Statement

2014 Budget: update for DC pension schemes

April 2014

The Pensions Regulator

Introduction

The Government's 2014 Budget announcement on 19 March 2014 set out some significant changes for defined contribution (DC) pensions. This statement is aimed at trustees of occupational, trust-based, DC schemes and others involved in their governance and administration, to help them understand some of the key measures announced in Budget 2014 and what this may mean for schemes and members. Some of these measures are being consulted on and we will issue further guidance where appropriate.

Trustees and those involved in scheme governance and administration should take their own advice on the implications of the Budget 2014 announcement as its impact will vary depending on scheme rules. Individual members should also consider seeking their own financial and tax advice on how the changes might impact them.

The impact on members will depend on their individual circumstances.

Key measures outlined in the Budget statement

The Government is consulting on proposals that would remove certain restrictions in respect of how pension savers draw their benefits from their DC pots after age 55. This would come into effect from April 2015. The Government also announced a series of transitional measures, effective immediately, that will – if individual scheme rules allow – allow pension savers more flexibility in how they access their DC pension savings. These transitional arrangements include:

- For schemes which allow members to take their pension via drawdown, from 27 March 2014 the capped drawdown limit has increased from 120% to 150% of the applicable basis amount, with the minimum income requirement for accessing flexible drawdown decreasing from £20,000 to £12,000
- For members who might qualify for trivial commutation, the amount they can take as a lump sum has now increased to £30,000, up from £18,000 previously
- The small pot limit has increased from £2,000 to £10,000. The number of small personal pension pots (eg small group personal pension pots) that can be taken as lump sums has increased from two to three, but as was the case prior to 27 March, there are no restrictions on the number of small pots that a single member can take from occupational pension schemes.

The Government's proposals for how DC pension savings will be treated from April 2015 onwards are the subject of a formal consultation which will end on 11 June 2014. The main features of this consultation are:

- Once the member reaches their normal minimum pension age there would be no restriction under tax legislation on the way in which DC benefits can be drawn. Pension savers would be able to withdraw their entire pot, purchase an annuity or income drawdown product, or a combination of the two. The 25% tax free lump sum would continue to be available, with the remainder subject to tax at the member's marginal rate
- There would no longer be any maximum or minimum requirements in tax legislation in respect of income drawdown
- The normal minimum pension age would rise from age 55 to 57 in 2028, so that it is consistent with the rise in the State Pension Age.

The Government is also consulting on a new obligation, effective from April 2015, on schemes and pension providers to provide guidance to members of DC schemes at retirement age. The guidance would be free and impartial and would aim to ensure that retiring members of DC schemes make informed decisions in respect of their pension pot or pots. The Financial Conduct Authority (FCA) has been asked by Government to take the lead on this work, working closely with us and the Department for Work and Pensions.

Trustees should take advice on the Budget 2014... its impact will vary depending on scheme rules.

How might these changes affect me?

Trustees and those involved in the administration of DC schemes should consider with their advisers how the changes and proposed changes might apply to their scheme.

This will help trustees consider how to respond to questions raised by members, as well as plan what communications to send to inform them about the impact of the Budget announcement. It is important that trustees and their advisers consider recent member communications that might be affected by the Budget announcement, as well as those that are due to be issued in the future.

The impact on members will depend on their individual circumstances, the scheme rules and the outcome of the Budget consultation. Members should, where appropriate, seek their own tax and financial advice in respect of how the proposals and transitional arrangements may impact them.

We will be reviewing our DC code and regulatory guidance in light of these and other changes.

Further information about the Budget announcement

This statement should be read in conjunction with these other materials:

- www.gov.uk/government/uploads/system/uploads/attachment_data/file/294795/freedom_and_choice_in_pensions_web_210314.pdf
- www.gov.uk/government/uploads/system/uploads/attachment_data/file/301563/Pensions_fact_sheet_v8.pdf
- www.gov.uk/government/news/government-announces-extension-for-pension-decision-period

Government Actuary's department (GAD) technical bulletin

- www.gov.uk/government/publications/budget-2014-a-gad-technical-bulletin

Her Majesty's Revenue & Customs (HMRC) materials, including:

- www.hmrc.gov.uk/pensionschemes/benefits-reg-pens-schemes.htm
- www.hmrc.gov.uk/pensionschemes/pensionflexibility.htm
- www.gov.uk/government/uploads/system/uploads/attachment_data/file/293844/TIIN_8070_8062_8202_8132_8133_increasing_pension_flexibility.pdf

FCA, Budget 2014 Pension reforms: guidance to firms in the interim period

- www.fca.org.uk/your-fca/documents/finalised-guidance/fg14-03

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