A guide to your benefit options from a defined contribution arrangement

This guide gives you more information about how you can take your benefits from a defined contribution (DC) arrangement, such as the Railways Pension Scheme Industry-Wide Defined Contribution Section or the BRASS and AVC Extra arrangements within the Railways Pension Scheme and the British Transport Police Force Superannuation Fund.

We understand that there is a lot to consider and you will need to make a decision about how you want to take your benefits. It is important that you read through this information carefully and understand the options available to you.

We strongly recommend that you take independent financial advice when considering your retirement planning. Details of where you could find an independent financial adviser or where you could get guidance can be found in the 'important notes' section of this guide.

You will find more information here about:

Your options

1. Purchasing a guaranteed income – an annuity
2. Lump sums
3. Receiving a flexible income
4. Keeping your account invested
5. Transfer out all your account

Important notes

- Annual Allowance
- Pension scams
- Where to go for advice

General information

Please note that the options in this guide do not directly apply to any salary-linked benefits you may have in the Railways Pension Scheme or British Transport Police Force Superannuation Fund. You should refer to your member guide and/or any benefit estimates you have received to get details of the options for those benefits. You can find this at www.railwayspensions.co.uk or www.btppensions.co.uk.

You can take your benefits if you are:

- over age 55, or
- over age 50 if you have a Protected Pension Age, e.g. because you were an active member on 5 April 2006, or possibly younger if you are in ill health.

The amount will be based on the value of your Personal Retirement Account (PRA) at retirement. You can take your benefits and remain in employment.

You can normally take up to 25% of the funds in your PRA as a tax-free cash lump sum, but no more than £268,275 – or you can choose to take no lump sum at all. **You can select one, or a combination, of the options for the remaining funds depending on your chosen provider.**

Please note: BRASS funds count as DC benefits, but you can only take advantage of the options by transferring any BRASS funds you may have out of the Scheme, or Fund, to an external provider.

Your options

1. Purchase a guaranteed income for life – an annuity

You can buy an annuity which gives you a pension income for life. This will be subject to income tax.

You may be able to get a better income if you shop around and check what's on offer before you buy from a provider. The rate you get will affect your income, so it is important to get the best rate available for you. Currently, choosing an annuity is a one-off decision.

There are several different annuity options:

Single and joint life annuities

A single life annuity will provide you with a monthly pension for the rest of your life, but will not transfer to a dependant when you die.

If you want to provide for someone after your death, you could purchase a joint life annuity. This costs more than a single life annuity, so will provide a lower income, but it will guarantee to pay a set level of pension to the dependant you have chosen after your death.

Non-increasing annuities and annuities increasing by a fixed percentage or inflation

If you are happy to receive the same amount of pension each month when you retire, you may want to buy a non-increasing annuity (sometimes called a level annuity). This would generally provide a higher starting level of income than one that rises over time, but it may offer a lower total income over your lifetime.

Alternatively, you could choose an increasing annuity where your pension will go up while it is being paid. You can opt for either a fixed percentage increase or an increase in line with annual inflation. Annuities that increase in line with inflation are usually adjusted each year to reflect changes in either the Retail Prices Index (RPI) or the Consumer Prices Index (CPI). This type of annuity would cost more than a non-increasing annuity.

Enhanced and impaired life annuities

An enhanced annuity may give you a higher income if you have a lower life expectancy (because the income is expected to be paid to you for a shorter period than would normally be the case). Any enhancement will depend on the information you provide when you purchase your annuity, such as information about smoking, high blood pressure, diabetes or other health issues.

An impaired life annuity may be available if you are in seriously poor health. These terms will be specific to you and assessed by the annuity provider.

Annuities with and without guarantee periods

If you don't choose a guarantee period on your annuity, your payments will stop when you die. However, if you choose an annuity with a guarantee period and you die within this period, the payments will continue at their current level and will be paid to your dependant for the rest of the guarantee period.

For example: If you opt for a five-year guarantee period and receive an income from your annuity for one year and three months before your death, this income will continue to be paid to your dependant for the remaining three years and nine months.

It is possible for you to choose an annuity with both a guarantee period and a joint life option.

Investment-linked annuities

With an investment-linked annuity, some of the money you spend on the annuity is invested in stocks and shares. The income you receive from the annuity depends on the value of these investments. This means that you can get more income when your investments rise in value (e.g. during periods of stock market growth). However, there is also a risk that your income could fall if the investments do not perform well.

Some investment-linked annuities provide a guaranteed minimum income. This is the lowest level of income you could get if investment performance is poor. It is a good idea to make sure you have enough money to live on if the annuity was to fall to the minimum income level.

Fixed-term annuities

If you do not want to commit to an annuity for life, some of your account can be used to buy an annuity that pays an income for a set period. This is called a fixed-term annuity.

When choosing a fixed-term annuity, you will need to think how long you will need the annuity (normally you can choose one with a term of between three and 20 years), the options available to you (as with a lifetime annuity) and also whether you want a fixed, guaranteed income or an investment-linked income.

At the end of your fixed term, as well as having a regular income from the annuity, you will have built up a ‘maturity amount’. This amount can be invested or spent on another fixed-term annuity.

Hybrid products

Hybrid products offer a mixture of two or more of the characteristics of annuities set out in this section and often include a combination of regular income and guarantees. The term may also be used to describe products where part of your fund provides a non-increasing or increasing annuity, and the other part provides an investment-linked annuity.

Some of the restrictions that used to apply to annuities have been removed, so that new, more flexible, products can be developed. For example, it is now possible for payments from an annuity to decrease over time (rather than stay level or increase).

2. Lump sums - take some or all of your funds as cash

You can take up to 25% of the value of your Personal Retirement Account (PRA) as a tax-free lump sum, but no more than £268,275 – this will be less if you have already taken a tax-free lump sum from this scheme or another scheme, but may be greater if you have some form of lifetime allowance protection. Any amount above that is taxable at your marginal rate of tax. If you choose to take a tax-free lump and an annuity, the lump sum will be paid by Railpen Limited (Railpen). If you choose to take a drawdown arrangement, the tax-free lump will be paid by your chosen provider. You can take all of your PRA as cash, which is called total encashment.

Please beware of scams if you are planning to take a cash lump sum from your PRA or transfer the funds elsewhere. An increasing number of fraudsters are contacting pension scheme members out of the blue, trying to lure them into an illegal or inappropriate pension transfer which could result in you losing your entire pension savings and being asked to pay a large tax bill.

You can learn more about scams later in this guide and at www.thepensionsregulator.gov.uk/pension-scams.

Tax on your lump sum

The tax you pay will depend on your income tax when the taxable lump sum is added to the rest of your taxable income. For example, for the 2024/25 tax year, the tax charge could be, in whole or in part, 45%, 40% or 20% of the taxable lump sum payment, depending on your circumstances. The tax due will depend on the amount of lump sum you are taking, which is subject to income tax and the amount of other taxable income you have already received in the tax year.

More details can be found at www.gov.uk/hmrc or you can use an adviser to calculate the tax due on a lump sum payment. For example, based on income tax rates and thresholds for 2024/25, if your taxable income in the year to date has been £20,000, the value of your account is £50,000 and you wish to take it all as a lump sum:

- 25% of your lump sum payment (i.e. £12,500) will be paid tax-free;
- The amount which takes you up to the 40% tax threshold will be taxed at the basic rate of tax of 20%; and
- The rest will be taxed at the higher rate of tax of 40%, even if you are not normally a higher-rate tax payer.

Example:

40% tax threshold = £50,270
You have already earned = £20,000

This leaves £30,270 to be taxed at 20%. Anything over this amount will be taxed at 40%

Value of your PRA = £50,000
25% tax free cash = £12,500
£50,000 - £12,500 = £37,500
20% tax payable on £30,270 = £6,054
40% tax payable on £7,230 = £2,892

Cash lump sum payable = £41054

As we may not have details of your tax code at the time the lump sum payment is made, the tax paid will be estimated based on guidance provided to us by HM Revenue & Customs (HMRC). This can mean that the tax deducted from your lump sum payment is either too much or too little. Where this happens, it is your responsibility to contact HM Revenue & Customs (HMRC) to either claim back overpaid tax or pay any further tax that is due.

Taking a cash lump sum means you get part of your Personal Retirement Account (PRA) funds in one go. However, the more you take as a lump sum, the lower your remaining funds will be. This reduces the income that you can get from your remaining PRA. If you take all of your PRA funds as a single lump sum, you will not have any remaining funds to provide a regular income for you, your spouse or any other dependants after you die.

If, before 6 April 2006, you built up protection rights to a tax-free lump sum of more than 25% of your pension rights, you should note that, if you take all of your PRA funds as a single lump sum, only 25% of this lump sum will be tax-free.

3. Receive a flexible income

You may want to use your Personal Retirement Account (PRA) to provide a flexible source of income. There are two ways to do this:

- Flexi-access drawdown – you can take up to 25% of your whole pension pot in one go, but no more than £268,275, and keep your remaining funds invested. You can then take as much money as you want, as often as you want, from your pension pot, until you have used up all of your funds. The payments that you receive in this way will be subject to normal income tax rates; or

- Uncrystallised funds pension lump sums (UFPLS) - allows you to take your pot in one go, or as a succession of lump sums. For example you may choose to spread your entire PRA across 3 lump sums. 25% of each lump sum will be tax-free and the rest is subject to tax.

If you're considering this option, you will need to transfer money from your Personal Retirement Account (PRA) and set up drawdown with another provider.

The Trustee is proud to be partnering with Legal and General Investment Management (LGIM) to offer members access to its flagship product, the Retirement Income Multi Asset (RIMA) Fund

This is a high-quality, drawdown arrangement, with preferential fees, that are not available elsewhere.

To find out more information about this arrangement please visit - https://prod.legalandgeneral.com/workplace/campaigns/rps-pas

You can use all or part of the funds from your flexi-access drawdown product to buy an annuity, or other type of retirement income product, at any time. Please note that you will not be eligible for another tax-free lump sum if you choose this option.

4. Keep your account invested

You can delay taking your benefits up to age 75. This may increase your benefits when you decide to take them, although there are risks involved.

The risks are similar to all investments. If the value of your Personal Retirement Account (PRA) goes up, then you might be better off. However, the value can go down as well as up. Also, the terms offered by annuity or drawdown providers may get better or worse over time.

Therefore, it is possible that your retirement income may be lower than if it had been paid from an earlier retirement age.

If you die, any funds still in your PRA can be used to either provide a pension for a dependant or go to your estate. If you die before age 75, your beneficiary can receive tax-free lump sums or income from your PRA. A tax charge will only be incurred if the lump sum exceeds the Lump Sum and Death Benefit Allowance or if the account is not paid to a beneficiary or your estate within two years of your death. You can read more about the Lump Sum Allowances in our 'Tax Limits – Lump Sum Allowances' guide, which is in the Resources section at www.railwayspensions.co.uk or at www.btppensions.co.uk). If you are aged 75 or over when you die, your beneficiary will pay income tax at their highest tax rate on any funds taken as income.

5. Transfer out all your account

If you are still saving and contributing towards your retirement outcome, you may choose to transfer your Personal Retirement Account (PRA) to another approved pension provider or self-invested private pension (SIPP).

If you want to access your benefits, which you can do from age 55, you will need to transfer your account to another provider.

Some people can take their benefits before age 55 because they have a Protected Pension Age (e.g. because they were paying contributions on 6 April 2006) or are able to take more than 25% of their account as a lump sum.

However, this protection may be lost if you transfer your benefits out. The earliest you will be able to access your benefits in your new arrangement will be age 55 and the most you can get as a tax-free lump sum is 25% of your PRA, but no more than £268,275.

Important notes

Annual Allowance

The new pension freedoms for defined contribution (DC) benefits have led to changes to the Annual Allowance with effect from 6 April 2015. The Annual Allowance is the limit on the amount you can save tax-free, in all your pension arrangements, every year.

The standard Annual Allowance is has been increased from £40,000 to £60,000 for every tax year, with effect from 6 April 2023 (this is subject to further changes in the future). From 6 April 2023, anyone with a taxable income exceeding £200,000 and an "adjusted income" over £260,000 will have their Annual Allowance reduced by £1 for every £2 of adjusted income over £260,000, up to a maximum reduction of £50,000 for anyone with an adjusted income of £360,000 or more. This is referred to as the Tapered Annual Allowance

However, a reduced Annual Allowance was introduced for anyone who flexibly accesses some or all of their DC funds. This value has increased from £4,000 to £10,000 with effect from 6 April 2023. It applies to their future pension savings in any DC arrangement (such as BRASS, AVC Extra or the Industry-Wide Defined Contribution Section). This reduced allowance does not replace the standard Annual Allowance. Instead, it works alongside it, so you may still be able to save up to £60,000 a year if you are paying into a defined benefit scheme too.

To find out more about the Annual Allowance, see the 'Tax limits – Annual Allowance' guide in the Resources section at www.railwayspensions.co.uk or at http://www.btppensions.co.uk.

The Lump Sum Allowance (LSA). The LSA is a cap on the amount of tax-free lump sum you can receive from all your pension arrangements.

The most you can take as a tax-free lump sum from all your pension arrangements, not just in the RPS, is £268,275 unless you hold a valid LTA protection, in which case it will be 25% of the value of the protected amount.

You can find out more about tax allowances in our Read as You Need guides and tax videos at member.railwayspensions.co.uk.

Pension scams

If you are taking a cash lump sum from your Personal Retirement Account (PRA) to invest somewhere else, or you plan to take an income from a flexi-access drawdown product, then you should beware of scams.

In particular, beware of people contacting you out of the blue wanting to discuss your pension, or adverts claiming to offer 'free pension reviews', a 'one-off investment opportunity' or a 'legal loophole'. Once you have transferred your benefits to one of these organisations, it is often too late to do anything about it. You could lose your entire pension savings and be asked to pay a large tax bill as well.

For further information about pension scams, visit www.thepensionsregulator.gov.uk/pension-scams.

All firms offering financial products or advice should be registered with the Financial Conduct Authority (FCA). If you are unsure about a firm that has contacted you, use the FCA's online register to check if the firm is registered at www.fca.org.uk/register or call 0800 111 6768.

Where to go for advice

We strongly recommend that you take independent financial advice from a suitably qualified adviser who is registered with the FCA before making a decision about how and when your benefits are taken.

A financial adviser can offer advice on most appropriate retirement options for your circumstances. You can find a list of advisers in your area at unbiased.co.uk.

Liverpool Victoria (LV) has been carefully chosen to give Railways Pension Scheme and British Transport Police Force Superannuation Fund members access to financial advice. You can contact Liverpool Victoria on: 0800 0234187.

MoneyHelper from the Money and Pensions Service (MaPS) brings together the support and services of three government-backed financial guidance providers: Money Advice Service, The Pensions Advisory Service and Pension Wise.

It offers free support on a wide range of financial matters, online and over the phone. This covers a variety of pension topics, including:

- Auto enrolment
- Building your retirement pot
- Pension problems
- Pension basics
- State Pension
- Taking your pension
- Tax and pensions
- Pensions and retirement

For more information visit https://www.moneyhelper.org.uk/en/pensions-and-retirement

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Although every effort has been made to ensure that the information given in this leaflet is accurate, none of the information given can give you legal rights to benefits that differ from those provided in the pension trust and rules.
