The Pension Service

Part of the Department for Work and Pensions

A quick guide to pensions

Contents

Introduction

Everyone needs to plan ahead for retirement. People are living longer and healthier lives, so it is even more important to think about how long you might want to work and when to save for retirement.

The basic State Pension will give you a start but to have the lifestyle you want in retirement, you need to think about additional savings, and the sooner you can start the better.

This guide tells you how the State Pension works. It also gives you information about some of the other options currently available to help you start planning for your retirement now.

What is a pension?

A pension is a source of regular income to live on in your retirement.

Pensions fall into the following categories:

- the State Pension: the basic State Pension and the additional State Pension;
- private pensions: these include occupational pensions and personal pensions (including stakeholder pensions).

Private pensions are a long-term investment and you may find it useful to get more information after you read this guide, to help you decide what's best for you. The Financial Services Authority has a range of free booklets and factsheets and the Pensions Advisory Service can give you information and advice about occupational, stakeholder and personal pensions. See pages 25/26 for details about how to contact these organisations. Or you can get advice from an independent financial adviser (you may have to pay for this advice).

What are the main differences between the State Pension and private pensions?

	State Pension Scheme	Private pension scheme
Who sets it up?	The State	An employer or private financial company.
What is it based on?	Usually National Insurance (NI) contributions, although you may be able to get a non-contributory State Pension if you are aged 80 or over (visit www.thepensionservice.gov.uk for more information).	Direct payments to an organisation which invests it on your behalf.
How do I get my money?	You make a claim when you reach state pension age and if entitled, you will be paid money at regular intervals into your nominated account (for example, a bank, building society or Post Office card account).	Occupational pension schemes: When you reach the scheme's pension age (set out in the scheme rules), you will be paid a regular pension income, either directly from the scheme or from an insurance company. You may also be able to take a lump sum, free of income tax. Personal pension schemes: You can withdraw a lump sum of up to 25% of your fund, free of income tax from a specified age, and use the remaining money to buy a regular pension income from an insurance company.

	State Pension Scheme	Private pension scheme
When can I get my pension?	If you are entitled to one you can get it when you reach your State Pension age (but you don't have to claim it then).	Occupational pension schemes: after you've reached the normal pension age set out in the rules of the scheme or, in some schemes, earlier if you become ill. Personal pension schemes: after a specified age (currently 50; this will increase to 55 from 2010; however, where the scheme is contracted-out you will not usually be able to take some of your benefits before the age of 60. This restriction will be removed from 6th April 2006.)

Why are pensions important?

Everyone needs money to live on when they retire but few people think enough about long-term savings. After all:

- your retirement could make up a third of your life; and
- you'll need money for your increased leisure time.

What is the State Pension?

The State Pension is made up of:

- basic State Pension; and
- additional State Pension.

You may be able to get either or both when you reach State Pension age if you meet the qualifying conditions.

What is State Pension age?

State Pension age is now:

- 65 for men;
- 60 for women.

Women's State Pension age starts to increase gradually from 60 to 65 from April 2010. What your State Pension age will be will depend on your date of birth. From 6 April 2020, the State Pension age for both men and women will be 65.

To find out more about the State Pension age for women, please see *Pensions for women – Your guide* (PM6). See page 24 for details about how you can get a copy of this guide.

You don't have to claim your State Pension when you reach State Pension age. To find out more about putting off claiming your State Pension, please see the section 'What if I want a flexible retirement?' on page 15.

Basic State Pension

How do I qualify for the basic State Pension?

You can get a basic State Pension by building up enough qualifying years before State Pension age. A qualifying year is a tax year in which you have enough earnings on which you have paid, are treated as having paid or have been credited with National Insurance (NI) contributions. In 2005/06, you need to have £4,264 (£4,368 in 2006/07) or more in earnings if you are an employee or £4,345 or more if you are self-employed (£4,465 in 2006/07). Also, by State Pension age, you need to have one qualifying year from NI contributions you have paid or from NI contributions treated as being paid to be eligible for any State Pension. You will not be eligible for a State Pension if you only have one year of credits. To find out more about credits, please see 'What if I have not always worked?' on page 9.

How much is the basic State Pension?

In 2005/06 the full basic State Pension is £82.05 a week (£84.25 in 2006/07) and the minimum basic State Pension is £20.51 a week (£21.06 in 2006/07).

Men normally need 44 qualifying years to get the full basic State Pension and 11 qualifying years to get the minimum basic State Pension.

At the moment, women normally need only 39 qualifying years for a full basic State Pension and 10 qualifying years to get the minimum basic State Pension. In 2020, when the State Pension age for women is finally raised from 60 to 65, women will also need 44 qualifying years for the full basic State Pension and 11 qualifying years for the minimum basic State Pension. To find out more, please see *State pensions – Your guide* (PM2) or Pensions for women – Your guide (PM6). See page 24 for details about how you can get copies of these guides.

However, the number of qualifying years you need will be reduced if you qualify for Home Responsibilities Protection – this is explained in the following section, 'What if I have not always worked?'

What if I have not always worked?

If you have not always worked, you may be entitled to credits or Home Responsibilities Protection, depending on your circumstances.

Credits

In certain circumstances you may get NI credits instead of having to pay NI contributions yourself. If you have received a benefit or allowance, such as:

- Carer's Allowance;
- Jobseeker's Allowance;
- Incapacity Benefit;
- Working Tax Credit (previously Disabled Person's Tax Credit or Working Families' Tax Credit);
- Maternity Allowance;
- Statutory Sick Pay;
- Statutory Maternity Pay;
- Statutory Adoption Pay; or
- Unemployability Supplement,

you may have been credited with NI contributions for that period. These credits can help you to build up qualifying years towards your basic State Pension.

You may also get credits if you were incapable of work or unemployed and available and actively looking for work even if you were not getting a benefit.

Home Responsibilities Protection

You may be entitled to Home Responsibilities Protection if you have not worked, or your wages are low (less than £4,264 in 2005/06; £4,368 in 2006/07) or you have not received enough credits in any tax year while:

- looking after children under 16 and Child Benefit is paid to you;
- looking after a person with a long-term illness or disability; or
- registered as a foster parent from April 2003 throughout the tax year.

Home Responsibilities Protection may reduce the number of qualifying years you need to earn a full basic State Pension.

For more information on credits and Home Responsibilities Protection, please see *State pensions for carers and parents – Your guide* (PM9). See page 24 for details about how you can get a copy of this guide.

Can I get a basic State Pension based on my husband's/wife's or civil partner's NI contributions?

For married women

If you have not built up your own entitlement to a basic State Pension and you are a married woman, we can use your husband's NI contributions record instead (as long as he has reached State Pension age and has claimed his State Pension). You could then receive a basic State Pension of up to 60 per cent of your husband's entitlement (up to £49.15 a week in 2005/06; £50.50 in 2006/07).

For married men or civil partners

If you have not built up an entitlement to a basic State Pension and you are a married man or civil partner, from April 2010 we can use your wife's or civil partner's NI contributions record instead (as long as they were born after 5 April 1950, have reached State Pension age and have claimed their State Pension). You could then receive a basic State Pension of up to 60 per cent of your wife's or civil partner's entitlement.

For people who are divorced, widowed, a surviving civil partner or who have dissolved their civil partnership

If you are widowed, divorced, a surviving civil partner or have dissolved your civil partnership, we can sometimes use your late or ex-husband's/wife's or civil partner's NI contributions to help you get a better State Pension.

What are married women's reduced-rate contributions?

Until April 1977, married women could choose to pay a reduced rate of NI contributions. If you chose to do this, for the period you did not pay any full-rate NI contributions you will not have built up any entitlement to a basic State Pension or an additional State Pension of your own. You will also not qualify for any reductions in qualifying years through Home Responsibilities Protection or credits through that period.

Additional State Pension

What is the additional State Pension?

The additional State Pension is related to the level of your earnings and is paid on top of your basic State Pension. But you do not have to be getting basic State Pension to get additional State Pension.

Your additional State Pension may be made up of:

- a State Earnings-Related Pension Scheme (SERPS) pension: and
- State Second Pension.

You may also get:

- Graduated Retirement Benefit – if you paid graduated contributions during the period from April 1961 to April 1975; and
- shared additional pension – if either you are divorced or your marriage was annulled after December 2000 or if your civil partnership was dissolved or annulled. This can only be awarded by the Court.

For more information about these terms, please see *State pensions – Your guide* (PM2). See page 24 for details about how you can get a copy of this guide.

Who won't benefit from an additional State Pension?

It is not possible to build up entitlement to the additional State Pension for any period where:

- you are not working (unless you are a carer or long-term disabled person);
- you are self-employed;
- you earn less than a certain amount, known as the annual Lower Earnings Limit (which is £4,264 in 2005/06; £4,368 in 2006/07); or
- you have a private pension, are contracted-out of the additional State Pension and earn above £12,100 in 2005/06 (£12,500 in 2006/07).

Unless you are in one of the above categories, you will receive some additional State Pension. For more information about the additional State Pension, see *State pensions – Your guide* (PM2). See page 24 for details about how you can get a copy of this guide.

How much is the additional State Pension?

As the additional State Pension is related to the level of your earnings, the amount of additional State Pension will depend on your earnings record.

The maximum amount of additional State Pension in 2005/06 is £143.08 a week (£146.12 in 2006/07).

What is ‘contracting-out’ of the additional State Pension?

You can leave, or ‘contract-out’ of, the additional State Pension by joining a contracted-out occupational pension or personal pension scheme. Even if you do this, you may still be entitled to some additional State Pension, depending on the level of your earnings. For more information, see *Contracted-out pensions – Your guide* (PM7). See page 24 for details about how you can get a copy of this guide.

What other state benefits might I be entitled to?

In certain circumstances, you might be entitled to Pension Credit or another income-related benefit when you retire, depending on your household income and other savings. Pension Credit guarantees a minimum weekly income for people aged 60 and over of £109.45 for single pensioners in 2005/06 (£114.05 in 2006/07) and £167.05 a week for couples in 2005/06 (£174.05 in 2006/07). These amounts may be more for people who have caring responsibilities, are severely disabled or have certain housing costs. If you are aged 65 and over, you may get extra money even if you have income above the level of the full basic State Pension. For more information on Pension Credit, please see *Pension Credit* (PC1L). See page 24 for details about how you can get a copy of this guide.

You might also be entitled to other benefits such as Housing Benefit or Council Tax Benefit. For more information on Housing Benefit, Council Tax Benefit and other help and advice that is available through central and local government, see the *Pensioners’ guide* (PG1). See page 24 for details about how you can get a copy of this guide.

What if I have lived abroad?

If you have ever lived in the European Economic Area, in Switzerland or in any country whose social security system is linked to Britain's, any social security contributions you have made there may help you to meet the contribution conditions for basic State Pension. You may also be entitled to a State Pension from the other country or countries. For more information, see *Coming from abroad and social security benefits* (GL28). See page 25 for details about how to get a copy of this guide.

What if I want a flexible retirement?

Taking early retirement or leaving the workforce early can limit your income in retirement. Staying in employment for longer can enable you to build up a better income for retirement.

You could also think about a more flexible approach to your retirement. You may not want to retire from work altogether and may want to consider working part time or other flexible working patterns, changing jobs or reducing your responsibilities. You need to consider which option best meets your needs and best helps to give you the income you want before and after your retirement.

You do not have to stop working when you reach State Pension age. You can continue to work after you claim your State Pension. You can also consider putting off claiming your pension until later (see section below). For more information on working longer, please get a copy of the guide *Are you over 50?* (available from April 2006). This is a guide to the help and advice available from government and voluntary organisations, including information about looking for work, changing jobs and updating skills. See page 25 for details about how you can get a copy of this guide.

Putting off claiming your State Pension

When you reach State Pension age, you can choose to put off claiming your State Pension. Depending on how long you put off claiming your State Pension (whether you are working or not) you could choose one of the following:

Either:

- **Extra State Pension**
  If you put off claiming your State Pension for at least five weeks you can earn an increase to your State Pension of 1 per cent for every five weeks you put off claiming. (This is equivalent to about 10.4 per cent extra for every year you put off claiming.) If you choose extra State Pension you will not be paid State Pension for the weeks you gave up claiming it as you will get a higher pension instead.

Or:

- **A lump sum payment**
  If you put off claiming your State Pension for at least 12 months in a row, which cannot include any period before 6 April 2005, you can choose to receive a one-off taxable lump sum payment based on the amount of normal weekly State Pension you would have received, plus interest. You also get your State Pension when you claim it, paid at the normal rate.

Putting off claiming State Pension may not be right for everyone, but if you think it may be right for you, it is important to find out more before you decide. We have information to help you and you can also ask for advice from an independent financial adviser (you may have to pay for professional financial advice) or from organisations that give advice to pensioners. Or you can talk to your family and friends.

For more information about putting off claiming your State Pension, see *How to get extra weekly State Pension or a lump-sum payment: Your introduction to State Pension Deferral* (SPD2). For more detailed information, see *Your guide to State Pension Deferral* (SPD1). See page 24 for details about how you can get copies of these guides.

Should I start saving?

How much money will I need in my retirement?

The basic State Pension will provide you with a foundation income for when you retire but it's your responsibility to think about the lifestyle you want when you retire and how you might achieve it.

You will probably want to plan on retiring with an income that is a reasonably high proportion of the earnings you were used to before retirement. Some costs of living such as mortgage payments and taxes tend to be lower in retirement but your retirement could make up a third of your life and you will also have more leisure time.

How do I know if I should save more?

To help you decide if you should start putting more money aside now for your retirement, you need to review your finances.

- Your first step could be to find out how much State Pension you may be entitled to. If you want to know how much State Pension you may get when you reach State Pension age, you can contact the State Pension Forecasting Team on **0845 3000 168** and they will fill in a forecast application form for you over the phone. If you have speech or hearing difficulties, a textphone service is available on 0845 3000 169. You can also apply for a forecast online at www.thepensionservice.gov.uk Or, you can write to State Pension Forecasting Team, Future Pension Centre, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne, NE98 1BA for a forecast form (BR19) and a return envelope. Once they have received your filled-in application form, they will send you a forecast of how much your State Pension may be. This forecast will help you to decide whether you are currently saving enough for your retirement needs, and what more you may need to do.

- If you are a member of an occupational or personal pension scheme, why not ask your scheme administrator or trustee, or the pension provider concerned, for an Annual Benefit Statement? In some cases the Annual Benefit Statement may be issued to you automatically.

- If you think you may be entitled to one or more old company or personal pensions that you do not know the full details of, we may be able to help you trace them. You can get an application form by phoning **0845 6002 537** (if you have speech or hearing difficulties, a textphone service is available on 0845 3000 169); or you can visit www.thepensionservice.gov.uk and follow the links to the Pension Tracing Service; or you can write to the Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle-upon-Tyne, NE98 1BA.

I want to save more

You may find it helpful to consult an independent financial adviser (IFA) to discuss what is best for you. They may charge a consultation fee or their costs may be built into chosen savings products. To find an IFA near you, visit www.unbiased.co.uk, the IFA Promotion's website.

I've decided I need to save more, so when should I start?

Striking a sensible balance between a 'live today, pay tomorrow' and a 'save today, live tomorrow' approach will help you aim for what you want out of life, both now and in the future.

A lot depends on your personal circumstances but long-term savings are usually more effective if they are started sooner rather than later. Why? Because:

- people are living longer, especially women;
- the earlier you start the more time you'll have to save; and
- if you start earlier your regular payments can be lower.

Start planning now – your pension options

Are you an employee?

An occupational pension scheme is an arrangement an employer makes to give their employees a pension when they retire.

For people in work, you may be able to get an occupational pension as well as any State Pension you may be entitled to.

Two important aspects of occupational pensions are tax relief and employer contributions.

Tax relief

With a basic rate of income tax of 22 per cent, every £100 that goes into your pension costs you £78 (based on the tax year 2005/06). With a higher rate of income tax of 40 per cent, every £100 that goes into your pension costs you £60 (based on the tax year 2005/06).

Employer contributions

Your employer can pay contributions on top of the contributions you make yourself. This helps to increase the overall amount of money being invested on your behalf.

Occupational pensions often offer other benefits such as life assurance or a pension for your dependants if you die. And, if you change jobs, you might be able to move your pension to your new employer's scheme. But you would need to check the exact benefits with your employer.

So, if you're not already a member of an occupational pension scheme, find out if your employer offers one.

And, if you are already paying into an occupational pension scheme, remember you may be able to increase the amount you pay in. See your scheme administrator or trustee for more information.

For more information on occupational pensions, please see *Occupational pensions – Your guide* (PM3). See page 24 for details about how you can get a copy of this guide.

Are you self-employed?

If you are self-employed, you cannot join an occupational pension scheme unless you also work for an employer that operates one. You are also not covered by the additional State Pension because you pay a lower rate of National Insurance contributions. But you can join and make payments into stakeholder and personal pension schemes. You may find the section below, 'Would you like to know more about other pension and saving options?', useful. It gives information about personal pensions, stakeholder pensions and other saving options. Or see *Pensions for the self-employed – Your guide* (PM5). See page 24 for details about how you can get a copy of this guide.

Would you like to know more about other pension and saving options?

There are other pension choices available, such as personal and stakeholder pensions, as well as other non-pension saving and investment options.

Personal pensions

Personal pensions are individual contracts between you and the provider which is usually an insurance company or a bank. You are responsible for paying contributions but many employers also make contributions to top up your pension savings. Find out if your employer does this.

Personal pensions are a way of making regular savings for your retirement. The money you save is put into investments for you, such as stocks and shares. This 'fund' will then be used to buy a pension, from an insurance company, to give you a regular income when you retire.

An important benefit of contributing to a personal pension is the tax relief it gives you. With a basic rate of income tax of 22 per cent, every £100 that goes into your pension costs you £78 (based on the tax year 2005/06). With a higher rate of income tax of 40 per cent, every £100 that goes into your pension costs you £60 (based on the tax year 2005/06).

Before you decide to take out a personal pension, compare the costs you will have to pay with the costs of a stakeholder pension (see the section below on 'Stakeholder pensions'). And make sure the personal pension you choose is the right one for you because if you decide to transfer to a different type of scheme you may have to pay extra charges.

For more information on personal pensions, please see *Personal pensions – Your guide* (PM4). See page 24 for details about how you can get a copy of this guide.

Stakeholder pensions

Stakeholder pensions are a type of personal pension which has minimum standards set down in law. Stakeholder pensions have a cap on annual management charges, they are flexible, and they allow you to make contributions (which can be as little as £20 at a time) when you can.

As with personal pensions, the money you save is put into investments for you, such as stocks and shares, and your 'fund' will then be used to buy a pension, from an insurance company, to give you a regular income when you retire.

For more information on stakeholder pensions, please see the Financial Services Authority (FSA) factsheet *Stakeholder pensions and decision trees*. See page 25 for details about how you can get a copy of this factsheet.

Non-pension saving options

A pension is not the only way to save for retirement. You could investigate other savings and investment options.

If you are approaching retirement age or you already have a pension, you may want to investigate other savings options, for example an ISA (Individual Savings Account). For more information on ISAs and other savings options there is a special guide. See page 25 for details about how you can get a copy of this guide.

You may have other investments in mind to support yourself when you retire, for example property or selling your business if you are self-employed. Find out how much these will be worth and how you can turn these investments into income when you retire.

You may wish to talk to an independent financial adviser. But remember, if you see an adviser, you may have to pay for their advice.

Already sorted out your pension provision?

That's good news, but you should remember to keep tabs on your retirement savings just as you would any other financial investment and to review your arrangements regularly. You may wish to talk to an independent financial adviser but remember, you may have to pay for their advice.

Where can I get more information?

State pensions – Your guide (PM2)

Occupational pensions – Your guide (PM3)

Personal pensions – Your guide (PM4)

Pensions for the self-employed – Your guide (PM5)

Pensions for women – Your guide (PM6)

*Contracted-out pensions – Your guid*e (PM7)

Stakeholder pensions – Your guide (PM8)

State pensions for carers and parents – Your guide (PM9)

How to get extra weekly State Pension or a lump-sum payment: Your introduction to State Pension Deferral (SPD2)

Your guide to State Pension Deferral (SPD1)

To order any of the guides mentioned above, call the pensions information orderline on **0845 7 31 32 33**. If you have speech or hearing difficulties, the textphone service is available on 0845 604 0210. Lines are open 24 hours a day. Or visit www.thepensionservice.gov.uk

Pension Credit (PC1L)

Pensioners' guide (PG1)

To order these guides call **0845 6 065 065**. If you have speech or hearing difficulties, the textphone service is available on 0845 6 064 064. Lines are open from 7am to 11pm every day. Or visit www.thepensionservice.gov.uk

Are you over 50?

This guide will be available from April 2006. To order this guide call **0845 7 31 32 33**. If you have speech or hearing difficulties, the textphone service is available on 0845 604 0210. Lines are open 24 hours a day. Or visit www.direct.gov.uk/Over50s

Coming from abroad and social security benefits (GL28)

You can get this leaflet from your nearest social security office or Jobcentre Plus office (details are in your phone book). Or visit www.thepensionservice.gov.uk

ISAs, PEPs & TESSAs

You can get this leaflet from HM Revenue and Customs website at www.hmrc.gov.uk/leaflets/isa.htm

FSA factsheet – Stakeholder pensions and decision trees

The Financial Services Authority (FSA) has a range of free consumer booklets and factsheets about saving for retirement and stakeholder pensions. To get this factsheet or others, call the FSA Consumer Helpline on **0845 606 1234** (call rates may vary) or visit www.fsa.gov.uk/consumer

The Pension Service website provides unbiased information about state and private pensions, whether you are retired, approaching retirement or planning ahead for retirement.
Visit www.thepensionservice.gov.uk

The Pensions Advisory Service can give you information and advice on occupational, stakeholder and personal pensions. You can call them on **0845 601 2923**. Lines are open from 9am to 5pm, Monday to Friday. Or visit www.pensionsadvisoryservice.org.uk You can also email them at enquirxxx@xxxxxxxxxxxxxxxxxxxxxxx.xxg.uk

For basic free help on the different types of pension available, you can contact Citizens Advice Bureau (details are in your local phone book under C). Or visit www.citizensadvice.org.uk

If you are not sure what to do for the best, you may want to get more advice from an independent financial adviser. But remember, if you see an adviser you may have to pay for their advice. You can check whether a particular financial adviser is authorised by calling The Financial Services Authority (FSA) on **0845 606 1234**. Or visit the 'Firm and Person Check' section on the FSA website at www.fsa.gov.uk/consumer

For more copies of this leaflet, or for a Welsh, audiotape or Braille version, you can phone 0845 7 31 32 33.

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