

Covid 19 pensions update – Defined Contribution (“DC”) pension schemes

As you may be aware, since the outbreak of COVID-19, there has been a significant increase in market volatility, including some sharp reductions in the value of company shares and other investments around the world. Unfortunately, this is something that is having an impact on the value of pension members’ DC pension savings, such as those held in LifeSight.

Regulators are urging savers to keep calm and not rush to make any decisions about their pension in response to the COVID-19 pandemic.

The Pensions Regulator (TPR) The Financial Conduct Authority (FCA), supported by the Money and Pensions Service (MaPS), say fears over the impact of the pandemic on markets and personal finances may make savers more vulnerable to scams or making a decision that could damage their long-term interests.

The Pensions Regulator has said:

We all urge savers worried about their retirement savings to do four things:

1. Visit the [Pensions Advisory Service website](#) for guidance on how COVID-19 may have impacted your pensions.
2. If you are aged 55 or over and considering drawing your pension, you can book a Pension Wise guidance session to fully understand your options.
3. Use a financial adviser to help you make the best decision for your own personal circumstances. Make sure the firm you are dealing with is FCA- authorised, and they are permitted to provide pension advice. You can check the firm you are dealing with is authorised by visiting the [FCA Register](#).
4. Learn how to protect yourself from pensions scams by visiting the [ScamSmart website](#).

You can read more about this on the Pension Regulator’s news article here: <https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2020-press-releases/covid-19-savers-stay-calm-and-dont-rush-financial-decisions>

We have included some Q&As below to help you better understand, or find out more about your DC pension savings.

Q. Where can I find out the latest information on my pension?

A. Please log in at <https://epa.towerswatson.com/accounts/lifesight/>

Q. My DC pot has dropped in value. I am worried about that. What should I do?

A. Firstly, please read the Pension Regulator's guidance copied at the start of his article.

Pension saving investment options are designed to focus on long-term targets like retirement and short-term fluctuations in higher risk investments such as equities may occur over this period. The Lifecycle strategies available in LifeSight, such as the default Low Risk Drawdown strategy, are designed to manage exposure to equity market risk by automatically de-risking your investments as you approach your chosen retirement age.

LifeSight's Low Risk Drawdown default strategy is set up to target income drawdown and starts to gradually de-risk as you get closer to retirement, such that at your selected retirement age your LifeSight account will consist of: 40% in the LifeSight Diversified fund, 20% in the LifeSight Bonds fund and 40% in LifeSight Cash fund.

Income drawdown could be expected to be used over many decades to fund life after work so doesn't solely switch to cash although that option is there for people to take up as suits their personal investment preferences.

If you have selected your own investment choices, you should always keep your selection under regular review.

Q. Should I be worried about Pensions scams?

A. Unfortunately, yes. Pensions scams are something you should always be wary of when looking to move your investments, and even more so now as scammers look to take advantage of these uncertain times. Please see the Pension regulator's advice and learn how to protect yourself from pensions scams by visiting the [ScamSmart website](#).

Q. I am about to take my pension benefits but they have reduced in value. Do I have to take them?

A. No, you can choose when you wish to take your pension benefits, and you don't have to take it all in one go. There are many options you can choose from when taking your pension. Please see the Pension Regulator's guidance, copied above and visit the LifeSight website where you can find more about your options.

There are tax considerations when choosing to take your pension, summarised here:

- a. If you decide to take up to 25% of your pot as tax free cash, which is what lots of people do, that first 25% is completely tax free. If you decided to take the rest of the pot as cash too then all of the rest of it would be taxable at your highest marginal rate (either 20%, 40% or 45%) which could result in a big income tax bill.

- b. If you decide to take income drawdown, you can either take 25% tax free cash and then each drawdown that you take will be taxable at your highest marginal rate when you draw on the money. If you decide not to take the 25% tax free cash up front then, instead, a quarter of each drawdown would be free of tax e.g. if you draw £100 only £75 would be taxable at your highest marginal rate.
- c. If you decide to take a pension payable for life, each pension payment would be taxed at your highest marginal rate.

Q. Can I change my investments?

A. You can change your investments whenever you want but think carefully to make sure that you are making the right choice for you. Please see the Pension Regulator's guidance, copied above and visit the LifeSight website where there is further information and educational tools to help you make investment choices.

Q. How can I switch my investments within my LifeSight Account?

A. You can switch your investment within your LifeSight Account online via the 'My Investments' tab. You can do this at any time, through any device.

Q. How often can I change my fund choices and will I have to pay if I decide to change them?

A. You can change your fund choices whenever you want to and you could decide to just change where your future contributions will be invested or you could decide to change how your existing pot is invested or you could adjust them all if you want to. You can make these changes on LifeSight and will not have to pay any administration costs to make the changes

Q. Where can I see the performance of the LifeSight Funds?

A. Regular fund performance information is available to LifeSight members by logging in at any time to their personal online account.

Q. Where can I find more information on the LifeSight Funds?

A. You can access the fund factsheets for each of the investment options available in LifeSight by logging in to your personal online account.

Q. How long would it take for an investment switch to take place?

A. If an investment switch is requested online prior to 7am, the investment trade should be completed the same day (day 1) and member records updated the following day (day 2). If an investment switch is requested after 7am then the investment trade will take place the following day (day 2) and member records will be updated the day after (day 3).

Q. Should I get independent financial advice if I am choosing from the Free Choice funds? Will LifeSight pay for this?

A. You will find lots of information to help you understand all about the funds available in LifeSight. If you want to get independent financial advice on the investment options to help you decide what is best for you, you would need to pay for this yourself. You can find details of a local Independent Financial Adviser for advice at www.unbiased.co.uk

Q. How frequently are the lifecycle strategies rebalanced?

A. LifeSight lifecycle strategies are rebalanced monthly in line with the target asset allocations. The phasing between assets throughout the lifecycle is carried out on a quarterly basis.

Q. What if I die before retirement?

A. If you die before you take anything from your pension, it will usually be paid as a lump sum to your nominated beneficiaries. You can complete an online nomination of beneficiaries form in your LifeSight Account and make changes to your nominations at any time.

Q. Why should I complete a nomination of beneficiaries form?

A. We ask you to complete and keep your nomination up to date as the Trustees will use this information to help them understand how you would like your benefits to be paid if you die. Because you provide guidance to the trustees rather than having the ultimate decision on who would receive the benefits, this means that any payment is made under trust and doesn't form part of your estate for inheritance tax purposes. Please update your form regularly to help the Trustees know what you want to happen.

Q. Will I receive any advice or guidance regarding the options available to me at the time I decide to draw my benefits?

A. LifeSight will provide you with a free report from an independent financial adviser to help to educate and inform you on the options available when accessing your benefits.

Q. Can I take income drawdown?

A. You will be able to take income drawdown in a way that suits you, for example as either monthly payments or you can take lump sum payments as and when you want them. You will not have to pay a fee to set up the withdrawals and you would be able to amend these at any time through your LifeSight Account. Your remaining LifeSight savings will stay invested for you and you will be able to see how long your pot could be expected to last to help you make appropriate decisions on your spending.

Q. I want a pension (an annuity) when I retire. Can I have one?

A. Yes, you can use your savings to buy a pension payable for your life. You are able to buy a pension from an annuity provider of your choice from those available on the market. You will still also have the option to take up to 25% of your pension savings in LifeSight as tax free cash with the balance used to buy your pension.

Q. Can I take all of my LifeSight Account as a cash lump sum?

A. Yes. There may be tax implications to taking all of your LifeSight Account as cash. You can take up to 25% of your LifeSight Account tax free, the remaining 75% will be taxed at the appropriate rate of income tax in the year that you take the lump sum. This may mean that you pay tax at a higher rate than the standard 20% tax rate.

Q. Can I partially retire and use only part of my pension fund?

A. Yes. LifeSight offers its members flexibility in how and when they use their pension savings. This includes the ability to start taking drawdown on part of your pension savings whilst still in employment and contributing.

Q. If I start making drawdown payments, can I stop or change my drawdown payments?

A. Yes. You can use your LifeSight account at any time to update and change the frequency and amount of any drawdown payments you receive. If you decide to stop receiving drawdown payments your remaining pension savings will remain invested within your drawdown account.

Q. When can I receive the at retirement advice from HUB?

A. You can only access the free independent HUB advice service once, so we suggest that this happens around six months before your planned retirement.

Q. How will my retirement pot be taxed when I start taking it?

A. That depends on what you decide to do....

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- b. If you decide to take income drawdown, you can either take 25% tax free cash and then each drawdown that you take will be taxable at your highest marginal rate when you draw on the money. If you decide not to take the 25% tax free cash up front then, instead, a quarter of each drawdown would be free of tax e.g. if you draw £100 only £75 would be taxable at your highest marginal rate.
- c. If you decide to take a pension payable for life, each pension payment would be taxed at your highest marginal rate.

Q. Where can I find out more about how my pension pot will be taxed?

A. More information can be found [here](#) on The Pensions Advisory Service's website or by visiting [GOV.UK - tax on pensions](#).