

PM1 (Jun 1998)

Don't leave your Pension to chance

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August 2010

Don't leave your pension to chance



PM1
from June 1998

Don't leave your pension

Are you a man, woman, married, single, old, young, employed, self-employed or part of a family?

Whoever you are, whatever your circumstances, you should be thinking about pensions.

If you want to enjoy your retirement, you need to plan for your pension. And the sooner you do this the better.

This leaflet tells you about the different types of pension you can get, what you should think about, the questions you should ask and who to ask.

The basic state retirement pension is a foundation on which you can build. How much to save, and the sort of pension to choose, are questions for you to answer. But the decisions you make now will affect how much money you have when you retire.

What you need to consider during your life...



Leave school or college and start work

Does the company offer a pension, and if so what sort?

Leave school or college and start work

Will my boss contribute to a personal plan?

Change Jobs

Can I keep or transfer my existing pension?

Change Jobs

What does the new job offer me?

to chance

Other leaflets in the series give you more information about particular areas of pensions. There's a complete list, and details of how to get hold of them, on page 30.

None of these leaflets will give you all the answers but they will help you find out more about pensions.



It's up to you! But we can help.

Chance



Change Jobs

Am I still saving enough?

Get married or live with someone

Am I still saving enough?

Community Chest



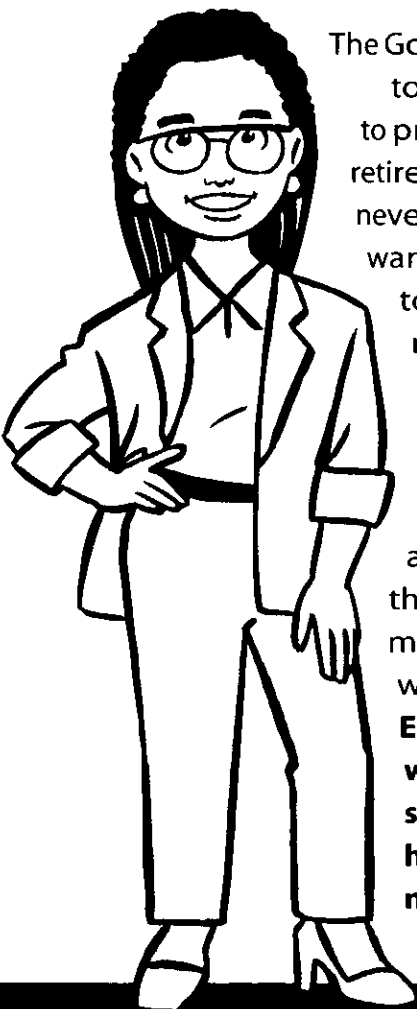
Get married or live with someone

Should I rely on my partner?

Get married or live with someone

Are we covered if one of us is ill or dies?

Introduction



The Government aims to make it possible for everyone to make their own choices about how they want to provide for their own retirement. The basic state retirement pension is a secure foundation but it was never meant to support the lifestyle most people want today. The Government believes the best way to have a secure retirement is to use the basic retirement pension as a solid foundation on which to build a second pension.

Already most people in work, who want more than the state second pension, can make arrangements to provide a pension for themselves. How you do this depends on how much you earn, the careers you choose and whether you are employed or self-employed.

Everyone needs to decide for themselves whether the basic retirement pension and any second pension, or other arrangements they have made, will be enough to meet their needs when they retire. There are a number

You get a job

Does your boss run a scheme you can join?

of ways in which the Government can help you to save for your retirement.

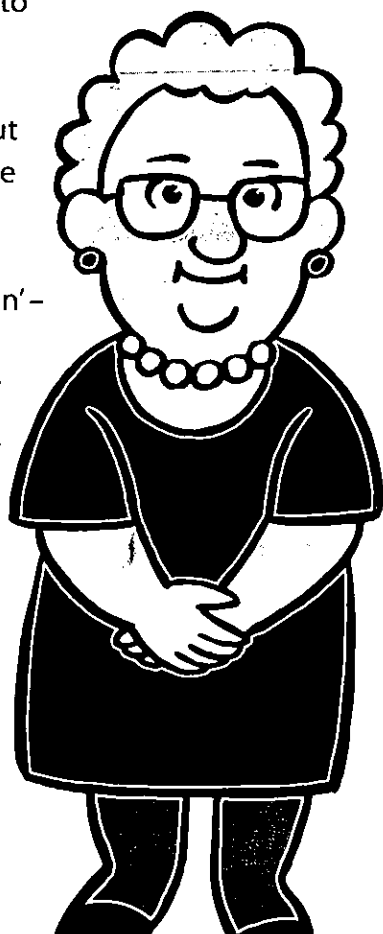
Many people already have a second pension, but it's important to remember that you always have a choice about *how* you build up that pension.

You can choose your second pension from:

- the state second pension ('additional pension' – usually called SERPS because it comes from the State Earnings Related Pension Scheme);
- an occupational pension from your employer; or
- a personal pension.

Decisions about pensions can be complicated, but this leaflet (and others in the series):

- explains the pensions system;
- tells you what your choices are; and
- gives you an idea of the questions you should ask.



The pension choices

- SERPS
- occupational
- personal

The leaflets will help you to work out what is best for you. The more information you have, the more chance you have of making the right choices to give you the retirement you want. And as people live longer, the quality of life for pensioners will become even more important. Having a better retirement may mean putting more money into your pension now. These leaflets explain how you can do this.

When you read this leaflet there are four main areas you should concentrate on.

- What are the most important things I need to know?
- What choices must I make?
- Where can I go for advice?
- What can I do to improve my pension?

Think about your future – now!

Most people don't give much thought to their pension but decisions you make now can have a real effect on your life when you retire.

You're in SERPS

What does this mean for
my pension?

The Pensions choice

Basic state retirement pension

Everyone gets this if they have paid enough National Insurance contributions. It's a flat-rate pension but the amount you get depends on the number of years you've paid contributions for. You can't opt out and any other pensions are paid on top.

Second pension

There are three main types of second pension.

- The state second pension (SERPS) pays out according to your record of National Insurance contributions as an employee.
- An occupational pension is set up by your employer who'll usually pay in for you. You will probably have to pay in as well. The pay-out may be related to your earnings when you retire or to the return on investments.
- A personal pension is one you buy from a



SERPS is the state second pension

What you'll get depends on your National Insurance record and earnings when you retire



pension provider. The pay-out depends on the amount you put in, investment performance, how much the provider charges and on the cost of buying the pension. We explain these pensions in more detail later on in this leaflet.

Contracting-out

Many people belong to an occupational scheme which provides benefits instead of SERPS. They are 'contracted-out' of SERPS. If you join a contracted-out occupational scheme, you and your employer pay lower National Insurance contributions to make up for the SERPS you have given up. When you retire your second pension will come from the scheme and not from SERPS.

You're contracted-out

How does this help me build up my pension?

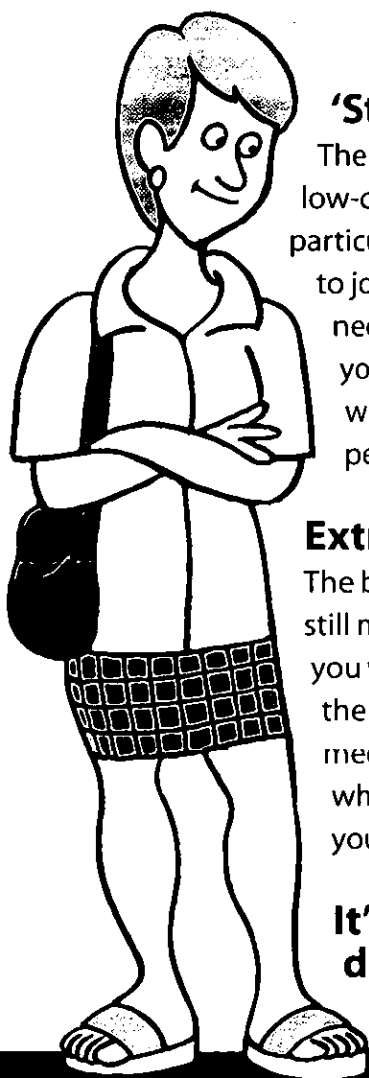
You can also contract-out of SERPS using a personal pension (then called an 'appropriate personal pension'). If you do this, once a year the Government will pay a rebate directly into the plan for you. You can buy a personal pension as well as SERPS, but you won't get the rebate.

Rebate-only pensions

If you contract-out of the state second pension scheme (SERPS), a rebate of your National Insurance contributions is paid into your chosen pension. Some occupational schemes and some personal pensions are organised on a 'rebate-only' basis. This means the only money being paid in is the National Insurance contributions rebate. **If you have this sort of second pension, it is *only* meant to replace SERPS, which might mean it is still not enough to support your lifestyle when you retire. Most people should consider whether they need to pay for extra pension. You will get tax relief on your contributions.**

Contracted-out?

Your pension will be boosted
by a National Insurance rebate
from the Government



'Stakeholder' pensions

The Government is working to develop a new range of low-cost, flexible second pension schemes which will be particularly suitable for the lower paid. You should be able to join these schemes in the next few years but you still need to consider your second pension position now. If you are thinking of a personal pension, make sure it will be easy and cheap to transfer to a stakeholder pension (or other pension) if this is better for you.

Extra pension

The basic retirement pension and a second pension may still not give enough cash for you to have the lifestyle you want when you retire. You need to decide whether the arrangements you have made will be enough to meet your needs. If they are not, there are ways in which you can add to the income you have when you retire.

It's up to you to decide what you can do to help yourself.

More money or promotion

**Should I put more into
my pension?**

Choosing the right pension

You need to choose the best sort of pension for your own lifestyle. The squares on the game board on pages 2–3, 16–17, and 28–29 show you different things you might consider. For example, if you are likely to move jobs frequently you may need a different type of pension from someone who plans to spend a long time with one employer. And if you are self-employed, you won't be able to belong to SERPS or an employer's scheme. The squares give you an idea of the choices you could face at different times in your life.

Basic state retirement pension

When you work, you pay National Insurance contributions if your earnings are above a certain level. These contributions build up your rights to the basic state retirement pension, often called the 'old age pension'. The amount of pension you receive depends on what you have contributed before you retire, not on your earnings. A full basic retirement pension is paid at a flat-rate amount.

Some people who are not in paid work (perhaps because they are unemployed, long-term sick, or looking after

Saving more

There are always options for saving more for retirement:

- AVCs;
- extra contributions; and
- another pension.



somebody) can still build up some basic retirement pension.

At the moment the state pension age is 65 for men and 60 for women. But the state pension age for women is going to change from 60 to 65. This change will start to happen from 2010 and by 2020 the state pension age will be 65 for both men and women.

It's difficult to work out how much your basic retirement pension will be, so we can do it for you. Ask for form **BR19** from your social security office and send it back in the envelope provided. We will then send you a forecast of what your pension will be. For your nearest office, look for the display advert under 'Benefits Agency' in the business numbers section of the phone book.

If you want to know more about basic retirement pension, please see **PM2** *You and state pensions*.

State retirement pension

How much pension will I get?

Second pensions

Do I really need a second pension?

On its own, the basic retirement pension may not be enough to give you the comfort in retirement you are looking for. At the moment, most employed people have to have a second pension but you can choose what sort of pension that is.

The state second pension (SERPS)

The Government runs a second pension scheme (SERPS) *for employees only*. You can choose to have an occupational or personal pension instead of or as well as SERPS.

If you have not chosen to do anything else, you earn enough, and you pay employees' National Insurance contributions, you are automatically in SERPS. SERPS is related to your earnings, so everybody gets different amounts. You cannot put extra money into SERPS, as it is based only on the earnings on which you have paid National Insurance contributions. Both you and your employer pay the full rate of National Insurance contributions if you are a member of SERPS.

Forecasts

You can get a forecast of your state retirement pension, based on your contributions to date. Your social security office can tell you what to do

If you are self-employed you will not get SERPS. But your National Insurance contributions *do* count towards the basic retirement pension.

How much will I get?

As with the basic retirement pension, it's difficult to work out how much your SERPS pension will be, so we can do it for you. If you are paying into SERPS, or you have paid in in the past, ask for form **BR19** from your social security office, and send it back in the envelope provided. We will then send you a forecast covering SERPS and basic retirement pension. For your nearest office, look for the display advert under 'Benefits Agency' in the business numbers section of the phone book.

The forecast will help you decide whether SERPS and the basic retirement pension you'll get when you retire is enough for you to live on. It only takes account of National Insurance contributions you have already paid, so it will be most accurate for those nearing retirement

You get married

What happens if I save less
for my pension?

age. Other pension options may be able to give you a greater income when you retire, but may also involve putting in more money.

What you need to do

- Find out how much basic retirement pension you can expect.
- Find out what you can expect from SERPS.
- Decide if this will be enough for your plans when you retire.
- If not, investigate other options.

If you want to know more about state pensions, please see **PM2** *You and state pensions*.



People who depend on you?

Many pensions provide
for partners and children
if you die

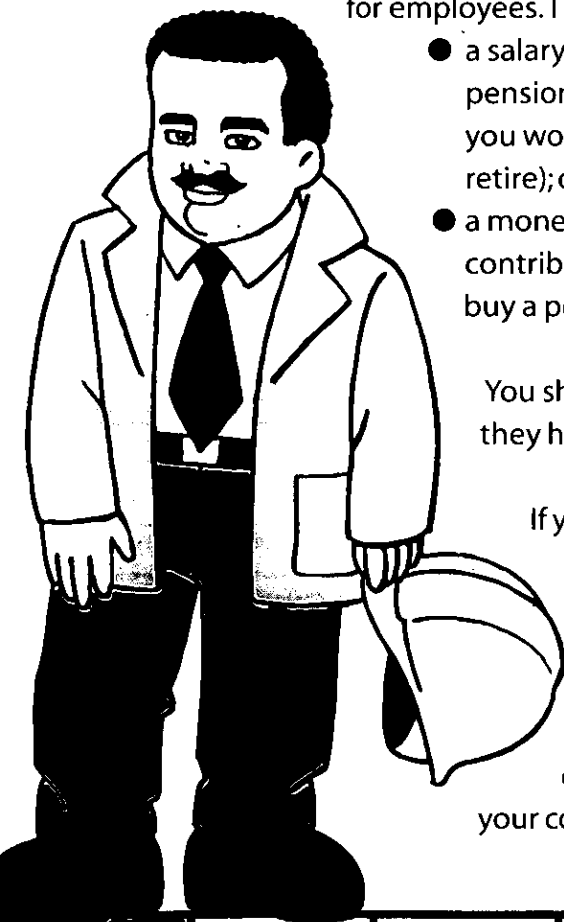
Occupational pensions

Many employers have an occupational pension scheme for employees. This may be:

- a salary-related scheme (where your pension depends on the number of years you work and your earnings when you retire); or
- a money purchase scheme (where contributions are invested and used to buy a pension when you retire).

You should ask your employer if they have a scheme and what sort it is.

If you join your employer's occupational scheme, your employer pays money into the scheme and you usually pay as well. You will normally get income tax relief on your contributions. So, for example, of your contributions, every £100 that goes



Buy property

Money's tight, what happens if I save less for my pension?

Have children

Money's tight, what happens if I save less for my pension?

Have children

If I take a break from work, how will it affect any pension I've got?

Getting confused?

I want to do something about pensions, but I don't know what

into your pension costs you only £77 (or £60 if you pay tax at the higher rate). When you retire, you will get a pension in return for the contributions you and your employer have made.

Occupational pension schemes often also provide other benefits, such as pensions for your dependants if you die; death-in-service benefits; or a pension if you have to retire early because you are ill.

Should I join my employer's occupational pension scheme?

Most members of an occupational pension scheme will be better off in retirement than they would be if they did not join scheme. Most employers pay something extra towards an occupational pension. So, in most cases you will get a bigger and better pension than you could get for the same money elsewhere. But there are exceptions. For example, if you change jobs frequently (at least every two years or so), it might be worth thinking about other pension arrangements. You should think twice before deciding not to join. If you are in any doubt, get as much information as you can (for example by reading the scheme's booklet or by talking to a union representative or

Getting clued up!

Get as much information as you can and don't be scared to ask questions

Children leave home

There's a bit more money, should I invest it for the future?

Career break

How will a break affect my pension?

Career break

Will it cost me money to stop paying in for a while?

financial adviser). If the scheme is contracted-out, the most important question is whether it will provide a better pension than SERPS or other arrangements.



What you need to do

- Decide what your career plans are.
- Decide how much you can afford to save for your pension.
- Find out if your employer has a pension scheme and whether you can join.
- Find out whether your employer will help fund your pension.
- Decide whether or not to join the employer's scheme.
- Find out what else is on offer if there is no pension scheme or you do not join.

If you want to know more about how occupational pension schemes work, please see **PM3** *You and occupational pensions*.

You buy a house

What happens if I save less for my pension?

Personal pension plans

Personal pension plans are sold by organisations such as insurance companies and banks. Many people call them 'private' pensions. Some employers may arrange for a particular company to offer personal pensions to their employees, and may take your contributions from your wages and pass them on for you.

You can buy a personal pension instead of SERPS. It is then called an 'appropriate personal pension'. Or you can have one as well as SERPS. Which is best for you will depend on your age, your earnings and the level of risk you want to take.

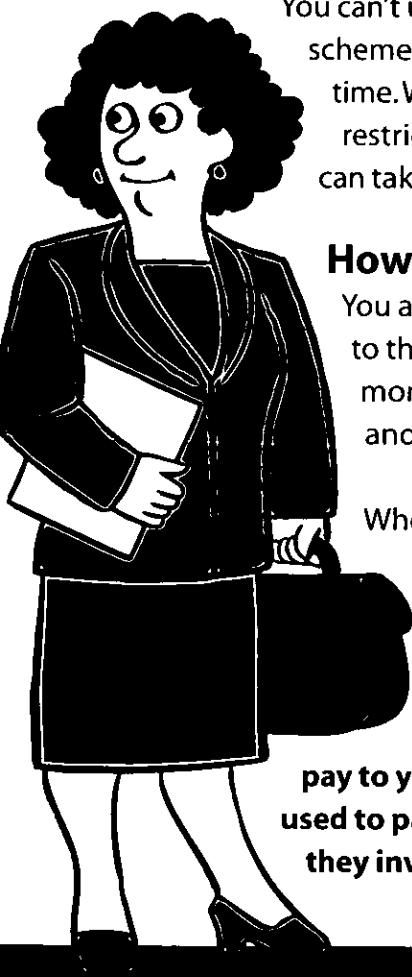
If you're thinking of an appropriate personal pension, the most important question is whether it will provide a better pension than SERPS or other arrangements.

Who can have a personal pension plan?

If you are working in a job where you can't or don't join an occupational pension scheme, or if you are self-employed, a personal pension may suit you. Some employers may agree to pay into the pension for you.

Paying less in

The more you pay, the more your pension will be. You get tax relief on your contributions



You can't usually belong to an occupational pension scheme and pay into a personal pension at the same time. When you can, you may find that you are restricted in the type of personal pension you can take out.

How do personal pensions work?

You agree to pay a regular amount or a lump sum to the provider of the plan. They take some of the money to pay their charges for setting up, selling and running the plan and invest the rest for you.

When you pay into a personal pension, the Government gives you tax relief on your contributions to boost the value of your pension. The companies that sell pensions make charges to pay for running and selling them. **This means some of the money you pay to your pension provider is not invested but is used to pay these charges. This reduces the amount they invest and the size of your final fund.**

Thinking of a
personal pension?

What should I look out for?

Sometimes, they also take charges from the interest on your investment. Those who sell personal pensions must tell you how much their charges are, how they affect your investment, and give some forecasts of your final pension (using different interest rates). Make sure you look at the figures – different providers can charge very different amounts – and shop around.

When you retire, you use the fund to give you a regular pension, called an annuity, from an insurance company. In some circumstances you can receive part of the pension fund as a tax-free lump sum, or take some of the fund as income before buying an annuity.

Group personal pensions

Some employers organise group personal pensions for their employees. In this case, the employer asks one company to arrange personal pensions for the employees. Charges may be lower and your employer may agree to pay extra contributions on top of what you (the employee) pay in. Although he or she may also take contributions from your wages and pass them on for you, these are still individual plans not an employer's scheme.

Personal Pensions

Make sure you choose a pension which suits your expected lifestyle. Make sure you know how much the pension will cost

Buying a personal pension plan

You can buy a personal pension in the following ways.

- Through a provider (or through a financial adviser who is 'tied' to the provider), or through an independent financial adviser (IFA). You'll have to pay for the advice you get and probably a fee or commission. This will reduce your investment and the amount of pension you get.
- Direct – sometimes over the phone – where costs could be less, but you may not receive as much advice. And you are responsible for making sure the pension meets your needs.

Dropping out

Almost $\frac{1}{3}$ of the people who buy personal pensions stop paying into them within three years. Dropping out can mean that you lose much of the money you've already paid in. You need to be sure before you buy a pension that it is the right thing for you. Find out what would happen if you could not continue making payments and how much it would cost if you wanted to move to a different scheme.

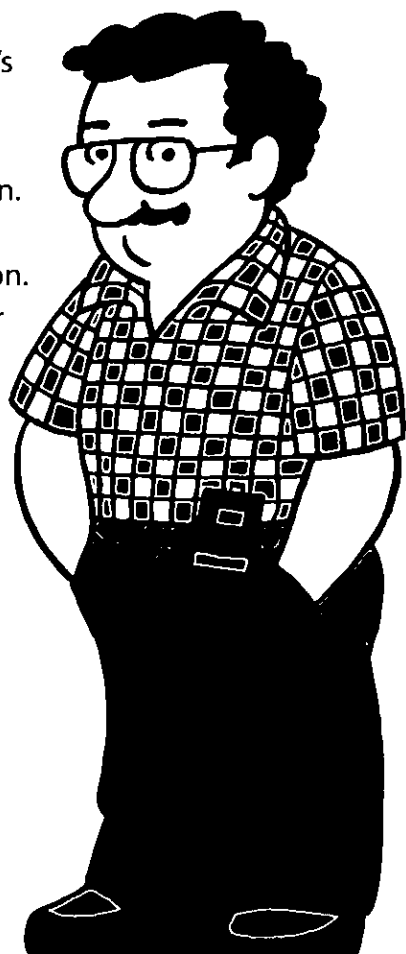
You're self-employed

Can I get a pension?

What you need to do

- Find out whether you can join an employer's occupational scheme.
- If not, or if you don't want to join, decide whether you're happy with SERPS on its own.
- If you're not, decide whether you want to replace it or add to it with a personal pension.
- If so, shop around for the one that is best for you – find out all you can about different sorts of personal pensions.
- If you're not confident about buying direct, speak to an authorised financial adviser.

If you want to know more about personal pensions, please see **PM4** *You and personal pensions*.



Pensions for the self-employed

You can get basic pension but not SERPS. You can buy a personal pension

Extra pension

Your second pension should increase over the years, but you need to keep an eye on it to make sure it is still enough when you retire. Or, as you become better off, you may want to build up the pension to give you a more comfortable retirement.

If you are in an occupational pension scheme, you will be able to pay additional voluntary contributions (usually called AVCs).

You can also pay AVCs to another provider (these are called free-standing AVCs or FSAVCs). The charges for these are likely to be higher than paying AVCs through your own occupational scheme, so check this.



You have a family

If I stop work to look after children, will this mean I'll not get a pension?

If you have a personal pension, you can simply increase the contributions or buy another policy (but check what the charges are in each case).



There are limits to the tax relief on the amount you can pay into a pension.

What you need to do

- Decide whether your basic retirement pension and your second pension will give you enough of an income when you retire.
- If you're in an occupational scheme, ask your employer about your options for making additional contributions.
- If you're in a personal pension, find out whether you can simply increase your contributions to the plan.

Protecting your pension

Home Responsibilities Protection (HRP) can help you to get a basic state pension

Pensions if you are self-employed

If you are self-employed, it's especially important to think carefully about how to provide for your retirement. You're not included in SERPS and you have no employer to provide an occupational scheme. So, if you do not want to have only the basic retirement pension, your only pension option is to buy a personal pension.

There are many personal pension products you can buy, but you need to get all the facts before you commit yourself. For example, what will happen if you can't keep up payments? Or, would it cost less to pay in lump sums less often?

If you want to know more about pensions for the self-employed, please see **PMS** *Pensions for the self-employed*.

You are looking after an elderly relative

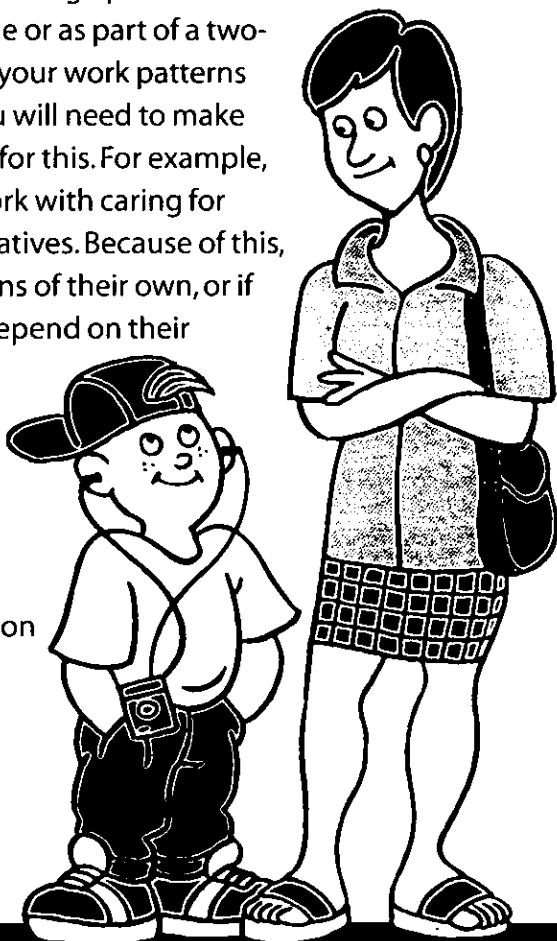
If I'm not working, does this mean I can't get a pension?

Pensions for women

More and more, many women are building up their own pension rights, either as single people or as part of a two-income household. But as a woman, your work patterns may be different from a man's, so you will need to make sure any pension you choose allows for this. For example, women frequently combine paid work with caring for children or for disabled or elderly relatives. Because of this, they may end up on very low pensions of their own, or if they are married they may have to depend on their husband's pension rights. But, with rising divorce rates, no woman can afford to assume she can just rely on her husband's pension.

So whatever your circumstances, building up rights to your own pension is more important than ever before.

If you want to know more about pensions for women, please see **PM6 Pensions for women**.




Protecting your pension
Home Responsibilities
Protection (HRP) can help
you to get a basic state pension

Getting advice

You should always think carefully before you decide which type of pension to choose and how much money you need to put away to reach the level of pension you want when you retire.

Apart from a home your pension is likely to be the biggest investment of your life so it's worth taking time to get the decision right. You need to shop around to compare what different pensions and pension providers have to offer. A pension is a long-term investment, so you need to consider carefully before making your choice. You may want to get expert financial advice, but you should realise that you will usually have to pay for it. Be sure you know how you will be charged and how this could affect your investment.

If you are already a member of your employer's occupational pension scheme or have the right to join it, you need to take great care that anything you choose instead will give you a better deal.

<p>Divorce</p> <p>How will I save for my retirement?</p>	<p>Divorce</p> <p>Can I make up lost years?</p>	<p>Chance</p> 	<p>Divorce</p> <p>What are the options for my or my husband's or wife's pension rights in a divorce settlement?</p>	<p>Caring for the elderly or sick</p> <p>Can I build up any pension entitlement?</p>	<p>Someone dies and leaves an inheritance</p> <p>How should I invest a lump sum?</p>
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Why should I think about pensions?

Only you can make decisions about your pension position. If you want to enjoy a secure retirement with enough money for the lifestyle you want, it's up to you to consider your options. Nobody knows what their lives will be like when they retire but, by making sure you have a second pension, you can do a lot now to protect yourself against financial worries in old age.

This leaflet (and the others in the series) should help you work out where different types of pension fit into your plans for retirement, and should give you some idea how they work. You may need to read several of the leaflets to see the big picture, and they won't give you all the answers. But, the more you learn, the more likely you are to make the right decisions for your retirement.

Whatever your position, you need to think about your pension and review it regularly. You need to make choices at different times during your life, and the results of those choices will have a real effect on your future – so it's worth investing time now to be sure you reach the best possible decision.

**Your husband,
wife or
partner dies**

Do I and my
children have
enough cover?

**Community
chest**

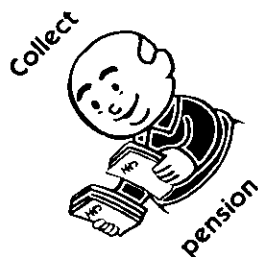


**Your husband,
wife or
partner dies**

Money's tight,
what happens
if I save less for
my pension?

**Long-term
illness**

Can I build up
any pension
entitlement?



Leaflets in this series:

PM1: Don't leave your pension to chance

This gives a general summary of the pensions system and suggests points you should consider.

PM2: You and state pensions

If you want to know whether you are likely to get a state pension or how state pensions are worked out, or if you want to find out how much your state pension could be, you should ask for this leaflet.

PM3: You and occupational pensions

If you are working for an employer who runs a pension scheme and you are a member or thinking of joining, ask for this leaflet.

PM4: You and personal pensions

You might be thinking about a personal pension plan. This leaflet tells you the sort of questions you should be asking and how to go about deciding if a personal pension is right for you.

PM5: Pensions for the self-employed

If you are self-employed, your options are limited but there are still important decisions for you to make. This leaflet tells you how to go about deciding what will be best for you.

PM6: Pensions for women

As a woman, the pattern of your working life may be different from a man's. This leaflet gives you an idea of the options available and what other factors you should consider in planning your pension.

PM7: Understanding contracted-out pensions

If you want to know more about the way in which pensions can be 'contracted-out' of SERPS, look at this leaflet.

To get copies of these leaflets, or any of the other ones mentioned, call the Pensions Info-Line on **0345 31 32 33**. Calls are charged at local rates and the line is open 24 hours a day. Or write to us at:
DSS Pensions, Freepost BS5555/1, Bristol, BS99 1BL.

You can also look at these leaflets on the Internet.
Our address is <http://www.dss.gov.uk>



This leaflet is for guidance only.
It is not a complete statement of the law.



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Produced by the Department of Social Security.

Produced in the UK, June 1998.