Update on Pensions

By Sheila Fitzgerald, Service Manager

In recent months, we’ve seen a flurry of news stories and reports about pension changes and reform. This has led to a lot of confusion and questions among civil servants who are often poorly informed about their personal pension arrangements.

The first focus is examining the type of retirement that is desired, with an emphasis on entering this phase of life debt free, including cards, loans and mortgages. This allows an individual to determine their fixed costs on a monthly basis and allows a starting point to determine if there is sufficient income. It is sobering to note that the average person will live for around 20-25 years post retirement and this expectation needs to be factored into any decisions being made.

For civil servants, there will largely be 2 main sources of income in retirement and both of these are subject to recent or forthcoming changes. In addition to the State Pension and Civil Service Pension, there is an option for anyone to contribute to a private pension or make Additional Voluntary Contributions or AVC.

State Pension reform

April 2016 will see the most radical changes to the state pension since its introduction and everyone who retires after that date will be impacted in one way or another.

The first significant change is to the retirement age, which will be equalised to 65 for men and women and then further extended to 66 or 67, depending on when you were born. There is a possibility that the state retirement age will increase further in years to come as the government has reserved the right to review this every 5 years.

There will be a flat rate of state pension of no less than £151.25 per week from April 6, 2016; though the final figure will not be known until the 2015 Autumn Statement due on November 25.

The full sum is paid to an individual who has paid 35 years of full national insurance contributions. The starting point to get a pension is 10 years, so if you have worked for a period between 10 and 35 years, you will get a pro-rata amount depending on the years you’ve worked. People with less than 10 years of National Insurance contributions or credits will not be entitled to any State Pension.
The current pension system has many elements to it, but of most concern to civil servants is the fact that there is a second state pension or SERPS. The new state pension will consist of a single tier, so there will no longer be an option to contract out of the additional state pension. In real terms, this means civil servants will pay an increased amount of national insurance from April 2016. The exact amount of this increase will not be known until the Autumn Statement of 2015 (available 25 November), but it will range from £20 to £45 per month depending on your salary.

The second significant impact for civil servants will be the amount of state pension they receive, if they retire after April 2016.

As civil servants were contracted out of SERPS or the second state pension, they paid a reduced rate of national insurance contribution. This means that their pension will be calculated on the old rate of pension prior to 2016 and the new rate post 2016.

So, if you worked in the civil service for 35 years and are going to retire in May 2016, you will receive the current rate of pension £115.95. If you were to reach state pension age in May 2017, you would get credit for 34 years under the old rate and 1 year of credit under the new rate. For each year you work paying the new National Insurance Contribution, you will get credit for the higher amount toward your pension. From April 2016, people who are currently in work, paying NIC and due to retire after 6 April 2015 will be able to get their ‘starting amount’ of pension entitlement.

**What can you do to be prepared?**

The first advice is to check your state pension age using Gov.Uk or NIDirect.gov.uk.

Secondly, you should visit gov.uk and request a pension forecast. How and when you can get the forecast is dependant on when you are born, so you must visit the site to find the guidance suitable for you personally. At the time of writing, you can also phone the Future Pensions Centre on 0845 3000 168 for information about your forecast.

**Civil Service Pensions**

In general, occupational or workplace pensions can be either of 2 types: Defined Benefit (DB) or Defined Contribution (DC) schemes.

DB schemes pay an amount of pension based on years worked and salary earned and can be taken upon reaching the normal pension age. There is a guaranteed amount of pension built up over years of service that is paid for the duration of the individual’s retirement.
DC schemes on the other hand are those that are built up through employee/employer contributions over the period of employment and the amount payable is wholly dependent on the performance of the fund that has been invested in. There is no guarantee of income levels in a DC pension scheme.

**Schemes in the Civil Service**

There are currently 6 pension schemes in operation in the Civil Service, currently being reduced to 2 schemes. In April 2015, the **Alpha scheme** was launched and this will eventually become the main pension scheme for civil servants with most people transitioning into this scheme for the remainder of their service.

The Alpha scheme makes some very significant changes to current Civil Service pension arrangements. It provides a defined benefit worked out on a career average basis, as opposed to the old final salary pension arrangement.

Civil servants will now be eligible to take their Alpha pension when they reach the age of 65 or their state pension age. If the state pension age changes, then the Alpha pension retirement age will change in line with that. Pension benefits can be taken at the scheme’s Minimum Pension Age, which is 55 but this entails significantly reduced pension payments.

Civil servants have the option to opt out of the Alpha scheme if they so wish. But if someone opts out of the pension scheme entirely, they will be opted back in once every three years under auto enrolment. It is worth remembering that being part of a pension scheme also includes death in service as well as other important benefits.

The alternative to the Alpha scheme is the **Partnership Pension scheme**. Partnership Pension is a defined contribution pension, whereby contributions are invested for you by your chosen provider. Over the years, your fund should grow with the money earned by your investments, and you can use the resulting pot to fund your retirement or to leave to someone in the event of your death. Your employer makes contributions to this pension and you have the option to do so as well.

**Impact of Pension Freedom on Civil Service pensions**

Pension freedom came into effect in April 2015, allowing people far greater choice with their pension investments.

The Alpha pension scheme is a defined benefit pension, so pension freedom will not apply to anyone in either an old scheme or the new Alpha scheme.
On the other hand, the Partnership Pension is a defined contribution pension, whereby contributions are invested for you by your chosen provider. Since April 2015, you can now access the funds in your defined contribution pension once you reach age 55 and you can take all of your pension pot at this age, if you so wish, by taking the ‘flexible income’ option. If this is your decision, the first 25% is taken as a single, tax free cash sum and the rest is taxed at your marginal rate of tax.

In either of these options, once you take money out of your pension pot, you are limited to further contributions of £10,000 per year to your pension pot including tax relief.

Alternatively, if you do not take all your pension pot, you can take the ‘flexible lumps of cash’ option. In this option, you can take out money when you want to. 25% of each amount you take out is tax free, the rest is taxable.

Alternatively, if you have a defined contribution pension scheme, you can buy an annuity that will allow you to take a 25% tax free lump sum and give you a guaranteed income for life. You are no longer obliged to buy an annuity with your funds, but it is still an option to be considered.

**It is strongly advised that you take guidance or advice if you are going to withdraw funds from your pension pot as there are other rules and conditions that cannot be covered in this document. Links to Pension Wise and TPAS are provided at the end of this article.**

**Additional Voluntary Contributions (AVC)**

AVCs are additional payments you can make to build up a separate, personal pension outside your Civil Service choices of the Alpha or Partnership Pension.

If you contribute AVCs, you will get a minimum of 20% tax relief at source when you make your payment. In other words, for every £80 that is paid into an AVC scheme, the government claims back a further £20, so a total gross contribution of £100 is invested on your behalf.

If you have an AVC pension, this is affected by the pension freedoms, so you have the choice to buy an annuity with this pot of money or take it out as described earlier.

The Civil Service has two AVC partner agreements with Scottish Widows and Standard Life.

The draw down options are the same as those described above.
Again it is strongly advised that you take guidance or advice if you are going to withdraw funds from your pension pot as there are other rules and conditions that cannot be covered in this document.

Where can I go for further information?

**State Pension**
- Get your state retirement date
- Get your state retirement pension forecast

**Civil Service Pension**
- Information about the Civil Service pension schemes

**Additional Voluntary Contributions**
- Providers of AVC for the Civil Service

**Getting Guidance**

It’s never been more important to think carefully about your retirement and the finances you’ll need. There’s some excellent free guidance available, although many people do may choose to pay for advice.

If you’re going to talk to an independent financial adviser, make sure you do your research beforehand so you know what’s available and suitable to your needs.

**Pension Wise**

The Pension Wise scheme was set up by government to ensure that people who are making key decisions around retirement age will have access to free, impartial and expert guidance. Which can be provided by telephone, face-to-face or through online resources.

There are three agencies involved: CAB, The Pensions Advisory Service and the Money Advice Service. Pension Wise is available to everyone as an online resource, but if you are near or over 55 and have a defined contribution pension, you’re entitled to one, free face-to-face session with a specialist Pension Wise adviser based at the CAB. You can book this session through the Pension Wise website or by phoning 0300 330 1001.
The Pension Advisory Service

The Pension Advisory Service or TPAS, gives free, independent information and guidance on pension matters. It can also resolve and mediate on problems that an individual may have with their pension.

You can access TPAS through web chat, telephone or online enquiry on their website.

Money Advice Service

The Money Advice Service offers a comprehensive online resource for all aspects of pension advice and retirement planning. They also offer some face-to-face advice and further details are available on their website or by phoning 0300 500 5000.

Paid-for independent financial advice

The Money Advice Service offers a retirement adviser search option on their website. If you are going to use an Independent Financial Adviser, you should ensure they are registered with the Financial Conduct Authority by checking this register.