: ppfmembers@ppf.co.uk

Website: www.ppf.co.uk

Pensions Regulator

Napier House
Trafalgar Place
Brighton
BN1 4DW

Tel: 0345 600 0707

Website:
www.thepensionsregulator.gov.uk

Money and Pensions Service

120 Holborn
London EC1N 2TD

Tel: 0800 011 3797

Website:
www.pensionsadvisoryservice.org.uk

HM Revenue & Customs – National Insurance helplines

PT Operations North East England
HM Revenue and Customs
BX9 1AN

Tel: 0300 200 3500

Website: www.gov.uk

Pension statistics

		Weekly	Yearly
Basic State Pension	Single person (full rate)	£134.25	£6,981
	Combined married couple's rate	£214.70	£11,164.40
New Single-Tier State Pension	Full rate	£175.20	£9,110.40
Income Tax Personal Allowances	Personal Allowance		£12,500
National Insurance	i) Thresholds		
	Primary Threshold (PT)	£183	£9,500
	Lower Earnings Limit (LEL)	£120	£6,240
	Upper Earnings Limit (UEL)	£962	£50,000
	ii) Employee Rates (for earnings between the Primary Threshold and the Upper Earnings Limit)	12%	
	Married women's 'small stamp'	5.85%	
Pension Credit	Single person	£173.75	£9,035
	If you have a partner	£265.20	£13,790.40
Savings Credit	Single person	£13.97	£726.44
	If you have a partner	£15.62	£812.24

These rates and thresholds are correct for the 2020/21 tax year. They are reviewed by the Government every year.

Notes

Pensions

Improving workers' lives –
Winning for members

Helpline 0161 224 2804
www.usdaw.org.uk/pensions

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Usdaw
Union of Shop, Distributive and Allied Workers

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