HM Treasury

Freedom and choice in pensions:

government response to the consultation

Cm 8901

July 2014

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government response to the consultation

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

July 2014

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Foreword

This government believes in the principle of freedom. Individuals who have worked hard and saved responsibly throughout their adult life should be trusted to make their own decisions with their pension savings, and the reforms I announced at Budget will deliver just that.

The government is introducing the most radical changes to pensions in almost a hundred years. From April next year, individuals from the age of 55 with a defined contribution pension will be able to access their entire pension flexibly if they wish.

Annuities will remain the right product for some, but I believe that people should be free to make their own choice about how to use their savings. I have been encouraged by the way in which the pensions and investment industry is creating innovative new products designed around the needs and preferences of consumers, and that will better suit the changing nature of retirement.

These reforms create more choices for individuals, and we want people to be equipped and ready to make informed decisions. The guidance guarantee will empower savers, making sure that they are clear on their retirement income options before they make any decisions about what to do with their savings. Given the need for the guidance to be trusted by savers, it will be provided by independent third parties, not pension providers, in order to ensure its complete impartiality. It is crucial that the guidance service is effective and supports savers who want to take advantage of the new flexibility.

I want as many people as possible to be able to access their pension flexibly. That is why the government has decided to continue to allow those saving into private sector defined benefit pension schemes to transfer to defined contribution schemes, subject to new safeguards which are designed to protect the best interests of the saver and the scheme. For most defined benefit scheme members, it will clearly be right to remain within their scheme. However the government, having considered the issues carefully, agrees with the view of the many stakeholders (including the Confederation of British Industry, the Association of British Insurers and the National Association of Pension Funds) who have argued that it is right to preserve the existing freedom to transfer out of a defined benefit scheme under the new arrangements.

With more choice and support for individuals and a regulatory structure designed to both protect consumers and promote competition, I am confident that the retirement income market will develop in a way that focuses on the interests of savers.

As the savings package that I announced at the Budget demonstrates, we are committed to supporting savers – from the new cash ISA limit nearly trebling to £15,000, to the ability to access pension savings in the way most appropriate to an individual's lifestyle.

I would like to take this opportunity to thank all those who engaged with the government during this consultation period, and for the positive feedback and contributions that have helped to inform these fundamental changes.

Chancellor of the Exchequer
July 2014

Executive summary

At Budget 2014, the government announced the most fundamental change to how people can access their pension savings in nearly a century.

One of the most important stages in life which everybody has to save for is retirement, and one of the biggest financial decisions taken in life is what to do with those savings when retiring. Under the old system in place before the Budget, only those with a very large pension pot typically worth over £310,000 or those with total pension wealth below £18,000 could access their pension savings flexibly.[1] At the Budget interim measures were introduced that allowed an extra 400,000 people more freedom to access their pension savings. But the government wants to go further. That is why from April 2015, everyone with defined contribution pension savings will be entitled to flexibility, regardless of their total pension wealth.[2]

These changes mark a radical departure from the existing system, by giving choice back to individuals and trusting them with their own finances. From April 2015 individuals aged 55 and over will have the freedom to make the decisions that suit their own circumstances. Individuals will be able to access their defined contribution pension savings as they wish, subject to their marginal rate of income tax (rather than the current 55% charge for full withdrawal).

Those who want the security of an annuity will still be able to purchase one. Equally, those who want to access all of their pension savings will be able to take them as a lump sum. Those who do not want to purchase an annuity or withdraw their money in one go, but would prefer to keep it invested and access it over time, will be able to purchase a drawdown product.

The 'freedom and choice in pensions' consultation

The government published the 'freedom and choice in pensions' consultation to seek the views of interested parties on the changes announced at the Budget.[3] Over the consultation period, the government consulted extensively with a wide range of stakeholders, including pension providers, employers, consumer groups, investment banks, think tanks, public sector bodies, law firms, actuarial firms and individuals. The response to the government's proposals has been overwhelmingly positive. There was a broad consensus that individuals who have been responsible and saved for their future should be trusted to access their pension savings in a way that most suits them.

The responses received to the consultation show us that the pension and investment industry is ready for the challenge of innovating and creating new, flexible products that better suit individuals' needs.

In response to the consultation, the government has taken the following decisions. When taking the decisions in these areas, the government was mindful of a number of important principles that underpin these reforms: fairness, choice and proportionality.

[1] This is a stylised assumption based on an individual with a full basic State Pension of £5,744 per year, who takes the maximum tax-free lump sum (25%) from their defined contribution pension pot and purchases a single life, level, no guarantee annuity worth £14,256 per year (an annuity rate of 6.1%) at age 65. This will allow them to meet the minimum requirement for entering flexible drawdown.

[2] When this document is describing the tax rules and proposed changes to those rules, the term 'defined contribution' should be taken to mean both money purchase and cash balance savings as those terms are defined for tax purposes in section 152 Finance Act 2004 (meaning of 'arrangement').

[3] https://www.gov.uk/government/consultations/freedom-and-choice-in-pensions

The new tax system

- a permissive statutory override will be introduced to ensure that all defined contribution schemes are able to offer their members increased flexibility
- individuals will also be able to transfer between defined contribution schemes, up to the point of retirement, if their scheme does not offer flexible access
- the government will make a number of changes to the tax rules to allow providers greater freedom to create new and innovative products which more closely meet consumers' needs, including allowing annuities to decrease and allowing lump sums to be taken from annuities
- new tax rules will be put in place to ensure that individuals do not use the new flexibilities, which are intended to provide people with greater access to their retirement savings, to avoid tax on their current earnings by diverting their salary into their pension with tax relief, and then immediately withdrawing 25% tax-free. Those who choose to draw down more than their tax-free lump sum from a defined contribution pension will be able to benefit from further tax-relieved pension saving, and make further tax-free contributions to a defined contribution pension of up to £10,000 per year. This covers 98% of pension savers over the age of 55.[4] The government has worked closely with the pensions and insurance industry to develop this solution
- the government will increase the minimum age at which people can access their private pension under the new tax rules from 55 to 57 in 2028; the change will apply to all pension schemes aside from those in the public sector that will not link their normal pension age to State Pension age from 2015, namely for the Firefighters, Police and Armed Forces
- the government is clear that the 55% tax charge on pension savings in a drawdown account at death will be too high when the new system is established in 2015. The government intends to announce changes to this at the Autumn Statement

The guidance guarantee

- every individual with defined contribution pension savings will have a new right to free and impartial guidance at retirement to help them make confident and informed decisions on how they use their pension savings in retirement. This guidance will be tailored to individuals' personal circumstances, but will not recommend specific products or providers
- to ensure that this guidance is completely impartial, it will be provided by independent organisations, that have no actual, or potential, conflict of interest. The government will legislate to give the Financial Conduct Authority (FCA) responsibility for setting standards for guidance and monitoring compliance with those standards. The FCA has published a consultation paper alongside this document on its proposed standards[5]

[4] HMRC analysis of ONS Annual Survey of Hours and Earnings (ASHE) and HMRC administrative data.

[5] 'Retirement reforms and the Guidance Guarantee', which will be published on the FCA website alongside this document (www.fca.org.uk).

- pension providers and schemes will be under a duty to ensure that they make people aware of their right to impartial guidance and signpost them to the guidance service as they approach retirement
- individuals will be able to access and use the guidance service in a range of ways, including the option of face-to-face for anyone who wants to take advantage of it
- the government is committed to ensuring the guidance service is in place in good time for April 2015. The government will bring together a range of delivery partners, including the Pensions Advisory Service (TPAS) and the Money Advice Service (MAS). A team has been established within the Treasury to lead this work, drawing expertise from across government and from TPAS and MAS
- the government will legislate to establish a levy on regulated financial services firms to fund the cost of the guidance service

Defined benefit schemes

- the government will continue to allow transfers from private sector defined benefit to defined contribution schemes (excluding pensions that are already in payment)
- the government will introduce two new safeguards to protect individuals and pension schemes: a new requirement for an individual to take advice from a professional financial adviser, who is independent from the defined benefit scheme and authorised by the FCA, before a transfer can be accepted; and new guidance for trustees on the use of their existing powers to delay transfer payments and take account of scheme funding levels when deciding on transfer values[6]
- the government intends to consult on removing the requirement to transfer first to defined contribution schemes for those defined benefit members who wish to access their savings flexibly
- the government continues to believe that transfers from unfunded public service defined benefit schemes should be banned. Transfers from funded defined benefit to defined contribution schemes will be permitted and safeguards similar to those in the private sector will be introduced where appropriate
- as set out in the consultation document, the trivial commutation and small pot rules will continue to apply to defined benefit schemes. These rules allow individuals to take up to £30,000 of total pension savings as a lump sum, or a £10,000 small pot as a lump sum regardless of total pension wealth. The age at which an individual can make use of these rules will also be lowered from 60 to 55

Next steps

These reforms are part of the government's wider reforms to encourage people to save for their old age and provide security in retirement, including the introduction of Automatic Enrolment, the new state pension, the triple lock, the cap on pension charges and a new framework for defined ambition pensions.

[6] The definition of professional financial advisers includes independent financial advisers and financial advisers working in more specialist areas, for example specialist pensions transfer advice companies

Consumer research from the National Association of Pension Funds suggests that our proposals for greater freedom and choice will lead to higher levels of savings and a greater number of people saving to support their retirement. [7]

The government will take forward two separate pieces of legislation during the autumn in order to deliver these reforms; the Pension Schemes Bill and the Pensions Tax Bill. The Pension Schemes Bill will deliver the regulatory framework for defined ambition pension schemes, and will include provisions to enact the guidance guarantee and the restrictions on transfers from public service defined benefit schemes. It will also include changes to pensions legislation necessary to ensure that individuals can access their pension saving. The Pensions Tax Bill will take forward the tax changes needed from April 2015. A technical consultation on the draft tax legislation will be published shortly to ensure that the legislation enacts the policy as intended.

In addition to bringing forward legislation, the Treasury-based team leading the implementation of the guidance guarantee will continue its intensive service design work over the summer and into the autumn, working with a range of stakeholders and partners. The government plans to publish a progress update in the autumn. The FCA will also consult on standards for guidance, and related rules, over the summer and intends to publish a Policy Statement later in the autumn.

[7] http://www.napf.co.uk/PressCentre/Press_releases/0400-28-per-cent-of-workers-more-likely-to-save-into-a-pension-following-Budget.aspx

1 Introduction

Introducing freedom and choice

1.1 Retirement is changing, and people are living and choosing to work longer. The pension system needs to change to reflect that those in retirement have different needs, and will require a more diverse set of options than has previously been available.

1.2 It is important to support savers to make the long-term decisions that ensure they can benefit from a more secure financial future. The government believes that with the right consumer guidance and support, people should be able to make their own choice about how and when to spend their pension funds.

1.3 That is why the government has already removed the requirement to annuitise by age 75, and introduced flexible drawdown of pension savings for those who meet a minimum income requirement in retirement. Budget 2014 announced further radical changes that offer people more options over how and when they access their defined contribution pension savings.

Budget announcements

1.4 At Budget 2014 the government announced the most fundamental reform to the way people can access their pension in almost a century, by abolishing the effective requirement to buy an annuity, and announcing plans to give people much greater freedom over how they access their pension savings.

1.5 From April 2015, the tax rules will be simplified to give people unrestricted access to their savings. Drawdown of pension income under the new, more flexible arrangements will be taxed at marginal income tax rates rather than the current rate of 55% for full withdrawals. The tax-free lump sum will continue to be available.

1.6 Individuals will have access to free and impartial face-to-face guidance, to help them make the choices that best suit their needs in retirement.

1.7 Those who continue to want the security of an annuity will be able to purchase one. Equally, those who want greater access to their finances in the short term will be able to extract all of their pension savings in a lump sum. Those who do not want to purchase an annuity or withdraw their money in one go will be able to keep their pension invested in a drawdown product and access it over time.

Interim measures

1.8 As a first step toward reform, the government announced a number of changes to the pension rules that came into effect from 27 March 2014:

- the amount of guaranteed income people need in retirement to access their savings flexibly was reduced, from £20,000 to £12,000 per year

- the amount of total pension savings that can be taken as a lump sum was increased, from £18,000 to £30,000
- the capped drawdown withdrawal limit was increased from 120% to 150% of an equivalent annuity
- the maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) was increased from £2,000 to £10,000
- the number of personal pots that can be taken under these rules was increased from two to three

1.9 The interim measures set out at the Budget mean around 400,000 people have the option to access their savings more flexibly during the financial year 2014 to 2015. From April 2015 the 320,000 people that retire each year with defined contribution pensions will have complete choice over how they access their pension.

The 'freedom and choice in pensions' consultation

1.10 On 19 March 2014 the government published a consultation document which invited interested parties to comment, over a 12-week period, on the policy and implementation issues surrounding the pension reforms announced at Budget 2014.

1.11 The government welcomed views on 10 questions, which covered the design of the new tax system, the guidance guarantee, and whether to continue to allow transfers from defined benefit to defined contribution schemes.

1.12 During the consultation period, the government engaged extensively with stakeholders across industry and consumer groups and held a number of roundtables and workshops with experts across the industry.

1.13 The government will continue to engage with all interested parties to ensure that these reforms are implemented effectively by April 2015. The Treasury will also continue working closely with HMRC and the Department for Work and Pensions.

1.14 The government will publish a technical consultation on the draft tax legislation shortly to ensure that the legislation enacts the policy as intended.

Structure of this document

1.15 A brief summary of the issues covered by each chapter and annex is provided below.

- Chapter 2 sets out the new tax framework that will allow individuals to access their defined contribution pension flexibly
- Chapter 3 outlines who will deliver the guidance guarantee, the channels through which it will be delivered, how it will be funded and how the standards it will be required to meet will be applied
- Chapter 4 provides details on the transfer from defined benefit to defined contribution pension schemes
- Chapter 5 explains the legislative timetable for implementing these reforms
- Annex A details the responses received to the consultation
- Annex B provides a list of the organisations that responded to the consultation
- Annex C is a glossary of key terms

2 Designing the new tax framework

In the consultation document published alongside the Budget, the government set out its plans to allow individuals to access their defined contribution pension savings as they wish from April 2015. This change will primarily be delivered through changes to tax legislation, which the government intends to enact in a Pensions Tax Bill later in this Parliament.

This chapter sets out how the tax system for accessing defined contribution pension savings will be structured from April 2015:

- a permissive statutory override will be introduced to allow schemes to follow the tax rules, rather than their own scheme rules, if they wish to do so
- individuals will be allowed to transfer to another defined contribution scheme, up to the point of retirement, in order to access their pension flexibly
- several changes will be made to the tax rules to allow providers to innovate and provide consumers with new retirement income products which suit their specific needs and circumstances
- the government will act to ensure that individuals do not exploit the new system to gain unintended tax advantages
- the age at which individuals can access their private pension savings will rise under the tax rules from 55 to 57 in 2028
- the government is clear that the 55% tax charge on pension savings in a drawdown account at death will be too high when the new system is established in 2015. The government intends to announce changes to this at the Autumn Statement

Introduction

2.1 At Budget 2014 the government announced the creation of a new tax framework for retirement. The current system is complicated, inaccessible and rewards those who have only saved a small amount, or a very large amount, by providing them with flexibility and choice over how they take their pension savings.

2.2 The government set out its intention to reform the tax system in the consultation, and this chapter sets out how the new system will be structured.

2.3 The consultation sought views on whether a statutory override should be introduced to require pension schemes to offer flexibility to their members; how the new tax system could enable the introduction of innovative new products; and whether the current minimum age at which people can access their private pension should be increased. The following themes emerged from respondents:

- the majority of respondents were in favour of a statutory override being introduced so that an individual is not disadvantaged by existing scheme rules, and restricted in

accessing his or her pension. However, there were concerns raised over the costs and administrative burdens that could be placed upon some schemes if offering flexible access were made a mandatory requirement

- respondents highlighted the need for a new tax system that allows the development of more innovative retirement income products. There was a call for coherence and consistency between the tax and regulatory regimes, and an emphasis on the need for simplicity
- close to half of respondents agreed with the government's proposal to raise the minimum pension age to align it 10 years below the State Pension age. However, a significant majority opposed moving it to 5 years below

2.4 The government recognises that the proposed reforms to the tax framework for defined contribution pensions represent a significant change, both to the way individuals access their pension, and how they are administered by the pensions and insurance industry.

2.5 As part of the consultation process, the government established a technical working group to discuss the proposed changes to the tax rules in detail. This group met several times during the consultation period to discuss the key questions surrounding the new tax framework, and has played a vital role in shaping the new tax rules. As the government is committed to consulting with interested parties on the new tax framework before legislating, a draft of the legislation will be published for a technical consultation in August. This will ensure that the legislation achieves the policy intent described below.

2.6 When considering the design of the new tax system, the government has been guided by three key principles:

- fairness – the new tax system should be fair, both for individuals who are accessing their pension savings, and for other taxpayers. Pensions tax relief is one of the government's largest reliefs, costing an estimated £22.8 billion net of tax on pensions in payment in the tax year 2012 to 2013. It is important to ensure that this system cannot be abused or allow significant opportunities for tax planning, and that tax relief is used for genuine pension saving rather than to reduce the tax an individual pays on their current earnings
- proportionality – the system should be proportionate, and share any administrative consequences caused by change appropriately between pension schemes, insurers, individuals and HMRC. It should not seek to unduly advantage or disadvantage those who have a large amount of pension savings, and should not penalise what could be considered 'normal' behaviour
- choice – the system should place choice back with the individual, allowing those who are at the point of retirement to make the decision that is right for them, in full knowledge of the consequences of their choices

2.7 While the government has used these principles to guide the policy decisions, in certain areas they are not necessarily compatible. For example, a simple system may unintentionally disadvantage those with a lower amount of total pension savings. In some areas, the government has therefore had to lean towards certain principles more than others to achieve its objectives.

2.8 The government recognises that the changes to the pensions tax rules outlined in this chapter will have implications for the rules relating to Qualifying Recognised Overseas Pension

Schemes (QROPS). The government will consider these implications further to ensure that the rules relating to QROPS are appropriate when the new system comes into force.

Access to flexibility

2.9 In deciding who should have direct access to flexibility, the government has been guided by the principle that if an individual would previously have had to purchase an annuity or enter drawdown to access their pension savings, they should be able to access their pension flexibly.

2.10 **Thus, those with a money purchase, cash balance or other arrangements which typically would have required the individual to purchase an annuity will be able to directly access their pension flexibly from April 2015, should they wish to do so.**[1] For the purposes of this document we refer to these types of arrangements as 'defined contribution' pensions. Those with Additional Voluntary Contributions (AVCs) will also be able to access these flexibly, subject to their pension scheme rules. Those with a hybrid arrangement may be able to access their pension flexibly without the need for a transfer to a money purchase arrangement, but this will depend on the nature of their arrangement at the time they take their pension.

2.11 When and how an individual is able to take their pension savings currently depends on the interaction between the tax rules and the individual's pension scheme rules. The tax rules governing pensions are permissive – they allow schemes to make certain payments if the scheme wants to, rather than mandating that these payments have to be made exactly in line with the tax rules.

2.12 The government is keen to ensure that individuals are not prevented from accessing their pension savings flexibly under the new system. The consultation document therefore sought views on whether a statutory override should be put in place, to ensure that pension scheme rules do not prevent individuals from taking advantage of increased flexibility.

2.13 A number of respondents were in favour of an override, highlighting that a restriction of flexible access would contradict the principles of freedom and choice.

2.14 However, several respondents also drew attention to the costs and administrative consequences that a mandatory statutory override could place on some schemes that are not set up to provide flexible access to pension savings. In essence, providing flexibility would require schemes to become a drawdown provider. This could be difficult and expensive for schemes, particularly those with inflexible legacy systems which do not currently have the capacity to take on this new role.

2.15 The government believes that the introduction of a statutory override mandating that schemes provide flexible payments would be disproportionate. However, several respondents highlighted that some schemes may like to offer increased flexibility to their members, but would prefer not to amend their scheme rules because of the potential legal and administrative costs. In these situations, the government would prefer that schemes were in a position to provide flexibility without having to amend their rules.

2.16 **Consequently, the government plans to introduce a permissive statutory override**. This will allow schemes to ignore their scheme rules and follow the tax rules instead, in order to pay out payments flexibly or to provide a drawdown facility. In the government's view, this achieves the most proportionate outcome for both individuals and schemes.

[1] In the consultation document, the government stated that for the purposes of the new tax rules, the term 'defined contribution' should be taken to mean both money purchase and cash balance savings.

2.17 The government also plans to amend the right to transfer between defined contribution schemes. Currently, an individual member of an occupational pension scheme or personal pension scheme has the right to transfer benefits from one defined contribution scheme to another up to a year before their scheme's normal benefit age. The Open Market Option allows individuals to shop around when approaching the scheme's normal benefit age, but it only requires an individual to be informed of the availability of the Open Market Option, rather than forcing providers to offer transfers to other products. **Therefore to ensure maximum choice up to the point of retirement, the government will amend the tax and pensions legislation to ensure that individuals are permitted to transfer between defined contribution schemes at any point up to their scheme's normal retirement age.**

2.18 As a result of the permissive override and enhanced transfer rights, everyone in a defined contribution scheme will be able to take advantage of the new flexibilities.

Enabling innovation

2.19 Allowing individuals to access their pension how they wish presents an opportunity for providers to develop new retirement income products that more closely meet the evolving needs of consumers.

2.20 The government is keen to ensure that the new tax system enables this kind of market innovation, allows greater choice for individuals and stimulates greater competition among providers. The consultation document sought views on how best the government could design the new system in order to deliver these aims.

2.21 The current tax legislation caters for two broad categories of retirement income:

- *lifetime annuities*: the tax rules governing lifetime annuities are prescriptive and relatively inflexible. As an example, payments made under a lifetime annuity are not permitted to decrease, except in specified circumstances
- *income drawdown* (both capped and flexible): the tax rules governing drawdown are significantly more flexible, and will become even more so from April 2015

2.22 The government is clear that annuities will remain the right choice for many at some point during their retirement, and believes that many people will still value the security of an annuity. However, there is a clear demand for more flexibility to allow new products that fit with the changing nature of retirement.

2.23 The government has consulted extensively on this issue, and believes that in order to allow innovation, many of the restrictions in the tax rules and pensions legislation need to be removed. During the consultation period, pension providers told the government that relaxing the rules governing annuities would allow them to develop a number of new, more flexible, annuities. The changes set out below will enable providers to create new types of annuities that more closely meet consumer needs, as well as creating products through the drawdown rules.

2.24 The government intends to change the current tax rules in order to:

- **allow lifetime annuities to decrease**, which will provide significantly more flexibility around the design of the product. This will allow providers to offer products which meet individuals' needs more closely, for example by allowing annuity payments to reduce once an individual becomes eligible for the State Pension
- **allow lump sums to be taken from lifetime annuities**, on the condition that this is specified in the contract at the point of purchase. This will allow providers to

structure much more flexible products that are capable of meeting specific circumstances, such as care needs

- **remove the ten-year guarantee period for guaranteed annuities**, which will allow payments made to beneficiaries from guaranteed annuities to continue beyond the current ten year maximum. This will allow providers to create annuities that ensure more of an individual's fund is returned to their families in the event of their death
- **allow payments from guaranteed annuities to be paid to beneficiaries as a lump sum, where they are under £30,000**. This will allow beneficiaries to receive pension payments as a lump sum if they wish, rather than having to spread these out over several years

2.25 In the old system only individuals with very large or very small pension pots were able to access their pension flexibly. From April 2015 the government expects that the retirement income industry will develop a number of new drawdown products, which take into account the greater volumes of people seeking to buy them alongside the broader variety in fund sizes used to purchase them.

2.26 In order to protect consumers in a new system that permits innovation, the government will work closely with the Financial Conduct Authority (FCA), the Prudential Regulatory Authority and the Pensions Regulator to ensure that the regulatory regime is sufficiently robust to protect the interests of consumers.

Tax planning and unfair outcomes

2.27 As set out above, from next year the tax rules will be drastically simplified. However, it is important to ensure that these rules cannot be exploited by individuals to achieve tax advantages that are not intended. If the government were to take no action against such behaviour, an individual over the age of 55 could divert their salary each year into their pension, take it out immediately and receive 25% of it tax-free, thus avoiding income tax and National Insurance Contributions on their employment income. This is not the intention of the reforms, and the government has previously said that measures would be put in place to prevent this. As set out above, the government spends £22.8 billion a year on pensions tax relief and has a responsibility to ensure that this money is used for genuine pension saving.

2.28 Under the current tax framework, protections are in place to stop individuals in flexible drawdown achieving unfair tax advantages, which stem from the interaction between tax relief on contributions and the tax-free lump sum. Currently, individuals in flexible drawdown lose the right to receive tax relief on further contributions made to a pension.

2.29 The government believes that extending this rule to all individuals who access their pension flexibly after April 2015 would be disproportionate. Under the old system, those in flexible drawdown were required to prove that they had secured a minimum income of £20,000 for life and so in most cases had no need to make further provision for their retirement. In the new system, everyone will be able to access their pension flexibly, and many may wish to make further pension savings beyond this point. The government wants to encourage further pension saving, particularly in the context of Automatic Enrolment.

2.30 However, the government is clear that protection is necessary to prevent individuals from exploiting a significant unintended tax advantage. Throughout the consultation period, the government has engaged with relevant interested parties to develop a solution that balances the incentive to save against the need to protect the Exchequer from abuse, whilst also seeking to ensure that any solution can be delivered for April 2015.

2.31 That is why under the new system:

- those currently in flexible drawdown who have an annual allowance of £0 will from April 2015 be subject to a new annual allowance limit of £10,000
- those who choose to draw down more than their tax-free lump sum from a defined contribution pension will still be able to benefit from further tax-relived pension saving, and make further tax-free contributions to a defined contribution pension of up to £10,000 per year. This means that following their first flexible withdrawal, an individual will be able to contribute up to £10,000 a year with tax relief to a defined contribution pension. This covers 98% of pension savers over the age of 55[2]
- this annual allowance will only apply if an individual accesses a defined contribution pension worth more than £10,000. Individuals can make withdrawals from three small personal pots and unlimited small occupational pots worth less than £10,000, without being subject to a £10,000 annual allowance on subsequent contributions
- the current capped drawdown system will be grandfathered for those in capped drawdown on 5 April 2015. This means that those in capped drawdown at this point will not have a £10,000 annual allowance. However, at the point that they withdraw more than the capped amount, they will have a £10,000 annual allowance. The government believes it would be unfair to apply the £10,000 annual allowance to this group of individuals as they entered capped drawdown without the knowledge that they would be subject to such a rule

2.32 The government believes that this is the appropriate approach to allow people the flexibility to withdraw or contribute to their pension as they choose from age 55, whilst also ensuring that individuals do not use the new flexibilities, which are intended to provide people with greater access to their retirement savings, to avoid paying tax on their current earnings. It will also avoid unnecessary complexity for both consumers and pension providers when the new system comes into place in April 2015.

2.33 The government will be closely monitoring behaviour under the new system and will work closely with industry to ensure the system remains fair and proportionate.

Normal minimum pension age

2.34 The consultation document set out the government's intention to increase the normal minimum pension age – the earliest age at which people can withdraw their private pension wealth without a tax penalty – in order to reflect trends in longevity and to encourage individuals to remain in work and to build sufficient savings for retirement. The government proposed to increase the minimum pension age from 55 now, to 57 from 2028, alongside the increase in State Pension age to 67. From then on, the minimum pension age in the tax rules would remain ten years below State Pension age.

2.35 Close to half of respondents to the consultation agreed with the proposal to increase the minimum pension age to ten years below State Pension age. However, many respondents argued that the change should be proportionate, with a significant majority opposing the suggestion that the minimum pension age could be increased further. The government agrees that this would be a disproportionate change at this time.

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[2] HMRC analysis of ONS Annual Survey of Hours and Earnings (ASHE) and HMRC administrative data.

2.36 The government believes that increasing the minimum pension age meets the guiding principle of fairness and reflects changing expectations of how long people will remain in work and in retirement. **The government confirms, therefore, that it will increase the minimum pension age from 55 to 57 in 2028. It will remain 10 years below State Pension age thereafter**.

2.37 The consultation document sought views on the intention for the change to apply to all schemes that qualify for tax relief. Although this approach would ensure simplicity and transparency, the government was keen to hear views on whether this approach would be appropriate, particularly given recent reforms to pension ages in public service pension schemes.

2.38 The government received strong representations against applying the change to some public service pension schemes, in particular for those schemes that will not link their normal pension age with the State Pension age from 2015, namely the Firefighters, Police and Armed Forces pension schemes. Instead, these schemes' normal pension ages reflect the unique nature of these occupations. Increasing the minimum pension age to 57 would have a more significant impact on these schemes, in reducing the gap between their minimum pension age and normal pension age to just three years – a much smaller timeframe than proposed for the gap between minimum pension age and State Pension age.

2.39 **Therefore, the government does not intend to apply the minimum pension age increase to those public service schemes for Firefighters, Police and the Armed Forces.** The government is clear that the change should apply to public service pension schemes, where pension ages are linked to State Pension age, and to those in the private sector.

2.40 Some individuals have built up savings with a right to access those benefits from an earlier pension age. The government recognises that they will be affected by an increase in the minimum pension age, and is considering the nature and extent of any protection that might be required for those individuals. The government will be guided by simplicity and fairness, both for individuals and for schemes, in designing any protection that may be introduced.

2.41 Recognising that there are further issues to explore in designing an increase to the minimum pension age, subject to the will of Parliament the government will legislate for these changes in the next Parliament.

55% tax charge on death

2.42 In the consultation document, the government confirmed that it would review the tax charge on pension funds held in a drawdown product at death or uncrystallised after age 75, as the current rate of 55% may be too high when the new freedoms come into force in April 2015.

2.43 Discussions with a wide range of stakeholders on this issue have confirmed the view that the 55% charge is too high, and needs to be changed. However, this is a complex area and any changes have the potential for unforeseen and unintended consequences.

2.44 This is an important issue which could have implications for many more people under the new system. The government will therefore continue to consider the options for altering the rate and will confirm its intention at Autumn Statement 2014.

Box 2.A: Understanding the welfare and social care implications of pensions flexibility reforms

The government recognises that individuals are concerned that using the new pension flexibilities may impact on their eligibility for welfare and social care support. Several groups, including Age UK, have asked for clarity in this area.

The government wants to work closely with industry to ensure people have a range of options to access their money flexibly – and, as part of that, wants to ensure that the decisions people make between converting their pension savings into a regular income via an annuity and accessing their savings periodically (for example through a drawdown product) do not significantly impact how they are assessed for means tested welfare and social care support.

The government expects a range of new products to emerge as a result of these reforms. Where possible, these products will be treated similarly to current drawdown products, which see any capital held in a drawdown product excluded from the respective capital means tests. Instead, that capital is treated as generating an appropriate notional income for the purposes of income means tests. This will preserve the important principle that everyone pays their fair share towards supporting themselves and paying for social care, with government support targeted where it is needed most.

In light of these reforms, the government will look at the notional income rules for pension drawdown products (for both benefits and social care) to ensure these are consistent between drawdown products and annuities. Any changes will be made before the new care and support charging rules are published in October.

Those individuals who choose to draw down their full pension pot quickly and manage it directly, for example combining it with their other assets, will need to consider how this could affect their current and future entitlement to welfare and social care support – in the same way as those who choose to save for retirement outside of a pension do now.

The government wants to ensure that individuals are able to make an informed decision that best suits their personal circumstances and risk appetite for the duration of their retirement. Welfare and social care will therefore be covered by the guidance service so people can, for example, take account of the likelihood that they may need to pay for social care in the future.

3 Supporting choice

The government committed at the Budget that every individual with defined contribution pension savings will have the right to free and impartial guidance on their options as they approach retirement; a commitment known as the guidance guarantee. Chapter 3 outlines the government's decisions on how the guidance guarantee will be delivered. This chapter should be read in conjunction with the Financial Conduct Authority's (FCA) consultation paper on the guidance guarantee, published alongside this document.

The key points are:

- providers of guidance must be genuinely impartial; they must not have any actual, or potential, conflict of interest
- the FCA will have an important role in setting and maintaining standards for guidance, and monitoring compliance with these standards. The FCA is consulting on proposed high-level standards in its parallel paper[1]
- the guidance service is intended to equip and empower people to make confident and informed choices on how they put their pension savings to best use; it will help people to ask the right questions, but will not itself make specific recommendations. As part of its standards-setting role, the FCA is consulting on the scope and content of guidance
- the Treasury will hold overall responsibility for the service design and implementation until the guidance service reaches maturity, and will work with a range of organisations, including the Pensions Advisory Service (TPAS) and the Money Advice Service (MAS) to deliver the guidance service
- individuals will be able to access and use the service in a range of ways, including face-to-face, online and over the phone, according to their needs and preferences
- the government will legislate to require pension providers and schemes to signpost individuals to the guidance service as they approach retirement. The FCA will be responsible for setting and enforcing the detailed requirements for contract-based schemes and is consulting on proposed rules. The government will place equivalent legislative requirements on the trustees of trust-based schemes[2]
- the government will legislate to establish a levy on regulated financial services firms to fund the cost of the guidance service

Introduction

3.1 The government recognises that alongside the radical tax changes set out earlier in this document, greater flexibility brings with it more choice. It therefore committed at the Budget to

[1] 'Retirement reforms and the Guidance Guarantee', which will be published on the FCA website alongside this document (www.fca.org.uk).
[2] This will be done through amending DWP pensions regulations, with The Pensions Regulator (TPR) overseeing compliance.

ensuring that every individual with defined contribution pension savings would be able to access impartial, high quality guidance as they approached retirement; a commitment known as the guidance guarantee. Guidance will help savers to understand their options and make confident and informed decisions on how they put their pension savings to best use in retirement.

3.2 The government welcomes the extremely strong support from respondents for this proposal, and the valuable and constructive input received from a wide range of parties on the proposals in the consultation document. This feedback has influenced and shaped the design of the policy, the service and the implementation strategy that will ensure that the service is in place in good time for when the new flexibilities take effect in April 2015.

3.3 The consultation sought views on whether the guidance should be delivered by a trusted third party; if there should be a difference in guidance requirements for trust-based and contract-based schemes; and on what more could be done to ensure guidance is available at key decision points throughout retirement. The following themes emerged:

- the majority of respondents highlighted the need for guidance to be trusted by consumers, and the vast majority said that consumers would not trust guidance given by a person or organisation with a vested interest in selling a financial product
- many respondents noted the existing capability in TPAS and MAS to deliver pensions and money guidance respectively and thought that these organisations should play a role. Respondents highlighted the challenging timetable and encouraged the government to set out the strategy and allocate roles and responsibilities clearly
- many respondents also linked consumer trust to robust and well-enforced standards. At Budget, the government announced that the FCA would lead on development of the standards governing guidance. The FCA has published a consultation paper alongside this response on these standards
- the majority of respondents welcomed the government's commitment to offer people face-to-face guidance, but emphasised the importance of a service which could be accessed in a range of ways, including online
- many respondents saw no reason in principle for the requirements placed on trust-based and contract-based schemes to differ

3.4 This chapter sets out the policy and legislative framework, including the FCA's role in relation to guidance, and discusses the government's ongoing work on designing and implementing the service itself. It does not seek to duplicate the FCA's paper, which consults on the elements of the guidance guarantee for which the FCA will be responsible: setting and monitoring the standards with which guidance providers will have to comply (and in that context, the FCA's paper expands on the scope and content of the guidance), making and enforcing rules on how contract-based schemes signpost to the guidance services, and adjusting the FCA's existing conduct rules to support the introduction of the guidance guarantee and in response to the new flexibilities. This chapter should therefore be read in conjunction with the FCA's consultation paper for a fuller picture of how the guidance guarantee will be implemented.

Delivering a trusted service

3.5 Almost every respondent agreed with the government's central policy goal that guidance must be trusted by consumers. The vast majority, including most financial services industry respondents, said that consumers would not trust guidance given by a person or organisation

with a vested interest in selling a financial product or service. **The government has therefore decided that the guidance guarantee will be provided by organisations which are independent and have no actual (or potential) conflict of interest.**

3.6 The government is keen to build on existing capability in MAS and TPAS in providing guidance. The government is therefore pleased that both TPAS and MAS have committed to playing a key role in implementing the service, and are already bringing their expertise and insight to the implementation programme.

3.7 The government also welcomes the expressions of interest from a range of trusted consumer-facing organisations, including Citizens Advice and Age UK, in supporting implementation in various ways. The government looks forward to discussing further with these bodies and other interested independent organisations how they can be involved.

3.8 As noted by many respondents, the government has set a challenging timetable for delivering guidance by next April. It agrees that a clear strategy and forward plan which sets out clear roles and responsibilities is vital to ensure the service is up and running effectively in good time. **The government has therefore decided that, until the service has reached maturity, overall responsibility for service design and implementation will remain within the Treasury, which will work with a range of organisations (including TPAS and MAS) to deliver guidance to individuals.**

3.9 A team has been established within the Treasury to lead this work, bringing in specialist resources from across government and from TPAS and MAS.

Quality and consistency

The role of standards and the regulator

3.10 When announcing the guidance guarantee, the government also asked the FCA to coordinate the development of robust standards for the service and a framework for monitoring compliance. Respondents to the consultation welcomed the commitment to ensure consistent and good quality guidance, and felt that this would be important in securing consumer trust in and engagement with the guidance service.

3.11 The government has worked closely with the FCA in developing draft standards that reflect the input of a wide range of interested parties and the responses received to the government's consultation. Further detail on the standards is set out in the FCA's consultation published alongside this document.

3.12 As the government has previously made clear, the guidance is not intended to stray into areas such as specific product or provider recommendations; these are better handled by an FCA authorised professional financial adviser. The guidance will, however, need to be sufficiently tailored and personalised as to help individuals understand their options and know the questions that they should be asking in order to make confident, informed decisions about their retirement choices.

3.13 The government does not believe it would be appropriate for the organisations which will deliver the guidance to be subject to FCA authorisation and regulation in respect of this activity. However, to ensure the conduct of these organisations is subject to appropriate standards, **the government will bring forward legislation to establish a new, separate FCA standards regime, and to give the FCA, as the expert conduct regulator, the appropriate duties and powers to set standards and monitor compliance.** The Treasury will be responsible for designating the guidance delivery partners that will be subject to the standards regime, and will ultimately be responsible for ensuring that remedial action is undertaken on the basis of any recommendations about their conduct from the FCA. The government will also bring forward

legislation to clarify that the delivery partners designated by the Treasury as official providers of the guidance, and subject to the standards, will not need to be authorised in respect of this activity. This approach will help prevent unscrupulous firms passing themselves off as providers of guaranteed guidance.

Dealing with complaints

3.14 Organisations participating in the delivery of guidance will be required to have a robust complaints handling framework in place. Consumers will be able to register complaints about the guidance provider if they feel it has fallen short of the standards set by the FCA. For complaints that cannot be resolved by the provider, or that cut across a number of different services, there will be an adjudicator function independent of providers of guidance to which these complaints can be escalated as appropriate. The government will confirm arrangements for this adjudicator function in due course.

Targeting individuals at the point of retirement

3.15 The majority of respondents supported the government's proposal that pension providers and schemes should bear responsibility for ensuring that their customers and members are offered guidance at the point of retirement. **The government will place a statutory obligation on the FCA to make rules to require contract-based pension scheme providers to signpost their customers to the impartial guidance service, and will introduce an equivalent requirement on trustees of trust-based schemes (by amending existing disclosure requirements on occupational pension schemes) to do the same for their members.** The FCA, in its parallel consultation paper, has proposed rules to require signposts to be included in literature sent to customers and members four to six months before their intended retirement date, as well as when an individual contacts their provider or scheme indicating that they wish to access their pension funds.

3.16 The government will consider additional measures to raise awareness of the guidance service and to encourage consumers to engage with it as they approach retirement. In particular, it is imperative that consumers are able to recognise and trust the guidance service. The government intends to establish a strong, recognisable brand across all providers of the service. This will ensure that individuals can easily distinguish the service from other sources of information or services.

3.17 The consultation document noted that many pension providers, trustees and employers provide useful information to their customers and members on decision making at retirement, and an increasing number offer specialist communication and education programmes. The government welcomes providers' and trustees' ongoing commitment to support customers and members in this way, complementing the introduction of the impartial guidance guarantee. However, as the FCA has set out in its consultation, providers will be expected to ensure effective signposting to the guidance service, be clear as to what constitutes the guidance guarantee, and not seek to undermine its value or credibility.

3.18 Many respondents agreed that, with the new flexibilities taking effect in April, guidance should at the outset be focused on supporting decision-making at the point of retirement. The government has decided that the guidance service will be principally targeted at those who are likely actively to be planning to retire. The government will give further consideration to how individuals can receive subsequent support should their circumstances change or if they have needs that otherwise extend beyond what the guidance is intended to deliver.

Ensuring consumers can access key information about their pensions

3.19 The FCA and the government will – building on existing requirements – place an obligation on providers and trustees respectively to provide individuals with important information about

their pension. They will need to equip savers to get the most out of the guidance service and support them in their decision-making; both in the literature they send to customers and members, and in their engagement with individuals seeking to access their pension pot. This will need to be provided in a clear way.

3.20 To get the most out of a guidance session, individual savers will need to have some information to hand (for example on the size of their pension pot). A number of respondents favour some form of 'pensions passport' that would provide the necessary information in a convenient and easily understandable format. Many individuals have, however, their pension wealth spread across multiple pots and schemes, and need the full picture in order to make an informed decision. **The government will work with the FCA, The Pensions Regulator (TPR), industry and other key stakeholders, to consider how individuals can quickly and simply access information on multiple pots in an easily usable format.**

Accessing guidance in different ways

3.21 Consumers will want to use the service in a way that they find convenient and engaging. **The government is committed to ensuring that those consumers who want or need face-to-face guidance will be able to access it. It agrees with the views put forward by respondents that, for many consumers, other means of engaging with the service – such as online or telephone support – will better suit their needs and preferences.**

3.22 Some individuals will want to be able to access guidance through a mix of channels. A saver may, for example, wish to use a web-based tool in their own home, but also value being able to talk to someone on the phone when things get more complex.

3.23 As part of the service design work currently underway, the government is considering how to ensure consumers can access their guidance in the way they want, and will draw on behavioural insights and extensive user research to provide a service that works for its users.

Funding

3.24 The government has given careful consideration to the most appropriate way of funding the guidance service, and the consultation responses received. It believes those firms that are likely to benefit from consumers who are better informed about their needs and the choices available to them – and more engaged with and confident about the decisions they are making – should help to fund the delivery of the service. **The government therefore intends to legislate to establish a new levy on regulated financial services firms.**

3.25 The government will determine the size of the overall levy needed to fund the guidance. Given its existing relationships with the firms who will pay the levy, the FCA will collect the levy and consult on its detailed design (including how it is apportioned across different firms), which must be approved by the Treasury. The FCA is consulting on high level proposals for the levy in its parallel consultation paper, with more detailed proposals to follow in the autumn. The FCA has proposed that the levy should be targeted on those firms which are likely to derive most benefit as a result of the guidance, and that the levy should be proportionate, meaning that some firms will pay a minimal amount or nothing at all.

Next steps in implementing the guidance service

3.26 The policy, legislative and service design decisions set out in this chapter – and the proposals in the FCA's parallel consultation paper – establish the fundamentals of how the guidance guarantee will be implemented. These decisions provide the basis for the work that will be done over the coming months to make sure that the guidance service is up and running, and working effectively for consumers at retirement, in good time for April 2015.

3.27 The Treasury-based team leading the implementation of the guidance guarantee will continue its intensive service design work over the summer and into the autumn, working with (and bringing in expertise and capability from) a range of stakeholders and partners.

3.28 In the autumn, the government intends bring forward primary legislation in the form of amendments to the Pension Schemes Bill currently before Parliament, and to publish a progress update on the service design and implementation strategy.

3.29 The FCA's consultation closes in September and it plans to publish a Policy Statement later in the autumn.

4 Defined benefit schemes

Chapter 4 discusses the government's position on how the reforms to pensions outlined in this document will affect members of defined benefit schemes, including the impact on financial markets and investment.

The key points are:

- the government has considered carefully the potential ramifications for financial markets and investment, and is persuaded of the view of a wide range of stakeholders - including the Confederation of British Industry (CBI), The Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) - that it is right that the existing freedoms be preserved, so that those in private sector defined benefit schemes will continue to be able to transfer to defined contribution schemes. Where a pension is in payment, transfers out of defined benefit schemes will be prohibited, as they are now
- for the majority of people, but not all, it will remain in their best interest to stay in their defined benefit scheme. In response to stakeholder feedback, the government will introduce two new safeguards to protect individuals and pension schemes: a new requirement for an individual to take advice, from a professional financial adviser who is independent from the defined benefit scheme and authorised by the FCA, before a transfer can be accepted; and new guidance for trustees on the use of their existing powers to delay transfer payments and take account of scheme funding levels when deciding on transfer values
- the government intends to consult on whether the requirement to transfer first to defined contribution schemes should be removed for those private sector defined benefit members who wish to take advantage of the new flexibilities
- members of unfunded public service defined benefit schemes will be prevented from transferring to defined contribution schemes in order to protect the Exchequer and taxpayers. Funded public sector schemes will continue to be able to transfer to defined contribution schemes
- as set out in the consultation document, the trivial commutation and small pot rules will continue to apply to defined benefit schemes. These rules allow individuals to take up to £30,000 of total pension savings as a lump sum, or a £10,000 small pot as a lump sum regardless of total pension wealth. The age at which an individual can make use of these rules will also be lowered from 60 to 55

Introduction

4.1 As part of the consultation the government sought views on continuing to allow transfers from private sector defined benefit to defined contribution schemes; under what circumstances they should be allowed; how best to assess the risks resulting from such transfers; and the potential impact of any proposal on investment and financial markets. The consultation document outlined the government view that we should maximise freedom and choice for retirement savings where it is feasible to do so, but not if this were to be at the expense of the wider economy.

4.2 For the majority of people, retained membership of an existing defined benefit scheme is likely to remain their best option. In a defined benefit scheme, unlike in a defined contribution scheme, the risks relating to providing an income of certain value for the rest of an individual's life rest with the employer, not the employee.

4.3 However, the government recognises that the attractiveness of transferring from defined benefit schemes to defined contribution schemes may increase for a limited number of people as a result of these reforms to defined contribution pension savings. The government recognises that this will depend on individual circumstances and that for some people having a more flexible approach to retirement may be preferable.

4.4 The question of whether or not to allow private sector defined benefit transfers received the highest number of responses out of all the consultation questions. The key themes that emerged from respondents were:

- the vast majority were in favour of continuing to allow private sector defined benefit to defined contribution transfers
- continuing to allow flexibility would be in keeping with the freedom and choice principle of the reforms
- the demand to transfer from a defined benefit scheme is likely to be low
- the few respondents that called for a ban on transfers did so on grounds of a mis-selling risk, and the potential negative effect on remaining members if transfers left schemes unviable

Retaining current flexibilities for private sector schemes

4.5 Over 85% of respondents were in favour of retaining the current right to transfer. This included the CBI, ABI, NAPF and many insurance companies and employer pension funds. Exceptions included a number of trade unions who were concerned that their members might transfer out of pension schemes against their best interests.

4.6 Respondents that were in favour of continuing to allow transfers highlighted that to ban transfers would be inconsistent with the rest of the flexibility measures. There were broadly three themes within these responses:

- transferring from a defined benefit pension is unlikely to be in most individuals' best interests, although in some limited cases a transfer may be the best option

- the asset base which will eventually be transferred is likely to be an extremely small fraction of the overall asset base (currently estimated at £1.2 trillion)[1]
- any impact on the demand for long-term fixed interest and index-linked assets is likely to be offset by schemes continuing to de-risk their investments (typically moving from equities to less risky fixed income assets)

Impact on defined benefit investment

4.7 The government engaged pro-actively with key fixed income market participants to seek views on how continuing to allow transfers from private sector defined benefit schemes could alter investment strategies and affect wider financial markets.

4.8 The potential impact of continuing to allow transfers on defined benefit investments will depend on a number of factors, including: the size of the asset base available for transfer; the attractiveness of transfers and the resulting proportion of individuals that choose to take this option; and the timing of any transfers out of defined benefit schemes.

4.9 It is also important to take into account the wider context, in which many defined benefit schemes are closed to new members. This means that as scheme members age, and more are in retirement, scheme liabilities are more predictable and therefore schemes have been moving their assets into less risky investments that are better matched to their liabilities. This has led to an increased demand for both government and corporate bonds.

Proportion of transfers

4.10 For the majority of individuals, retained membership of a defined benefit pension scheme is likely to be their best option, as defined benefit pensions offer a level of security and guaranteed indexation that defined contribution pensions do not. Furthermore, the transfer values offered when requesting to transfer out are often less than the net present value of the benefits that an individual would ultimately receive from their defined benefit pension.

4.11 Nonetheless, it is likely that some individuals will request transfers out of their defined benefit pensions, and for some individuals, this may be in their best interests. For example:

- if they are heavily in debt[2]
- if they have a short life expectancy
- if they are unmarried and do not have dependants
- if they would prefer wealth to an income stream

4.12 Discussions with stakeholders during the consultation highlighted a range of estimates of the proportion of those who would seek to transfer from a defined benefit scheme. The majority of estimates were between 10% and 20% but with a number expecting transfers to be below 10%. These estimates are consistent with stakeholder feedback that the Budget announcements had resulted in only a very small number of additional requests for transfers.

4.13 A precise figure of the proportion of transfers will be inherently difficult to determine, being dependent on a number of factors, including: whether pension schemes actively promote

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[1] Pension Protection Fund (PPF) 7800 index

[2] Mortgage debt alone is not expected to be a compelling enough reason to surrender a defined benefit fund, unless the individual is at risk of losing their home.

transfers; the attractiveness of new financial products being offered in the defined contribution market; and the quality of financial advice.

Pensioners are excluded from the right to transfer

4.14 Currently, existing (as opposed to future) pensioners are prevented from transferring out of their defined benefit schemes by law. A number of stakeholders highlighted the risks of changing the current position; very few representations were received arguing to do so.

4.15 Stakeholders highlighted the significant adverse selection risk of allowing current pensioners to transfer out of their defined benefit schemes. Such a scenario would place significant risk onto the pension fund, and would be unfair to remaining members, and could require schemes to increase their funding requirements. Stakeholders noted that retaining the current position whereby pensioners have no statutory right to transfer would retain equality with those who have already purchased annuities with their defined contribution savings. **The government has therefore decided to retain the current ban on existing pensioners transferring out of defined benefit schemes.** Netting out pensions in payment from the total asset base reduces substantially the amount of assets potentially subject to transfers.

Timing of transfers out of defined benefit schemes

4.16 The timing of any transfers out of a defined benefit scheme will also make a difference to the impact on scheme investments.

4.17 Stakeholders noted that members of private sector defined benefit pension schemes who wish to transfer would benefit by doing so as close as possible to the point they crystallise their pension. It is unlikely that transferring to a defined contribution scheme earlier in life would lead to greater pension wealth in retirement compared to accruing more years of defined benefit pension, or, for those with deferred benefits, benefitting from index linked up-lifting.[3] This means that any transfers out would be likely to take place over a number of years, in line with the age profile of members, rather than all at once.

Wider defined benefit investment trends

4.18 As a number of responses to the consultation highlighted, in recent years, there has been a significant trend of de-risking by defined benefit pension schemes, characterised by shifts in asset allocation from equities into fixed income. This trend has been driven by changes in the regulatory approach, accounting standards, increasing risks from longevity, and the increasing maturity of schemes, with most closed to new members (and some to future accruals).

4.19 Therefore it is expected that there will be strong continuing demand for high quality fixed income assets, including government and corporate bonds, in the future from defined benefit schemes, even allowing for a possible reduction in demand due to transfers out.

Impact on financial markets

4.20 Taking into account the exclusion of pensioners from the right to transfer; the limited number of active and deferred scheme members for whom it would be in their best interests to transfer; and the likelihood that those transferring would do so when they reach the scheme's normal age for crystallising their pension pots, the government believes that the overall impact

[3] Based on the Office for National Statistics' (ONS) Wealth and Assets Survey 2008-10, the mean average private sector DB pension for those aged 50-54 is around 50% greater than those aged 40-44. Therefore, remaining in one's DB scheme for as long as possible is likely to increase pension wealth at retirement.

on the existing defined benefit asset base is likely to be limited if private sector defined benefit to defined contribution transfers continue to be allowed.

4.21 From a market perspective the impact of maintaining defined benefit flexibility will at the margins necessitate greater liquidity in asset holdings. However the main driver underpinning portfolio restructuring in the future is likely to continue to be increasing maturity of defined benefit schemes and corresponding de-risking, irrespective of any decision on defined benefit flexibility.

4.22 **Therefore, the government has decided that retaining the existing flexibility of transfers out of private sector defined benefit schemes for all pension scheme members (other than those whose pensions are already in payment), together with the additional safeguards outlined below, is appropriate.**

Introducing additional safeguards

Supporting individuals to make an informed choice

4.23 A number of stakeholders who supported retaining the current right for private sector transfer suggested that current safeguards could be improved.

4.24 At present, although the majority of defined contribution schemes will only accept transfers if professional financial advice is taken, guidance for transfers from defined benefit schemes only stipulates that such advice has to be taken when transfers are instigated by the employer not when they are instigated by the employee. **The government intends to make it a statutory requirement on the transferring scheme for all individuals who are considering transferring out of defined benefit schemes to take advice, from a professional financial adviser who is independent from the defined benefit scheme and authorised by the FCA, before transferring.**[4] The FCA are today publishing a thematic report on enhanced transfer values out of defined benefit schemes, summarising examples of good and bad advisory practice.

4.25 As a result, defined benefit schemes will be required to check that a member has taken advice from a professional financial adviser who is independent from the defined benefit scheme and authorised by the FCA before allowing a transfer out of the scheme. In most cases the individual pension member will need to pay for the financial advice. However, responsibility for paying for the financial advice will fall on the employer if the transfer is from defined benefit to defined contribution schemes within the same scheme, or as a result of an employer led incentive exercise.

4.26 The proposal to make it a statutory requirement to take professional financial advice was recommended by a large number of stakeholders including the ABI and CBI. It will ensure that all pension fund members are fully informed before taking any decision, and counteract the risk that a significant number of pension scheme members act against their own best interests or are coerced out of their scheme. This requirement for professional financial advice would not apply to small pot holders with pension savings below £30,000 as the trivial commutation rules would still apply.

[4] The definition of impartial financial advisers includes independent financial advisers and financial advisers working in more specialist areas, for example specialist pensions transfer advice companies

Protecting pension schemes

4.27 Although it is unlikely that the number of members of defined benefit schemes wishing to transfer would be sufficient to destabilise any individual scheme, this was nonetheless a concern raised by a number of stakeholders who were supportive of allowing continued flexibility.

4.28 At present pension fund trustees have the power to ask the Regulator for a longer time to make transfer payments if the interests of the members or the scheme generally will be prejudiced by making the payments within the usual period. Trustees are also able to reduce the transfer values offered to individual members to reflect the schemes current funding position. As it stands current powers available to trustees are sufficient to keep schemes viable under the new flexible pensions regime. However the government wants to ensure that trustees are fully aware of these powers and are prepared to use them should the need arise. **The government therefore intends to ensure that there is new guidance to trustees on the powers available to them to maintain the sustainability of schemes.** We will work with the Pensions Regulator, employers and trustees to develop the guidance.

4.29 Together these two safeguards will allow the government to provide the same flexibilities to private sector defined benefit scheme members as to defined contribution scheme members in a way which fully manages the low level of risk surrounding such an approach.

Future changes to private sector defined benefit transfers

4.30 A number of stakeholders raised the issue during the consultation of allowing full or partial withdrawals direct from a defined benefit scheme, rather than an individual first needing to transfer to a defined contribution scheme. The argument being that requiring members first to transfer to defined contribution schemes creates additional unnecessary burdens and that allowing full or partial withdrawals from defined benefit schemes would better enable the pensions industry to provide the pension products that their members want. **The government intends to consult further on this issue.**

Public service schemes

4.31 For public service schemes, the majority of which are unfunded, the contributions of members and employers are used to pay for pensions in payment, with any surplus requirements met by taxpayers through payments from the Exchequer. As there are no 'funds' for these pension schemes, any decisions to transfer would represent an upfront direct cost to the Exchequer. Given this cost, the government said at Budget that it would remove the option for those in unfunded public service pension schemes to transfer to a defined contribution scheme except in very limited circumstances, and intends to legislate to this effect in this Parliament.

4.32 The government's intention was to treat all schemes equally; however the consultation document recognised that were there to be a different approach adopted for private sector schemes, the government would consider how best to treat the funded public service schemes.

Treatment of funded public service schemes

4.33 The costs to the Exchequer of withdrawals from funded public service pension schemes are less direct than from unfunded schemes, given the assets held by funded schemes. However, in some circumstances, for example where a significant number of withdrawals from a fund impact the short-term cash-flow and therefore stability of the fund, there could still be implications for scheme members and the taxpayer.

4.34 The equivalent concern over scheme stability also arises for private sector defined benefit schemes and is addressed by existing powers allowing trustees to ask the Regulator for longer to

make transfer payments (if the interests of the members of the scheme generally will be prejudiced by making the payment within the usual period), and to reduce transfer values to reflect scheme funding, measures which could equally apply to public service pension schemes.

4.35 Since funded public service pension schemes hold assets, transfers out have a less direct impact on the Exchequer. **As such, and in light of the decision to continue to allow transfers from private sector defined benefit to defined contribution schemes the government has decided to continue to allow transfers from funded public sector defined benefit schemes.** Safeguards akin to those in the private sector will be introduced in the public service schemes where they do not already exist.

4.36 This will include the Local Government Pension Scheme (LGPS), which is the largest of the funded public service pension schemes. Unlike the other funded public service pension schemes, the LGPS is not a trust-based scheme. The government will therefore work with the Department for Communities and Local Government and other stakeholders over the summer to ensure appropriate safeguards are introduced to the Scheme which give due consideration to the interests of both scheme members and the taxpayer.

Trivial commutation and small pots

4.37 Under the new system, the trivial commutation and small pot rules will continue to apply to defined benefit schemes. This will allow individuals to take up to £30,000 of total pension savings from a defined benefit scheme as a lump sum. They will also allow individuals to take a small pot of up to £10,000 as a lump sum, regardless of their total level of pension savings. These withdrawals will be charged at an individual's marginal rate of income tax.

4.38 The age at which members of defined benefit schemes will be able to make use of the small pot and trivial commutation rules will also be lowered from 60 to 55. This will ensure consistency across the tax system, and provide members of defined benefit schemes with increased flexibility.

5 Legislative timetable and next steps

A Pensions Tax Bill

5.1 The government intends to introduce a Bill to:

- remove restrictions on how pensions under money purchase arrangements may be taken
- increase the flexibility of the income drawdown rules by removing maximum withdrawal and minimum income requirements
- prevent the new rules being abused through tax planning

5.2 The draft legislation will be issued for technical consultation in August 2014 and be introduced into Parliament in autumn 2014.

The Pension Schemes Bill

5.3 This Bill was introduced on 26 June 2014 primarily to take forward the government's plans to introduce a regulatory framework for 'Defined Ambition' and collective pension schemes. The Bill allows the government to remove the option to transfer from a public service defined benefit scheme to a defined contribution scheme. The government will bring forward amendments to this Bill to introduce the guidance guarantee.

Next steps in implementing the guidance service

5.4 The Treasury-based team leading the implementation of the guidance guarantee will continue its intensive service design work over the summer and into the autumn, working with (and bringing in expertise and capability from) a range of stakeholders and partners.

5.4.1 The FCA's consultation on the standards for guidance and rules supporting the introduction of the guidance service closes in September and it plans to publish a Policy Statement later in the autumn.

A Summary of responses

A.1 The consultation 'Freedom and choice in pensions' welcomed the views of interested parties on a number of issues related to the proposed changes to the pensions system. The government sought answers to 10 specific questions, and invited responses over a 12 week period from 19 March 2014 to 11 June 2014.

A.2 The government received 372 responses that answered at least one of the questions outlined below. The majority of those responses were received from organisations, which varied from the insurance and legal industries, to consumer groups and local governments.

Question 1: Should a statutory override be put in place to ensure that pension scheme rules do not prevent individuals from taking advantage of increased flexibility?

A.3 The government received 235 responses to question 1, with most respondents in favour of some form of statutory override being put in place.

A.4 53 individuals responded to this question, with 81% in favour of a statutory override. Individuals expressed concerns that failing to introduce an override may prevent many from accessing the freedom and choice that the pensions reforms sought to grant them. Organisations were in agreement, with 60% of the 182 responses in favour of some form of statutory override being introduced. A number of respondents raised concerns that a statutory override would force all schemes to become drawdown providers, and would place an unnecessary administrative and cost burden on schemes which did not offer drawdown facilities.

Question 2: How could the government design the new system such that it enables innovation in the retirement income market?

A.5 The most common themes in the responses to question 2 were the need for simplicity and stability in the new tax system, with many organisations calling for a period of legislative stability in the pension tax system.

A.6 A number of respondents, largely from industry, called for changes to the rules governing annuities to allow them to create more flexible products.

A.7 Respondents believed that the reforms announced at the Budget 2014 would drive innovation in the market.

A.8 Individuals that responded to this question were keen that the government/FCA protected them from high fees and unclear charges from their providers, and ensured that fees were monitored to prevent new products incurring disproportionate costs to consumers.

Question 3: Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?

A.9 The government received 252 responses to this question, with close to half of respondents in favour of raising the minimum pension age in line with the State Pension age. Although the majority were not in favour of this change, of the 77 organisations and 31 individuals that agreed with the proposal, a number cited that trends in individuals working and living longer pointed to maintaining a link between the minimum pension age and State Pension age. Further, some respondents thought increasing the minimum pension age alongside the State Pension age would provide a clear method of ensuring that individuals knew when they were able to access their private pension wealth.

Question 4: Should the change in the minimum pension age be applied to all pension schemes which qualify for tax relief?

A.10 150 of the 206 responses to this question were in favour of consistent changes in minimum pension age across all schemes, to ensure a simpler system. However, the government received some strong responses against this, in particular from public service representatives such as the Fire Brigades Union and Police Federation. These respondents argued that the change should not apply to public service schemes, and should take account of schemes which do not link to State Pension age, such as for Firefighters, Police and Armed Forces.

Question 5: Should the minimum pension age be increased further, for example so that it is five years below State Pension age?

A.11 The government received 239 responses to question 5, with respondents overwhelming not in favour of increasing the minimum pension age any closer than 10 years from the State Pension age. 89% of organisations and 78% of individuals were against the proposal to link the two pension ages by 5 years. Respondents generally argued that this would be a disproportionately large increase to the minimum pension age at this time.

Question 6: Is the prescription of standards enough to ensure the impartiality of guidance delivered by the pension provider? Should pension providers be required to outsource delivery of the independent guidance to a trusted third party?

A.12 In the consultation document, the government sought the views of both the pensions industry and individuals in order to establish who best might provide the guidance guarantee announced at Budget 2014. Of the 192 responses, the majority were in favour of the guidance being delivered by trusted third parties. 64% of organisations and 72% of individuals that responded to this question believed that a third party would be the best way to ensure that the guidance was impartial.

Question 7: Should there be any difference between the requirements to offer guidance placed on contract-based pension providers and trust-based pension schemes?

A.13 Similarly to question 4, respondents were in favour of a consistent approach across schemes in regards to the guidance guarantee. 175 of the 196 responses to this question indicated that there should be no difference between the requirements to offer guidance for contract-based and trust-based schemes.

Question 8: What more can be done to ensure that guidance is available at key decision points during retirement?

A.14 The government received a number of helpful responses on how guidance could be made available throughout the key decision points of retirement. There were a wide range of suggestions in response to this question, which varied from the way in which the guidance could be delivered, through to some suggestions around the best ways to make individuals aware that the guidance was available for them to use.

A.15 Most responses signalled that a one-off guidance session at the point of retirement would be unlikely to cover the full spectrum of decision points during retirement.

A.16 Many respondents also felt that earlier communication, for example when joining a scheme, and annual statements signposting where to find information, may help consumers become more engaged with their pension savings.

Question 9: Should the government continue to allow private sector defined benefit to defined contribution transfers and if so, in which circumstances?

Question 10: How should the government assess the risks associated with allowing private sector defined benefit schemes to transfer to defined contribution under the proposed tax system?

A.17 The government received 263 answers to question 9, the vast majority of which were from organisations. An overwhelming majority of responses (86%) were in favour of continuing to allow defined benefit schemes to transfer to defined contribution schemes. Respondents highlighted that this was in keeping with the flexibility narrative surrounding the reforms, and felt that to restrict transfers would be unnecessarily limiting the freedom and choice of those in defined benefit schemes.

A.18 Organisations that were in favour of continuing to allow transfers suggested some safeguards to help ensure that there were no detrimental effects of allowing transfers to continue in the new pensions landscape. A number proposed that trustees should have discretionary powers to block transfers when it would have a significantly adverse impact on remaining members. Another popular suggestion to ensure that transfers were handled responsibly was to require regulated advice to be taken before a defined benefit to defined contribution transfer could be accepted.

The government expects that the proposed changes to the tax rules from April 2015 will allow industry much greater flexibility to develop new products which meet people's social care needs and is keen to hear views from respondents about how the new tax rules could be designed to allow this.

A.19 A small number of respondents commented on the relationship between the pensions flexibility measures and the impact that they may have on an individual's welfare and social care. Some respondents suggested that the government considers allowing direct payments from a pension fund to a registered care provider tax-free.

B List of respondents

1st Option
Aberdeen Asset Management
Accountants Ireland
Action for Children
Aegon
Age Partnership Ltd
Age UK
AJ Bell
Alliance Bernstein ltd
Alliance Trust Savings
Aon Hewitt
Aquilaheywood
ARC benefits ltd
Arjo Wiggins Fine Papers ltd
Asda
Ashcourt Rowan
Associated Society of Locomotive Engineers and Firemen
Association of Accounting Technicians
Association of British Insurers
Association of Consulting Actuaries
Association of Financial Mutuals
Association of Member Nominated Trustees
Association of Member-directed Pension Schemes
Association of Pension Lawyers, Hogan Lovells International
Association of Professional Financial Advisers
Association of Professional Pension Trustees
Association of School and College Leaders
Association of Taxation Technicians
Aviva
Aviva Staff Pension Scheme
AVN Venus Tax LLP
Avon Local Government Pension Fund
AXA Investment Managers
AXA Life Invest
AXA Wealth
Azko Nobel
B & CE
Babcock International Group
BAE Systems plc
Baker and McKenzie
Banks Wealth
Barclays Bank plc
Barnett Waddingham
BDO
Bespoke Corporate Pensions ltd
Bespoke Retirement ltd
Bestinvest
Blackrock
Boal and Co
BP
Brian Shearing and Partners Ltd
British Airways
Brittania Financial Services
Broadstone Corporate Benefits
Brooklands Pensions
BT
BT Pension Scheme Management
Buck Consultants
Business Services Association
Capita
Cardano
Care Funding Advice Network
CBI
Chapman Tripp
Charlton Frank
CII
CIOT
CIPD
Citizens' Advice
Civil Service Pensioners' Alliance
Cobham Plc
Committee of Unilever Pensioners
Council of Mortgage Lenders
Creative Benefits Solution
Deloitte
DLA piper
DST Global Solutions
Dun and Broadstreet Pension Plan
EDF Energy Pension Scheme Trustee ltd
EEF
Elisabeth Finn Care
Elston Consulting
Equiniti
Equity Release Council
Ernst & Young
Esso Petroleum
eValue
Eversheds
FBU

FCA Practitioner Panel
FDA
Fidelity
Finance Industry Training ltd
Financial Ombudsman Service
Financial Reporting Council
Financial Services Consumer Panel
Fire Officers Association
First Actuarial LLPFirstGroup plc
FMG Wealth Ltd
Ford Motor Company LTD
Frank Hirth
Friends Life
FutureFocus Advisory Ltd
Global QROPS ltd
GMB
Greater Manchester Pension Fund
Group trustee of the National Grid Electricity
Group of the ESPS
Hargreaves Lansdown
Henry Boot
Hogan Lovells International llp
HSBC
Hymans Robertson llp
ICAEW
ICAS
ICI Pensions Trustee ltd
Independent Age
Insight Investment
Institute and Faculty of Actuaries
Institute of Directors
Institute of Economic Affairs
Institute of Financial Accountants
Institute of Financial Planning
Integral Financial Advice
Intelligent Pensions
International Financial Data Services
International Longevity Centre UK
Intrinsic Financial Services
Investment and Life Assurance Group Ltd
Investment Funds Direct ltd
Investment UK
JLT Benefits Solution
JP Morgan
Just Retirement
Key Retirement Solutions
Killik
Kimberly Clark
Kingfisher
KPMG
Lane Clark and Peacock llp
Later Life Academy
Law Debenture
Law Society of Scotland
LEBC Group
Legal and General
Life Academy
Life Planning Association
Liverpool Victoria
Lloyds Banking Group (employer)
Lloyds Banking Group/Scottish Widows
Local Government Association
Marks and Spencer
Master Trust Association
Mattioli Woods
Mayer Brown International llp
Mazars llp
Mercer
Metlife
MGM Advantage
Money Advice Service
Montfort International
Moody's Analytics
Morgan Advanced Materials
Morningstar
NASUWT
National Association of Pension Funds
National Federation of Occupational Pensioners
National Grid plc
National Grid UK Pension Scheme
National Union of Teachers
Nelsons Solicitors Ltd
NEST
Network Rail Infrastructure LTD
Northern Ireland Tax Committee of Chartered
Norton Rose Fulbright
Now Pensions
Open Retirement Club
Origen Financial Services ltd
Partnership
Pearson Group Pension trustee ltd
Pension Insurance Corporation
Pension Matters
Pension PlayPen Ltd
Pension Protection Fund
Pensions Administration Standards Association
Pensions Management Institute
Pensions Policy Institute
PGL Pension Scheme
Pi Consulting
Pilkington group ltd
Pinsent Masons
Premier Pension Solutions SL
Professional Finance Centre East Midlands
Profile Financial Solutions
Prospect
Prudential
PTL
Punter Southall
PWC

Railways Pension Trustee Company ltd and RPMI ltd
RBS pension fund
Reed Smith llp
RMT Union
Royal London
Royal Mail Group
Royal Mail Pension Plan
Sackers and Partners llp
Sanlam Life & Pensions UK
SAUL Trustee Company
Schroder Investment Management ltd
Scottish Government
Scottish Power
ShareAction
Shell International Ltd
Simmons and Simmons llp
Skandia
Society of Trust and Estate Practitioners
SOLLA
SPC
Squire Patton Boggs
St. James's Place Wealth Management
Standard Life
Stanhope Pension Trust
State Street Global Advisers
Stepchange
Strategic Investment Solutions
SwissRe
Talbot and Muir ltd
Tempo Pension Services Ltd
Tesco PLC Pension Scheme
The 100 Group
The Annuity Exchange Ltd
The Association of Train Operating Companies
The Greater Gwent Pension Fund
The Law Society
The Money Charity
The Pensions Advisory Service
The Pensions Trust
The QROPS Bureau
The Royal Bank of Scotland group
The staff side of the Police Negotiating Board
The-Pensions-Net-Work
Thomson Dickson Consulting
TISA
Towers Watson
Trade Union Congress
Travis Perkins
Trustee of the Babcock International Group
Trustee of the Pearl Group Staff Pension Scheme
Trustee of the RAC Pension Scheme
Trustees of the Country Land and Business Association ltd
Trustees of the Legal and General Mastertrust and Independent Governance Committee
Trustees of the Unilever UK Pension Fund
Try and Lunn
UCEA
UKSIF
Unbiased
Unite
Wardour Partners
Wealth at Work
Wealth Wizards
Wesleyan Assurance Society
West Sussex Local Government Pension Scheme Fund
Which?
Whitbread
Zurich Insurance Group

Glossary of key terms

Additional voluntary contributions (AVCs): Additional voluntary contributions are an arrangement whereby an employee pays additional money into their employer-run pension scheme in order to increase their pension entitlement. These can be paid alongside normal pension contributions, and receive tax relief in the same way as other pension payments.

Annual allowance (AA): Although you can save any amount into your pension, there is a limit to the amount of pension savings on which you can receive tax relief. The annual allowance, currently set at £40,000, is the maximum amount of tax-relieved pension saving you can build up over one year.

Annuity: An annuity is a financial product, provided by an insurance company which pays out an annual income to the contract holder, typically until the contract holder's death.

Automatic enrolment: Automatic enrolment requires all employers with one or more workers to automatically enrol certain members of their workforce into a qualifying workplace pension scheme. Workers can opt out. Employers have to automatically deduct a minimum of 1% of all eligible employees earnings and pay this into a pension, whilst also contributing the 1% themselves.

Capped drawdown: Capped drawdown is a form of income withdrawal from your pension fund, with a limit on the amount of pension you can take from your scheme each year.

Crystallisation: Crystallisation occurs when you take benefits from your pension scheme, and is when your total pension funds will be measured against your remaining lifetime allowance.

Defined ambition pension: A 'shared risk' scheme where there is a promise to the scheme member during the savings period about some of the retirement benefits that will be received from the scheme, but not all.

Defined benefit scheme (DB): DB schemes are commonly known as final salary or career average schemes. In these schemes, members are entitled to an annual income. The amount of income which they are entitled is typically calculated by reference to their earnings and length of service. The investment risk in a DB scheme lies with the pension fund, so if the fund fluctuates, the benefits to which members are entitled will not change.

Defined contribution scheme (DC): In a DC scheme individuals build up savings, and the amount of retirement income they receive is based on the monetary value of the fund at retirement and what they then choose to do with it. The investment risk sits with the individual - if the size of the fund varies as a result of investment performance, this directly affects the money available to the individual to secure an income in retirement.

Flexible drawdown: Flexible drawdown is a form of income withdrawal from your pension, with no limit to the amount that you can take from your scheme each year. Not everyone can access flexible drawdown, as you must be able to secure a minimum amount of secure pension income every year to qualify. From 27 March 2014 the minimum annual income required was reduced to £12,000 and from April 2015 the minimum income requirement will be removed.

Hybrid arrangement: A hybrid pension scheme is one that offers members either a choice, or mixture, of defined benefit and defined contribution rights at retirement. If the scheme offers a choice, the benefit is calculated as the better of the two alternatives; each acts as an underpin for the other.

Lifetime allowance (LTA): Although you can save any amount into your pension, there is a limit to the amount of pension savings on which you can receive tax relief over your lifetime. The lifetime allowance is currently set at £1.25 million.

New state pension: The new, simpler state pension that is set above the level of mean-tested benefits. This replaces the basic State Pension and the State Second Pension and will be implemented from April 2016.

Normal minimum pension age (NMPA): The earliest age within the tax system at which an individual can normally access their private pension wealth. Any pension payments made before NMPA are unauthorised payments and subject to a tax charge. NMPA is currently 55, having increased from 50 in April 2010. There is no HMRC requirement that an individual must retire before benefits can be taken.

Normal pension age: The age at which pension scheme rules allow members to be paid pension benefits, subject to the normal minimum pension age in the tax rules.

Open Market Option: Trustees of occupational defined contribution schemes must give their members the option to choose an annuity from a different insurer than that with which the individual has saved.

Pensions in payment: Pensions that are being paid out to members, mostly in retirement.

Permissive statutory override: A permissive statutory override allows schemes the flexibility to act in line with new provision should they wish, rather than in line with the original law.

Qualifying Registered Overseas Pension Schemes (QROPS): An overseas pension scheme is a QROPS if it satisfies certain HMRC requirements. Pension savings can be transferred to a QROPS without being charged as an unauthorised payment.

State Pension age (SPA): The age at which a individual becomes eligible to claim the State Pension.

Ten year guarantee period for annuities: The right to receive payments under an annuity normally end when the individual receiving them dies – but in some cases the annuity may be guaranteed for a fixed period. In this case, payments may continue to be paid to the estate until the fixed period ends.

Triple lock: The new way that pensions are uprated each year is called the Triple Lock: the basic state pension is increased by the highest of three measures, the rise in average UK earnings; the rise in inflation; or 2.5%.

Unfunded scheme: A defined benefit scheme, usually in the public sector, in which liabilities are not underpinned by a corresponding fund or funds. Contributions made by or on behalf of active members are used to make payments to pensioner members.

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