



## PENSIONS & REDUNDANCY

This bulletin gives a brief overview to some of the pension issues that arise in redundancy situations. If an employer is considering redundancies, the pension implications should be a key consideration during the consultation process and for individual members considering their options or facing redundancy. As every employer is different and may have a range of redundancy arrangements, individuals should check what impact redundancy would have on their particular pension arrangements. Older employees should check for early retirement provisions in their scheme and all employees should make sure they understand any inter-relation between a severance package and pension entitlement. These can be found in your terms and conditions documentation and the rules of your pension scheme. The main issues relating to different types of pension scheme are outlined below to provide an indication of what may be available.

### **Defined Contribution Schemes**

*Including money purchase, group personal pensions and stakeholder schemes*

Few of these schemes have provisions for redundancy benefits and most will not allow access to the pension until pension age (although this may currently be any age between 50 and 65). In the event of redundancy below this age your pension pot will stop receiving contributions (unless you decide to make voluntary contributions). The money will still be invested and should continue to benefit from investment returns until retirement when the money is then used to buy an annuity which will provide a pension. On starting a new job you may consider transferring your pension into the occupational scheme relating to your new employment.

### **Defined Benefit Schemes**

*Including those closed to future accrual*

These schemes will have reference to early retirement in the rules and most will make specific mention of early retirement in the event of redundancy. In addition collective agreements on redundancy terms may make reference to pension benefits. The potential options are many and varied, these are some examples:

- ❖ Pension cannot be taken before age 50 but in some cases part of the severance payment may be in the form of extra pension service



- ❖ Members made redundant over the age of 50 (or another age specified in the scheme rules) may be able to get immediate access to their pension
- ❖ If granted access to an early pension a reduction for early payment of pension may be reduced or waived
- ❖ Some schemes may offer additional pension to members taking early retirement on grounds of redundancy

## **Interaction Between Severance Payments And Pensions**

Any pension enhancement that is offered (the waiving of early retirement reduction factors also constitutes an enhancement) may be offset against enhanced redundancy payments offered by the employer. However, pensions may not be offset against statutory redundancy payments (i.e. you may not receive less than the statutory amount as a severance payment).

Severance lump sum payments in excess of £30,000 are taxable, by paying the lump sum into a pension scheme the tax relief that applies to pension contributions could be utilised, you should take independent financial advice if you are likely to be in this situation.

## **Insolvency**

If your employer goes bankrupt, contributions to your pension will stop. All pension schemes in the private sector are legally separate from the employer. This means that the assets in the pension scheme cannot be used by the employer, either to stave off insolvency or to pay off creditors once the administrators have taken over the company.

A defined contribution scheme will continue to be invested as outlined above although the governance arrangements are likely to change if the scheme is trust based. You may be able to continue making your own contributions if the scheme is a personal or stakeholder arrangement.

The situation is more complicated for defined benefit pension schemes. Outside the public sector, all defined benefit schemes are covered by the Pension Protection Fund. If the scheme has insufficient funds when the employer goes insolvent and it is wound up, the remaining assets will be taken over by the Pension Protection Fund. This fund will then pay pensions to the members and former members of that scheme. The pension benefits paid by the Pension Protection Fund are set out in legislation so will not necessarily mirror the provision of the scheme that has been wound up. More information on Pension Protection Fund benefits can be found on the PPF website at <http://www.pensionprotectionfund.org.uk/>

For more information on any of the issues raised in this bulletin please refer to the GMB website at [www.gmb.org.uk/pensions](http://www.gmb.org.uk/pensions) and [www.gmb.org.uk/agediscrimination](http://www.gmb.org.uk/agediscrimination)