

What the pension flexibilities mean for you

To give people more flexibility with their pension funds at retirement, the government announced some changes in the 2014 budget, a number of which came into effect from 6 April 2015.

To help you understand what these changes mean for you, we've summarised the key points in this overview.

Most of the changes only affect members of defined contribution (DC) pension arrangements (like the Money Purchase 2003 and Auto Enrolment sections) but the changes around taking small pensions as lump sums also affect members of the final pay sections of the Pearson Group Pension Plan ('the Plan') which are defined benefit (DB) arrangements. Final pay section members may also have paid Additional Voluntary Contributions (AVCs) which are DC arrangements.

WHAT ARE THE OPTIONS?

The rules for people with DC pension savings allow flexibility on how they take their retirement benefits – whether to take it all as a lump sum (subject to tax depending on the amount), or as an income. This leaflet sets out the options and explains how you can access the full flexibilities by transferring your Plan benefits to another pension arrangement.

THINGS TO THINK ABOUT...

- 1 How much money will you need in retirement? Make sure you take into account your State pension benefits and other pension savings held outside of the Pearson Group Pension Plan.
- 2 Annuities provide you with a guaranteed income for the rest of your life. If you do not purchase an annuity you need to be careful that you do not use your pension savings too quickly and run out of money in retirement.
- 3 Don't forget about tax. Up to 25% of your Pension Fund can be accessed tax-free. The remaining fund will be subject to income tax. Depending on how much income you take in any one tax year, you could pay tax at the 20%, 40% or even the 45% tax rate.
- 4 Be careful to avoid pension scams and becoming a victim of fraud. Further information and guidance is provided on the Pension Wise website: www.pensionwise.gov.uk/scams

DC RETIREMENT OPTIONS IN THE PLAN

AUTO ENROLMENT SECTION

The Auto Enrolment section is a DC arrangement and your retirement options from the Plan are as set out below.

MONEY PURCHASE 2003 SECTION

If you are a member of the Money Purchase 2003 section you were contracted out of the State Second Pension up to 5 April 2016. This means that the Plan has to provide you with a minimum level of pension and at least part of your Pension Fund will be used to purchase

an annuity to provide this minimum pension. If your Pension Fund at retirement provides less than the minimum level, the Plan will pay a top-up to ensure the correct level of pension is paid. In this case, you will not be eligible to take early retirement from the Plan before age 62 and from age 62 your Plan retirement options will not include Option 2 below. If no such top-up is payable or you joined the Plan after 5 April 2016, your Pension Fund is a DC arrangement and your retirement options will be as set out below.

DC OPTIONS

OPTION ①

ANNUITY AND NO CASH SUM

OPTION ②

UP TO 25% TAX-FREE CASH AND ANNUITY
PURCHASED WITH THE BALANCE

OPTION ③

TRANSFER TO ANOTHER REGISTERED PENSION ARRANGEMENT
– FOR FULL CASH OR FLEXI-ACCESS DRAWDOWN OPTIONS

OPTION ④

SMALL POT COMMUTATION

OPTION 1: ANNUITY ONLY

This is bought from an insurance company with your Pension Fund at retirement and provides an income for the rest of your life. It is usually paid in a series of regular monthly instalments. There are a variety of annuities for you to choose from. The Trustee has appointed Hargreaves Lansdown, an independent specialist in the annuity market, to provide a retirement annuity service. They will send you a personal summary showing a number of options for setting up your annuity to help you make a decision about the right annuity for you. Income from a pension is taxable and the rate at which tax is paid will depend on the income you receive.

OPTION 2: TAX-FREE CASH AND ANNUITY

Up to 25% of the value of your Pension Fund can be taken free of tax. The balance will be used to buy an annuity.

OPTION 3: TRANSFER

If you want to take advantage of the flexibilities to take your pension as a full cash lump sum or flexi-access drawdown*, you will need to transfer the value of your Pension Fund to defined contribution pension arrangements outside the Plan. If your Pension Fund is below the minimum level (as explained overleaf) and the transfer value is above £30,000, we will need to obtain confirmation that you have received appropriate independent advice from an authorised financial adviser before you do so.

OPTION 4: SMALL POT COMMUTATION

It is possible for a pension to be paid to you as a one-off cash sum provided your circumstances meet certain criteria, including:

- You are at least age 55
- The value of your Plan pension rights does not exceed a capital value of £10,000.

**Flexi-access drawdown: A facility you can set up outside the Plan by transferring the value of your Pension Fund, which allows you to take income from your pension pot while the balance remains invested.*

DB RETIREMENT OPTIONS IN THE PLAN

If you have built up a pension in one of the Plan's final pay (DB) sections, the flexibilities described on the previous page don't apply directly to that benefit. However, you can transfer your DB pension out of the Plan and into a DC arrangement, where you can then access these flexibilities.

As a transfer may not be in the best interests for many people with DB pensions, the government wants to ensure that you fully understand this option. It has said that if your DB benefits are valued at more than £30,000, you must obtain appropriate independent advice from an authorised financial adviser before a transfer can go ahead. The Plan Trustee will require confirmation that you have received this advice.

DB OPTIONS

OPTION ①

FULL PENSION

OPTION ②

TAX-FREE CASH AND A REDUCED PENSION

OPTION ③

TRANSFER TO ANOTHER REGISTERED PENSION ARRANGEMENT
– FOR FULL CASH OR FLEXI-ACCESS DRAWDOWN OPTIONS

OPTION ④

SMALL POT COMMUTATION/TRIVIAL COMMUTATION

OPTION 1: FULL PENSION

The total pension you have built up at date of retirement will be paid from the Plan.

OPTION 2: TAX-FREE CASH AND REDUCED PENSION

Up to 25% of the value of your pension rights can be taken free of cash. Your pension will be reduced to take into the amount of cash taken.

OPTION 3: TRANSFER

If you want to take advantage of the new flexibilities to take your pension as a full cash lump sum or flexi-access drawdown*, you will need to transfer your benefits to defined contribution pension arrangements outside the Plan. If the transfer value is above £30,000, we will need to obtain confirmation that you have received appropriate independent advice from an authorised financial adviser before you do so.

OPTION 4: SMALL POT COMMUTATION/TRIVIAL COMMUTATION

If you have a small DB pension, you also have the option to convert your pension into a lump sum payment, subject to certain limits as follows:

- If the total value of your pension savings from all schemes is £30,000 or less, you can take them as a lump sum.
- If the value of your Plan benefits does not exceed a capital value of £10,000 you can take them as a lump sum.
- You have to be at least 55 years old to take these sorts of payments.

The first 25% of the lump sum payment is paid tax-free and the remaining 75% is taxed at your highest marginal tax rate.

**Flexi-access drawdown: A facility you can set up outside the Plan by transferring the value of your Pension Fund, which allows you to take income from your pension pot while it remains invested and so continues to benefit from any growth.*

WHAT ABOUT MY ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)?

At retirement, you may use your AVCs within the Plan to take a tax-free cash sum or to buy an income at retirement (an annuity). Alternatively, you could transfer the full value of your total AVCs to an external pension arrangement to access the new flexibilities. If you are only transferring out your AVCs, the transfer can go ahead even if you choose not to obtain independent financial advice.

ANY QUESTIONS?

If you have any questions please contact the Pensions Helpline:



Email: pensions.helpline@pearson.com



Telephone: 020 7010 2424



You can find further information on the Plan website:

www.pearson-pensions.com

Financial guidance and advice

'Pension Wise' is a free and impartial guidance service set up by the government, which aims to help you understand what your choices are and how they work. You'll be able to get help on Pension Wise website (www.pensionwise.gov.uk), over the phone from the Pensions Advisory Service, or face to face at branches of the Citizens Advice Service about:

- what you can do with your pension pot
- how the different pension types work
- what's tax-free and what's not.

You should access the guidance available from Pension Wise and we recommend that you consider taking independent financial advice before taking any decisions on your pension. Use the website www.unbiased.co.uk to find an independent adviser in your area.

