KPMG
cutting through complexity

How will you deal with the sweeping pensions changes?

Budget 2014
Pensions Toolkit
02 April 2014

Highlights from the 2014 Budget

The Chancellor's Budget included proposals for radical changes to defined contribution (DC) pensions, effective from April 2015 (with some changes taking effect much earlier). These changes would give members much greater choice as to how they take their pension benefits

Key pension points from the Budget are as follows:

- Members will be able to draw their DC pension pots as they wish from age 55 onwards – simply paying tax at their marginal rate with the first 25% still tax free. Existing annuity options will still remain, as will the 25% tax-free lump sum.
- Members will have to be given free, impartial guidance at retirement. It appears that this requirement will fall on schemes/employers/providers, and the government is making £20 million available to help industry develop this initiative.
- The Government expects that industry will develop new products and services to enable members to make appropriate retirement planning.
- The Government is consulting on a potential ban (or severe restrictions) on transfers from DB schemes to DC arrangements, removing the statutory right to a cash equivalent transfer value.
- The minimum pension age (currently 55) would increase in line with changes to state pension age.
- Interim measures will relax the limits on triviality commutation and income drawdown from 27 March 2014 onwards:
  - The main triviality limit (aggregation test) will increase from £18,000 to £30,000.
  - The triviality 'small pots' limit will increase from £2,000 to £10,000 (and it will be possible to draw three rather than two personal pension pots in this way).
  - For drawdown pension years starting on or after 27 March 2014, the capped drawdown limit will increase from 120% to 150% of an equivalent annuity.
  - The minimum income requirement for accessing flexible drawdown will be decreased from £20,000 to £12,000 for all individuals who apply for flexible drawdown on or after 27 March 2014.

The KPMG Pensions Toolkit for the 2014 Budget considers the impacts in more detail, cutting through the complexities of the changes.

Far reaching changes

DC

Scheme design

The Budget announcements completely change the future of DC.

What changes do you need to make to ensure your scheme adapts to the new landscape?

Member communications

Communications will play a vital role in clearly explaining the impact of the changes on the decisions that individuals need to make.

How will you ensure the various communications continue to support members and employees?

Investment

Members investment choices will fundamentally change.

Will your scheme offer the range of options that members now need both before and during retirement?

DB

Benefit change

The changes announced to DC benefits and the end of contracting out may accelerate the change s made to DB benefits.

What impact will this have on ongoing exercises or could the announcements initiate a review of the DB provision?

Member communications

There are potentially far reaching impacts on DB members.

How do you begin to identify the areas impacted and how do you communicate these changes to the members?

Investment

There is significant uncertainty as to how member choices will impact your cashflow needs in both the short and long term.

What impact will this have on ongoing exercises or could the announcements initiate a review of the DB provision?

Member option exercises

Increased flexibility is likely to make transfers from DB to DC more attractive to more members.

Could this increase the opportunities for removing DB pensions risk or could the potential ban on transfers make this time limited?

Reward

Reward

Increased flexibility in the DC pensions environment will impact your broader reward strategy, with systems, data and member processes being key.

How does this fundamentally change your reward strategy to support the different ways that people will want to save for retirement?

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