Pensions: the basics

A guide from the Government

1 2 3

Introduction

Everyone needs to plan for their retirement. People are living longer and healthier lives, so it's even more important to think about how and when to save for retirement and how long to continue working.

Pensions can be confusing and many people don't know where to begin, especially when there are so many other things to spend your money on. But the truth is that a pension is one of the most effective ways to save money because you can get tax relief on the money you save in a pension scheme.

So, with a bit of planning, you can do a lot to help yourself get ready for retirement. Fairly small changes now can make a big difference to your life in the future – and you don't need to blow your monthly budget.

This guide will help you understand the basic facts you need to know about pensions, including:

- what is available to you from the State when you retire;
- some of the financial choices you can make to prepare for your retirement;
- where you can go to get more information so you can start planning for your retirement now; and
- practical and realistic steps you can take to help you save for your retirement.

This guide is a general introduction to the subject of pensions, but please note that it is only a starting point and not a full statement of the law. See section 3 at the back of this guide for details about where to go for more information.

Contents

Pensions: a note about the future

The information in this guide is based on current rules. However, you should note that in May 2006 the Government published the White Paper, *Security in retirement: towards a new pensions system*. The White Paper sets out a number of proposals for changing the State Pension system for people who reach State Pension age on or after 6 April 2010. These proposals include:

- introducing personal accounts – a new low-cost saving scheme;
- introducing a new system of credits which will increase the number of people who would become entitled to a State Pension;
- increasing the basic State Pension by the rate of the increase in earnings from a date to be announced later;
- increasing the State Pension age from 65 to 68 between 2024 and 2046; and
- abolishing contracting out for defined-contribution occupational pension schemes and personal pension schemes.

There is more information about the White Paper proposals on the DWP website at:
www.dwp.gov.uk/pensionsreform/whitepaper.asp

The Government intends to bring forward legislation to introduce the plans as soon as Parliamentary time allows. Your future pension entitlement might be affected by the changes introduced through this legislation.

We will publicise any changes to the current system before they are introduced.

1 Getting started

What is a pension and why do I need one?

A pension is a source of regular income to live on when you retire and is one of the most effective ways to save money for retirement. This is because you can get get tax relief on the money you save in a pension scheme. (We explain more about tax relief and pensions in section 2 of this guide.)

Most pension schemes work in broadly the same way. While you are working, you pay a small part of your wages into the pension fund – or, in the case of the State Pension, you pay National Insurance to the Government directly from your wages. When you have stopped working, or reached State Pension age, you then receive regular payments based on the amount you have contributed.

Everyone needs money to live on when they retire but few people spend enough time thinking about long-term savings. Because more people are living longer, your retirement could make up as much as a third of your life. So when you do retire, you will still need to pay bills and to have money for making the most of your increased leisure time.

How can pensions help me save money for my retirement?

The State Pension will give me a start, but to have the lifestyle I want when I retire, I'll need to think about saving a bit more.

Most people

The basic State Pension will give you a start.

Many people

Many people are saving money for their retirement with a second pension – such as the additional State Pension, an occupational, personal or stakeholder pension – to give them extra income when they retire.

There are a number of different types of pension:

- the State Pension – this is made up of the basic State Pension and the additional State Pension.
- Private pensions – these include occupational pensions (also known as work or company pensions) and personal pensions (including stakeholder pensions).

When should I start saving?

Like many other people, you might feel that retirement is too far away to think about. Maybe you think you can't afford to save for the future now when there are so many other things you have to pay for every day.

But the truth is that the earlier you start saving for your retirement, the more money you're likely to have to enjoy yourself – and pay the bills – when you retire.

Remember

- Don't worry if you can only spare a few pounds a week at first. The important thing to bear in mind is that the sooner you start, the more time you will have to earn interest on your savings – and you can always increase your payments later on.
- As your earnings increase, think about increasing your pension payments.

How much will I need when I retire?

The State Pension will give you a basic income when you retire, but it's your responsibility to decide on the kind of lifestyle you want in retirement, and what you need to do to achieve it.

Everyone's circumstances are different so it's difficult to know exactly how much each person will need. For most people, the decision depends on how much you can afford to save. Some costs of living may be lower when you retire – such as taxes, no fares to work and no National Insurance contributions. You may have paid off your mortgage and you may no longer be supporting a family. On the other hand, you will have more leisure time and other costs, such as heating and healthcare, may increase.

How do I know if I should save more?

To help you decide if you should start saving more for your retirement, you need to review your finances.

- Find out how much State Pension you may be entitled to when you reach State Pension age. This will give you an idea of what you can expect to receive from the Government and help you to decide whether you are currently saving enough for your retirement needs.
- If you are already a member of an occupational pension scheme, your employer or pension provider may send you a statement every year that shows how much pension you can expect to receive from the scheme when you retire. If you haven't received one, you can ask your employer or pension provider to send you one.
- If you are currently employed and are a member of an occupational pension scheme, it may be worth finding out if your employer can give you a combined pension forecast – that is, a pension forecast that shows details of both your State Pension and company pension together.
- If you are already a member of a personal pension scheme, your pension provider will send you a statement every year that includes an individual pension forecast for the scheme you belong to. This will tell you how much you may be entitled to when you retire.
- If you think you are a member of one or more old company or personal pension schemes that you do not know the full details of, the Pension Tracing Service may be able to help you find them.

If you don't think you will have enough money to support yourself when you retire, think about whether you can afford to save more by increasing your contributions to an existing pension, getting an extra pension, or investigating other savings options. See section 2 for more information about how to do this, and page 10 for more information about other ways to save.

Take action

See page 49 to:

- find out how to get a State Pension forecast;
- learn about combined pension forecasts; and
- trace an old pension by contacting the Pension Tracing Service.

Are there other ways to save?

A pension is not the only way to save for retirement. If you are approaching retirement or you already have a private pension, you may want to investigate other savings options, such as putting your money into a tax-free Individual Savings Account (ISA). For more information about ISAs contact HM Revenue & Customs for a copy of their ISA factsheet, which gives basic information about types of ISA and how much you can save in each tax year. See page 50 to find out how to contact HM Revenue & Customs.

You may plan to use other investments to support yourself when you retire, for example, property, shares or selling your business if you are self-employed. Find out how much these may be worth and also how easy it may be to turn these investments into income when you retire.

In addition, you may choose to stay in work longer. This can help you to build up a better income for your retirement as well as making you better off now. See page 44 for more information about working longer.

The Financial Services Authority's consumer helpline and website can give you more information about savings and investments and financial planning generally. See page 51 to find out how to contact the Financial Services Authority.

What happens when my circumstances change?

Most people's circumstances will change again and again before they reach State Pension age – and that might mean you want to save more, or reduce your payments for a while.

You might change your job, decide to become self-employed or not be able to work for long periods while you're looking after children or caring for someone. You may be injured or ill and not able to work. All of these factors can affect your ability to pay contributions into a pension scheme. Other important changes can involve getting married or forming a civil partnership, getting divorced or ending a civil partnership, or going to live and work abroad, which can change the amount of money you're entitled to.

When important changes like this happen, it's a good idea to review your pension arrangements. Contact The Pension Service to get an up-to-date pension forecast, and the Financial Services Authority (FSA) to find out more about reviewing your pension and financial planning.

Take action

- Contact HM Revenue & Customs for more information about ISAs and to get a copy of their ISA factsheet. See page 50 for details.
- Call the FSA's consumer helpline, or visit their website, to get more detailed information about financial planning, savings options and pension schemes – and how life changes can affect your pension. See page 51 for contact details.
- Call the Pensions Advisory Service for information and guidance about pensions. See page 51 for contact details.
- Find an independent financial adviser near you. See page 52 to find out how.
- Contact The Pension Service to get a State Pension forecast – details are on page 49, and see the list of guides available on page 53.

2 Understanding your pension options

What is the State Pension?

The State Pension is made up of:

- basic State Pension; and
- additional State Pension.

You may be entitled to either or both when you reach State Pension age if you meet the qualifying conditions. See page 15 to find out more about the qualifying conditions.

Remember that although the State Pension will give you a start, to have the lifestyle you want when you retire you will need to think about other savings too. See pages 28 to 42 for information about occupational, personal and stakeholder pensions, and page 10 for some information about other ways to save.

What is State Pension age?

State Pension age is:

- 65 for men; and
- 60 for women born on or before 5 April 1950.

Women's State Pension age will rise to 65 between 2010 and 2020. For women born between 6 April 1950 and 5 April 1955, when you reach State Pension age will depend on your date of birth.

From 6 April 2020, the State Pension age for both men and women will be 65.

You do not have to retire when you reach State Pension age. You can:

- continue to work while claiming your State Pension; or
- put off claiming your State Pension until later to get a higher weekly pension, or a one-off taxable lump-sum payment, depending on how long you put off claiming for.

Take action

- Find out the exact date when you will reach State Pension age by using the calculator on The Pension Service website. You can access it from the Resource Centre at www.thepensionservice.gov.uk
- Find out more about the changes to the State Pension age for women. See page 53 for how to order a copy of The Pension Service leaflet *Pensions for women – Your guide* (PM6).
- See page 44 to find out more about working longer and putting off claiming your State Pension.

What is the basic State Pension?

The Government pays the basic State Pension to people who claim it and have reached State Pension age. You qualify for it by:

- paying;
- being treated as having paid; or
- being credited with

National Insurance contributions for a minimum number of years. See page 18 for more information about paying National Insurance.

Most employers will take your National Insurance contributions straight out of your wages. You can see how much you're paying on your payslip. Your employer also pays National Insurance for you. If you are self-employed, it is your responsibility to make sure you pay your own National Insurance contributions.

If you haven't always worked you may still be able to receive credits for periods when you've been out of work, had long-term illnesses and injuries, or been getting Carer's Allowance because you are caring for someone who is seriously sick or disabled. This means that the Government will add some contributions to your National Insurance record for you – so you will still be building up a State Pension for those years.

You may also get help from Home Responsibilities Protection (HRP) to protect your basic State Pension if you are:

- caring for a child under 16 and you receive Child Benefit;
- caring for a sick or disabled person; or
- an approved foster carer.

HRP does not credit you with National Insurance contributions, but it does reduce the number of years that you need to have paid contributions to get a State Pension.

How is my basic State Pension worked out?

People get different amounts of State Pension depending on how many years they have paid, been treated as having paid or been credited with National Insurance contributions. These are known as qualifying years.

Because men and women have different State Pension ages at the moment, the number of qualifying years for a full basic State Pension is currently different.

- Women must normally have between 39 and 44 qualifying years to get a full State Pension, depending on the date they reach their State Pension age.
- Men must normally have 44 qualifying years to get a full State Pension.
- To get the minimum basic State Pension (25% of a full basic State Pension) you normally need 10 or 11 qualifying years, depending on your State Pension age. If you have fewer qualifying years than this, you will not normally get a basic State Pension.
- If you have Home Responsibilities Protection, the number of qualifying years you will need to get a State Pension will be reduced.

If you want to increase your qualifying years, you may be able to pay voluntary National Insurance contributions to increase the amount of basic State Pension you receive. However, once you are receiving the full State Pension (or are entitled to receive it), you can't add more.

Basic State Pension – the essentials

When can I claim it?
You can claim the basic State Pension up to four months before you reach State Pension age.

When do I get it?
You can get the basic State Pension from State Pension age onwards.

How much do I pay?
The amount of National Insurance you pay depends on how much you earn.

How much do I get?
If you were to retire in the tax year 2006/2007, having qualified for a full basic State Pension on your own National Insurance contributions, you would get £84.25 a week. If you only qualified for the minimum basic State Pension you would get £21.06 a week.

How are my National Insurance contributions paid?

You are entitled to the basic State Pension if you have paid, been treated as having paid or been credited with enough UK National Insurance (NI) contributions.

- If you are in paid work and you earn more than £97 in any week (for 2006/2007) from a single employer, you will pay NI contributions through your wages.
- If you are working and earning between £84 and £97 in a week (for 2006/2007) from a single employer, you will be treated as if you have paid NI contributions.
- If you have not been able to make NI contributions (for example, if you haven't been able to work due to illness or because you have been looking after a sick or disabled person and getting Carer's Allowance), you may be granted NI credits. Or, if you have been caring for children, been a foster carer, or been looking after a seriously ill or disabled person (but not able to get Carer's Allowance), you may have the number of your qualifying years reduced to help increase your State Pension entitlement.
- If you are self-employed, you must pay NI contributions unless you have made a successful application not to pay because of low earnings. You must make these payments to HM Revenue & Customs yourself.
- In some circumstances you may be able to use your wife's, husband's or civil partner's NI contributions to help you get a better State Pension.

Remember

You don't receive the State Pension automatically. It's up to you to claim it. You will usually be sent an invitation to claim when you are four months away from State Pension age. If you are four months or less away from State Pension age, and you have not received your invitation to claim, contact The Pension Service to ask for a claim form.

Take action

- Get a forecast of how much State Pension you will get when you retire. Your forecast will include the amount you can expect to receive from both your basic State Pension and your additional State Pension. See page 49 for contact details.
- Find out more about State Pensions in *State pensions – Your guide* (PM2). You may also find the guide *State pensions for carers and parents – Your guide* (PM9) useful. See page 53 to find out how to order copies of these guides from The Pension Service.
- Contact HM Revenue & Customs to find out more about National Insurance contributions. See page 50 for contact details.
- To find out how to contact The Pension Service, see page 48.

What is the additional State Pension?

The additional State Pension is money paid to you by the Government each week. The amount you get depends on your earnings and National Insurance record throughout your working life. You do not have to be getting the basic State Pension to get additional State Pension.

Your additional State Pension is also called the **State Second Pension**, which was previously known as the **State Earnings-Related Pension Scheme (SERPS)**.

You may get shared additional State Pension if you divorce or have your marriage annulled after December 2000 or if your civil partnership ends.

You cannot get any additional State Pension for National Insurance contributions you pay as a self-employed earner.

You can also get Graduated Retirement Benefit if you paid enough graduated contributions during the period from April 1961 to April 1975.

Additional State Pension – the essentials

When do I get it?

You can start getting the additional State Pension as soon as you reach State Pension age.

How much do I pay?

The additional State Pension is based on the amount of your earnings on which you pay or are treated as having paid National Insurance contributions. For example, if you are working or earning between £84 and £97 a week in 2006/2007 from a single employer, you will be treated as if you have paid National Insurance contributions.

How much do I get?

The amount of additional State Pension you will receive is related to your earnings, which means that the more you were earning (up to the National Insurance upper earnings limit, which is £33,540 for 2006/2007), the more you will get when you claim your State Pension. However, since 2002, low and moderate earners can get a more generous additional State Pension. Also, in some cases, carers and people with long term illnesses or disabilities can build up an additional State Pension.

Can everyone get the additional State Pension?

No. You cannot build up your additional State Pension for any period where:

- you are not working (but see below);
- you are self-employed;
- you earn less than a set amount a year (£4,368 for 2006/2007);
- you have contracted out of the additional State Pension and instead pay into a personal pension and earn more than £12,500 for 2006/2007; or
- you are contracted out of the additional State Pension and instead pay into an occupational pension scheme and earn above £28,800 (in 2006/2007). See the next section for information about contracting out of the additional State Pension.

However, in some circumstances, carers and people with long-term illnesses and disabilities can build up an additional State Pension even if they are not in work.

Contracting out

If you work for an employer and earn more than £4,368 in 2006/2007, you will be automatically included in the additional State Pension scheme. But some people choose to leave the additional State Pension and join a contracted-out occupational pension if they think it will give them a higher income, or other benefits, when they claim it. Or, some people may choose to do this by setting up a personal pension arrangement with an independent pension provider. This is called 'contracting out'. Even if you do this, you may still be entitled to some additional State Pension, depending on your level of earnings, or from a period when you worked for a different employer.

If you decide to contract out, you give up your additional State Pension entitlement from that employment and build up a replacement for it in your own pension instead. You can do this in two ways.

1. You can join your employer's contracted-out occupational pension scheme. If you do this, you will automatically be contracted out of the additional State Pension from the date that you join the scheme. Both you and your employer will pay lower-rate National Insurance contributions and most, or all, of your second pension will then come from your employer's scheme. Your basic State Pension will not be affected.

2. Or you can join a contracted-out personal pension scheme such as a stakeholder pension. You can choose to do this if your employer doesn't run a contracted-out occupational pension scheme, or if they do and you don't want to join it.

If you leave your job, or decide you are not happy with your existing occupational or personal pension arrangements, you do not have to stay contracted out.

Should I contract out?

Contracting out is not right for everyone. Look carefully at your own circumstances and think about getting advice from the Pensions Advisory Service or an independent financial adviser before deciding to leave the additional State Pension.

Are you self-employed?

If you are self-employed, you are not covered by the additional State Pension because you pay a lower rate of National Insurance contributions. So, you will not be able to contract out.

Future changes to contracting out

The Government has announced that it intends to abolish contracting out for money purchase pension schemes (also called defined contribution or DC schemes) and personal and stakeholder pension schemes. Further information about how this may affect you if you are contracted out through one of these arrangements can be found in **Contracting out of the State Second Pension – Your guide** (PM7). See page 53 for details of how to get a copy of this guide.

For more information about money purchase pension schemes, see page 30.

Take action

- Find out how to get hold of the following guides from The Pension Service on page 53.
  - *State pensions – Your guide* (PM2) tells you more about State Pensions, including the additional State Pension.
  - *Pensions for the self-employed – Your guide* (PM5) will help you decide what's best for you if you are self-employed.
  - *Contracting out of the State Second Pension – Your guide* (PM7) gives you information about leaving the State Second Pension.
  - *State pensions for carers and parents – Your guide* (PM9) explains what to do to make sure you get as much State Pension as you can in the future if you have given up work, or aren't earning very much because you are caring for someone.
- To check if you are already contracted out, call the HM Revenue & Customs contracted out pensions helpline. See page 50 for the contact details.
- To find an independent financial adviser near you, see page 52.
- To find out how to contact the Pensions Advisory Service, see page 51.

What if I want more money than my State Pension when I retire?

The State Pension will give you a basic income for when you retire but it's your responsibility to decide on the kind of lifestyle you want when you retire, and what you need to do to achieve it.

Over the next few pages, you will find information about what is available on top of the State Pension to help you start planning for your retirement now.

There are a number of options you can consider to help increase your income when you retire, including saving in an occupational or personal pension scheme, or working longer.

Private pensions are a long-term investment. This guide gives you basic information about the options currently available. For more information to help you decide what's best for you, you may find it useful to contact the Financial Services Authority (FSA) or the Pensions Advisory Service. Or, you can get advice from an independent financial adviser (but note that you may have to pay for their services). See section 3 at the back of this guide for more information and contact details.

What are the benefits of saving in a private pension scheme?

Private pensions include occupational, personal and stakeholder pensions. There are two main benefits of saving for your retirement in a private pension scheme.

1. You can get tax relief on the money you save in a private pension scheme.

2. If you are employed, your employer can choose to help you save more by making an additional contribution to your occupational or group personal pension scheme.

We explain more about all of these different types of pensions on the following pages.

Remember

- If you are not working, or if you are self-employed, you can still get tax relief on money you save in a personal or stakeholder pension scheme. See page 28 for more information about how tax relief works in occupational pension schemes, and the illustration on page 34 for more information about tax relief and personal or stakeholder pensions.
- No financial products, including pensions, are entirely risk-free: the amount of pension you get may depend on how well the scheme's investments have performed by the time you retire.

What is an occupational pension scheme?

An occupational pension scheme is an arrangement an employer makes to give its employees a pension when they retire. Occupational pensions are also known as company or work pensions. By not joining you could be missing out on tax relief as well as contributions towards your pension made by your employer. You can get an occupational pension on top of any State Pension you may be entitled to.

There are three important benefits of an occupational pension.

1. Tax relief: you get tax relief on your contributions. This broadly means that with a basic rate of income tax of 22%, for every £100 you pay in, the amount you pay in tax will be reduced by £22 (based on the tax year 2006/2007). With a higher rate of income tax of 40%, for every £100 that goes into your pension, the amount you pay in tax will be reduced by £40 (based on the tax year 2006/2007).

2. Employer contributions: most employers who run occupational pension schemes make contributions to the scheme on top of those paid by the member.

3. Extra benefits: occupational pension schemes often offer other benefits such as life assurance or a pension for your dependants if you die. You will need to check the exact benefits with your pension scheme provider.

Take action

- You can contact your pension provider for more detailed information about how tax relief works in occupational pension schemes. Or you can telephone HM Revenue & Customs. See page 50 for contact details.

Occupational pensions – the essentials

When do I get it?

This depends on the rules of the occupational scheme you belong to. You will usually be able to start claiming your pension and benefits at either 60 or 65 – ask your employer for details if you are not sure what the retirement age is for your scheme. However, you don't have to retire from all work to get an occupational pension – and in some cases you can even continue working for your employer.

How much do I pay?

The rules vary depending on which pension scheme you belong to, but usually you will pay a monthly contribution that is a percentage of your salary. You may also be able to make extra contributions if you want to increase the size of your pension fund when you retire.

How much do I get?

The amount of pension you will get depends mainly on the type of scheme you belong to and how long you have been a member.

1. In a salary-related pension scheme, the amount of pension you get is mostly based on the number of years you belong to the scheme and your earnings.

2. In a money purchase pension scheme, the amount of pension you get depends on how much money has been paid into your fund, and how well the scheme's investments have performed by the time you retire.

Each year your employer may send you a forecast of how much pension you will get when you retire. This will help you decide if you need to save more. If you do not receive a statement every year, you can ask for one. See the next page for more information about these two different types of pension schemes.

There are two main types of occupational pensions, both of which have either trustees or scheme managers to look after members' interests.

1. Salary-related pension schemes
(also called defined benefit, DB or superannuation schemes)

In a salary-related scheme, the pension you get is based mainly on the number of years you belong to the scheme and your earnings. Your pension can be based on your earnings when you retire or leave the scheme, or your average earnings during the time you contributed to the scheme. In some schemes only your basic salary counts towards your pension, but others also include additional payments such as overtime and bonuses.

You usually have to pay contributions into the scheme on top of those that your employer pays.

2. Money purchase pension schemes
(also called defined contribution or DC schemes)

In a money purchase scheme, your contributions (together with any from your employer) are invested and the amount you get when you retire depends mainly on the total amount of money you and your employer have paid into the scheme over the years and how the investment has grown. When you retire, you can choose to take some of your pension savings as a tax-free lump sum. The scheme will then use the rest of the fund to either pay you a pension or buy you an annuity from an insurance company to give you a regular income when you retire. This is why they are called 'money purchase' schemes – you are swapping your fund for a regular income for the rest of your life.

Take action

- 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. Talk to your employer for more information.

What if I work part-time?

If you work part time and your employer has an occupational pension scheme, you will usually be allowed to join it.

Things to remember when you join an occupational pension scheme

- Before you join an occupational pension scheme, one of the most important things to check is how much you will have to pay – and what contribution your employer is going to make.
- An occupational pension scheme is connected to your job. So if you leave your job, you need to check what will happen to your pension. You may be able to transfer your pension to another occupational scheme. It depends on whether or not your new employer will accept the transfer.
- If you decide to keep your benefits in your previous employer's occupational pension scheme, you can still join another occupational pension scheme.
- No financial products, including pensions, are entirely risk-free. For example, your employer may go out of business, or decide to change, or close, their occupational pension scheme for another reason, which could mean you get less than you were expecting. Also, the amount of pension you get may depend on how well the scheme's investments have performed by the time you retire.

Some frequently asked questions about occupational pensions

Do I still get the additional State Pension?
Yes. But you will lose some or all of your additional State Pension if your occupational pension scheme is contracted out.

What if my employer doesn't offer membership of an occupational pension scheme?
Recent changes in the law mean that most companies with more than five employees now have to offer you either membership of an occupational pension scheme or access to a stakeholder pension scheme. Or, you can choose to take out a personal pension.

What happens if my employer goes out of business or the occupational pension scheme winds up (closes down) for some other reason?
If your employer goes out of business or your pension scheme winds up (for whatever reason), there is a chance that you may get less than you expect when you retire. The Government has set up two organisations – the Pension Protection Fund and the Pensions Regulator – to improve protection for members of salary-related pension schemes. However, if you think your pension scheme may wind up, it's important that you make sure you understand your options and that you find out the best course of action for you to take, depending on your personal circumstances.

Take action

- Find out more about occupational pensions, including what to do if your scheme has to close, in *Occupational pensions – Your guide* (PM3). See page 53 to find out how to order a free copy from The Pension Service.
- The Financial Services Authority and the Pensions Advisory Service can also give you information and guidance about occupational pension schemes. See page 51 to find out how to contact them.
- For legal or financial advice about your personal circumstances, you can contact Citizens Advice (details on page 51) or an independent financial adviser (details on page 52).
- Find out more about the Pension Protection Fund and the Pensions Regulator at www.pensionprotectionfund.org.uk and www.thepensionsregulator.gov.uk

Tax relief is one of the reasons many people choose a personal or stakeholder pension to help provide for their future

Anna pays in:

The Government pays in:

Giving a total contribution of:

Anna is a basic rate taxpayer. This means she pays 22p in the pound tax on much of her income. However, because the Government provides tax relief on money saved in a pension, she doesn't have to pay income tax on money saved in her pension fund.

What this means is that (using the basic tax rates for 2006/2007) for every £78 she saves in a personal or stakeholder pension, the Government adds an extra £22. And the more she saves, the more money she gets in tax relief.

What is a personal pension?

A personal pension is a kind of pension that you buy from a pension provider such as a bank, life assurance company or building society. It is entirely your own, which means you can continue to contribute to it if you move jobs.

It is a good idea to consider a personal pension if you:

- cannot, or do not want to, pay into an occupational pension scheme;
- are self-employed; or
- are not working but can afford to pay for a pension.

Personal pensions are money purchase schemes (also called defined contribution or DC schemes). As with occupational money purchase schemes, the money you save is put into investments for you, such as bonds or stocks and shares. When you retire, this fund will be used to buy an annuity from an insurance company that will give you a regular income. See page 30 for more information about money purchase schemes and annuities.

What are the benefits of a personal pension?

There are several advantages to contributing to a personal pension scheme.

- You get tax relief on your contributions. The illustration on the previous page shows you how this works.
- You can choose to take a tax-free lump sum of up to 25% of your total pension when you retire.
- You may be able to choose the funds you invest in.
- Other people can pay into a personal pension on your behalf. This means that partners or other family members can help you save for your retirement.
- You don't need to be working to save in a personal pension scheme.

Personal pensions – the essentials

When do I get it?

This depends on the rules of the scheme you belong to. You will usually be able to start claiming your pension and benefits from the age of 50 (although by 2010 the qualifying age for all pensions will usually be 55). But the longer you continue to work and to pay into your scheme, the more money you are likely to get when you do decide to retire. Most people choose to wait until they are 60 or 65. However, you don't have to retire from work to get your pension benefits.

When do I make payments?

Usually, your provider will ask you to make regular payments into your personal pension every month. But some people, in particular self-employed people, prefer to make contributions every year.

How much do I get?

The amount of pension you get depends on how much money has been paid into your fund by the time you retire and how well the scheme's investments have performed. Every year your provider will send you a forecast of how much your personal pension fund is worth. This will give you an idea of what you can expect to get when you retire – and help you decide if you need to save more.

Things to remember when choosing a personal pension scheme

Choosing a personal pension scheme is an important financial decision and there are many things to consider.

- 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 page 40 for more information about stakeholder pensions). And make sure the personal pension you choose is the right one for you because you may have to pay extra charges if you decide to transfer to a different type of scheme.
- What are the rules on making contributions? – For example, can you change the amount you contribute if your circumstances change?
- How much can you save and is the pension scheme 'contracted out' of the additional State Pension?
- How will the money be invested?
- How much does the pension provider charge you for setting up your pension and for administration? Remember that high administration costs don't necessarily mean it's a good pension.

Because of all these things, it's a good idea to shop around and do some research. One place to start is the Financial Services Authority (FSA), which publishes lists of all the pension providers it authorises, as well as providing tables that compare different pension schemes.

You could also contact the Pensions Advisory Service for more information about personal pensions, or pay an independent financial adviser (IFA) to help you choose a suitable personal pension.

As with any other financial or contractual agreement you make, it is important to carefully consider the advice you are given. Always read the small print before you sign or agree to anything.

Group personal pensions

Some employers may arrange for a pension provider to offer their employees a personal pension instead of an occupational pension. Personal pensions arranged in this way are called 'group personal pensions'. Find out if your employer has made this arrangement and if it is suitable for you.

Although they are sometimes referred to as company pensions, they are not run by employers and should not be confused with occupational pensions.

There are two important advantages of group personal pensions over individual personal pensions.

1. Because they are often organised by an employer, it is more likely that your employer will also pay into the group scheme on your behalf than if you took out a personal pension by yourself.

2. Your employer may have been able to negotiate special conditions such as reduced charges with the provider.

But if you leave your employer, it is likely that they will stop paying into your pension scheme. What's more, you may lose any special terms that your employer has negotiated for the group scheme. Find out as much as you can from your employer before you join or leave – and contact the pension scheme provider to find out what your options are.

Take action

- For more information about personal pensions, group personal pensions, authorised providers and annuities, call the Financial Services Authority. See page 51 for contact details.
- Call the Pensions Advisory Service for information and guidance about personal pension schemes. See page 51 for contact details.
- To find an independent financial adviser near you, see page 52.
- Read *Personal pensions and stakeholder pensions – Your guide* (PM4) to find out more. See page 53 to find out how to order a copy.
- If you are self-employed, read *Pensions for the self-employed – Your guide* (PM5). See page 53 to find out how to order a copy.

What is a stakeholder pension?

Stakeholder pensions may be a good choice for you if you do not have access to an occupational pension or a good-value personal pension. If you are self-employed, or not earning, a stakeholder pension could also be the best option for you.

Stakeholder pensions are money purchase pensions. As with other types of personal pensions, the pension you get does not depend on your salary and the money you save is put into investments for you. Your fund will then be used to buy an annuity from an insurance company, to give you a regular income when you retire. See page 30 for more information about money purchase schemes and annuities.

What are the benefits of a stakeholder pension?

There are some differences between stakeholder pensions and other types of personal pensions. Stakeholder pensions have to meet certain standards set by the Government to make sure they offer value for money, flexibility and security.

- You get tax relief on your contributions. The illustration on page 34 shows you how this works.
- The charges are capped – there are limits to how much you have to pay the pension fund provider.
- There are low minimum payments.
- They are more flexible than many other private pension schemes – you can choose when and how often you pay into the scheme and there are no penalties if you miss a payment.
- Other people, as well as your employer, can pay into a stakeholder pension on your behalf. This means that partners or other family members can help you to save for your retirement.
- You don't need to be working to save in a stakeholder pension scheme.

Stakeholder pensions – the essentials

When do I get it?

As with other types of personal pensions, you will usually be able to start claiming your pension and benefits from the age of 50 (although by 2010 the qualifying age for all pensions will usually be 55), but the longer you continue to work and to pay into your scheme, the more money you are likely to get when you do decide to retire. Most people choose to wait until they are 60 or 65. However, you don't have to retire from work to get your pension benefits.

How much do I pay?

One of the advantages of stakeholder pensions is that you can choose how much you pay in – and you can make contributions whenever you have some spare cash. To get the most out of your pension, it is best to make regular payments if you can, but you can stop payments for a while if you need to without it costing you anything. But remember that the less money you put into your pension scheme now, the less you will get back as income when you retire.

How much do I get?

That depends on how much you have paid into your stakeholder pension scheme, and how well the scheme's investments have performed by the time you retire. Your pension scheme provider will send you a pension forecast every year that will tell you how much your fund is worth and how much you can expect to receive when you retire if you continue to contribute at your current level.

Things to remember when you join a stakeholder pension scheme

Can I move to a different pension scheme?

If you want to move your stakeholder fund to another pension provider or another stakeholder pension scheme, there will not normally be a penalty for making the transfer.

Does my employer have to offer membership of a stakeholder pension scheme?

Yes – most companies that employ five or more people must offer their employees a chance to join a stakeholder pension scheme.

Can I still get the additional State Pension?

If you earn between £84 and £240 a week (for 2006/2007), you will be entitled to receive some additional State Pension even if you are contributing to a contracted-out stakeholder pension. This is because of the extra help the additional State Pension gives to people on lower pay.

Take action

- To contact the Pensions Advisory Service's stakeholder helpline, see page 51.
- Get the FSA's factsheet *Stakeholder pensions and decision trees* – see page 54.
- Read *Personal pensions and stakeholder pensions – Your guide* (PM4) to find out more. See page 53 to find out how to order a copy.
- Visit www.stakeholdersaving.gov.uk/pensions for more information from the government about stakeholder pensions, and other saving products.

Can I save money in more than one occupational or personal pension at the same time?

Yes – since 6 April 2006, new tax rules have made it easier to save in more than one occupational or personal pension. These rules also make it easier to save in both an occupational and personal pension scheme at the same time.

Saving in more than one pension scheme can give flexibility and choice, but it can also lead to you paying more in administration costs. So what is best for you can depend on your circumstances, your retirement needs and what pension saving you have already made.

To help you decide the best choice for you, you may find it useful to consult an independent financial adviser.

Is there a limit to how much I can save in a private pension scheme?

Yes – because you get tax relief on the money you save in a pension scheme, there are limits on how much you can save each year and how much tax relief you can get on your total savings. On 6 April 2006, the Government introduced a simpler set of limits for all occupational and personal pension schemes. These new rules will allow most people to save more towards a pension and a retirement lump sum and to get tax relief on this money. You can find out more about these new rules and how much you can save from the Financial Services Authority (FSA), HM Revenue & Customs or an independent financial adviser.

What if I don't want to retire yet?

You do not have to retire when you reach State Pension age. You can continue to work while you claim your State Pension, or you can put off receiving your pension until later and get more State Pension each week. Or, if you have put off getting your State Pension for at least 12 months, you can get a one-off taxable lump-sum payment.

Working for longer can help you to build up a better income for when you retire, as well as making you better off now. Nowadays people are living longer, which means that it is more important than ever to plan ahead for your future.

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

Take action

- Order *How to get extra weekly State Pension or a lump sum payment: Your introduction to State Pension Deferral* (SPD2).
- Order *Are you over 50*? This guide tells you about working longer and the help and advice you can get from the government and voluntary organisations for people over 50. It includes information about looking for work, changing jobs and updating your skills.

See page 53 to find out how to get copies of these guides.

Pension Credit: are you 60 or over?

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 of £114.05 for single pensioners and £174.05 a week for couples in 2006/2007. These amounts may be more for people who have caring responsibilities, are severely disabled or are responsible for certain housing costs such as mortgage interest repayments. If you are aged 65 or over, you may get extra money if you have made modest provisions towards your retirement.

Take action

For more information about Pension Credit, order *Pension Credit* (PC1L). Find out how to get a copy of this guide on page 53.

3 What should I do next?

There are a number of things you can do if you want to start planning for your retirement now.

- Find out how much State Pension you may be entitled to by getting a forecast. This forecast will give you an idea of what you can expect to receive from the Government when you reach State Pension age and help you to decide whether you are currently saving enough for your retirement needs. Find out how to get a State Pension forecast on page 49.
- If you don't belong to an occupational pension scheme, ask your employer for information about the scheme they offer.
- If you are already a member of an occupational pension scheme, your employer or pension provider may send you a statement every year that shows how much pension you can expect to receive from the scheme when you retire. If you haven't received one, you can ask your employer or pension provider to send you one.
- Find out if your employer can give you a combined pension forecast – that is a pension forecast that shows details of both your State Pension and occupational pension together. This will help you to understand what your total pension income is likely to be once you have retired. Find out how to get a combined pension forecast on page 49.

- If you are self-employed and don't already have a second pension, visit an independent financial adviser to find out which personal or stakeholder pension would be right for you.
- If you are already a member of a personal pension scheme, your pension provider will send you a statement every year that includes an individual pension forecast for the scheme you belong to. This will tell you how much you may be entitled to when you retire.
- If you think you have one or several old company or personal pensions that you do not know the full details of, contact the Pension Tracing Service. You may have lost touch with your pension scheme, possibly due to a change in jobs, or the company may have changed its name. Whatever the reason, if you are no longer in contact with the company you should get in touch with the Pension Tracing Service, who may be able to give you the information you need to help you trace your pension. You can find Pension Tracing Service contact details on page 49.

Useful contacts

This section includes the contact details of a range of organisations that you may find useful. Where available, we have included textphone numbers for readers who are deaf or hard of hearing, or who have speech difficulties.

Some phone numbers are 'Freephone', which means calls are usually free from landlines. For most other phone numbers, calls are charged at local or national rates. Call charges may be different if you call from a mobile phone or a public phone. You should check the exact call charges with your provider.

The Pension Service

The Pension Service is part of the Department for Work and Pensions. It has been set up to provide today's and future pensioners with a dedicated service. You can talk to them about your State Pension, Pension Credit and other entitlements. Or find out what you can expect when you reach State Pension retirement age.

Phone: 0845 60 60 265
Textphone: 0845 60 60 285
Welsh-language phone: 0845 60 60 275
Textphone for Welsh language: 0845 60 60 295
Lines are open from 8am to 8pm, Monday to Friday.
Website: www.thepensionservice.gov.uk

For information about State Pension forecasts
To get a State Pension forecast, contact the Retirement Pension Forecasting Team.

Phone: 0845 3000 168
Textphone: 0845 3000 169
Lines are open from 8am to 8pm, Monday to Friday, and from 9am to 1pm on Saturdays. You can also get an online forecast or download a pension forecast application form at www.thepensionservice.gov.uk

For information about combined pension forecasts
If you are an employer or pension provider and would like your employees or scheme members to receive a combined pension forecast, contact a customer account manager.

Phone: 0870 010 1684
Lines are open from 9am to 5pm, Monday to Friday.

If you have a question about a combined pension forecast that you have received from your employer or pension provider, contact the Retirement Pension Forecasting Team (details are in the section above).

To contact the Pension Tracing Service
Phone: 0845 6002 537
Textphone: 0845 3000 169
Lines are open from 9am to 5pm, Monday to Friday.

You can also fill in the pension tracing request form online at www.thepensionservice.gov.uk or write to
Pension Tracing Service
The Pension Service, Tyneview Park, Whitley Road
Newcastle upon Tyne NE98 1BA

HM Revenue & Customs

HM Revenue & Customs (HMRC) is responsible for collecting taxes, including National Insurance contributions, as well as paying tax credits and Child Benefit.

Phone: 0845 302 1479
Lines are open from 8am to 5pm, Monday to Friday.
Website: www.hmrc.gov.uk

For information about Individual Savings Accounts (ISAs)
Phone: 0845 604 1701
Lines are open from 8.30am to 5pm, Monday to Thursday, and from 8.30am to 4.30pm on Fridays.

For information about contracted-out pensions
Phone: 0845 915 0150
(You will need to quote your National Insurance number.)
Lines are open from 8am to 5pm, Monday to Friday.

DirectGov

The DirectGov website is the place to turn for the widest range of government information and services in one place. As well as government departments, the site has links to other organisations that can offer advice and support – including information about pensions, money and tax.

Website: www.direct.gov.uk

Financial Services Authority (FSA)

The FSA is the independent watchdog set up by the Government to regulate financial services and protect your rights. They aim to help you understand financial services and get a fair deal.

Phone: 0845 606 1234 (consumer helpline)
Textphone: 0845 730 0204
Website: www.fsa.gov.uk/consumer

The FSA's register of authorised financial services firms is at www.fsa.gov.uk/register

The Pensions Advisory Service

The Pensions Advisory Service is an independent not-for-profit organisation that provides free information and guidance on the whole range of pensions covering state, company, personal and stakeholder schemes. They also help you if you have a problem, complaint or disagreement with your occupational or private pension provider.

Phone: 0845 601 2923
Lines are open from 9am to 5pm, Monday to Friday.
Website: www.pensionsadvisoryservice.org.uk
Address: The Pensions Advisory Service, 11 Belgrave Road, London SW1V 1RB.

Citizens Advice

The Citizens Advice service helps people sort out their legal, money and other problems by providing free, independent and confidential advice. They will be able to tell you more about the different types of pension available. You can find your nearest office by visiting their website at www.citizensadvice.org.uk or looking in your local phone book.

There are also many other similar local services that provide information and advice about money. See the 'Information Services' section in your local Yellow Pages.

Independent financial advisers (IFAs)

These organisations can help you find advisers in your area who specialise in retirement planning and pensions.

If you decide to get advice from an independent financial adviser (IFA), you may have to pay the adviser a fee for their services, or pay indirectly through commission. Commission is the payment that financial advisers get from the product provider for each sale they make.

Before you get financial advice, your adviser will give you a document explaining their services and charges. You should always ask for details of what pensions your adviser can offer and how much you will have to pay in fees or commission.

IFA Promotion
Phone: 0800 085 3250
Textphone: 0800 083 0196
Website: www.unbiased.co.uk

The Personal Finance Society
Website: www.thepfs.org

My Local Adviser
Website: www.mylocaladviser.co.uk

Useful publications

The Pension Service publishes a series of free guides about pensions. You can order them by calling 0845 7 31 32 33 or by visiting the resource centre of The Pension Service website at www.thepensionservice.gov.uk.

- **State pensions – Your guide (PM2)**
- **Occupational pensions – Your guide (PM3)**
- **Personal pensions and stakeholder pensions – Your guide (PM4)**
- **Pensions for the self-employed – Your guide (PM5)**
- **Pensions for women – Your guide (PM6)**
- **Contracting out of the State Second Pension – Your guide (PM7)**
- **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)**
- **Are you over 50? (Over50?)**
  A practical guide to the advice, services and support you can get from the Government and voluntary organisations for people over 50.
- **Pension Credit (PC1L)**
  To order this guide, 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

You can get more detailed free guides about pensions from the Financial Services Authority. Call the FSA consumer helpline on **0845 606 1234**, or visit their website at www.fsa.gov.uk/consumer to order your copies.

- **FSA guide to pensions 1 – Starting a pension**
- **FSA guide to pensions 2 – Reviewing your pensions**
- **FSA guide to pensions 3 – Annuities and income withdrawal**
- **Stakeholder pensions and decision trees**

We recommend that you look for more information about the choices you are considering and your own circumstances when you have read this guide. You can read further leaflets from The Pension Service and/or contact some of the other organisations mentioned here that can provide guidance and advice. There are full contact details in section 3, beginning on page 46.

The Pension Service

Part of the Department
for Work and Pensions

For more copies of this guide, or for a version in Welsh, on audio cassette, in large print or in Braille, you can phone 0845 7 31 32 33.

You can also read this guide on the internet at www.thepensionservice.gov.uk

ISBN: 978-1-84695-317-0

Produced by The Pension Service
Printed in the UK.
September 2006
PTB1

General enquiries 0845 60 60 265
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What do you think of this guide?

We would like to hear what you think about this new guide. Your answers will be completely confidential. Please fill in this questionnaire and return it to the Freepost address over the page.

How helpful has this guide been in answering your questions?

☐ Very ☐ Quite ☐ Not very ☐ Not at all

How easy is it to find the information you want in this guide?

☐ Very ☐ Quite ☐ Not very ☐ Not at all

What do you think of the amount of information in this guide?

☐ Very ☐ Quite ☐ Not very ☐ Not at all

Which sections of this guide did you find least useful and why?

Would you improve the guide in any way?

☐ Yes ☐ No If 'Yes' how?

Do you think that you will refer to this guide again in the future?

☐ Yes ☐ Maybe ☐ No

Now that you have read this guide, what are you going to do to plan for your retirement?

Are you: ☐ male ☐ female

How old are you?

☐ 18 to 24 ☐ 25 to 34 ☐ 35 to 49 ☐ 50 or over

Where did you get this guide?

Do you have any other comments?

Pensions Guide
Freepost RLXH-JUEU-G2CH
Northampton
NN3 60J