UCU PENSIONS news

No 2 ● September 2015

Contents:

1. UCU Campaign on Valuation of USS

UCU is committed to campaigning to have the USS Board adopt different technical provisions to those of the last valuation. A briefing for USS Pension officers has been arranged for 25 September and HE branches have been sent a briefing with resources to assist them persuade their employer to engage with this.

Please make sure that over the autumn terms you report your efforts and outcomes to pensions@ucu.org.uk.

USS scheme change:

Following the consultation, there have been a few minor alterations to the scheme changes to be introduced next year:

- Members who are promoted by the
- same employer will be able to remain with the scheme they are an active member of rather than having to join USS
- Members with contracts for AVC's will be able to continue these contracts. But past added years will be tied to the final average salary on 31 March 2016. Members in money purchase AVC's fund up to 31 March 2016 will be able to use that part of the fund to purchase additional service in their old pension scheme
- Employers will pay the management costs in the defined contribution scheme up to the cost of the default scheme. Members opting for more expensive funds will pay the cost above this amount.
- The defined contribution section will not come into being on 1 April but will be available by 1 October 2016. USS is to provide members with information on the fund choices in advance of this to enable decisions.

The money purchase AVC's, provided by Prudential, are also contract based so we would expect that those people who are currently paying into this product will be able to continue with this in the future.

2. Teachers Pensions

The new Teachers Pension scheme began in April this year. Every member who is not in the protected or transitional groups will have moved into the new career average scheme at this time. Those members who are in the transitional group will continue to move into the career average scheme until 2022 when the last people will migrate over.

Flexibilities in Teachers Pensions

The two flexibilities in the new TPS are the opportunity to buy out the actuarial reduction over the age of sixty five years and the ability to pay for a higher accrual rate to be applied to your pension in any particular year.

The choice to buy out the actuarial reduction over the age of sixty five is a one-off choice you are given when you either join or are transitioned into the career average scheme. It is an option where, under the new scheme, your normal pension age (i.e. the age at which you can take an unreduced pension) has increased to sixty six, sixty seven or sixty eight. By paying for the buyout it is possible to take your pension at sixty five and have no actuarial reduction applied to your career average pension.

The cost of this is variable and is not actually fixed. It varies depending upon your age and how many years of actuarial reduction is being bought out. Though this is subject to further uncertainty as the Government retains the right to change the cost of this to members based upon future valuations of the pension scheme and the associated costs. The agreed higher percentage of your salary would have to be paid for the rest of your working life if you wished for the buy out to be applied in full.

The other flexibility is that of being able to purchase enhanced accrual within the career average scheme. The standard accrual rate of the new career average scheme is 1/57th. You have option to purchase the following range of enhanced accrual rates: 1/55th, 1/50th or 1/45th.

Now, unlike the actuarial reduction buy-out, this is not a one off choice. You have the opportunity to decide to purchase an enhanced accrual rate every year, and the choice will only apply for the one year. Therefore the higher accrual rate will only apply to earnings during the particular year in which you are purchasing the enhanced accrual. The cost of this will vary depending upon your age and the accrual rate you are purchasing. You will be paying from 1st April one year till 31 March the following year and the accrual rate will be based upon your earnings during that period. You will need to have made an election to do so by the end of the preceding January you wish the enhanced accrual to begin in the April.

Prudential AVCs and new flexibilities

UCU can confirm that following the Pensions Freedom Act which brought in changes from April 2015, Prudential will be providing five options which will be available when you are considering what to do with your AVC.

You are still able to follow the two options which were already in place.

These are to purchase an annuity with the total value of the AVC fund, or to withdraw 25% of the value of the AVC as a tax free lump sum and purchase an annuity with the remaining money.

Since April this year the other options are as follows:

Firstly it is possible to withdraw the whole value of the AVC as a one off lump sum. If you chose to do this you will receive 25% tax free and you are then liable for tax at your marginal rate on the remainder. This has the possibility that you would pay 40% tax on a significant part of you money.

Secondly you can opt to transfer the AVC fund into a pension drawdown product. This will enable you to leave the fund invested and draw down an income from the investments. This is currently an expensive option as both Prudential, as the provider of the AVC, and the recipient financial service provider whoever they will be, will have associated costs with this option. The Government are currently discussing capping the costs at 2.5% but have not made explicit whether this is per provider so that the costs could still be 5%. You will also have on-going management charges to pay linked to the drawdown product.

Thirdly Prudential will allow the facility of being able to take lump sums out of the AVC whilst still leaving the fund invested but without the associated costs of a drawdown facility. This means that each time you take a lump sum out of the AVC you will receive 25% tax free and then pay your marginal tax rate on the remainder. This means that you should be able to minimise your position with regard to paying tax.

State Pension

The age at which it is possible to claim State Pension has been a moveable feast over the last few years, particularly if you are female.

An equally significant change is being made to the pension itself from April 2016.Currently to qualify for a full State Pension you need to have paid, or to have received credits for, National Insurance for at least thirty years. This would provide you with a State Pension of £115.95 per week.

The new State Pension, which you will claim if you reach State Pension age on or after 6 April 2016, will be no less than £151.25 per week. Before you celebrate by planning to buy the champagne on the basis of the Government's unsuspected largesse there are two significant drawbacks to be overcome.

To begin with the minimum number of years National Insurance contributions required to qualify for a full State Pension will be increased by 16% to thirty five years, and then is accompanied by the requirement that you must not have been contracted out of the second state pension.

There is also to be a minimum of 10 years earned or credited to be able to receive any state pension previously there was no qualifying period.

Because all the public sector pension schemes have been contracted out this means that even if you have paid into National Insurance for more than thirty five years, but have been a member of an occupational pension scheme which has contracted out, you will not be entitled to the full amount of the new State Pension. So the longer time you have spent in a non-contracted out pension scheme will lead to a higher State Pension compared to those who have always been in contracted out pension schemes.

The Government will be applying a complex formula to work out what everyone will be entitled to receive as State Pension, but it is clear that they will be paying out significantly less than the headline figure would suggest for many years to come.

Indeed even as the Government trumpeted the fact that this was a significant improvement for pensioners, independent analysts have estimated that only around 30% of pensioners will benefit from this change, which means that the vast majority will be worse off. This is not just because of the contracting out issue, but because those people who had built up a significant amount of S2P (State Second Pension) will not be receiving the full amount they would have previously been entitled to on attaining the State Pension Age.

We will probably return to this subject in later newsletters.

Post-92 Members of USS Important Notice

UCU members in Post-92 Universities who have remained in the USS will be interested to read a report, carried out by First Actuarial, comparing the benefits provided by USS to those provided by Teachers Pensions. Please see the all branch mailing of 11 September 2015.

UCU Pensions Courses

The next scheduled UCU Pensions Course is due to be held in London, at Carlow Street, on 10 and 11 February 2016. If you would like to attend this course please begin to plan for this now. There will be further courses held later in 2016 which will be based in Leeds and Birmingham during April and July respectively.

In the meantime if you wish to discuss pensions' matters please contact the UCU pensions' team at:

pensions@ucu.org.uk.

Contact **UCU Pensions Department**
The contact person is Geraldine Egan: (e) pensions@ucu.org.uk
(t) 0121 634 73878