

# CIPFA Pensions Network Workshop

It's a (pensions) revolution!

- Ian Colvin
- Douglas Green
- July 2015

# Agenda



## Freedom and choice



Ian Colvin

## Member take-up in LGPS?



## Impact on LGPS funds



Douglas Green



## Freedom and choice



# Freedom and Choice

George Osborne:

*“This Government believe that individuals should be trusted to make their own decisions”*

*“From April 2015, everyone over the age of 55 with defined contribution pension savings will be able to access them as they wish subject to their marginal tax rate.”*

*“I am pleased to say the reforms have overwhelmingly been positively received.”*

Dispatches, Channel 4





*“Biggest financial experiment any British Government has ever made.”*

# Flexibility will be alluring, for mixed reasons



For some individuals flexibility may be genuinely more valuable, but the ‘emotional value’ of access to money can trump ‘rational economics’

## Which pension schemes are affected?

- Private sector DC 
- Private sector DB  If transferred to DC
- Funded public e.g. LGPS  If transferred to DC
- Unfunded public e.g. NHS, Teachers and civil service 

# How does it work?

Individual



Tax considerations



Fund



Individual in **Defined Benefit** scheme from age 55



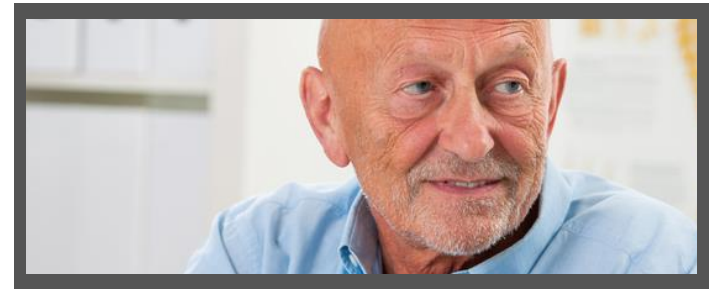
Individual in **Defined Contribution** scheme from age 55



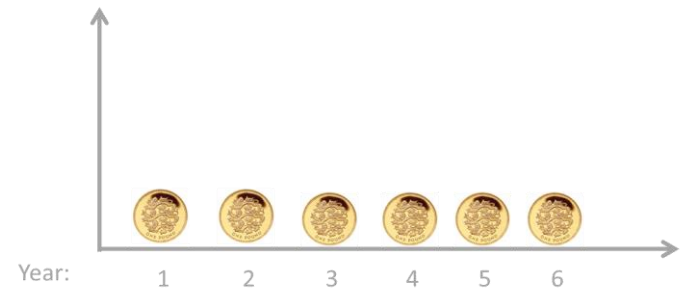
Unlock cash via **Defined Contribution** scheme

# Example

➤ *Employee currently aged 55*



➤ *DB pension from age 65*

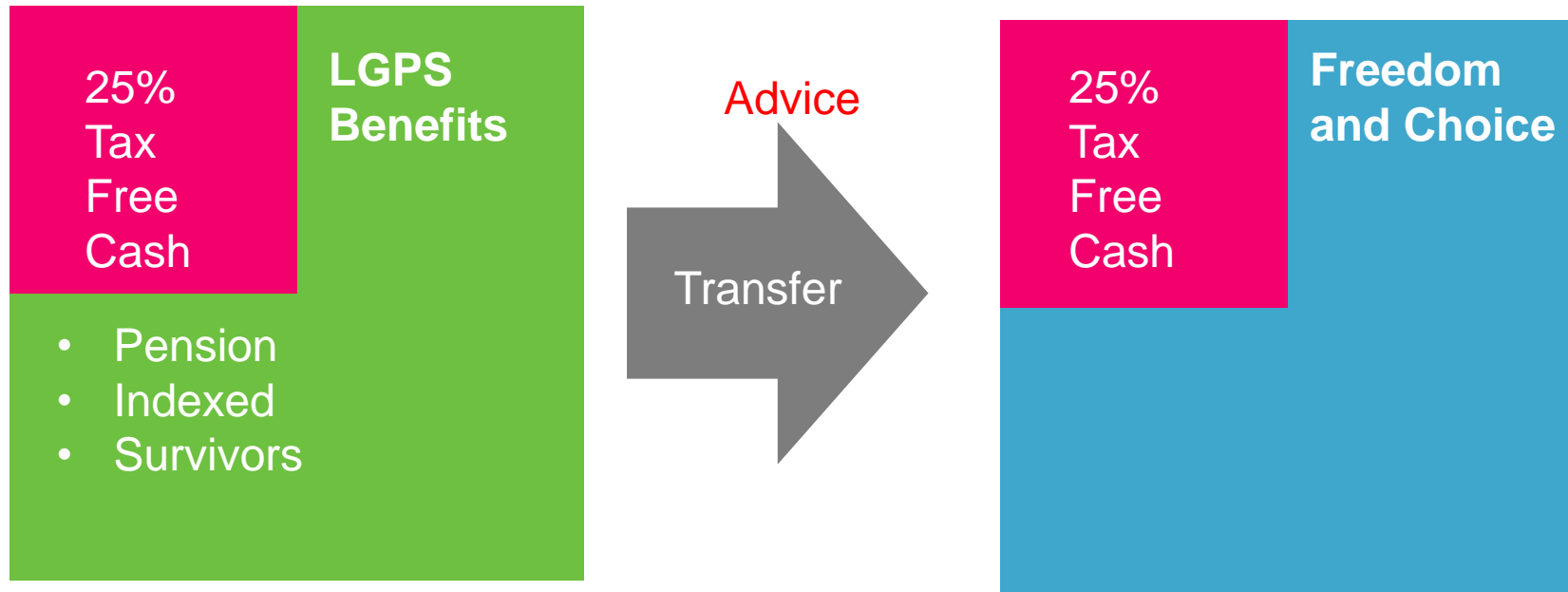


➤ *Transfer of entire pension pot of approximate value 15 x annual pension (ignores tax)*

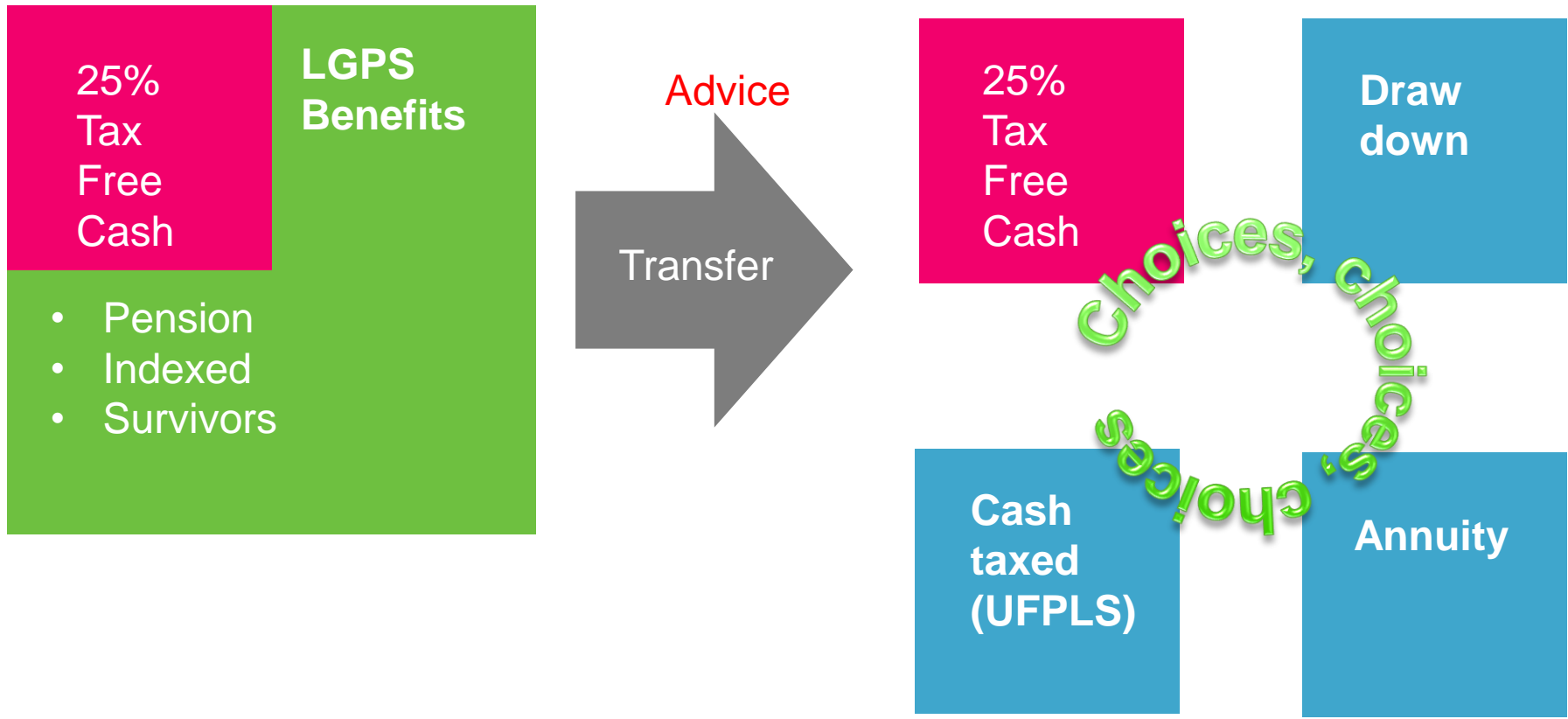




# Retirement Options in Freedom and Choice world



# Retirement Options in Freedom and Choice world



## The LGPS and AVCs

- LGPS has a DC arrangement
- AVCs can be transferred out separately to access freedom and choice
- Which course of action gives the best outcome for the member?
- Accessing AVCs as freedom and choice can impact on Annual Allowance

# Making the right decision



[Book a free appointment](#)  
[Who the service is for](#)  
[The State Pension](#)

A free and impartial government service about your defined contribution pension options.



[www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) – beware of imitations!

## Transfer safeguards in LGPS

- Independent financial advice required (Not Pensionwise)
  - If pension wealth in the whole LGPS is worth at least £30,000
  - Cost of advice probably paid by member
  - Adviser must be on FCA approved list
- Funds may be required to reduce transfer values
  - If there is a “risk to the public purse”
  - Application made to the Secretary of State

**Significant risk: transfer value won't produce original pension**



## Member take-up in LGPS



# Experiment

Retire at age 65 in good health.  
What age do you think you will live to?



87.5  
Club Vita  
estimation

82.1  
Perception



90.2  
Club Vita  
estimation

82.4  
Perception

## Hymans research

- We surveyed 1,000 consumers of DC pensions
  - **25%** would buy an annuity
  - **32%** will take a partial annuity and partially drawdown
  - **31%** will drawdown
  - **12%** will take all of the funds out as cash immediately
- Extra £6bn taken out of pension plans by 2016  
(3 x Government estimates)
- Half over 55 intend to take all or some of their money out  
(2m nationwide)



## Latest stories

- Advisers are staying away
- Providers not offering the full range of freedoms



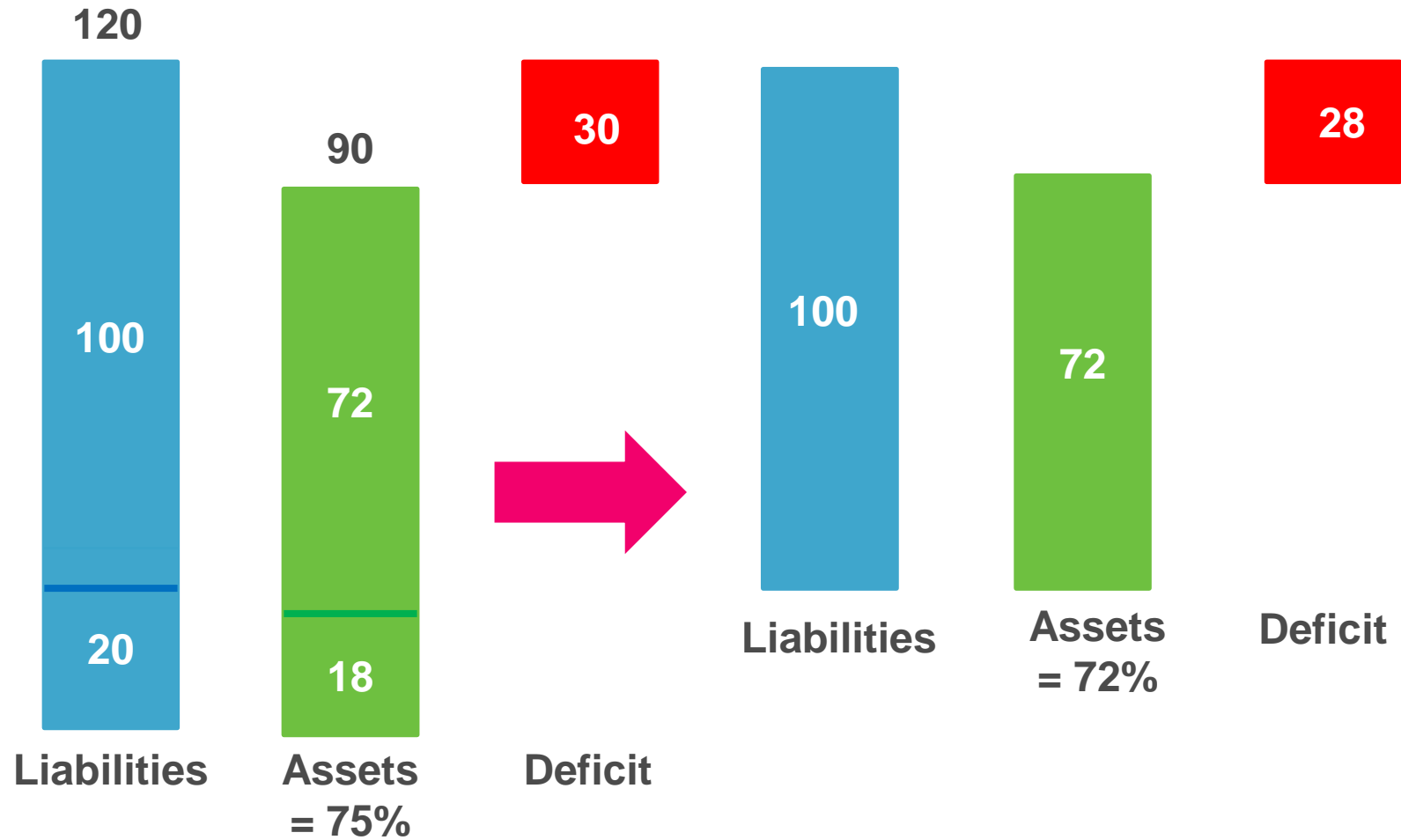
- 60,000 people have taken advantage of increased flexibility
- £1bn withdrawn from pension pots
- Treasury to consult on charge cap for access to pension flexibilities



## Impact on LGPS funds

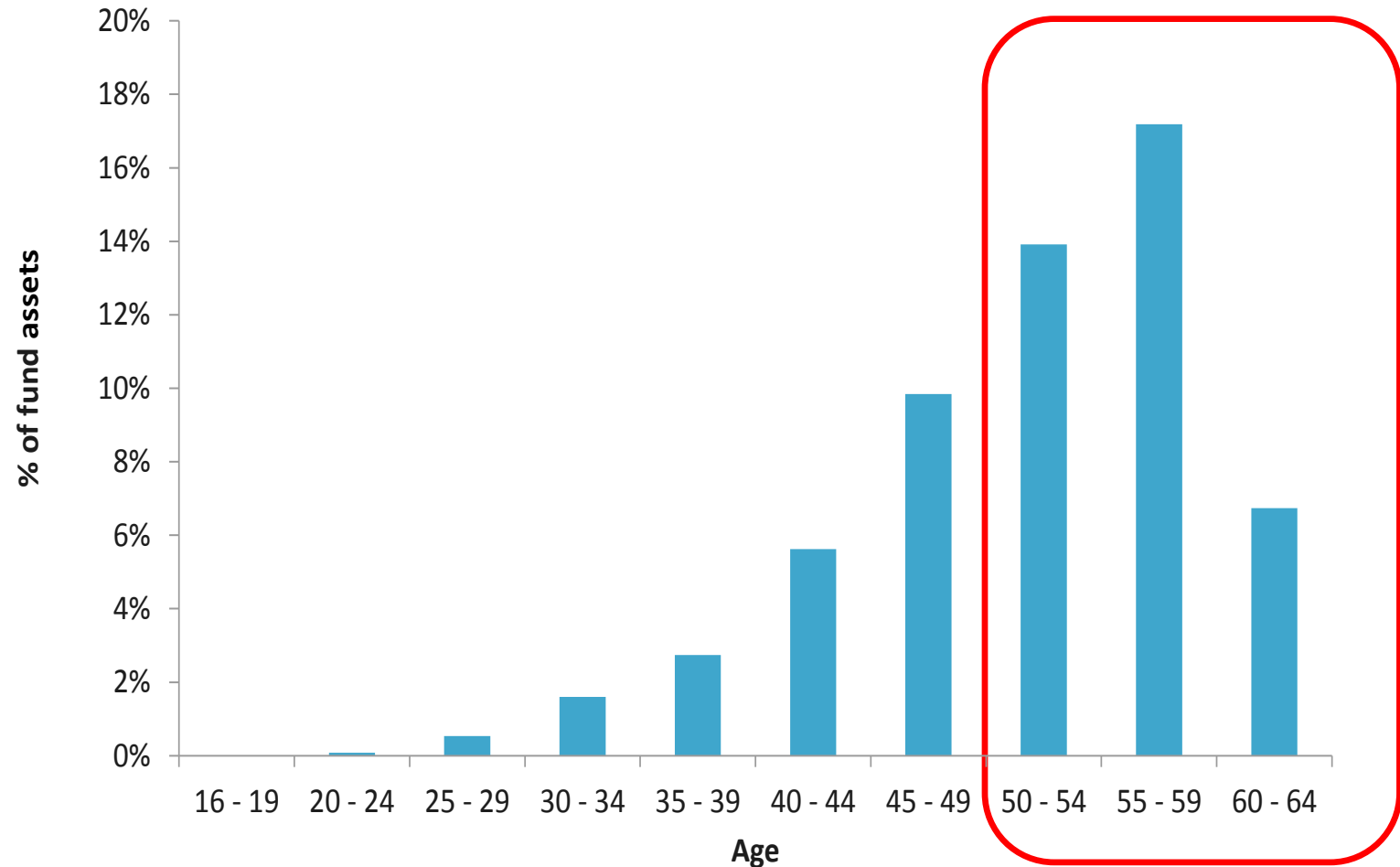


# Funding impact



# Liquidity risk?

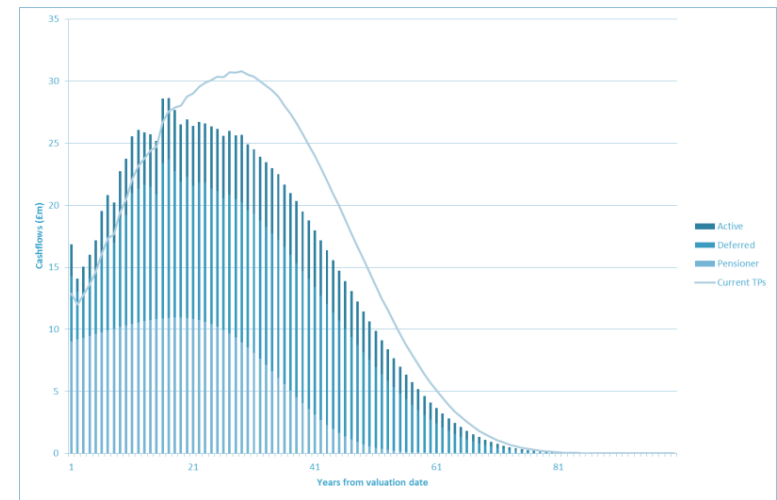
## CETV concentration (actives and deferreds)



# Impact on investment strategy



30% CETV take-up



**Transfers bring forward cashflows**

# Implications for LGPS funds

- Funding
- Liquidity
- Cash flows and investment strategy
- Employer and member communications
- Administering many more transfer requests
- Administering transfer safeguards
  - Check independent advice has been received
  - Monitor “increased risk to taxpayer”
  - Minimise mis-selling risk