

# Vista Financial Services

## **UK Government Response to Consultation for Pension Changes**

The UK Government have today released their response to the consultation regards the Budget announcements relating to changes to the UK Pension system and in particular the discussion around a ban on Pension Transfers for certain Defined Benefit Schemes.

Below is an overview of this response.

### **Defined benefit schemes**

- the government will continue to allow transfers from private sector defined benefit to defined contribution schemes (excluding pensions that are already in payment)
- the government will introduce two new safeguards to protect individuals and pension schemes: a new requirement for an individual to take advice from a professional financial adviser, who is independent from the defined benefit scheme and authorised by the FCA, before a transfer can be accepted; and new guidance for trustees on the use of their existing powers to delay transfer payments and take account of scheme funding levels when deciding on transfer values.
- the government intends to consult on removing the requirement to transfer first to defined contribution schemes for those defined benefit members who wish to access their savings flexibly;
- the government continues to believe that transfers from unfunded public service defined benefit schemes should be banned. Transfers from funded defined benefit to defined contribution schemes will be permitted and safeguards similar to those in the private sector will be introduced where appropriate;

### **Public service schemes**

For public service schemes, the majority of which are unfunded, the contributions of members and employers are used to pay for pensions in payment, with any surplus requirements met by taxpayers through payments from the Exchequer.

As there are no 'funds' for these pension schemes any decisions to transfer would represent an upfront direct cost to the Exchequer.

Given this cost, the government said at Budget that it would remove the option for those in unfunded public service pension schemes to transfer to a defined contribution scheme except in very limited circumstances, and intends to legislate to this effect in this Parliament.

The government's intention was to treat all schemes equally; however the consultation document recognised that were there to be a different approach adopted for private sector schemes, the government would consider how best to treat the funded public service schemes.



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## **Treatment of funded public service schemes**

The costs to the Exchequer of withdrawals from funded public service pension schemes are less direct than from unfunded schemes, given the assets held by funded schemes.

However, in some circumstances, for example where a significant number of withdrawals from a fund impact the short-term cash-flow and therefore stability of the fund, there could still be implications for scheme members and the taxpayer.

The equivalent concern over scheme stability also arises for private sector defined benefit schemes and is addressed by existing powers allowing trustees to ask the Regulator for longer to make transfer payments (if the interests of the members of the scheme generally will be prejudiced by making the payment within the usual period), and to reduce transfer values to reflect scheme funding, measures which could equally apply to public service pension schemes.

Since funded public service pension schemes hold assets, transfers out have a less direct impact on the Exchequer.

As such, and in light of the decision to continue to allow transfers from private sector defined benefit to defined contribution schemes the government has decided to continue to allow transfers from funded public sector defined benefit schemes.

Safeguards akin to those in the private sector will be introduced in the public service schemes where they do not already exist.

This will include the Local Government Pension Scheme (LGPS), which is the largest of the funded public service pension schemes. Unlike the other funded public service pension schemes, the LGPS is not a trust-based scheme.

The government will therefore work with the Department for Communities and Local Government and other stakeholders over the summer to ensure appropriate safeguards are introduced to the Scheme which give due consideration to the interests of both scheme members and the taxpayer.

## **Summary**

- Private Sector Defined Benefit Pensions continue to be able to be transferred;
- Public Service Funded Defined Benefit Pensions continue to be able to be transferred;
- Public Service Un-funded Defined Benefit Pensions can no longer be transferred (except in very limited circumstances)

Unfortunately there still seems to be no explanation yet of the 'except in very limited circumstances' definition.