

To: Salaries and Wages  
 Human Resources  
 Pension Contacts

Circular 07/2015  
 13 May 2015

At: All Employing Authorities

Dear Colleagues,

**Freedom and Choice – Transfers from the Local Government Pension Scheme (Northern Ireland) to Defined Contribution Schemes**

This Circular has been issued to update employers on the reforms that the Government has made to workplace pensions from 6 April 2015. These reforms introduce greater flexibility, described as 'Freedom and Choice', in the way that individuals aged 55 and over can access any Defined Contribution (DC) pension savings that they may have.

The Local Government Pension Scheme (Northern Ireland), (LGPS (NI)), is a public sector Defined Benefit (DB) scheme, so the flexibilities being introduced by 'Freedom and Choice' do not impact on how our members can take their benefits. However, there are some indirect changes that will impact on any LGPS (NI) members who are considering transferring their LGPS (NI) Defined Benefit rights to a DC arrangement offering 'flexible benefits'. These changes are described in this Circular.

**Content**

Section	Content	Page
1	What is Freedom and Choice?	2
2	How Freedom and Choice impacts on Scheme members	2
3	The new rules for transfers from the Scheme to a DC scheme	2
4	What should you do if one of your employees asks you about Freedom and Choice?	3
5	Impact of Freedom and Choice on your role as a Scheme employer	3
6	Potential consequences for a Scheme employer who encourages members to transfer benefits out from the Scheme	3

## **1. What is Freedom and Choice?**

From 6 April 2015, members of certain Defined Contribution (DC) schemes will have more freedom over how they take their pension savings from their pension fund. These changes affect pension scheme members who are:

- aged 55 or over, and
- have a pension based on how much is paid into their pension savings (a Defined Contribution pension).

There are now four main options for a member of a DC pension scheme which offers flexible benefits. These are listed below:

- purchase an annuity (annual pension) or scheme pension if offered by the scheme
- flexi-access drawdown (members can take up to 25% of their pension savings as a tax-free lump sum. They can then move the remainder of their pension savings into funds that allow them to take a taxable income at suitable times. Alternatively they can move their pension savings gradually into drawdown and take up to a quarter of each amount that is moved tax-free and place the rest into income drawdown.)
- take a number of cash sums at different stages (the first 25% is tax-free and the remainder is taxed at the member's highest rate)
- take the entire pension savings as cash (the first 25% is tax-free and the remainder is taxed at the member's highest rate).

These flexibilities do not apply to pension benefits that individuals have in Defined Benefit (DB) schemes such as the LGPS (NI). Therefore, they have no direct impact on your employee's benefits from the LGPS (NI).

## **2. How Freedom and Choice impacts on Scheme members**

Freedom and Choice does not directly impact on Scheme members. However, if an LGPS (NI) member ceases active membership with more than three months' membership then, unless they are retiring on grounds of business efficiency, ill-health or redundancy, they will be given information about their right to transfer their LGPS (NI) benefits. They could choose to transfer their LGPS (NI) Defined Benefits to a DC pension scheme, which offers flexible benefits and thus avail of 'Freedom and Choice' flexibilities under that scheme.

## **3. The new rules for transfers from the Scheme to a DC scheme**

If a member ceases membership of the LGPS (NI) and wishes to transfer their LGPS (NI) Defined Benefits to a DC pension scheme which offers flexible benefits, they will be obliged by law to obtain appropriate independent advice. This independent advice must be obtained at their own cost from an authorised independent adviser who is registered with the Financial Conduct Authority (FCA). The member must prove to NILGOSC that the advice has been taken before any transfer payment can be made by NILGOSC to a DC scheme offering flexible benefits.

Members can only make one request for a transfer out quotation from NILGOSC in any 12 month period. If they wish to proceed, the election to proceed must be made at least 12 months before their Normal Pension Age in the LGPS (NI). Normal Pension Age for any member who leaves the LGPS (NI) after 31 March 2015 is equal to the member's state pension age (with a minimum of age 65) apart from those members who are protected by the transitional underpin (their NPA is age 65).

Members can only transfer their benefits from the LGPS (NI) if they have left the Scheme in all employments and have not already drawn benefits from the LGPS (NI), either in their current employment or in an earlier employment.

Members are not legally required to take advice if the total value of all their LGPS (NI) benefits is £30,000 or less. However, given the impact on their LGPS (NI) benefits, it is recommended that members do still take advice.

#### **4. What should you do if one of your employees asks you about Freedom and Choice?**

If an LGPS (NI) member is looking for general information on Freedom and Choice and how it relates to their benefits in the LGPS (NI), please refer them to the [Freedom and Choice section of our website](#).

If a member has questions on the LGPS (NI) benefits that they have built up, please refer them to NILGOSC. NILGOSC cannot provide advice to Scheme members and this advice can only be provided by an independent adviser who is authorised by the [Financial Conduct Authority \(FCA\)](#) to provide advice on transfers between pension schemes.

#### **5. Impact of Freedom and Choice on your role as a Scheme employer**

There is no direct impact on the role of a Scheme employer following the implementation of these new flexibilities. The new flexibilities are only available to LGPS (NI) members if they choose to transfer their benefits to a DC scheme that offers flexible benefits.

#### **6. Potential consequences for a Scheme employer who encourages members to transfer benefits out from the Scheme**

An employer would have to meet the cost of the independent advice in the following circumstance:

If two or more LGPS (NI) members are sent information by, or on behalf of, an employer setting out the options available to the member in terms that encouraged, persuaded or induced the member to request a transfer from the LGPS (NI) to a DC scheme offering flexible benefits.

In addition, under automatic enrolment rules a Scheme employer cannot take any action where the sole or main purpose is to induce a member to opt out of the Scheme (without immediately providing an alternative qualifying scheme).

In the event of a breach of this legislation, the Pension Regulator could issue the Scheme employer with a compliance notice and ultimately the employer could be subject to a fixed penalty notice of not more than £50,000.

If you have any questions regarding the content of this Circular please contact either our Employer Liaison Officer Ruth Benson, our Technical Officer Christina McMaster, our Communications Officer Sinead Nicholson or myself.

Yours sincerely

A handwritten signature in black ink that reads "Zena Kee". The signature is written in a cursive, slightly slanted style.

Zena Kee  
Pensions Manager