Retirement ''Risk Warnings'' from the Pensions Regulator

Since the coronavirus outbreak began, stock markets have fallen and are likely to go up and down for some time. However, your pension remains a safe, long-term investment for your retirement, and transferring it is a serious decision so please do not do anything in haste. Before making any decision, please read the guidance from the Financial Conduct Authority (FCA).

On 6 April 2015 individuals were able to access any defined contribution (DC) benefits flexibly from age 55. These arrangements do not directly apply to APS and NAPS as they are defined benefits (DB) schemes. The flexibilities can apply in respect of any AVCs you have saved in the Scheme, but you will need to transfer your AVCs out of the Scheme to access them flexibly from one or more external pension providers. You may also choose to transfer your main Scheme pension out as well.

When considering whether to transfer your AVCs out of the Scheme you should make use of the free and impartial guidance available through the government's 'Pension Wise' campaign which can be accessed online (www.pensionwise.gov.uk), over the telephone (from The Pensions Advisory Service 0300 330 1001) or face-to–face (from various Citizen's Advice Bureaux). You must ensure any external arrangements meet your needs and that you fully understand the tax implications. If you are considering whether to transfer out your main Scheme benefits, you must also seek advice from an FCA-regulated financial adviser if the amount you are transferring is £30,000 or more.

The four main options offered by external pension providers are an annuity, flexi-access drawdown, taking a number of cash sums at different stages or taking the entire pot as cash in one go.

These options have different features, rates of payment, and charges as well as different tax implications. If you decide to transfer out your main Scheme pension, then the value of all other Scheme benefits (including pensions for adult survivors and dependent children) is transferred too.

The Pensions Regulator has provided the following ''risk warnings'' that apply when drawing benefits from the different types of pension arrangement.

Using your pension to buy a guaranteed income for life (annuity)

APS members (and NAPS members with AVC balances of less than £1,000) are currently able to use their AVCs to buy an annuity through the Scheme with or without cover for their spouse and with or without increases once in payment. Members can also buy an annuity at a current market rate from an insurance company of their choice (this is called the 'open market option'). If you have a medical condition, are in poor health, smoke or are overweight, you may be able to get a significantly higher income through taking an 'enhanced annuity'. Enhanced annuities are not available in APS or NAPS but if you think this may apply, you should talk to your financial adviser or external provider.

If you are considering transferring your BA AVCs to purchase an annuity from an external provider, you should think about whether to provide an income for a partner or another dependant on your death – and therefore whether to purchase a single life or joint life annuity. Compare what, if anything, the provider offers to spouses or dependants against what is offered by other schemes or providers.

If you buy an annuity in APS or NAPS with your AVCs you have the choice of having either a non-increasing pension (a 'level' annuity) or a pension that increases by 5% each year. If purchasing an annuity with an external provider you will need to decide whether or not your pension will increase in payment and if so, by how much. 'Level' annuities may provide a higher income to start with than annuities that increase in payment, but the payments will then stay the same for life. This means that the purchasing power of the annuity income will reduce over time, due to inflation.

You don't have to take any annuity or other pension offered to you – and different providers might pay a higher income. So, it's important to shop around. Remember that annuity purchases are a lifetime commitment, so there's no rush to make a final decision.

Using your pension to provide a flexible retirement income ('flexi-access drawdown')

As with every investment, there is a risk that the value of a DC pension pot can go up and down. If you are considering transferring your benefits out of the BA Scheme to access them from a 'flexi-access drawdown' arrangement, you should bear this in mind and think about how much you will take out from the arrangement every year and how long your money needs to last. If too much money is taken too quickly, the available retirement income could fall drastically or even run out, especially if stock markets fall. Charges can reduce the money received. Check whether there are any charges or other reductions to a pension pot when a lump sum is withdrawn. Providers may also make ongoing charges on any undrawn money, so it's important to consider the impact of these charges. If you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension. There are no charges in the BA Scheme for exchanging your pension for a tax-free cash sum at retirement, but we do not offer flexi-access drawdown. Different providers offer different types of flexible retirement income. Check what kind of drawdown is being offered. Some might have products where part of your income is guaranteed but charges and conditions will apply. If you are considering a flexible retirement income you should consider shopping around – an FCA-regulated financial adviser will be able to help with this.

Take your pension as cash in stages

Generally, when you draw a pension benefit you can take up to the first 25% as a tax-free cash sum. The rest of your pension benefits are taxed as income. If you are considering transferring your BA Scheme benefits to an external provider who allows you to access your pension as cash in stages, you should consider your own personal tax circumstances, and the impact of taking a taxable lump sum on the tax you pay – including the possibility that you may have to pay a higher rate of tax than normal depending on the amount withdrawn. As with every investment, there's the risk that the value of a DC pension pot can go up and down. If you are considering this option, you should think about how much you want to take out every year and how long your money needs to last.

Charges can reduce the money received. Check with the external provider whether there are any charges or other reductions to the DC pension pot when a lump sum is withdrawn. Charges will continue to be taken from any money left in the pension pot, so it's important to consider the impact of these charges. And if you plan to take the cash to invest somewhere else, check with the external provider what the charges are before you draw the cash.

Taking cash withdrawals may have implications for you if you have debts or if you are entitled to means-tested benefits. If you are concerned about this aspect you can contact Pension Wise, the Citizens Advice Bureau or the Money Advice Service.

Take your whole pot as cash in one go

On average, people aged 55 today will live to their mid-to-late 80s. It's important not to underestimate your own life expectancy. If you are considering transferring your BA Scheme benefits to an external provider who offers this option, you should think about how to use the money to provide an income throughout retirement.

There will be tax implications if an entire pension pot is taken as cash in one go. These will depend on your individual personal circumstances. In most cases up to the first 25% can be drawn as a tax-free cash sum but you will pay tax on the remainder. You should consider your own personal tax circumstances, and the impact of taking a taxable lump sum on the tax you will pay – including the possibility that you may have to pay a higher rate of tax than normal. Some external providers may have charges for taking a pension pot as cash, so check this before committing. And if you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension.

Taking cash withdrawals may have implications for you if you have debts or if you are entitled to means-tested benefits. If you are concerned about this aspect you can contact Pension Wise, the Citizens Advice Bureau or the Money Advice Service.

Pension scams

If you are taking a cash lump sum from your pension to invest somewhere else, or plan to take income drawdown, be aware that scammers operate in these markets. You can find out more about how to identify Pension Scams.