

Pensions Freedom



What it means for members of the Local Government Pension Scheme

The government has announced from April 2015 individuals from the age of 55, with a Defined Contribution pension, will be able to access their entire pension flexibly if they wish. Therefore in addition to the option of using pension funds for a regular income in retirement, members can withdraw their entire pension savings as cash, although part of this would be subject to tax.

LGPS members are not able to take their pension savings as a lump sum directly from the LGPS as the regulations do not allow it. Therefore, in order for a member of the LGPS to access all of their pensions savings as a lump sum, their benefits would need to be first transferred to a "Defined Contribution" (DC) scheme.

If you decide to transfer out your LGPS pension this will mean paying a sum of money to another pension provider. The new provider may have hidden charges and fees which could reduce the amount of money you would expect to receive, and it is usual for any financial advisor who helps you set up a new pension to also deduct a fee, this could amount to quite a lot of your pension savings before you have been able to draw on them yourself. These are questions you must ask, with details put in writing to you.

If you then decide to use the new Pensions Freedom rules to take out your pension savings as cash your new pension provider may again deduct its own fee or charge - please ensure you ask. You will then be able to take up to 25% of the remaining fund as Tax free cash, with the other 75% as a lump sum that is taxed. This means the largest proportion of your pension savings pot will be taxed at either 20% or 40%, it will depend on your marginal rate for that year. You may ordinarily pay 20% tax, but releasing this extra cash could take you into the higher 40% tax bracket.

As a result you must think very carefully before you proceed, and please remember that, should you decide to transfer out your pension savings from the LGPS and access the funds as cash, you will be losing a potentially substantial amount of income for your retirement.

Please also remember that the LGPS provides guaranteed index linked pensions for you and for your dependants should anything happen to you. You would lose this financial security if you transferred your benefits out. You would also need to make alternative provision for your retirement years.

If you would like to transfer your LGPS pension benefits out to a DC scheme in order to access your benefits flexibly, the Dorset County Pension Fund will require written evidence that you have received advice from a professional financial adviser, who is independent from the LGPS and authorised by the Financial Conduct Authority (FCA).

Different types of pension schemes

What is a Defined Contribution pension scheme?

Money purchase pension schemes build up a 'pension pot' and then use this pot to provide pension benefits (income and cash) at retirement.

Money purchase pension schemes do not give a guaranteed level of retirement income. The amount of pension payable at retirement depends on how much pension can be 'bought' using the pension pot. The cost of buying a pension varies over time depending on a number of factors.

What type of pension scheme is the Local Government Pension Scheme?

The LGPS is **not** a money purchase pension scheme. It is a '**defined benefit**' pension scheme. This means that a guaranteed level of pension is built up over the time a member pays into the Scheme based on their pensionable pay. For each year you pay pension contributions you build up a pension amount rather than a pot of money. Pension benefits from the LGPS are also index linked so will increase each year.

10 Good reasons to be in the LGPS

- 1 Money from your Employer!**
Your employer shares the cost!
- 2 Tax free savings!**
Tax relief on all your contributions!
- 3 Increased quality of retirement!**
Paying into the scheme for a bigger pension on retirement!
- 4 No investment risk!**
Your pension is not subject to market conditions!
- 5 Protection and security!**
Ill health, family and dependants benefits!
- 6 Life cover – no medicals required!**
Life cover of 3 years pay!
- 7 No hidden fees or charges!**
You just pay a percentage of your pay!
- 8 Tax free lump sum!**
Can be taken in addition to a regular pension!
- 9 Pension increased with inflation!**
The value of your pension in payment is protected!
- 10 Saving for retirement is crucial!**
Maintain your lifestyle in retirement!