Trustee and Me

Pension Flexibilities - Your Guide

Standard Life Staff Pension Scheme

Introduction

The Scheme offers important benefits for you and your dependants, including a pension for you at retirement and valuable benefits if you die whilst a member of the Scheme.

This flexibility guide is designed to provide you with an overview of how your benefits and options in the Scheme interact with the new pension flexibilities for Defined Contribution (DC) schemes that came into effect on 1 April 2015. Please note that this guide is for information only and no action is required. In this guide we cover the following:

Before making any decision on accessing the new flexibilities we suggest speaking to an adviser to help you compare the different choices available to you and the associated risks. The Trustees have prepared a transfer guide and a retirement guide which will accompany any quotation you request. The guides are also available from SLSPS.co.uk

Although every effort has been made to ensure that the content is accurate, this is intended only as a guide and not to give you advice. The guide is not a legal document and your membership of the Scheme is subject to the Scheme's Trust Deed and Rules (which may be amended from time to time). These are the legal documents that will always overrule this guide in the event of any inconsistency or question of interpretation, and which set out the full details of your benefits. This guide is also subject to statutory transfer laws, which may change in future.

If you or your adviser has any questions on this guide please contact Mercer at:
standardlifepensions@mercer.com

Your benefits
in the Scheme

In this section we highlight the benefits available in the Scheme

Before considering whether to transfer your benefits, it is important to understand what benefits the Scheme provides. For service prior to 1 January 2008, you are entitled to defined benefits (DB). For service after 1 January 2008, you are entitled to DC benefits or revalued career average salary (RCAS) benefits, depending which option you selected when changes were introduced in 2008. For service from 16 April 2016, DC benefits only are provided.

In respect of your DB and DC benefits, the Scheme entitles you and your dependants to the following.

Benefits when you retire

DB benefits

You are entitled to receive a pension which will be payable for the rest of your life. Your pension is broadly worked out using your years of 'pensionable service' and your 'pensionable salary'. The period over which your pensionable service and pensionable salary is measured depends on when you joined the Scheme and what options you chose in 2008. At retirement, you can choose to give up part of your Scheme pension and receive a tax-free cash sum and a smaller pension.

DC benefits

The contributions that you and the Company have paid into the DC section of the Scheme are invested in accordance with your investment choices. The section headed 'The New Flexibilities - Options in the Scheme', outlines what choices you have when you decide you want to access your DC savings.

Early retirement

Your Normal Retirement Age in the Scheme is 60.

You may, if you want to, retire at any time after age 55 (or 50 in some cases depending on when you joined the Scheme) and take your DB Scheme pension. But, if you do this, your pension will be reduced because it is being paid early (and could potentially be paid for longer).

Scheme pension increases

Once you start to receive your DB Scheme pension it will usually increase each year (there are different rates of increase that apply to different elements of your pension). The pension payable includes an amount which is payable between retirement and your State Pension Age (this is referred to as the State Scheme Deduction in the Scheme Rules). It is designed to bridge the gap between retirement from the Scheme at age 60 and when your State pension starts. Once your state pension comes into payment, this payment is removed. However, in general, it is smaller than the state pension you will receive so overall, you should see an increase in your income at State Pension Age.

Benefits if you die

The following benefits may be payable.

Before you retire

A pension for your spouse/partner payable for the rest of their life. The spouse/partner's pension will increase each year in a similar way to your DB pension.

There is a separate life assurance arrangement that provides lump sum death in service cover of 4 times salary.

After you retire

- If you die within 5 years of your retirement date, a cash sum based on the balance of 5 years' unpaid instalments of your DB pension will be paid to your dependents. Any benefits due in relation to your DC savings will depend on the choices you made at retirement, see the Flexibilities or Retirement Guide for more information on this.
- A pension for your spouse/partner payable for the rest of their life. The spouse /partner's pension will increase each year in a similar way to your DB pension.

The New Flexibilities

An Overview

On 6 April 2015, the law changed to allow UK pension schemes that provide DC benefits to offer members different ways to access these benefits. There are new, flexible options for taking retirement income and fewer restrictions on the amount that can be withdrawn as cash. These options are described below.

Annuity / Pension - You can use some or all of your defined contribution savings to buy a pension, or annuity. There are lots of different types of annuity to choose from - but once a decision has been made, it's final. You can buy one that simply pays you an income for the rest of your life - or you can add certain 'extras'. For example, you can choose annuities that increase each year, or continue providing an income to a partner after your death. Since you have a certain amount to 'spend' on your annuity, adding one or more of these extras will mean you start with a smaller income yourself. But once the decision is made it is final.

You pay tax on your annuity once you start receiving it (like any other pay or pension).

Cash - You are now allowed to take as much cash as you like from your defined contribution savings at retirement - all of it, if you want to. The cash amount up to the first 25% of the value ofyour benefits would be tax-free. However, you would pay income tax at your highest rate on any cash you take above that level.

Drawdown - Drawdown allows you to take an income directly from your defined contribution savings, while they carry on investing the rest. You can vary the amount you receive while drawing down, or stop and start as and when it suits you. The idea is that by leaving the rest of your savings invested, you will keep 'topping up' with returns, giving you sufficient funds to continue drawing your income. Drawdown is not without risk so it is important that you read the Before You Decide section of this Guide to fully understand what investing in drawdown would mean for you.

Pros and cons

Although the new options may have instantly attractive features - the accessibility of cash, or the flexibility of drawdown - it's important to remember that each one has its own advantages and disadvantages.

For example, cash can help to meet any immediate needs or plans - but once it's gone, it's gone. With drawdown, it's technically possible to use up all your pension savings before you die - whereas an annuity is payable for life. However - you can't change the income you receive from an annuity at will, like you can with drawdown.

These new options only apply to DC benefits and do not apply to DB benefits. Please note that it is up to each individual scheme to decide which options to offer, and not all options are currently available under the Scheme. See the following section headed "The New Flexibilities – Options with the Scheme" for information about which options are available for your DC benefits under the Scheme.

Options in the Scheme

In this section we outline how the new flexibilities work within the Scheme

The new flexible options only apply to your DC savings (which will include any AVCs you may have paid). It is possible to exercise some of these flexibilities in relation to your DC savings from the Scheme without transferring out. But, if you want to access other flexibilities in relation to your DC savings which the Scheme doesn't offer or if you want to access any of the flexibilities in relation to your DB benefits, then you would need to transfer them out of the Scheme to a suitable DC arrangement. Please read the next section "Before you Decide" and refer to the separate Transfer Guide for details of the options on transfer and how you go about transferring your benefits from the Scheme.

The rest of this section outlines the flexible options in relation to your DC savings which are available from within the Scheme.

Annuity

You can use some or all of your DC savings to purchase an annuity at retirement.

Cash

Although the new flexibilities mean that you can take all of their DC savings as cash, it is important to understand how that would work in the Scheme. There are two options:

► Take all of your DC savings as cash

The technical term for this is taking an Uncrystallised Funds Pension Lump Sum (UFPLS). You can exercise this option only once when you come to draw your benefits from the Scheme and you must take all of your DC savings as cash (it is not possible to take more than 25% but less than 100% of your DC savings as cash and then use the balance to purchase an annuity). If you want to do this, then the first 25% of your DC savings would be paid tax-free and the balance would be taxed at the highest tax rate you pay.

► Use some or all of your DC savings to fund your tax-free cash

You are allowed to take a proportion of both your DB benefits and your DC savings as a tax-free cash sum. The maximum amount you can take free of tax is broadly 25% of your Scheme benefits. In calculating the maximum amount of tax-free cash you can take, we can aggregate both your DB and DC benefits (the formula for calculating tax-free cash in respect of your DB benefits is slightly different). This means that, in a lot of cases, members can take most, if not all, of their DC savings in one lump sum, tax-free.

► What happens if I have DC savings in excess of the tax-free amount?

If you have elected to aggregate your DB benefits and DC savings to calculate the maximum cash, and you have cash in excess of the tax-free amount remaining, your options are to take the excess as an UFPLS or use it to buy an annuity.

If you take your tax-free amount from your DC savings and your DB benefits separately, then your options in relation to your excess DC cash are to take it as an UFPLS, use it to purchase an annuity or transfer it another arrangement that allows you to "drawdown" on your DC savings.

Drawdown

The Rules do not allow members to "drawdown" their DC savings in the Scheme. If you want to have flexibility over how much cash you take and how frequently you draw this down then you would need to transfer your DB and/or DC benefits to a suitable drawdown arrangement outside of the Scheme.

Before you decide

If you are considering having full access to the flexibilities you must transfer your benefits out of the Scheme. Below are some of the other things you need to think about before you make a decision to transfer out of the Scheme to access the new flexibilities. Further details are available in Transfer Guide.

Independent financial advice

As explained above, to fully access the new flexible retirement options you would need to transfer your DC and/or DB benefits out of the Scheme into a different arrangement.

Although transferring your DB benefits to a DC arrangement would allow you to access all of the new flexibilities, it is important that you fully understand the implications of transferring so you can determine if this is right for you.

With this in mind, the Government has made it a requirement that anyone planning to transfer benefits from a DB arrangement to a DC arrangement must take independent financial advice first if their DB benefits are worth £30,000 or more.

The Trustees strongly encourage taking independent financial advice before making a transfer, whatever the size of your pension.

Please note: the £30,000 figure refers to the overall 'transfer value' of your pension - not the yearly amount of pension you've built up. You may find that a yearly pension of around £1,000 to £2,000 is worth £30,000.

Please see the section below headed "And finally…" for information about finding an IFA.

Benefits for your dependants

The Scheme automatically pays a pension for your dependants if you die before them.

If you transfer your benefits out of the Scheme, this also stops any benefits your dependant would have received from the Scheme.

- If you buy a different type of pension, you choose whether or not to include a dependant's pension with it.
- If you take income drawdown, any money left over after you die would be available for the dependant you name (but you don't know if there will be any left).

You should discuss this with your husband, wife, civil partner or anyone else who might be eligible for a pension if you die before them, before you make your decision.

Protected Retirement Age

Depending on when you joined the Scheme, you may have a right to take early retirement from the Scheme at age 50, instead of the normal minimum age of 55. Members with a protected early retirement age of 50 can take their retirement benefits from age 50 from the Scheme. Members without a protected early retirement age can take their retirement benefits from age 55 from the Scheme, which is the current normal minimum pension age for HMRC purposes.

If you have a protected early retirement age, this will usually be lost if you transfer your benefits out of the Scheme. It may, however, be possible for you and at least one other member of the Scheme to transfer your benefits out of the Scheme in a manner that meets certain requirements imposed by HMRC and which protects your early retirement age in the receiving scheme.

You may therefore be able to take your retirement benefits from age 50 in the receiving scheme, provided that the relevant HMRC requirements have been met and the rules of your receiving scheme allow this to happen. This is known as a 'buddy transfer'. The other transferring member does not need to have a protected early retirement age.

The availability of your protected early retirement age in the receiving scheme will depend on the rules of your receiving scheme and HMRC's own assessment of the validity of your 'buddy transfer'. The Scheme is not responsible for this and you should ask your IFA and the receiving scheme for further information and advice if you wish to consider the option of a 'buddy transfer'.

If you intend to transact on a "buddy transfer basis" you and the other member must each complete the Scheme's block transfer agreement, which is enclosed with your transfer pack, and return this with your 'application to process with transfer of benefits' form.

If you have agreed with more than one other member of the Scheme that you will transfer your benefits to the same receiving scheme at the same time, please contact Mercer to request a block transfer agreement suitable for use where there are more than two members involved.

Your health

If you take your DB pension from the Scheme, you get the same level of income whatever your state of health and hence your life expectancy.

If you smoke or have health problems which limit your life expectancy, you might find that transferring your benefits out of the Scheme and buying an 'enhanced' or 'impaired life' pension/annuity gives you a higher level of income because of your health.

Inflation

The DB Scheme pension usually includes set pension increases that would help protect your benefits against future inflation.

You could transfer out and buy a non-increasing pension. This would not protect you against future inflation. The cost of living would rise, but your pension would not. You might think having a higher starting pension is more important than the future inflation risk.

If you choose income drawdown, you would need to invest your pension savings to try and make them grow faster than inflation. The kinds of investments that grow well also have a higher risk of falling in value quickly.

Tax matters

Starting to draw your pension early while you are still in employment could mean that you pay more income tax, as your tax liability is based on your total income.

Making a transfer may also have implications on the tax payable after your death and you are strongly advised to take your own tax advice on this point.

Choosing investments

If you transfer your pension savings out of the Scheme, you will need to invest the money, either for a short time or for a longer time in the future. This depends on what you want to do with your pension savings.

- If you use your cash transfer value to buy a pension immediately, you will not need to invest it.
- If you think you might buy a pension in the near future, you will need to choose investments that will protect the value of your pension savings.
- If you decide to buy a short-term pension or do income drawdown, you will need to keep some of your pension savings growing.

In choosing your investments, you will need to consider carefully the balance between risk and return. To keep sufficient funds to keep paying your pension for the rest of your life, you will have to seek adequate returns. But, all investments have a risk that their value goes down. If this happens you may also have to reduce the amount of pension you draw each year.

You also need to consider that, if you decide to transfer your DB benefits to a DC arrangement, unlike in the Scheme, you would be taking all the investment risk, which could considerably affect the value of the pension you will receive in the future if your investments do not perform as expected.

You should plan who will manage your investments if your health suffers. You may currently feel capable of managing your investments, but this may be more difficult as you get older. You also need to consider whether your spouse or partner would be able to manage the investments if you were to die.

Investment is a complicated subject and we cannot provide investment advice. The Money Advice Service website, www.moneyadviceservice.org.uk has more information about personal pensions and investment choices.

Your IFA will also be able to advise you about your investment choices.

Please refer to the Transfer Guide for more information.

And finally...

If you are considering accessing the new flexibilities

Take financial advice

At this point - if you haven't done so already - you should take independent financial advice to make sure that you understand what the new flexibilities mean for you.

In selecting your adviser, you should recognise that some will be able to advise on all providers' products whereas others will be tied to a certain provider. You should pay particular attention to the charges which will be applied to your funds. Over a whole retirement, these charges can significantly reduce the value of your pension.

If you are new to seeking financial advice, there's plenty of help online:

The Money Advice Service offers a wide range of general financial guidance. Despite the name, it cannot give you personal financial advice, or tell you what decisions to take, but it does include help with choosing an adviser, and what you might want to ask them.
www.moneyadviceservice.org.uk

The Unbiased portal has a facility that helps you find an adviser in your area. **www.unbiased.co.uk**

The Financial Conduct Authority holds the list of registered financial advisers. You need to make sure anyone you consult is properly qualified and authorised to help you - so a good way to do that is by making sure they're on here.
www.fca.org.uk

Useful organisations

The Money Advice Service is an independent service set up by the Government to provide a range of information about consumer finances, including obtaining independent financial advice.

The Money Advice Service also has a directory of financial advisers that specialise in providing advice about retirement. You can use this directory to search for advisers who are pension transfer specialists. You can also search by postcode.

Website: www.moneyadviceservice.org.uk

Phone: 0300 500 5000 (call rates may vary)

The Pensions Advisory Service (TPAS) is an independent, non-profit organisation that provides free information and guidance across the whole range of pensions, including State, occupational and personal.

Phone: 0300 123 1047

Email:
enquiries@ pensionsadvisoryservice.org.uk

Website:
www.pensionsadvisoryservice.org.uk

The Government's Pension Wise service has online guidance about the flexible benefit options available at retirement. People aged over 50 with DC pension savings may also make an appointment to speak to a guidance adviser free of charge. The guidance is general, will not recommend specific options, and should not be regarded as a substitute for financial advice.

Website: www.pensionwise.gov.uk

To make an appointment with an adviser, call **0300 330 1001**

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Find out more

This guide is intended for members of the Defined Benefit Scheme

Log on to
www.merceroneview.co.uk/standardlife/login.tpz
for more information on your pension savings and scheme or contact Mercer on 0330 100 3491

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