

Recent Developments in the UK

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Pensions
Management
Institute

ACHIEVING PENSIONS EXCELLENCE

Key Changes

PENSIONS ACT 2014

State Pension reform

Basic State Pension

- Basic State Pension
- €142.37 / €227.73 pw
- 30 years' contribution for full rate

State Second Pension

- Earnings-related

Pension Credit

- Means tested

New single tier pension

From April 2016

- Single rate of €181 pw
- 35 years' Qualifying Years

Transitional arrangements

- Those whose entitlement under previous system would have been greater

State Pension Age

Planned increase accelerated

Was to rise to 67 2034 - 2036

Will now apply between 2026 and
2028

Periodic reviews by Secretary of
State

Auto-enrolment

Half-way through
implementation

SMEs involved since May
2014

Current opt-out rate is 9%

As at the end of July 2014

21,303 schemes

17.5 million workers

- 4 Million auto-enrolled
- 8.6 million already in a workplace scheme
- 500,000 subject to DB transitional arrangements
- 4.4 million others

Further AE changes

From April 2015

- AMC for default funds restricted to 0.75%
- May be reduced further in 2017
- End to Active Member Discounts (AMDs)

End to short service refunds

- Timing to be confirmed

Some employees to be excluded from AE requirements

Ending of contracting out

DB schemes

- Reduced rate of e'er / e'ee National Insurance
- 'Reference Scheme' Test

Ends from April 2016

- NI costs will increase

New statutory power for employers

- Future accruals may be adjusted
- Actuarial certification required

New Statutory Objective for Regulator



July 2014

New Code of Practice

‘minimise any adverse effect on the sustainable growth of an employer’

'Pot Follows Member'

Aggregation of small DC funds

- Less than €12,500
- Fund automatically transferred to new employer's scheme
- Modelled on Australian system

Concerns

- Complicated!
- Fraud
- Wrong option?

DC reforms



2014 Budget

- Massive changes to decumulation options
- Effective from April 2015

Summary of changes

Income no longer mandatory

- Lifetime Annuity
- Uncrystallised Funds Pension Lump Sum (UFPLS)
- Drawdown
- Flexi-access drawdown

DB to DC transfers permitted

Guidance Guarantee

- Annual cohort of about 400,000 eligible

Guidance Guarantee



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Impartial

covers the individual's range of options to allow an informed decision

is free to the consumer

is offered face to face

Flexi-access drawdown

Flexi-access drawdown fund

First 25% tax-free

Any amount drawn down over any
given time period

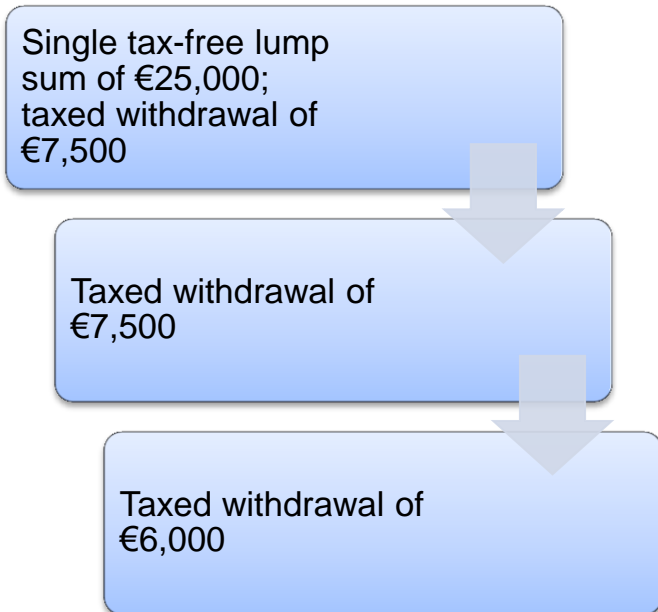
Money Purchase Annual Allowance
Rules apply

Single or succession of payments

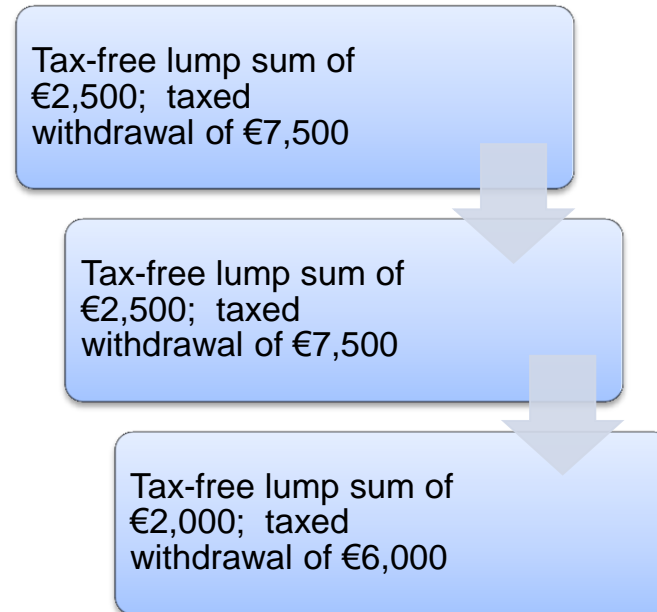
- First 25% tax free
- Balanced taxed at marginal rate
- Money Purchase Annual Allowance (MPAL)

Difference

Flexi-access drawdown



UFPLS



MPAL

Reduced Annual
Allowance of
€12,500
(standard is
€50,000)

Contributions
remain payable

Benefits paid as
UFPLS / Flexi-
access
drawdown