The end of the Default Retirement Age: what it means to you

You may have heard about a very important change in retirement law, which was introduced last October.

This change was the end of the Default Retirement Age (DRA), or the age - set at 65 - when employers could make employees retire without having to give a reason.

Now the DRA has been scrapped, and employees can keep working after 65 if they want to. The only exception is when an employer can justify having a compulsory retirement age, for example, on health and safety grounds.

On the other hand, it should be noted that no one is being made to carry on working. There is still a Normal Retirement Age when people can leave work and receive their full pension benefits.

For a typical section, this means you can take your full benefits at any time between age 60 and 75 (although there are sections that have adapted different age bands).

Does this change in the law affect me?

For a typical section member, the main points to consider about the end of the DRA are:

- If you want to keep working beyond 65, you can stay in 'active' service, continue making contributions and build up your pension benefits.
- Or, if your employer agrees, you can keep working, stop making contributions and start taking your benefits.
- If you belong to a section with a Maximum Normal Retirement Age of 65, you must take your benefits at that age - you can't defer them. However, if you have your employer's consent, you can take your retirement benefits and continue working.

Early retirement and re-employment

If you are planning early retirement and are eligible to take your pension benefits before the age of 55, there is an important tax issue to consider.

This applies to anyone who was an active member of the Scheme on 5 April 2006, and has a Protected Pension Age. If you retire early, take your benefits after you reach age 50 but before you reach age 55, and then return to work, current legislation means you could face a very high level of tax.

This could happen if you returned to work for the same employer; a company in the same corporate group; or another employer you are connected to in the RPS, within:

- Six months of retirement; or
- One month of retirement if you returned to do a job which is 'materially different in nature'.

In these situations you would lose your 'protected pension age' for benefits in all sections of the RPS and HMRC would consider your benefits to be 'unauthorised payments', subject to a very high level of tax that could be up to 70%, until you reach the age of 55. Depending on the timing of the payments, this could include your lump sum as well as your pension.

This restriction does not apply if you return to work for a company which is not related to you or your previous employer. If you take your benefits after age 55, there is no restriction on returning to work for any employer.

If you plan to return to work within the stated timescales, you must tell RPMI. This is because the Trustee doesn't have the power to pay such 'unauthorised payments' without the agreement of the Trustee and your former employer.

If you are under age 55 and are thinking of taking your benefits and returning to work, you must speak to RPMI and seek independent financial advice about the possible tax implications before you make your final decision.

It is important that you consider taking independent financial advice as the Trustee and RPMI can't advise you on your personal situation; nor should information provided by RPMI staff be relied on as advice about your individual circumstances.

More details are available from HMRC at www.hmrc.gov.uk/manuals/rpsmmanual/rpsm03106000.htm

For any pension or website queries you can call the Helpline on 0800 2 343434

Notice: Some telephone calls may be recorded for training and reference purposes.
From the Editor

As the new editor of Review, I would like to warmly welcome you to the February 2012 issue and tell you about some improvements we are planning to make to your Scheme communications, on the back of feedback you gave us in the 2010 member satisfaction survey.

RPMI provides a wide range of communications to RPS members, including newsletters to keep you in touch with your benefits. Read as you need’ guides to help explain your entitlements, and Annual Pension Estimates to give you an idea of what you can expect to receive when you retire.

We recognise that nothing stands still these days – not least the ways in which we communicate with one another – and the member satisfaction survey (which generated over 25,000 responses) told us that you would like more opportunities to access information about your pension benefits in electronic format. So we are planning to redevelop the Scheme’s communications as part of our on-going commitment to provide you with useful information in ways that make sense and meet your needs.

This year we will redesign all the key publications, including Review, with a view to rolling them out to you in 2013. The upfront for you will be an engaging new design and feel to your newsletters, more personalised content and new interactive eZines, to complement the printed publications.

These enhancements will come at no extra cost to the Scheme. If your copy of Review usually carries your employer’s logo, you may have noticed that it does not appear on this issue. Removing section-specific logos is one of the things we can do to reduce editorial production and printing costs to the Scheme and offset any costs associated with the new improvements.

Finally, please complete our online feedback form at www.railwaypensions.co.uk. Your feedback has contributed directly to the changes we are planning to make next year to your Scheme communications and will continue to influence how they evolve. Just click on ‘DB Members’, followed by ‘Review newsletter’, where you will find a hyperlink to the survey under ‘Quick Links’.

Best wishes

Karen
Editor, Review

Getting the most out of Review

If there is a computer symbol next to an article, it means there’s a more detailed version at www.railwaypensions.co.uk. You’ll find the full versions in ‘DB Members’, under ‘Review newsletter’.

If you have a Smartphone, you can go straight to the web page by scanning the Quick Response (QR) code below.

Pensions news and legislation

This section looks at important developments in the world of pensions which may affect you as an active member of the Railways Pension Scheme.

Changes to the State Pension Age

There have been recent changes in legislation relating to increases in the State Pension Age (SPA).

You may have read the debate in the press about the pace of the proposed changes, in particular relating to women who are currently in their late 50s. Following some modifications, the changes are now in force, so we thought it would be useful to set out what they may mean for you.

From the start of February 2012, the SPA is 65 for men and around 60 years and 11 months for women. For men, the SPA is due to remain at age 65 until December 2018, when it will gradually rise to 66 over the period to October 2025. For women, the changes are more complex but still involve a shift to a SPA of 66 by October 2020.

It seems unlikely that there will be any further changes to the SPA for people reaching the age of 66 by October 2020. Therefore, people born in 1954 or before should now know their SPA with a good degree of certainty.

However, there is still uncertainty about what the eventual SPA will be for people born after 1954.

The previous government introduced legislation in 2007 which covered an increase in the SPA from 66 to 67 over the period from April 2023 to April 2036. It also proposed a further increase from age 67 to age 68 introduced from April 2044 to April 2046.

The current government is considering future changes to the SPA and indicated that the timetable for increases in the SPA to 67 and beyond may be speeded up. At the time of writing, the government has announced that it will increase the SPA to 67 between April 2026 and April 2028, but no plans have been published for increases after that age. We will inform you of planned changes in the SPA beyond 67 once they are issued.

For now, the graph below shows how current legislation affects the SPA, and highlights the groups of individuals most likely to be affected by future changes.

The State Pension Age and the level pension option

If you retire before your State Pension Age, RPS rules mean that you may be able to take a level pension option.

This means receiving a higher scheme pension before the start of your basic State Pension, and a smaller scheme pension after your basic State Pension has started. The purpose of the level pension option is to help even out changes in income when you reach SPA.

The terms of the level pension option are based on a member’s SPA, which is in legislation at their date of retirement. Therefore, it should be noted that if your SPA changes after your retirement, there might be a gap between when your pension drops to the lower level under the level pension option and the start of your basic State Pension.

For example, somebody retiring at age 55 in 2012 would currently have their level pension option calculated with reference to a SPA of 66, but the SPA might be changed to a later age by future legislation.

Government website www.direct.gov.uk is a useful source of information about the SPA; it includes a calculator which provides the latest information about your State Pension Age.

Tax relief changes from 6 April 2011 – details about the ‘scheme pays’ approach for meeting any Annual Allowance tax charges

In our February 2011 issue, we outlined a few basic details about the reduction in the Annual Allowance from £255,000 to £50,000, which came into effect from April 2011.

Since then, some new ‘Read as you need’ documents have been published on www.railwaypensions.co.uk, providing details of the changes. We recommend that you look at these documents if you think you may be affected by the changes to the Annual Allowance.

One aspect of the new legislation is that a ‘scheme pays’ facility is available for any RPS members who incur Annual Allowance tax charges of £2,000 or more as a result of this reduction.

This means the Annual Allowance tax charge could be met by the RPS if you request it, with a reduction in benefits from the RPS to reflect the tax charges being met. The details of the Trustee’s policy on how it will operate the ‘scheme pays’ facility for the RPS are covered in one of the new ‘Read as you need’ documents.

Briefly, it would mean reducing your additional voluntary contributions (AVCs) to cover the tax charge being met. Any tax charge which can’t be met by AVCs would be covered by a reduction in your RPS benefits to the necessary level.

How the State Pension Age is changing

Contact the Editor

Write to:
Editor of Review, RPMI, Room 39, Stooperdale Offices, Brinkburn Road, Darlington DL3 6EH
Email: review@rpmi.co.uk

DID YOU KNOW?

In 2011, the Railways Pension Scheme:

• Had 82,988 active members
• Received £700m in contributions
• Paid out £684m in pensions
• Paid out £129m in lump sums
• Paid out £22m in death benefits
• Managed net assets worth £17.7bn

The above figures were the most accurate available at the time of going to print.
Why are the calculations used in my last Annual Pension Estimate (APE) based on an old salary and not my current pay? Will this have any effect on my final pension benefits?

Your question is very timely as steps are currently being taken to produce future Annual Pension Estimates based on more up-to-date salary information.

Your APE provides details of the benefits you have earned to date as a Scheme member, and the potential benefits you can expect to receive at your Normal Retirement Age.

Currently, a snapshot of your salary is taken on April 1 every year, based on the salary details provided by your employer. This is due to be introduced before your next APE is issued in September 2012, and will help provide a more up-to-date estimate of your benefits.

Finally, it is very important to stress that your actual benefit entitlement when you retire is based on your final average pay over the 12 months prior to leaving work, and not on any previous estimates you may have received. These are simply intended as guidelines to show you how much you may expect to receive on retirement.

NOTE: There may be other elements of earnings included in your benefits calculation – known as restructuring premiums.

Did you notice the added extra on your current salary details provided by your employer?

Have you watched your APE video?

The video includes invaluable information about:

- How to find your pension’s current value;
- A forecast of your benefits when you retire;
- The importance of keeping your personal details up-to-date;
- Completing your nomination form;
- Details about BRASS (your AVCs).

Watch the video at http://goo.gl/VwGIV or, if you have a Smartphone, scan this QR code and you will be automatically transferred to it.

Did you notice the added extra on your current salary details provided by your employer?

The power of belonging….

Two retired members of the RPS share their views on pensions.

I would recommend being a member of the RPS because…

Peace of mind at old age – Dennis Bush (retired, 1994)

In your experience, why is it important to save for the future?

Well, you never know what’s round the corner and I can rely on my railways pension – George Hurkey (retired, 1992)

Important reminder: Applying for your benefits

You’ve worked long and hard to build up your nest egg but, as retirement draws closer, how do you go about ensuring you get quick and easy access to your benefits?

Here is a simple checklist to make the process as smooth as possible:

- Check with your employer or RPMI to find out if you are eligible to start taking your benefits. Factors may include age, length of service or benefits amount.
- Plan well in advance so you get your benefits when you want them.
- Around 12 weeks before benefits become payable, ask your employer for an estimate.
- Around eight weeks before, complete an ‘Application for benefits’ form with your chosen retirement options, and ask your employer to complete your salary information and authorise the form.
- About six weeks before retirement, your employer will send the form to RPMI.

The next step

RPMI processes your application to ensure that any lump sum is paid early in retirement, and your pension will normally be paid in the next available payroll after that date. You should receive a letter confirming these details prior to retirement.

Read more about retirement options in the extended version on the website.

Our Helpline is here to help with queries about specific benefits. However, if you have a more general question about the RPS, why not ask your Trustee Board Chairman, Derek Scott?

Derek is unable to provide you with financial advice (we recommend that you consult an independent financial adviser for that), but he is happy to use his wealth of pensions knowledge to answer general questions relating to the Scheme or pensions.

Email your questions or write to the editor (see contact details at the bottom of the facing page), marking your subject box/envelope ‘Review: Chairman’s Question Time’.

Changes to ‘transfers-in’

External ‘transfers-in’ (moving contributions from a previous company pension into your current section) are no longer being accepted by RPS, unless approved by your designated employer. This change of policy came into effect on 10 November 2011.

Transfers between sections of the RPS are not affected as they are covered by different arrangements.

Nominate online for peace of mind

As an active member of the RPS, a lump sum worth at least four times your final average pay may be payable to your dependants if you die.

The bad news is that over half of RPS active members have still not filled in their death benefit nomination form (known as a ‘FM39’). This lets the Trustee know who you’d like to nominate to receive lump-sum death benefits if you die.

The good news is that the form can now be completed online at www.pensionfriend.co.uk. There are no downloads, printouts or postage to worry about, and you don’t even have to leave the comfort of your favourite chair.

If preferred, you can still request a form by ringing the Helpline on 0800 234 3434. Alternatively, it can be downloaded from the Railway Pensions website at www.railwaypensions.co.uk to fill in, sign and return.

Should I change my current nomination form?

You might have already filled in a nomination form… but is it up-to-date? Circumstances change and can sometimes be a lot more complicated than you think. You might be in a new relationship, have new additions to the family or have gone through a bereavement.

Tracking down your beneficiaries can be time-consuming for RPMI, particularly if your Will hasn’t been updated or there are other claimants (such as creditors) on your Estate.

Simply fill in a new Nomination Form (online or paper copy) and send it back to us. Any new form you submit will automatically replace your old form, and could avoid unnecessary delays to payments.

It’s very important to note that, although the Trustee doesn’t have to follow your wishes, it will certainly consider them when looking at your personal circumstances at the time of your death. Even if your circumstances haven’t changed, the more current the form is, the more confident the Trustee will be that it reflects your wishes.

If you would like to find out how much your life assurance is worth, your Annual Pension Estimate is available on www.pensionfriend.co.uk.

A case study and important information for your beneficiaries is available in the extended version of this article at www.railwaypensions.co.uk.
Occupational pension scheme

An occupational pension scheme is sponsored by an employer to provide retirement benefits for its employees.

The RPS is an occupational pension scheme, split up into lots of separate sections, and is one of the largest in the UK. It provides defined benefits pensions for 166 companies in the railways industry, and includes nearly 83,000 active members.

Benefits for RPS active members include pensions based on their final average salary, tax relief on contributions, reduced National Insurance payments and life assurance cover. Usually, employers pay 60 per cent towards the pension and employees pay 40 per cent.

Pensions Committee

Employers in the RPS can choose to set up a Pensions Committee to manage certain duties on their behalf. These duties are delegated by the Trustee. Responsibilities may include approving incapacity benefits, deciding who receives dependant benefits if a member dies, and planning investment strategy.

Each committee is made up of an equal number of employers and members, with the chairman’s role alternating between the representatives each year. The Trustee keeps overall responsibility for the management of each committee.

RPS AVCs

The main in-house additional voluntary contribution (AVC) scheme for the RPS is called BRASS. You can pay into a Personal Retirement Account (or BRASS account) if you are already a contributing member of the Scheme.

HMRC has changed its guidance about the ‘carry forward’ rule for the Annual Allowance - but only for the three tax years before 6 April 2011.

The Annual Allowance is the most you can save tax-free towards all your pensions each year, and is currently set at £50,000.

In the future, any Annual Allowance that you have not used can be carried forward for up to three tax years and can be offset against any excess savings built up in those three years. Any remaining unused allowance can then be added to the current year’s Annual Allowance (see Example 1 below).

As you can see in the example, there is no unused Annual Allowance in 2014/15. This is because the unused Annual Allowance in 2011/12 was used to reduce the excess built up in 2012/13.

The same principle was originally applied to the ‘transitional’ years between 2008 to 2011, when the Annual Allowance was cut from £255,000 to £50,000. However, HMRC has confirmed that any excess in these years will not now be treated as being used up by subsequent years, as shown in Example 1, below.*

This example shows there is still £10,000 of unused Annual Allowance to carry forward from 2008/09 to 2011/12, despite the Pension Input Amount exceeding £50,000 in 2009/10.

In short, some members may have more Annual Allowance than first forecast – in such circumstances, any Annual Allowance illustrations received about unused allowance available in the 2011/12 year may have been lower than HMRC guidance now specifies.

HMRC has also confirmed that any unused Annual Allowance available under different circumstances are available in the ‘Read as you need’ section of the Railways Pension Scheme website at www.railwaypensions.co.uk.

Examples of the level of unused Annual Allowance which may be available under different circumstances are available in the Annual Allowance Guidance on HMRC’s website.

*For the purposes of the ‘carry forward’ rule, the Annual Allowance for 2008/09, 2009/10 and 2010/11 is deemed to be £50,000.

**By Jenifer Goodchild, Client Services Manager**