Puzzled By Pensions?

Pensions And Redundancy Guide 2024/2025

Guidance for Usdaw members

USDAW PENSIONS

Introduction

If you leave your pension scheme because of redundancy you will not lose the benefits you have built up. You will have a number of options depending on how long you have been a member of the scheme for and how old you are.

The options may differ depending on the type of pension scheme you joined and what is stated in the scheme rules.

Your company may have operated different types of pension schemes or there may be different sections that you could have joined. We would therefore recommend that you find out from your employer which type of scheme you are a member of and the options available to you.

This guide aims to help you ask the right questions in order to help you understand your pension options so that you can plan effectively for your retirement.

Paddy Lillis

Paddy Lillis
General Secretary

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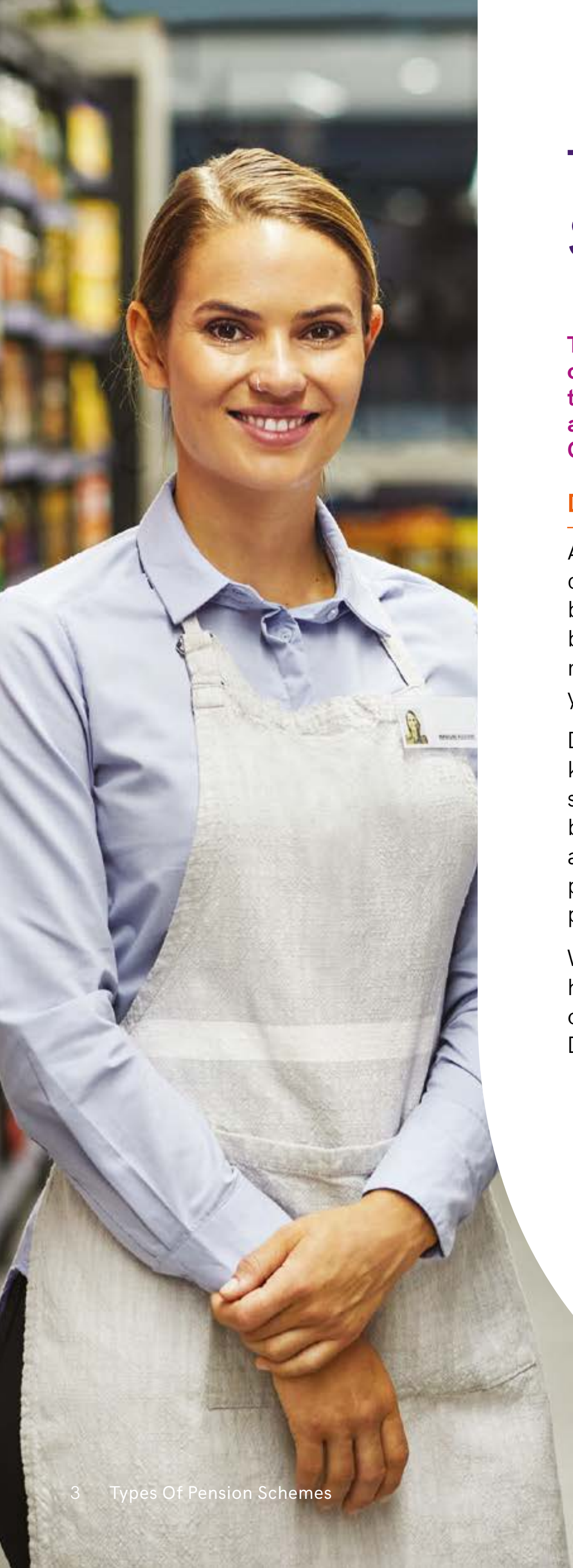


Types Of Pension Schemes

There are basically two types of occupational pension schemes in the UK at present. These are known as Defined Benefit (DB) and Defined Contribution (DC) schemes.

Defined Benefit Schemes

A Defined Benefit scheme is generally considered the best type to be in because your pension is calculated based on your salary and service, which makes it easier to predict how much your pension will be at retirement.

Defined Benefit schemes are also known as final salary or career average schemes and they often offer additional benefits for members, for instance attaching your spouse's/a spouse's pensions, life cover and ill health pension(s).

Whilst Defined Benefit schemes have many advantages, a number of companies have now closed their Defined Benefit schemes.

Defined Contribution Schemes

These schemes are so called because it is the level of contribution to the pension scheme that is defined in the scheme's rules.

Defined Contribution schemes are also known as money purchase schemes.

Contributions paid by you and your employer go into your own individual pension pot.

You must choose where your contributions are invested when you join and it is up to you to periodically monitor your investments.

There is no calculation involving your salary or service when you retire from a Defined Contribution scheme. The amount of income you will receive will depend on the size of your pension pot at retirement.

Hybrid Schemes

A Hybrid scheme is a Defined Benefit scheme, that includes elements of money purchase pension design.

One example of a Hybrid scheme is a Cash Balance scheme.

A Cash Balance scheme promises to provide you with a lump sum at retirement which is worth a certain percentage of your pay for every year that you have been a member of the scheme.

For example your company may guarantee they will pay 16% of your pay into your own pension pot for every year that you are a member of the scheme.

During successive years the money building up in your pension pot is usually increased each year in line with inflation.

Defined Benefit Scheme (DB)

If you are contributing to a Defined Benefit scheme at the time of your redundancy, your entitlement will depend on how long you have been in the scheme for.

Options on Leaving if You Have Completed Less Than Two Years' Service

Refund

If you are a member of a Defined Benefit scheme and have contributed for less than two years at the point of redundancy, you will generally be eligible to receive a refund of your own contributions less tax.

The refund will not include any contributions made by your employer.

If you have paid your contributions via a salary sacrifice arrangement this option may not always be available to you. In this situation you may be given alternative options (see options opposite for members whose membership periods are more than two years).

In reality very few employers have allowed new workers to join a Defined Benefit scheme in recent years so this option will probably no longer apply to many people.

Options on Leaving if You Have Completed More Than Two Years' Service

If your membership of a Defined Benefit scheme is greater than two years, the following options will apply to you:

Keeping Your Benefits in the Defined Benefit Scheme

The pension rights you have built up so far can remain in the Defined Benefit scheme and will be paid when you reach retirement age.

No further contributions can be paid by you into the Defined Benefit scheme once you have left the company.

The Defined Benefit scheme administrator will calculate the pension you are entitled to at your date of redundancy/leaving and will provide you with a pension closing statement (also known as a deferred or paid-up benefit statement), which will confirm details of your pension entitlement, within two months of you leaving the company.

No further benefit statements will be issued once you have left a Defined Benefit scheme so it is very important that you retain this document in a safe place as it may be required as proof of your entitlement when you reach retirement age.

There is no statutory obligation for a company to provide an annual pension statement from a Defined Benefit scheme once you have left, however, the pension you are entitled to at your date of leaving will be increased each year until you retire.

Different parts of your pension may be increased by different amounts depending on the scheme rules; this is generally in line with inflation.

Transfer

You will also have the option of transferring your benefits to another pension scheme (this could be a workplace scheme or a personal pension).

Despite there being some advantages to transferring your pension, you could be giving up some important guaranteed benefits. This is particularly relevant if you are transferring from a Defined Benefit scheme to a Defined Contribution scheme, which is not always a suitable course of action.

Pension transfers can be very complex and you may want to take advice from an independent financial adviser in order to check whether this is the right thing for you.

In April 2015, theGovernment introduced legislation which states that you must seek independent financial advice if you are looking to transfer your benefits from a Defined Benefit scheme and the value of your benefits is over £30,000.

It will be your responsibility to seek and pay for this financial advice.

Retirement

You may be able to start drawing your pension following redundancy if you have reached the age of 55. Retirement may be subject to agreement of your employer and/or the scheme trustees.

This is known as your Normal Minimum Pension Age (NMPA), which will increase to age 57 from 2028 unless you have a protected retirement age in your pension scheme.

If you want to consider taking early retirement, you should bear in mind that you are likely to receive a smaller pension than if you work to your normal retirement age, as your pension is likely to be paid to you for longer.

If you want to consider this option we would recommend you request a quotation so that you can see what you will be entitled to.

If you would like further information about this option contact your company HR or pension department.

Death Benefits

If you are made redundant and you must leave your company, any lump sum death in service benefit you were eligible to receive whilst being employed will generally cease.

This is something you may wish to consider replacing once you have left the company.

If you were contributing to a Defined Benefit scheme and you die before the payment of your pension has commenced, a pension will generally be payable to your spouse or civil partner and, in some instances, children's pensions may also be available.

The amount your spouse/civil partner is entitled to will depend on the specific scheme rules, for example in some schemes your spouse/civil partner will be entitled to an amount equal to half of your pension.

Their pension will be based on your own pension, calculated at your date of leaving, plus any increases which have been added up to your date of death.

It is important that you understand what your spouse/civil partner will be entitled to and this is something we would recommend you find out from the company's pension scheme administrator.

All scheme rules are different, for instance, some schemes will not permit the payment of a dependant's pension unless you were legally married at the point of death.

Some scheme rules have specific restrictions, for instance, they might state that if your spouse/civil partner is more than 10 years younger than you the pension will be reduced accordingly. Children's pensions may be restricted to a certain number of children and they are generally only paid until they have finished full-time education.

These are questions you may want to ask your pension department if you are leaving the company.

Finally, make sure that you have completed a Nomination Form so that the trustees of the scheme can settle any death benefits that are due in accordance with your wishes. (Please see page 22 of this guide for more information.)

Defined Contribution Scheme (DC)

If you are contributing to a Defined Contribution scheme at the time of your redundancy, your entitlement will depend on how long you have been in the scheme.

Options on Leaving if You Have Completed Less Than 30 days' Service

Refund

If you are a member of a Defined Contribution scheme you only have the option of taking a refund if you've been a member for less than 30 days.

You will generally be eligible to receive a refund of your own contributions less tax. The refund will not include any contributions made by your employer.

Salary Sacrifice

If you have been a member of a Defined Contribution scheme for less than 30 days and you also participated in a salary sacrifice scheme, in order to make National Insurance savings, you may not be eligible to receive a refund.

You will need to check with the pension scheme administrator if a refund is available, but if not, your contributions and your employer's contributions will remain in your pension pot until you are ready to access this.

Options on Leaving if You Have Completed More Than 30 Days' Service

Keeping Your Benefits in the Defined Contribution Scheme

You will have the option of leaving your pension pot invested in the Defined Contribution scheme, until you are ready to access your pension pot.

Certain types of Defined Contribution schemes will allow you to continue to pay contributions even if you leave the company through redundancy. If this is something you would like to consider, you will need to contact the pension scheme administrator to see if this is possible and to establish what steps you will need to take.

Once you have left the company and if you are no longer contributing to the scheme, the scheme administrator will provide you with a leaver statement which will show you the value of your pension pot.

Between the date you leave the scheme and retirement your pension pot will continue to be invested.

With a Defined Contribution pension the provider is obliged to send you an annual pension statement even after you have stopped contributing. It is your responsibility to contact the pension provider if your personal circumstances change, so if you move address make sure that you let the pension provider know the new details.

Transfer

You will also have the option of transferring your pension pot to another pension scheme (this could be a workplace scheme or a personal pension).

Transfers between Defined Contribution schemes are usually straightforward. This is not without risk though.

As mentioned previously, pension transfers can be both complex and risky. There are many things to consider and you may want to take advice from an independent financial adviser in order to check whether this is the right thing for you.

Retirement

You can choose to access your pension pot and use it to give yourself an income at any time from age 55.

You can do this even if the retirement age for your scheme is higher than this and if your State Pension Age is higher.

Since April 2015, if you have reached the age of 55, you now have much more flexibility and choice as to what you can do with your pension pot.

Please be aware, however, that the current Normal Minimum Pension Age of 55 is set to increase to age 57 from 2028 unless you have a protected retirement age in your pension scheme.

You now have the flexibility to:

- take all of your pension pot at once as a single lump sum. A quarter (25%) of your pension pot can be taken tax free, the rest must be taxed; or
- take your pension pot as a number of lump sums. You can leave your money in your pension pot and take lump sums from it as and when you need, until either your money runs out or until you choose another option.

You can decide when and how much to take out. Any money left in your pot remains invested, which may allow your pension pot to grow – but it could go down in value as well.

Each time you take a lump sum, a quarter of it is tax free and the rest will be taxed; or

- have a flexible retirement income. A quarter of your pension pot can be taken tax free. The remainder of your pot can stay invested and you can arrange for any subsequent withdrawals to be taken on a flexible basis – these subsequent withdrawals will be subject to taxation.

Leaving part or all of your pension pot invested can give your pension pot a chance to grow, but it could go down in value too; or

- have a regular guaranteed income for life. You can take a quarter of your pension pot tax free as a cash lump sum and the remaining funds in your pot can be used to provide you with a regular income for the rest of your lifetime (this process is known as purchasing an annuity).

You can shop around to see who will give you the best income at retirement and you can arrange for your income to increase each year or perhaps build in a spouse's pension should you die.

Any additional options must be chosen at the point you convert your pension pot to a regular income and generally the more options you build in, the lower your starting income will be.

Key Points

You will need to check the range of options from your Defined Contribution pension scheme with the scheme administrator as all these options may not be available.

If the full range of options is not available you may need to transfer your pension pot into an alternative personal pension in order to meet your requirements (see section on Independent Financial Advice on page 24).

It is important to understand that there are both advantages and disadvantages whichever option you choose.

You need to carefully consider your own circumstances as everyone will be different.

The Government does, however, offer a free and impartial guidance service to anyone over the age of 50.

This is known as the Pension Wise service and can be accessed via the MoneyHelper website.

If you are considering accessing your pension we would strongly suggest that you take up this offer of free guidance.

How to Get Help

You can get further information and guidance from:

- the MoneyHelper website: **www.moneyhelper.org.uk**; or
- go to the "Pensions & retirement" tab and this will direct you to the Pension Wise service. You can use an online booking form to set up an appointment or you can speak to someone on **0800 011 3797**.
- or if you prefer you can contact a member of the Usdaw Pensions Section on **0161 224 2804** or email your enquiry to: **pensions@usdaw.org.uk**

Death Benefits

If you are made redundant from your company, any lump sum death in service benefit you were eligible to receive whilst being employed will generally cease.

This is something you may wish to consider replacing once you have left the company.

If you leave and then die before the payment of your pension has commenced, the value of your pension pot will be used to provide a lump sum benefit to any of your nominated beneficiaries (tax free).

Previous Pension Benefits

If you are made redundant and you had a previous entitlement in either a Defined Benefit or a Defined Contribution scheme (which you are no longer contributing to – possibly because the scheme closed) you will not lose your entitlement to those pension benefits.

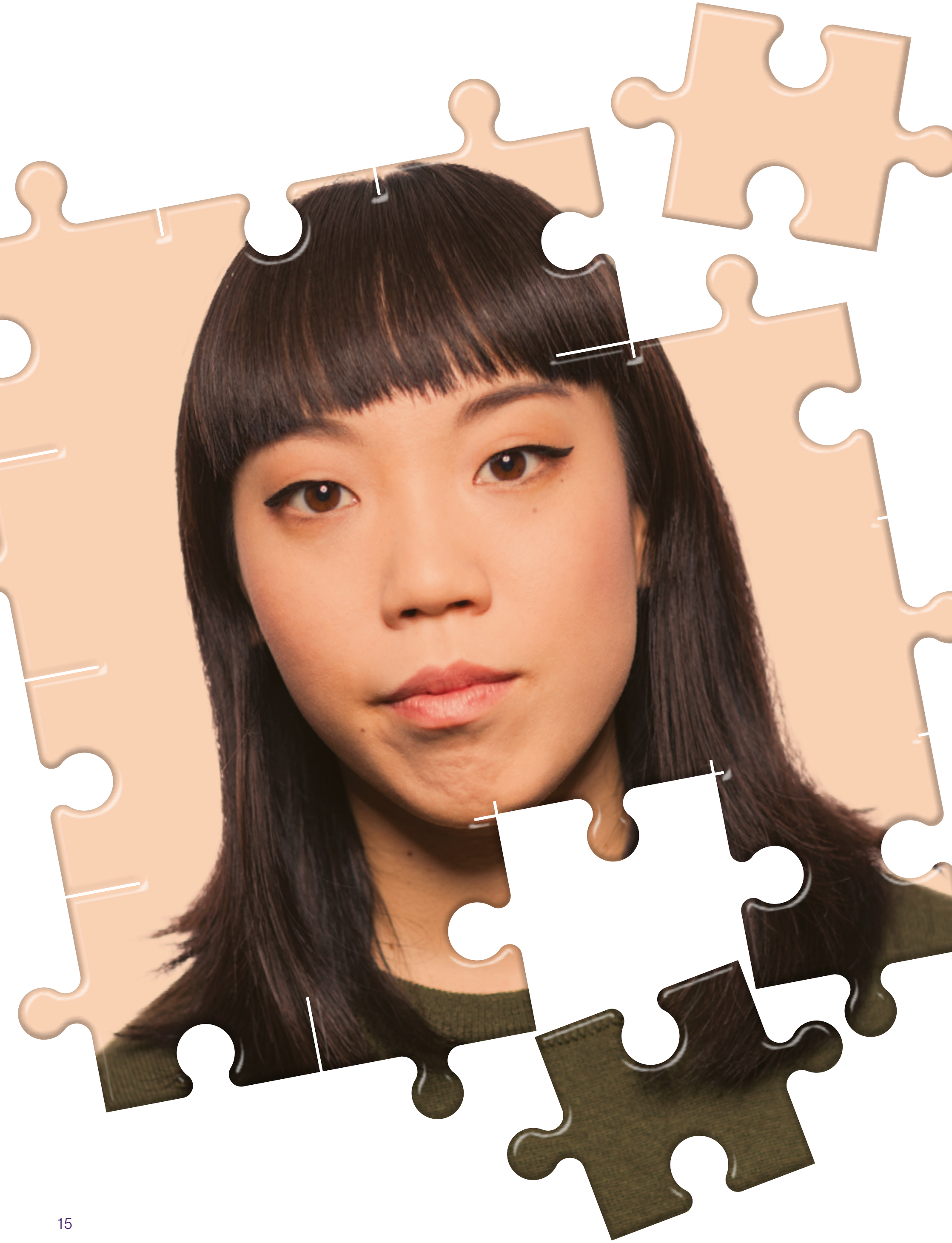
You will have received a closing statement or a paid-up/deferred pension statement when you stopped contributing to any previous pension arrangements and this will set out your pension entitlement as of the date you stopped contributing.

It is important that you retain any pension documents you have in a safe place as they may be required as proof of your entitlement when you reach retirement age.

Once you have left a pension scheme it is important that you advise the pension scheme administrator if there are any changes to your personal situation, particularly if you move address. It is **YOUR** responsibility to submit this information.

If a pension scheme administrator loses touch with you, they may not be in a position to let you know about any future changes and they may not be able to track you down once your retirement benefits are due for payment.

Once you have left a pension scheme it is important that you advise the pension scheme administrator if there are any changes to your personal situation, particularly if you move address. It is YOUR responsibility to submit this information.



Redundancy Payments And Tax

The company may be making a redundancy payment to you to compensate for ending your employment.

The first £30,000 of any redundancy payment is free of tax. (see table on page 18).

Saving Tax via a Pension

If you are a member of a Defined Benefit or a Defined Contribution Pension scheme and you are going to receive a redundancy payment of more than £30,000, then you may be able to avoid paying tax on the excess by asking your employer to pay it into your pension. Or, if your employer agrees, you could give up some of your redundancy payment as an employer contribution to your pension. This is known as a 'redundancy sacrifice'.

If you are considering making a payment from your redundancy settlement into your pension there are some things you need to be aware of:

- In a single tax year workers are only allowed to contribute up to 100% of what they earn to their pension tax free (so if you earn less than £3,600 a year, then the most you will be able to pay into a pension is £2,880 and a further £720 will be added by the Government); the payment into your pension must not exceed the Annual Allowance, which is currently £60,000 (2024/25) (the Annual Allowance is the amount of pension benefits you can build up with tax relief in a single tax year);
- If you exceed the Annual Allowance, payments above this are subject to taxation;
- If you are over 55 and have taken more than the tax-free lump sum from a Defined Contribution (DC) pot and you wish to put some of your redundancy money into your current DC pot, you may be restricted to the Money Purchase Annual Allowance (MPAA). The MPAA is much lower than the Annual Allowance and currently stands at £10,000 a year (2024/25).

You will need to obtain the company's agreement in advance of you leaving if you want to consider 'redundancy sacrifice' and the excess redundancy money will need to be paid directly into your existing Additional Voluntary Contribution plan if you are a Defined Benefit member or your individual pension pot if you are a Defined Contribution member.

If you are a member of a Defined Benefit or a Defined Contribution pension scheme and you are going to receive a redundancy payment of more than £30,000, then you may be able to avoid paying tax on the excess by asking your employer to pay it into your pension.

Payment	Subject to Tax?	Subject to National Insurance?
Redundancy payment	Only on the amount above £30,000	Only on the amount above £30,000*
Unpaid wages	Yes	Yes
Bonus payment	Yes	Yes
Occupational pension	Yes	Yes

*From April 2019 any payments over £30,000 will be subject to National Insurance (NI) contributions from the employer but not the employee.

State Pensions

Are you aware that the State Pension was changed from April 2016?

Now there is one single-tier pension rather than a Basic State Pension and a State Second Pension (formerly known as SERPS or Additional State Pension).

State Pension Reforms

The State Pension changed on 6 April 2016.

The State Pension is a regular payment from the Government which you can claim when you reach your State Pension Age.

Not everyone has the same State Pension Age and not everyone will receive the same amount of State Pension.

Your State Pension Age depends on when you were born and how much you receive will depend on your National Insurance record.

For an introduction to the new State Pension please access the link: **www.usdaw.org.uk/StatePensionChanges**

To find out your State Pension Age go to: **www.gov.uk/state-pension-age**

State Pension Ages are increasing for men and women – do you know what your State Pension Age is? Do you know what amount of State Pension you will be entitled to?

Many people are unaware of the State Pension changes, what their State Pension will be and at what age they can claim it, however, you can ask for details by completing a BR19 form. To complete this go to: **www.gov.uk/check-state-pension** and search for 'State Pension Statement', or you can now obtain a forecast online. You can also phone the Future Pension Centre on **0800 731 0175**. Full details are available in the pensions section of the Usdaw website.

If you have access to a desktop computer, laptop or mobile device, log on to: **www.usdaw.org.uk/pensions** to find out more, or call the Usdaw Pensions Section on **0161 224 2804** to request a copy of our *State Pension Guide*.

Useful Information

Nomination Form

As mentioned earlier in this guide, in the event of your death before retirement, you can arrange for any death benefits to be paid to one or more individuals or organisations (your 'beneficiaries').

It is important that you complete a Nomination Form as this acts as guidance for the scheme trustees so that they can settle any death benefits that are due in accordance with your wishes.

Other benefits of completing a Nomination Form are that any payments due:

- can be made directly to your chosen beneficiary, without forming part of your estate;
- should not be subject to inheritance tax; and
- will be made immediately, without waiting for Grant of Probate or Letters of Administration to be taken out.

Do you have any pensions with previous employers or that you may have taken out yourself in the past and you have lost track of them? It has been reported that up to three billion pounds may be sitting in individual pension pots and workplace pension schemes which have not yet been claimed.

Tracking Down a Lost Pension

It has been reported that up to three billion pounds may be sitting in individual pension pots and workplace pension schemes which have not yet been claimed.

Do you have any pensions with previous employers or that you may have taken out yourself in the past and you have lost track of them?

If you are unable to get hold of the pension provider or your former employer and you know you have an entitlement, then the Department for Work and Pensions has a free Pension Tracing Service that may be able to put you back in touch.

Phone the Pension Tracing Service on **0800 731 0193** or search for 'Pension Tracing Service' at **www.gov.uk/find-pension-contact-details** to fill in an online application form.

If the tracing service can't find your pension the MoneyHelper Service may be able to give you more help or advice. They can be contacted at:

Holborn Centre
120 Holborn
London EC1N 2TD

0800 011 3797

pensions.enquiries@moneyhelper.org.uk

www.moneyhelper.org.uk

Or contact the Usdaw Pensions Section on **0161 224 2804** for further information.

Usdaw's Free Will Service

Whilst you are thinking about your finances you should remember that as a member of Usdaw you are entitled to a free Will service for yourself and your partner.

If you have not already accessed this important service, why put this off?

A Will is an important document. It sets out who you wish to inherit your estate. If you do not make a Will, the law dictates who will inherit your estate and this may not be what you would wish.

It is important to ensure your Will is prepared by a skilled professional who can give you accurate and informed advice.

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It is important to ensure your Will is prepared by a skilled professional who can give you accurate and informed advice.

In your Will you can:

- Leave your estate to anyone you wish. This will normally be family members with a named substitute should they die before you.
- Leave gifts to any individual or to a charity.
- Choose your executors to administer your estate.
- Appoint guardians for your infant children to look after their interests until the children reach 18.
- In appropriate cases, set up a trust which will allow infant children access to funds before they reach 18.

Use Usdaw's free Will writing service to make sure your wishes are followed and to give you peace of mind.

Independent Financial Advice

Financial advice is not cheap but there are times when it is strongly recommended. For example:

- when you are approaching retirement and want to get the best deal, or access to your full range of options;
- when you want to choose a personal pension to save for retirement; and
- if you are getting a divorce and need to choose a personal pension to transfer your share of your ex-spouse's/partner's pension into.

There are a number of ways an adviser can be paid for providing financial advice:

- receiving a set fee; or
- charging an hourly rate; or
- charging a percentage of the money your adviser is transferring/investing; or
- receiving commissions from a product (but not from pensions or investment products).

Set fees can vary a lot from adviser to adviser but even so they may work out cheaper than commissions, as commissions are deducted from a product via built-in additional charges.

Where advice is being given you would have to agree a fee with an adviser. This applies to investment and pension arrangements as commissions are no longer able to be taken from such products in these circumstances. For non-investment or non-pension arrangements, commission can still be paid from a product to cover the cost of the advice.

As a member of Usdaw you are entitled to a no obligation complimentary consultation with Quilter Financial Advisers (formerly Lighthouse Financial), Usdaw's chosen provider of financial advice.

Their professional advisers have the knowledge and expertise to provide you with practical advice that is easy to understand and can improve your financial situation.

To find out more call **08000 85 85 90** or visit: **www.quilter.com/usdaw**

Pension Scammers

If it sounds 'too good to be true' ...it often is!

Pension Scammers are continually changing direction, which is why so many unsuspecting individuals from all walks of life have been persuaded to part with their hard earned cash.

There are however, six common tactics used by the scammers; make sure you know them.

- **Contact out of the blue**
  Although pension cold calling has been banned in the UK, scammers are finding ways to get around this, they may therefore still contact you by phone and text. They have also branched out by setting up slick looking websites and are now using social media as a means to target you.
- **Time constraints**
  Scammers will put you under pressure to sign up straight away. They will make you feel as though the deal on offer is about to end or they might entice you by saying there is a bonus or discount if you sign up within a limited timeframe.
- **Fake reviews**
  Scammers will often post fake reviews or testimonials about their services so that they appear more trustworthy.
- **Unrealistic returns**
  A consistent and popular ploy of scammers has been to promise you high guaranteed returns on your investments, sometimes as high as 8%. They will often compare this to the returns you might be receiving on your existing pension pots and will try to convince you it is better and safer to transfer your money. *Remember the motto, if it sounds too good to be true ...it often is*.
- **False Authority**
  Scammers will often provide you with communications which will look official but often they will display fake regulatory credentials.
- **Flattery**
  The oldest one in the book! Scammers will often attempt to be over friendly to put you at ease. They deliberately talk in your language and tell you what you want to hear. Scammers are indiscriminate who they target. They only have one message – they want your money and they will stop at nothing to get it.

Who is Most at Risk from a Scam? Everyone

The UK Pension Regulators, Financial Conduct Authority (FCA) and the Pensions Regulator (TPR) have joined forces and produced four steps to help protect you.

1. Reject any unexpected pension offers you receive by phone, online or on social media;
2. Check who you are dealing with before you change any of your pension arrangements. Check the FCA online register which lists all independent regulated advisers at **www.fca.org.uk** or ring the FCA contact centre on **0800 111 6768**.
3. Never be rushed into making a decision;
4. Consider getting impartial information or advice from MoneyHelper on **0800 011 3797**.

The important thing to remember is that once you have parted with your money to a scammer it is more than likely you will never see this again...**when it's gone ...it's gone!**

Usdaw Says be Smart, be Sure, be Safe!

Scammers are increasingly persuading people to transfer their money into to Self Invested Pension Plans (SIPPs) and International SIPPs. These are generally much more suited to experienced investors. They can be high risk and typically have higher charging structures.

If you are not familiar with this type of investment and an adviser encourages you to invest in 'unique' opportunities such as storage units or investment in overseas properties, alarm bells should start to ring. In more recent times scammers have encouraged their victims to "do the right thing" and invest in 'environmentally friendly', or ethical opportunities like renewable energy bonds, biofuels and forestry. These types of investment are often classed as unregulated investments so if you suffer any losses the normal regulations and protections do not apply.

Remember not every adviser you speak to is out to rip you off but there is no shame in taking a few minutes to check out who you are dealing with. If you are an Usdaw member and in any doubt call us on **0161 224 2804** or email us at: **pensions@usdaw.org.uk**

More Information

Do You Have A Question About Your Pension?

Submit your question online at:
www.usdaw.org.uk/PensionsQ

Scan the QR code to ask a question.

Usdaw Nationwide

Wherever you work, an Usdaw rep or official (Area Organiser) is not far away. For further information or assistance, contact your Usdaw rep or local Usdaw office. Alternatively you can phone our Freephone Helpline **0800 030 80 30** to connect you to your regional office or visit our website: **www.usdaw.org.uk**
You can also write to the Union's Head Office. Just write **FREEPOST USDAW** on the envelope and put it in the post.

Join Usdaw

You can join online at:
www.usdaw.org.uk/join

Scan the QR code to join today.

What Happens Next

Once we process your application, you will receive a membership card with our Helpline telephone number and a New Member's Pack giving details of all the benefits and professional services available to you.

Lft 440 April 2024
Stock photography, posed by models

USDAW