

We also publish the following information leaflets:

Getting information about your occupational pension

Ill-health early retirement

Mistakes and overpayments

Pensions and leaving work

Pension dispute procedure

Saving for retirement

Saving for retirement – The self-employed

Saving for retirement – Small business owners

State death benefit factsheet

The Pensions Advisory Service- ask for free independent information and guidance

The Pensions Advisory Service and the Pensions Ombudsman

Transferring your pension to another scheme

Where is my pension?

Winding-up a pension scheme - A guide for members

Workplace and Communities Service

These are available free from us at the address shown or on our website. These are the leaflets available at the time of printing and this list may be subject to change after that date.

Contacting us

The Pensions Advisory Service

11 Belgrave Road
London SW1V 1RB

Helpline 0845 601 2923

General Office 020 7630 2250

Fax 020 7592 7000

enquiries@pensionsadvisoryservice.org.uk

www.pensionsadvisoryservice.org.uk

This leaflet is available in large print or Braille.

Please note that this is a guide for information only. The Pensions Advisory Service cannot be held responsible in law for any opinion expressed, nor should any such opinion be regarded as grounds for legal action.

Women and pensions

Saving for retirement

Know your pension rights and options



May 2010



The Pensions Advisory Service Limited.
Company limited by guarantee.
Registered in England and Wales No. 2459671.
Registered Office as shown.

the pensions
advisory service

the pensions
advisory service

Contents

- 2 Why save for retirement?
- 2 Will the State Pension be enough to live on?
- 3 State Pensions
- 3 Basic State Pension
- 5 Additional State Pension
- 6 Contracting-out of the Additional State Pension
- 8 Home Responsibilities Protection
- 9 Pension Credit
- 10 How much should you save?
- 10 Don't put off starting a pension
- 11 Starting out on a pension plan
- 11 Consider joining your employer's scheme
- 12 Occupational Pensions
- 14 Stakeholder Pensions and Personal Pensions
- 15 Should you save with a pension (or another way)?
- 17 Financial planning – some basics
- 17 Choosing without Financial Advice
- 17 Getting Financial Advice
- 19 Understanding investments
- 20 Financial planning – Regular Reviews
- 21 Reviewing plans if your circumstances change
- 21 Changing jobs
- 22 Transferring your pension pots
- 23 Working Part-time
- 24 Maternity
- 25 Pensions on Divorce
- 28 Death Benefits
- 29 Retiring Early
- 30 Looking ahead to what happens at retirement
- 30 Annuities
- 33 Pension Income Drawdown
- 33 Phased Retirement
- 34 Equalisation of Retirement Ages in Occupational Pension Schemes
- 36 Tracing pension benefits

Is this leaflet for you?

Although many people are saving for their retirement, women generally have lower pensions than men. The pension savings gap between women and men has increased from 8% in 2006 to 13% in 2007¹.

There are many obstacles that prevent women from building up adequate pension provision, such as lower lifetime pay and career breaks due to caring responsibilities such as bringing up children. One in four single women pensioners live in poverty and women are twice as likely as men to rely on means-tested benefits in retirement². The government has recently introduced changes to the state pension system to improve women's income in retirement.

The purpose of this booklet is to help women better understand their pension position and give some simple guidelines to help those wanting to plan ahead for retirement. It is aimed at women of all ages, from those just starting out in employment to those already in retirement.

¹ Scottish Widows Report 2007, *What women need: Pensions Provision for today and tomorrow*.

² A report published jointly by Age Concern & The Fawcett Society entitled *One in Four* found that twice as many women than men rely on means-tested benefits in retirement.

How can The Pensions Advisory Service help?

The Pensions Advisory Service has been providing help and guidance to members of the public on pension matters since 1983 either by telephone or correspondence.

We can also help people who have a pension complaint or dispute.

In conjunction with this booklet, we operate a special Pension Helpline for Women on 0845 600 0806. We also operate a permanent helpline giving free on-the-spot pensions assistance and guidance. The Helpline 0845 601 2923 operates Monday to Friday between 9am and 5pm (calls charged at local rate).

We are a voluntary independent organisation, grant-aided by the Department for Work and Pensions.

Ten Golden Pension Rules

- 1 Don't rely on the state pension alone
- 2 Don't put off starting a pension
- 3 Explore other ways to save
- 4 Show an interest in your pension
- 5 Consider joining your employer's scheme
- 6 Review your pension regularly
- 7 Get a forecast of your state pension
- 8 Keep paperwork safe
- 9 Take professional advice
- 10 Always ask questions

HELPLINE
0845 600 0806

Why save for retirement?

Retirement for many people means giving up work and enjoying other things in life such as family, hobbies and holidays. Even if retirement is 20, 30 or more years away, it still means the end of earning an income. You need to plan now how you will replace the income you earned.

You could rely solely or mainly on the government to provide – we explain below why that may not be a good idea.

You could rely on the savings you have already put away. However, on current estimates³ up to 12m employees are currently under-saving to some degree. As many as 7.4m of them are not saving anything at all!

Out of the 11m retirees in the UK, over a third are struggling to live the life they had anticipated. According to recent research, 36% of over-55s find that a lack of cash means they cannot afford the things they thought they would be able to in retirement. The average shortfall is an extra £7,300 a year⁴. Further recent research carried out by YouGov reveals that 34% of women rely mostly or entirely on their spouse/partner to provide for them.

Will the State Pension be enough to live on?

In the UK, each generation is living longer than their parents and grandparents generations. Men reaching 65 today can expect to live on average until 81 and women till 84⁵. The pensioners of 2025 could be living two years even longer⁶. That means the average person might have to provide an income for themselves for perhaps 20 years or more in retirement.

Our 'ageing population' is putting huge pressure on government resources. This is because no money is put aside in advance to pay for state pensions and other social security benefits. Instead, today's pensioners drawing a state pension are supported by the taxes and National Insurance (NI) contributions of today's workers. Currently in the UK there are 3.5 workers for every pensioner. In the future, there will be more pensioners - the retired population is set to increase by almost 50% by 2040, to nearly 16m people, as a result of improved life

expectancy. By then there could be as few as two workers to support each pensioner.

This means that a smaller proportion of the population in work will be asked to support an increasing number in an ever-lengthening retirement period. There is no way of knowing what will happen to state pensions by the time you come to retire. Even though the state pension currently provides a reasonable income for a large portion of the population, it is unlikely to do so in the future without large rises in taxation. This makes private saving essential.

Private pensions have not always come up with the goods. But, those with a good company scheme or who have made large contributions to a good personal plan are, generally, going to be far more comfortably off than someone forced to rely mainly on state benefits.

This booklet aims to show you how you can take steps towards planning an adequate retirement.

State Pensions

Basic State Pension

A woman, whether married or single, is entitled to claim the basic state pension on reaching state pension age provided she has made the appropriate NI contributions during the course of her working life.

At present the full basic state pension is £97.65 a week (2010/11). The years during which you build up your rights to the basic state pension are called 'qualifying years'. To get a basic state pension you will need to have qualifying years.

From 6 April 2010, you no longer will need a minimum number of qualifying years to get a minimum basic state pension. For any number of qualifying years you will get at least some basic state pension. To get the full basic state pension you will need 30 qualifying years.

If you are married and do not qualify for a basic state pension in your own right, on reaching state pension age you may be able to get a basic state pension based on 60% of your husband's pension, provided he has reached his state pension age (currently 65). This could equate to a basic state pension of up £58.50 a week (2010/11). So if you are over state pension age and your husband has not yet reached his state pension age, you may only get a basic state pension based on your own NI contribution record.



³ ABI.

⁴ Prudential 25/08/2005.

⁵ Government Actuary's Department.

⁶ Office for National Statistics.



If you are entitled to your own pension, but it is less than 60% of your husband's basic state pension, your pension can be made up to a maximum of this amount when your husband reaches his state pension age. However, you can get any additional state pension you are entitled to regardless of your husband's circumstances (see section entitled additional state pension).

It is also possible to defer claiming your state pension. When you eventually decide to claim your pension it will be higher than it would have been had you claimed it at state pension age, but you will not get any pension for the weeks you chose not to receive it. You can defer claiming your state pension for as long as you wish from the day you reach your state pension age. However, to receive extra state pension you must defer claiming your state pension for at least five weeks. To receive a lump sum payment instead of extra pension, you must defer claiming your state pension for at least twelve months. If you want to discuss pros and cons of deferring your state pension, you should ring our special Pension Helpline for Women on 0845 600 0806.

You should also take into consideration that the state pension age for women will increase gradually from 60 to 65 years between 2010 and 2020 (and from 65 to 68 years between 2024 and 2046) depending on when you were born. To find out your state pension age, contact us or use our state pension age calculator at www.pensionsadvisoryservice.org.uk

What you can do

You must make a claim for any state pension.

If you are unsure of what your pension will be from the State and you have not yet reached state pension age, you can contact the Retirement Forecast Team on 0845 300 0168 or go online www.thepensionservice.gov.uk to obtain a state pension forecast. The sooner you get this information, the sooner you can plan for your retirement.

If you have not paid or been credited with enough NI contributions, it may be possible for you to make voluntary NI contributions so that you at least receive a reduced basic state pension. It is worth looking into paying voluntary NI contributions, thereby help you qualify for, or enhance, your basic state pension. To find out if you are eligible to pay any further NI contributions you can contact The Pension Service on 0845 302 1479.

Please bear in mind that you can normally only go back six tax years from the date in which the contributions were due.

From 6 April 2009, if your state pension age is between 6 April 2008 and 5 April 2015, it may be possible to pay up to a further six years of voluntary contributions over and above those detailed to boost your state basic pension. You can only pay for missing

years going back to 6 April 1975 provided you already have at least 20 qualifying years (including Home Responsibility Protection) on your NI record.

Any contributions you pay after reaching state pension age in respect of years when you had arrears of NI contributions cannot normally count for payment of state pension from a date earlier than the day on which you actually pay the contributions. For more information you can get hold of leaflet CA5603, *How to pay voluntary National Insurance contributions*, on 0845 915 5996.

It is possible that in certain situations it may not be worth your while to pay voluntary NI contributions. For example, if the amount you contribute only earns you an amount equal to the basic state pension that you could claim already based on your husband's NI contributions. Please contact us for further guidance.

You should be aware that if you paid Married Women's Reduced-Rate NI contributions for the whole of your working lifetime, then this does not entitle you to a basic state pension in your own right. However, you may be able to claim Pension Credit (see section entitled Pension Credit) as this is based on you and your partner's income and capital and not dependent on your NI contribution record.

You could also consider deferring your state pension to obtain an increased rate in the future if that better suited your personal circumstances.

Additional State Pension

On top of the basic state pension, you may be entitled to a further pension, the additional state pension known as State Second Pension (S2P) which is based on your NI record and on that part of your earnings between the Lower Earnings Limit and Upper Accrual Point. For 2010/11 the Lower Earnings Limit is £5,044 and the Upper Accrual Point is £40,040.

S2P is paid in addition to any basic state pension you are entitled to. S2P is not available to those who are self-employed.

Until 6 April 2002, S2P was known as the State Earnings Related Pension Scheme (SERPS). S2P reformed SERPS to provide a more generous additional state pension for low and moderate earners and certain carers and people with long-term illness or disability.

HELPLINE
0845 600 0806



Before 6 April 2002, only employees could qualify for additional state pension under SERPS. Carers and people with long-term illness or disabilities who were not employees could not build up additional state pension. However, since 6 April 2002, you can build up an additional state pension through S2P for each full tax year you do not work at all, or earn less than the NI Lower Earnings Limit, if you are a carer and:

- you are looking after a child under age six and you are awarded Child Benefit for that child, or
- you are looking after an ill or disabled person, or
- you are entitled to Carers Allowance, you have a long-term illness or disability and:
- you get, or are credited with or have an underlying entitlement to long-term incapacity benefit, or
- you get Severe Disablement Allowance and, when you reach state pension age, you have worked and paid, or are treated as having paid, qualifying NI contributions for at least one tenth of your working life since 1978. This is called the 'Labour Market Attachment Test'.

In the future the Government intends to replace the current additional state pension with a simple, flat rate, weekly top-up to the basic state pension.

What you can do

You should be aware that if you are looking after a child under the age of six it is the person receiving the child benefit who qualifies for S2P. Therefore, if you are a couple you should think carefully about who should receive this.

If you are earning below the Lower Earnings Limit, £5,044 (2010/11), you should consider trying to work the extra hours required to get you above this level in order to qualify for a state pension under S2P. The state pension you get will be calculated as if you were earning as much as the Lower Earnings Threshold, £14,100 (2010/11).

Contracting-out of the Additional State Pension

At present you can, if you wish, choose to opt out of S2P. This is referred to as contracting-out. It is possible to contract-out of S2P by joining an occupational pension scheme or a personal pension scheme. This involves either a reduction in the NI contribution you pay, and/or a 'rebate' of part of your NI contribution into your pension fund. For occupational schemes, the decision whether the scheme is to be contracted-out or not rests with the employer. In return, both you and your employer pay a reduced level of NI contributions. In addition, in occupational money purchase schemes an age related rebate may also be paid.

Under personal pension and stakeholder pension schemes the decision to contract-out is yours. If you do so, you pay NI contributions at the full rate and at the end of the tax year a rebate is paid to the pension provider (the amount of which

depends upon your age). You will also receive tax relief at the basic rate on your share of the contribution.

If you are contracted-out through a personal pension or stakeholder pension, earning less than £14,100 (2010/11), you will also get an S2P top-up for that year. The top-up reflects the more generous additional pension provided by S2P.

Contracting-out through a private pension or via an occupational money purchase scheme is to be abolished. Although a date has not been agreed, it is likely to be with effect from 6 April 2012. Anyone contracted-out through these arrangements at that time will automatically be contracted-back into the S2P.

What you can do

If you are contracted-out via a personal pension or stakeholder pension, there is no guarantee that the pension you will ultimately get will match the state pension you would have got from S2P. It may exceed it or it may in fact be less. There have been periods where pensions derived from the rebate outperformed SERPS, but this may or may not be the case in the future. The decision to contract-out or remain contracted-out very much depends upon your attitude to risk and whether or not you feel your personal pension/stakeholder pension arrangement can generate more of a pension through its investment performance than the money you would get under S2P.

The other factor to take into consideration is your age. As you near retirement, you have less time to achieve an adequate investment return to replace the S2P given up over the same period. From 6 April 1997, there was a change in the way that the rebate (of NI

payments were calculated that may also be relevant. From this date onwards, the level of rebate that an individual receives will increase as they get older.

It should be noted that some insurance companies have written to their contracted-out personal pension and stakeholder pension policyholders, suggesting they should consider ceasing to be contracted-out and return to S2P. It seems that a reason for this is that they do not believe that the NI rebates are sufficient to provide a pension to match the additional state pension given up. According to an Association of British Insurers paper on contracting-out (August 2005), the current rebates are calculated on an actuarially neutral basis with no margins to cushion against risks such as stock market falls and changing annuity rates.

You should therefore review your existing contracted-out arrangements on an annual basis (this is particularly relevant if you are earning less than the Lower Earnings Threshold). You can change from contracted-out status to contracted-in status and vice-versa from year to year.

You can obtain a useful leaflet explaining the background to contracting-out called *Contracted-out Pensions – Your Guide (PM7)* by calling 0845 731 3233. A detailed guide to the rebates called *Employee's guide to Minimum Contributions (CA17)*, is available from the National Insurance Contributions Office on 0845 915 0150. The Financial Services Authority has also published a factsheet entitled *The State Second Pension – should you be contracted-out?* which you can obtain by calling 0845 606 1234. You can also visit our



website www.pensionsadvisoryservice.org.uk. It offers an online interactive guidance, *contracting-out planner*, to help you make your decision.

You should also consider obtaining advice from a reputable independent financial adviser who specialises in pensions business. You can obtain the names and addresses of some advisers in your area by using the 'Find an IFA' search facility on the website of the IFA Promotions (www.unbiased.co.uk)

National Insurance Credits (formerly called Home Responsibilities Protection)

Many women work fewer hours on lower pay and for fewer years than men due to caring responsibilities such as stopping work to bring up children. This can have a dual effect that they make fewer NI contributions entitling them to a state pension and have fewer occupational or personal pension scheme rights.

The number of qualifying years required to build up the basic state pension can be reduced for those with caring responsibilities or for those bringing up children. This was known as Home Responsibilities Protection (HRP), but has now been replaced by a system of National Insurance Credits (NI Credits).

NI Credits protects state pension and bereavement benefits for carers if you are not working, or your earnings are low, eg. if you are a carer looking after someone who is:

- a child under the age of 12 and you are in receipt of child benefit for that child, or
- a person with a long-term illness or disability who is getting Attendance

Allowance, Constant Attendance Allowance or the middle or highest rate of the care component of the Disability Living Allowance and you are spending at least 20 hours a week caring for them.

In some circumstances, it can also help to build up additional state pension.

You may also be able to get NI Credits if you are a registered foster carer who does not receive Child Benefit.

You should be aware that to qualify for NI Credits a mother must be getting Child Benefit throughout a full tax year.

You get NI Credits automatically if you are receiving Child Benefit or Income Support and are not required to look for work because you are caring for a severely ill or disabled person. If you are caring for someone receiving Attendance Allowance, Constant Attendance Allowance or Disability Living Allowance or are a foster carer, you need to apply for it. However, if you are getting Carer's Allowance you do not usually need to claim NI Credits as you will be credited with a contribution each week.

You cannot get NI Credits for any year you are entitled to pay reduced NI contributions for married women and widows. NI Credits is not awarded for any year before April 1978.

If you reach state pension age on or after 6 April 2010, complete tax years of HRP you have built up before 2010 will be converted into qualifying years up to a maximum of 22 years.

What you can do

To see the effect of NI Credits on your state pension entitlement you should get a state pension forecast. The state pension forecast will tell you if you have been awarded NI Credits. You can get one by calling 0845 300 0168. You could consider making up any unpaid NI contributions (as explained in the section entitled Basic State Pension).

To find out more about how NI Credits work, read leaflet PM2 – *State Pensions – Your guide*. You can get this leaflet by calling 0845 731 3233.

Pension Credit

Pension Credit was introduced in October 2003, with the aim of lifting the poorest pensioners out of poverty whilst not penalising those who have attempted to save for their retirement.

Pension Credit has two parts – the Guarantee Credit and the Savings Credit.

The Guarantee Credit provides a guarantee of a minimum level of income for both single people and couples. It is payable from age 60.

The Savings Credit is payable from age 65. It rewards people who have made modest provision for their retirement. Savings of £10,000 or less are ignored. You are assumed to receive an income of £1 a week for every £500 (or part of £500) saved above that, whether you take an income from your savings or not. If you live in a care home, savings of £10,000 or less are ignored.

From 6 April 2010, the age from which people can get Pension Credit will gradually increase. This will be in line with the state

pension age, becoming 65 for women as well as men by 2020.

Claims for Pension Credit made on or after 6 October 2008 will only be backdated for payment by up to 3 months.

It is possible to receive either part exclusively or a combination of both.

Pension Credit has a particular relevance to lone parents and others with caring responsibilities who are sometimes unable to make additional pension provision due to low pay and part-time work. It is therefore much more difficult for them to provide financial security for themselves in retirement⁷.

What you can do

If you are a woman of age 60 or over, you might wish to contact the Pension Credit Application Line on 0800 99 1234 to see if you qualify. Unless you apply, you will not know if you are eligible.

In certain circumstances, you may be entitled to another income-related benefit when you retire. This could apply if you haven't saved before and are close to retirement, or if you are a relatively low earner, particularly if there is no employer contribution to the pension scheme. If you want to know more, contact The Pensions Service on 0845 606 0265.

Don't forget that you might also be entitled to other benefits like Housing Benefit or Council Tax Benefit.

⁷ A report published jointly by Age Concern & The Fawcett Society entitled *One in Four* found that twice as many women than men rely on means-tested benefits in retirement.

How much should you save?

It is sometimes useful to start by asking 'How much will I need to provide the sort of retirement I want?'. The basic state pension is currently a flat rate, weekly payment of £97.65 a week in 2010/11, for a single person who has paid their full quota of NI contributions (see section entitled basic state pension). That is a good starting point, but is £97.65 a week enough to live on? If your answer is 'Not by a mile', you will need to save more of your current income than if you answered 'Not quite'. There is no single definition that suits everyone.

However, it is useful to think in terms of replacing a percentage of the income you enjoy now. Several studies have suggested a rough guideline – a half to two-thirds of your salary – might be enough to meet your expectations in retirement.

To get there, you need to put away a certain percentage of your income now. As a rule of thumb, a rough starting point would be about half your age as a percentage of your income. So at 22, that would mean 11% of your income, but if you cannot afford that much, any lower amount would be useful as a start. Starting at 35, that would mean 17.5%, but the later you start, the more important it is to keep your contribution levels up. Because of the way compound interest works, the earlier you start on a pension plan, the less it will cost you. The opposite applies the later you start.

You should be aware that Pension Credit will only ever provide you with a basic level of income. There is also no guarantee that

Pension Credit or a similar plan may exist in the future for today's workers and savers. So it still makes sense to make some savings for retirement. When starting to make long-term savings, consider whether you can continue to put enough away to make a difference and not have to rely on the Government.

Don't put off starting a pension

The table on page 11 illustrates how much today's workers on different incomes might need to save to enjoy half or two-thirds of their income in retirement. This guide assumes retirement at 65 and state pensions at about £6,000 a year.

So, middle-income earners who retire at 65 ought to be saving between 8-17% of pay each year to achieve a replacement rate roughly equivalent to 50-67%. However, many people would like to retire earlier and would therefore need to save more. For example, if you wish to retire at 60, the level of saving required increases to between 13-25%.

Other reasons to save more include: not starting to save until after age 35, low investment returns, any breaks in contributions, changes in earnings levels.

To put this in context, if you are not in an employer's salary-related scheme, when you retire you will probably have to use the pot of money you have built up to buy an annuity – an insurance policy that provides an income for life. These are not cheap. If you want a yearly retirement income of say, £20,000, at age 60 a basic annuity will cost you around £300,000. If you want your income to increase with inflation then it's even more expensive – over £400,000.

What you can do

If you want to put aside enough money to retire on, plan the amount you can contribute, the investment risk you want to take and when you plan to retire. The later you begin, the harder it will be to build up enough money for the future.

There are various pension calculation tools available on the internet to help you visualise the effect of investing a certain amount of money for 20 or 30 years. There are also some tools that can show you how much money you will need to build up to afford the lifestyle you want. The sites listed below provide some useful tools:
www.pensioncalculator.org.uk
www.moneymadeclear.fsa.gov.uk

Also, many employers pension schemes and many insurance companies have their own web-based pension calculators to guide you.

Starting out on a pension plan

The following is a helpful list of questions to ask yourself, or a financial adviser, if you decide to get financial advice.

1. What pension plans are available to me?
2. What are the differences between them?
3. How much can I afford to pay regularly?
4. When do I hope to retire?
5. What other savings, investments or other assets do I have?
6. Will my partner have a pension?
7. What am I likely to get from state pensions?
8. What do I know about investing my contributions and how do I feel about risk?
9. How often will I need to review my plans?

Consider joining your employer's scheme

Always consider joining your workplace pension scheme. The employer will be contributing and for you not to join is tantamount to giving up pay. One exception might be in a salary-related scheme (see page 12 for an explanation of what this means) if the company were to be financially insecure and at risk of becoming insolvent.

Income level today	67% replacement rate		50% replacement rate	
	Man	Woman	Man	Woman
£9,000	0%	0%	0%	0%
£13,500	8%	9%	0%	0%
£21,250	13%	14%	7%	8%
£32,500	15%	17%	9%	10%
£50,000	17%	19%	12%	13%

Assumptions: saving starts at age 35; retirement at age 65; investment returns at 3.8% above inflation; person did not contract-out of SERPS/S2P.

However, with the arrival of the Pension Protection Fund, on 6 April 2005, some of the risks for members of such schemes have been greatly reduced. The Pension Protection Fund aims to provide increased protection for members of salary-related schemes by paying compensation if the employer becomes insolvent and the pension scheme is underfunded.

The PPF aims to provide 100% of benefits for members over normal retirement age or paid early on grounds of ill health; 90% of benefits for members below normal retirement age; subject to a cap equating to £29,748.68 a year (1 April 2010) at age 65.

The different types of pension plans are explained in the rest of this section.

Occupational Pensions

Occupational pension schemes are pension arrangements that are set up by employers to provide income in retirement for their employees. Although the employer is responsible for sponsoring the scheme, it is actually run by a board of trustees - with the exception of public sector schemes, which are set up and run under statute. It is this board of trustees that is responsible for ensuring payment of benefits.

Any contributions made by employees into the pension scheme will attract tax relief at source. That is, contributions are deducted from the salary before it is taxed.

There are two different types of occupational pension schemes - money purchase and salary-related. The following is a simple explanation of how each of them works.

Salary-Related

Salary-related schemes are sometimes known as defined benefit or final salary schemes. Members contribute to the scheme with the promise of a certain level of pension. The amount of pension payable from such a scheme is dependent on:

- the length of time served in the scheme (known as pensionable service);
- earnings prior to retirement (known as final pensionable salary); and
- the scheme's 'accrual rate'. The accrual rate is the proportion of salary that is received for each year of service. So, if the scheme has an accrual rate of 60, the member will receive 1/60th of his/her final pensionable salary for each year of completed service.

For example:

$$\frac{\text{pensionable service} \times \text{pensionable salary}}{60}$$

You may be able to exchange part of your pension for a tax-free cash lump sum, subject to scheme rules. Alternatively, the scheme may pay out tax-free cash lump sums separately. The pension will be treated as earned income and therefore will be subject to income tax.

Money Purchase

Money purchase schemes are sometimes referred to as defined contribution schemes. Employers and employees contribute to the scheme, where the money is invested, and built up, for each scheme member, a pot of money. At retirement you can take part of the pot as a tax-free lump sum but the rest must be used to purchase a pension. The

amount of pension payable from this scheme is dependent on:

- the amount of money paid into the scheme (by the member and the employer);
- how well the investment performs; and
- the 'annuity rate' at the date of retirement. An annuity rate is the factor used to convert the pot of money into a pension.

What you can do

Make sure you are aware of your benefits built up to date. You can ask for a benefit statement from the trustees of your scheme so that you can ascertain how much your pension benefit is likely to be when you retire.

One of the ways in which you can 'top-up' your company pension arrangement is by paying into an Additional Voluntary Contribution (AVC) scheme, if your employer offers such a scheme. The majority of AVC schemes are money purchase schemes, which means that your AVCs are invested, usually with an insurance company to build up a fund.

'In-house' AVC schemes frequently benefit from no cost or low cost administration charges as the trustees can negotiate these with the provider of the AVC arrangement. Contributions payable to AVCs enjoy the same tax concessions as the main scheme contributions. Other advantages of contributing to an AVC scheme are that it gives the opportunity to make good any shortfall in pension membership brought about by breaks in service, early retirement etc, and funds from voluntary contributions are exempt from income tax and capital gains tax.

If your scheme allows you to buy added years, (salary-related schemes only) this will enable you to increase the number of years within your main scheme and therefore, increase both the amount of pension that you will receive and the tax-free cash lump sum on retirement.

You can also 'top-up' your company pension arrangement by paying into stakeholder pension or personal pension arrangements. This is particularly relevant if there is no 'in-house' AVC arrangement or there is a restriction on how much you can pay into the 'in-house' AVC plan.



Stakeholder Pensions and Personal Pensions

Stakeholder and personal pension plans are investment policies designed to offer a lump sum and income in retirement. They are available to any United Kingdom resident who is under 75 years of age and can be bought from insurance companies, high street banks, investment organisations and some retailers (i.e. supermarkets and high street shops). Stakeholder pension providers have to be registered with The Pensions Regulator.

Stakeholder and personal pension plans are money purchase arrangements. This means contributions are paid into the plan, the money is invested and a fund built up. The amount of pension payable when the member retires is dependent on:

- The amount of money paid into the plan;
- How well the investment funds perform; and
- The 'annuity rate' at the date of retirement. An annuity rate is the factor used to convert the pot of money into a pension.

You can retire at any age between 55 and 75. When you do retire, you can generally take up to 25% of the value of the fund as a tax-free lump sum. The remainder of the fund must be used to secure an income (known as an annuity). The annuity will be treated as earned income and therefore will be subject to income tax.

What you can do

If you are under age 75 you may consider contributing to a stakeholder pension.

A stakeholder pension plan is a low charge personal pension which has low management charges. Annual charges that may be deducted from stakeholder pension plans are capped at 1.5% for the first 10 years that the plan is held and 1% thereafter. There are no penalties on stopping contributions and you can contribute to the stakeholder pension plan whether or not you are earning an income.

In addition, the minimum contribution level cannot be more than £20 (net of basic rate tax relief) in any period whether a regular or a 'one off' payment. This may therefore be suitable for people on moderate incomes who wish to build up private pension provision. It may also be suitable for people who have changing work patterns, eg. if you have breaks in employment due to caring responsibilities, as it is very flexible.

The Pensions Regulator produces a list of registered stakeholder providers. You can visit their website at www.thepensionsregulator.gov.uk or you can call them on 0870 606 3636 to request a paper copy of the register. You should consider seeking independent financial advice on this issue.

The Financial Services Authority provides the following free publications which you may find useful:

FSA leaflet – Just the facts about getting financial advice

FSA factsheet – Stakeholder pensions and decision trees

You can obtain these publications by calling the FSA on 0845 606 1234.

For more information on stakeholder pensions contact our Helpline or visit our website at www.stakeholderhelpline.org.uk

Should you save with a pension (or another way)?

A pension is not the only way to save for retirement, but with tax breaks for example, you can get income tax relief on your contributions up to the highest rate of tax you pay, making it appealing for many.

Wrong time?

In your 20s, with retirement so far off, and, for many people, plenty of debts to be paid off, saving for your old age might seem like nonsense.

Indeed, at any age clearing debts could be more important than saving for retirement.

However, unless you are in dire straits, if your company offers a pension scheme, you should probably join. Your employer may start off contributing around 3% of your pre-tax salary, with you expected to contribute at least 3% as well – and you get tax relief at the highest rate of tax you pay (20% for base rate payers or 40% for higher rate taxpayers (2010/11)).

The maximum amount you can contribute to a personal pension or stakeholder pension plans, and on which you can receive tax relief, is 100% of earnings or £3,600, whichever is greater. This is capped by the Annual Allowance (£255,000 in 2010/11). You can pay more than this but there will be no tax relief on the excess. However, there will be an annual allowance tax charge of 40% applied on the excess amount. Contributions paid by the employer count towards the Annual Allowance. From 6 April 2011, tax relief for individuals who have income of £150,000 or more, will be restricted. In advance of these changes, restrictions on tax relief have been

introduced from 22 April 2009 which affect anyone earning over £150,000 and whose contributions are greater than £20,000 and their normal pension savings pattern changes.

It also gets you into the saving habit, making it less painful to increase your payments later. If you don't join the scheme, you're effectively throwing money away: both your employer's contribution and the government tax relief, which is the main bonus of saving through a pension.

Other priorities?

A whole host of needs and commitments can stop you from putting money away for retirement, whatever age you are: mortgages, children, saving for a rainy day. There is a trade-off to be made between doing what is affordable and making sufficient savings to build up an adequate retirement pot.

Remember though that pension plans, in particular ones offered by employers, can give you extra benefits besides an income for you, that can help towards looking after your mortgage or family. With a pension plan, you can relatively cheaply make sure your family gets a lump sum and income from the plan when you die, whenever that might happen.

The money doesn't feel like it's mine

If you pay into a private pension scheme, you are in some ways entrusting your money to other people. You may or may not have the choice of how much you are going to pay, and where it goes. But, your employer's scheme, or the pension company, looks after your investment, which will increase in value over time. If you are in a salary-related scheme, the longer you are in it, the more you earn.

For good reasons, the money is locked away until you retire, and there are different rules about how you can manage that money and get access to it, depending on what plan you have joined. Pension plans can seem complicated and inflexible. Other types of saving can seem easier to understand. The advertising can make the advantages or attractions very clear – for example by promising attractive returns over a relatively short period of time, 2, 5 or maybe 10 years. But ultimately, only a pension plan aims to provide an income in retirement.

Explore other ways to save

Not all types of investment enjoy boom times at the same time, so it is important to diversify your savings and investments, provided you don't break them up into too many tiny bits. Small pots cannot work as hard as larger investments (and arguably having lots of investments makes it harder to keep track of them).

Each type of investment has its own characteristics, such as how long you should hold them to achieve a good return, how accessible they are, what they cost to set up and run and whether you can use them to provide an income. Pension plans are a long-term investments, often providing access to a range of different underlying asset types (eg. shares, bonds, property, cash etc). Access to your benefits depends on the pension plan's rules. The benefits can comprise capital, by way of a tax-free lump sum, and regular income, by way of a pension or an annuity.

Property and individual savings accounts (ISA's) are possible alternatives to pensions.

Do's and Don'ts

The Financial Services Authority (FSA), whose role includes educating investors about using all sorts of financial products, offers the following list of 'Do's' and 'Don'ts' for investing for the long term.

Don't choose investments that lock you into a fixed pattern of saving for many years **unless** you are sure you can keep up the payments. You often lose money if you stop such saving plans early. Private Pension Plan providers charge costs even when you are not paying money into the plan.

Don't forget that inflation can seriously eat into the value of your money. Choose investments where the return is likely to beat inflation.

Do think about the level of risk you are comfortable with. And **do** realise that high returns often come at the risk of losing money.

Do bear in mind that if you choose investments with no or low 'capital risk' (see Chapter 6 for a definition), you'll have to settle for lower returns. For example, a building society account has no capital risk but over the long term tends to give a much lower return than say a share-based unit trust.

Do spread the money, if possible, across several investments – for example, some money in savings accounts, some money in bonds and some in share-based investments. This evens out the risks. It means you're less likely to make spectacular profits but also less likely to suffer large losses.

Financial Planning – some basics

Choosing without Financial Advice

You do not have to take advice before you start a pension. If your employer provides a pension scheme that it pays into, all you generally have to do is complete an application form to join the scheme. Also, some providers of stakeholder and personal pension providers make it easy for individuals to start up a plan without using a professional adviser.

However, if you do not feel very confident with financial decisions and financial products, it is a good idea to take professional advice before making important decisions (such as changing your pension provider or seeking a transfer). Also, if you do not take professional advice, and the pension you choose turns out to be unsuitable, you will have a weaker case for complaint.

What you can do

Try to read as much information as you can about the pension plans you are interested in, whether you plan to take advice or not.

The provider will produce brochures and advertisements about their plan. These will include factual information, and although you can expect the facts to be accurate, you should be aware that brochures and advertisements are marketing information and not investment advice. Companies design them to show a product in its best light.

Tips on how to find out more:

- shop around and get information about several comparable products
- consult different pension providers, contact several firms and ask them for a 'Key Features Document' – this document describes the pension plan

- follow the 'decision tree' the Stakeholder company will provide you with – this is a flowchart designed by the FSA to guide you through your pension options. The decision tree is the same for all companies' stakeholder pensions, so you only need one
- check the charges for any pension and compare them with the charges for stakeholder pensions.

The FSA's comparative tables are able to help you compare stakeholder and personal pensions charges.

Getting Financial Advice

You can approach some pension providers direct, but you should be aware that their company representatives can only advise you on their company's own products, or one they have adopted from another company.



Always use an authorised adviser (that is, a company or person authorised by the FSA). The FSA authorises advisers to give advice on personal and stakeholder pensions, but does not regulate advice about employers' occupational pension schemes.

Authorised advisers fall into three groups:

- Tied Agents, who offer pensions and investments from a single group of companies, and they can give you a list of these companies
- Multi-tied Agents, who offer products from a limited number of companies, and again they can give you a list
- Independent Financial Advisers, who can offer products from the whole market.

Advisers will give you a 'Keyfacts' document explaining what type they are and what services they offer. This document should also tell you how the adviser expects to be paid – either by a fee or by commission from the product provider.

After discussing your personal needs and circumstances with you, the adviser will recommend a product from the range on offer. The adviser will explain why they have suggested that product.

What you can do

To help advisers give you proper advice about your pension options, you should always tell the adviser whether your employer offers an occupational pension that you could join, or have joined. Advisers will usually tell you to check out your employer's occupational pension as a first priority.

Make sure you come away from your meeting with the Financial Adviser with a full understanding of what you are putting your

money into. Remember, there is no such thing as a stupid question about pensions. Pensions can be immensely complicated and people sometimes feel inadequate when faced with one. You should not worry about this. You have a right to have things properly explained to you in language you can understand; you should not feel inhibited about asking the most basic questions.

Below is a list of some recommended questions to ask an adviser, if the Key Features Document explaining the main features of the pension does not cover them.

1. What sort of investment would be most suitable for me, given:
 - a. that I can/cannot join an occupational pension
 - b. the length of time until I retire
 - c. my employment status and prospects
 - d. my other savings, investments and assets, and
 - e. my feelings about risks?
2. How much should I be saving to get the retirement income I want?
3. Is a stakeholder pension the best option for me? If not, why not?
4. If I take out a particular pension now, can I switch to another later? Will there be charges for switching?
5. What are the charges for the pension you are recommending now? How much of my investment will be lost through these charges?
6. Must I pay regular contributions or can I vary my contributions?
7. What happens if I choose to make regular contributions but can't keep them up after all – say, because I'm ill or made redundant?

8. What will my dependants get when I die?
9. At what age can I start taking my pension?
10. Can I change the age I start taking my pension without penalty?

Understanding investments

The name of each fund usually describes the type of investment it holds, eg. with-profits, unit-linked, property, and fixed interest. You can usually switch between funds and the first switch a year will normally be free.

The most common choices tend to be:

Investment funds (unit-linked)

With these, you share in the performance of a fund of underlying investments. Unit-linked funds cover a wide range of investments. For example:

Actively managed funds

Fund managers choose investments that they expect to perform best and switch them as market conditions change. Funds are invested in a range of assets (eg. stocks and shares, fixed-interest bonds). Some funds are invested in the shares of companies from single countries or regions, such as the UK, USA, Europe and the Far East. A 'managed' or 'balanced' fund usually aims to spread risks across different types of investments.

Tracker funds

The investments in a tracker fund move closely in line with a selected stock market index, such as the FTSE All-Share Index. This means the value of tracker funds will go up or down in line with the relevant market. Tracker funds usually have lower charges than actively managed funds because there are fewer decisions being made about the investments.

With-profits funds

Insurance companies offer these funds and invest your contributions in stocks, shares and gilt-edged securities. Your investment grows as the company adds yearly bonuses but bonuses are not guaranteed to be paid. Bonuses reflect market performance and other factors, such as the costs the insurance company must meet to run its business. Once the company has added annual bonuses, they are 'locked in' and normally can't be taken away.

The company usually tries to balance performance over the long-term by holding back some of the gains in good years to pay out in poor years. This is called 'smoothing' returns. One effect of smoothing is that there is usually a delay between what happens in the stock market and the returns the fund makes. Both good and bad years can have a long-lasting effect on the bonuses added each year.

The fund manager will usually add a final or terminal bonus when the policy matures at your retirement date.

When returns are bad, the insurance company may apply a penalty if you try to transfer out of the fund. This is often called a Market Value Adjustment or Market Value Reduction. You should check if the company will deduct any money from your with-profits fund if you decide to transfer or to retire earlier or later than planned.



Types of risk

The most suitable investment for you will depend on what risks you are prepared to take with your money. This does not just mean whether you are prepared to lose some of what you pay in. There are several different types of risks you can take by investing money.

1. Capital risk - the possibility that you'll lose some of the money you originally invested.

This is what most people mean when they talk about taking a risk with your savings. Stock market risk is one example of capital risk – the value of investments linked to the stock market can go up or down. This means that, although the long-term trend tends to be upwards, at any particular time the market might have dipped, so your investment could be worth less than you'd paid. You may need to accept some capital risk to offset shortfall risk and inflation risk.

2. Shortfall risk – the possibility you won't meet your financial goal.

You may be saving or investing money in order to reach a target amount at some time in the future. A well-known example would be investing in an endowment plan to pay off a mortgage.

If you choose investments with no or low capital risk, your returns are likely to be lower and could fall short of the amount of money you want to target. You also run the risk of a shortfall if you do not review regularly how much you are saving.

If your investment is falling short of its target, you may have to choose whether to reduce your target, increase the amount you invest, or invest for a longer term.

3. Interest risk – missing out on the best interest rate.

Variable interest rates can fall or rise. Fixed rates lock you in when other interest rates rise or fall.

4. Inflation risk – the possibility that, over time, rising prices reduce the buying power of your money.

This is especially a problem where income is paid to you out of capital, so the real value of your capital falls. The solution is usually to take on some capital risk.

Financial Planning – Regular Reviews

First of all, make sure you understand what you already have. If you are in your employer's scheme, or are paying into a Stakeholder Pension/Personal Pension scheme, try to make yourself familiar with the rules of the scheme and how it works. If you have shied away from making sure you understand your annual benefit statements, now is the time to read them and ask questions.

If you have trouble understanding what your pension plan means for you, we can help work out the jargon. Call our special Pension Helpline for Women on 0845 600 0806 or permanent Helpline 0845 601 2923.

What you can do

Show an interest in your pension. Make sure you know, with a Stakeholder Pension/Personal Pension or money purchase type company scheme, what investment vehicle is being used for your monies and make sure you are comfortable with the level of risk chosen. Consider whether you can put away extra to 'top-up' your existing pension arrangement(s) or by paying into an 'in-house' AVC scheme.

Check you know about any old pension policies or schemes you joined with old employers. Inform your pension scheme/pension provider of any changes in your personal details.

Reviewing plans if your circumstances change

Changing jobs

If you belonged to your former employer's occupational pension scheme, you will no longer be able to contribute to the scheme. But, provided you have belonged to the scheme for at least two years, you will have the option to:

- transfer the pension benefits you have built up to a new scheme (if there is one, but first check with the scheme rules and whether it is to your advantage to transfer – it may not be) or
- leave the pension rights you have built up in the scheme (called a 'preserved pension' or 'deferred pension') to be taken when you eventually retire.

Since 6 April 2006, provided you have belonged to such a scheme for at least three months (but less than two years) you will have the following options:

- transfer your pension benefits to a new scheme
- take a refund of your own contributions (less tax and any deductions for contracting-out).

What you can do

In the case of a salary-related pension, a 'preserved pension' is increased to protect against inflation between leaving your employment and retirement. If it's a money purchase pension, it can be left to carry on growing, as before. Growth will depend on investment performance and annual charges.



If you have a personal or stakeholder pension, there is no need to stop paying your contributions or transfer your plan when you change jobs. However, if your former employer paid into the pension on your behalf, these contributions will stop.

If you decide to stop paying into a personal pension, you can leave the pension fund you have built up to carry on growing, but check whether there are extra charges for making the plan 'paid up'. You should also check the effect that annual management charges may have on your fund. You can stop and start contributions to a stakeholder pension without incurring any extra charges.

If the new employer offers an occupational pension scheme, joining it may be to your advantage. Ask the scheme administrator for details of the scheme. If the new employer offers a Group Personal Pension scheme or stakeholder pension, check carefully whether you will be better off joining it than keeping your present pension arrangements.

Don't stop a personal pension or transfer it without getting advice first. You may not yet have paid a large part of the charges due over the life of the plan and may well lose money if you stop the plan now.

Transferring your pension pots

If you have paid into a company pension scheme for at least a minimum period (see the previous section), you have the right to transfer your pot to another arrangement that will accept it. If you have paid into Stakeholder Pension/Personal Pension, normally the plans will allow you to transfer to another provider or another pension scheme.

What you can do

Before you decide whether to transfer, you need to find out two things: what benefits your former employer's pension scheme would provide you with and what you will get out of transferring those benefits to another scheme.

If you are looking to transfer a salary-related pension, the scheme will put a value on your benefits. There is no guarantee that the value will provide you with benefits in the new scheme that are the same as you had in the old scheme. For example, this value may not take account of any benefits that are at the trustees' discretion.

If you transfer from one salary-related pension scheme to another, you might be offered either 'added years' in the scheme or a fixed pension paid from normal retirement age. If you transfer from a salary-related pension scheme to any type of money purchase pension (company, personal or stakeholder), you give up the promise of a fixed level of pension income. What you get instead is a pension whose value depends on how well the invested money grows and how much it costs to turn the pot into an income at retirement.

Transfer values from both company pension schemes and personal pension schemes can be subject to change over time. The transfer process is not always straightforward and any delays can lead to transferring a different amount than you first thought was available.

If you transfer from an underfunded scheme, the trustees can reduce your transfer value to reflect the overall shortfall in the scheme.

For more information on what is involved in a pension transfer, read the FSA's Guide, the *Risks of salary-related occupational pension transfers*, which you can get from the FSA Consumer Helpline 0845 606 1234. Or read our own booklet, *Transferring your pension to another scheme*, which you can obtain from our special Pension Helpline for Women on 0845 600 0806 or our permanent Helpline 0845 601 2923.

If you want to move your personal pension fund, there may be a charge for making a transfer. You should check with your provider. However, to move your stakeholder pension fund to another provider or another pension scheme, there will normally be no charges for making the transfer. If you have invested in a with-profits fund you should check whether your provider will make a 'market value reduction' or 'market value adjustment' if you switch.

Working Part-time

Until relatively recently, part-time workers were often excluded from occupational pension scheme membership.

Various high profile court cases in the past have determined that it is unlawful to exclude part-timers from occupational

pension schemes on the grounds of indirect sex discrimination. In practice this means that, for example, if an employer has more female part-timers than male and excludes part-timers from the pension scheme, then this could be seen as indirect sex discrimination. This would also work the other way around but in the past more women have been in part-time employment than men. Part-timers who are or have been excluded from pension scheme membership have to argue that they were discriminated against. If the employer rejects the claim and can justify part-timers exclusion from the pension scheme on objective grounds, then any claim might be unsuccessful. However, it is likely to be difficult for the employer to provide convincing grounds for exclusion. Many of the part-timer issues have now been resolved and you can get further information bulletins on the progress of the part-timer cases by visiting the Employment Tribunals website at www.employmenttribunals.gov.uk.

What you can do

If you are part-time, check with your employer that you are eligible to join the plan if you are currently not a member. It may be that you have previously been excluded because of your part-time status. If this is the case, then you may have a claim for backdated membership if exclusion is based on sex discrimination. If you are able to successfully pursue a case on these grounds, you can claim as far back as 8 April 1976.

If you feel you have been excluded from the pension scheme based on sex discrimination, then a claim for backdated pension rights needs to be made to an

HELPLINE

0845 600 0806

Employment Tribunal within 6 months of leaving the employment to which your claim relates. Therefore, if you are still in the relevant employment to which your claim relates or have left that employment within the last 6 months, you should lodge your claim with an Employment Tribunal.

Please bear in mind that you may need to make up any unpaid contributions. There is no onus on the employer to advise you of your rights to claim backdated service as a part-timer. However, some employers have written to employees that are affected as a matter of good practice and to 'flush out' further possible claims at a later date.

To lodge a claim, you will need to complete form ET1 and submit this to an Employment Tribunal. You can obtain this form and guidance on how to lodge a claim from a Citizens Advice Bureau, trade union or local office of the Employment Tribunal. You can get a list of Employment Tribunal offices by visiting www.employmenttribunals.gov.uk. You should also write to your employer to advise them of your claim.

Maternity

When women go on maternity leave their pension provision may be affected depending on what type of pension scheme they are in.

Any paid maternity leave in an occupational pension scheme must be treated as pensionable service. Benefits are based on the salary before going on maternity leave whereas employee contributions are based on actual pay received whilst on maternity leave. For all occupational schemes, employee contributions are based on actual pay and the employer must pay a contribution based on the salary the employee would have received had they not gone on maternity leave. This includes the right to any pay increase that would have occurred.

Any unpaid maternity leave which follows a period of paid maternity leave does not count as pensionable service, but employment before and after the break must be treated as continuous. The employer might offer an option to make up any gap in pensionable service, especially in a salary-related scheme.

Please note that any personal pension provision depends entirely on an individual's own contributions. However, if the employer normally contributes to the personal pension, she will still be required to continue making contributions during paid maternity leave. These contributions are based on the pay the employee would have received had she not gone on maternity leave.

Some of these provisions have now been extended to periods of paid adoption leave. For more information, contact the ACAS Helpline on 0845 747 4747.

What you can do

Make sure you are aware of the rules of your scheme on maternity leave. This is especially the case if you extend your maternity leave and are on unpaid leave, as this could make a difference to your benefit accrual if in a final salary scheme, or the contributions actually paid in a money purchase arrangement. You should also find out what the conditions are for making up any unpaid leave by way of extra contributions either from you or your employer.

For any private provision you have, check what the conditions are if you stop contributing for a while. In some older personal pension arrangements you may be penalised. The new stakeholder pension arrangements do not penalise people for stopping and starting contributions.

Pensions on Divorce

In the past women have not received enough financial information and many of today's pensioners relied on their husband's employment and financial knowledge to see them right in their retirement. In some cases, this has proved to be inadequate; especially when divorce has subsequently occurred. You need to be aware that your pension rights could be affected by divorce.

The court is required to take the value of any pension held by either party to a divorce into account when the financial settlement is being determined. There are three options available to the court when it comes to deciding how the value of a pension should be treated. These are:

Pension Offsetting - in respect of divorce proceedings since 1 January 1974.

Offsetting is widely used. It involves offsetting the value of pension assets against other financial assets so that the party with the pension keeps it and the party without a pension is allocated other financial assets instead of a pension. Offsetting is used particularly in cases where there are children to be considered. For example, the spouse who keeps the children also keeps the matrimonial home, which could be offset against the value of pension rights. This approach achieves a clean break but is impractical in some cases.

HELPLINE
0845 600 0806



Pension Earmarking/Attachment - in respect of divorce proceedings started on or after 1 July 1996.

The Pensions Act 1995 permits courts to make attachment orders in addition to financial orders for deferred maintenance. These orders are sometimes known as 'earmarking' orders. An attachment order requires the trustees or managers of a pension scheme to pay part of a member's pension when it becomes payable direct to the former spouse on the member's behalf. Attachment orders can be made against periodical payments or lump sum payments of pension or death in service lump sums. Attachment orders can only take effect when the member's pension comes into payment.

In Scotland, financial orders for deferred maintenance can only be made against lump sum payments of pension or death in service lump sums. If the court orders the pension scheme to make payments on behalf of the member, these orders are called earmarking orders. The court cannot make an earmarking order against periodical payments of pension.

Pension Sharing - in respect of divorce proceedings started on or after 1 December 2000.

Pension sharing enables the value of one spouse's pension to be shared with the other spouse. If the court makes a pension sharing order, the value of the member's pension is reduced by the percentage ordered by the court. The trustees of the member's pension scheme are responsible for depositing the amount deducted from the member's pension in a suitable pension scheme for the former spouse. In some cases the former spouse may have the option of securing pension rights within the scheme operated by the ex-husband's employer. In most cases pension rights are bought in a different pension scheme. Pension sharing enables a 'clean break' to be made. Once the member's pension has been debited and a pension secured for the former spouse, there need be no further contact between the couple for pension purposes.

It should be noted that couples whose divorce proceedings began on or after 1 July 1996, are able to choose either offsetting or earmarking. Furthermore, those couples whose proceedings began on or after 1 December 2000, can choose between offsetting, earmarking and sharing.

Although offsetting and earmarking continue to be used, the number of pension sharing orders is steadily increasing. However, it should be noted that pension sharing is not mandatory and in some cases is not suitable.

You should be aware that when you reach your state pension age, in the case of divorce, and your ex-husband reaches his state pension age or is already of state pension age, you will be able to make a claim for a basic state pension on his NI contribution record for the period of your marriage if your own state pension is low and you have not since remarried.

Pension sharing also applies to your ex-spouse's additional state pension, but not the basic state pension.

What you can do

If you are going through a divorce, it is important that you know what your pension options are on divorce. The method chosen will have a direct effect on your retirement provision. You should therefore ensure that your solicitor is taking all occupational and personal pensions into consideration.

It is also beneficial to obtain independent financial advice. For example, if you were to choose the pension earmarking option, then you need to be aware that this method does have some drawbacks. The date of drawing the pension remains in the hands of your ex-husband and you have no control over its timing. In addition, you do not receive a pension in your own right. You will only receive part of the payments due to your ex-husband when they become payable to him. As the pension remains his property, it will cease when he dies and would not even commence if he died before it was due to start. In addition, as you do not have pension rights, you are also not covered under the law on providing information so you may not know what the pension will amount to until it is paid out. This could

cause problems if you are no longer in contact with your ex-husband.

Under the pension sharing provisions, you may sometimes have the option to become a member of your ex-husband's occupational pension scheme. Not all schemes allow this and instead provide you with a transfer-in to another pension arrangement (you will have this option anyway). If you were to remain in your ex-husband's scheme, you would become a pension credit member. This is a separate category of pension scheme member. You would not have the same rights as members of the pension scheme who earn their pension by length of pensionable service and/or payment of contributions but you would be treated the same as other pension credit members of the scheme. You need to ascertain what would be the better option for you, staying in the scheme or transferring to another one.

The choice you make could have a big impact on your pension at retirement. Call our special Pension Helpline for Women on 0845 600 0806 or permanent helpline on 0845 601 2923 if you need further information.



Death Benefits

Many women nowadays choose not to marry and they can be disadvantaged on the breakdown of relationships or death of their partner as living together confers fewer financial rights. Separation does not generally confer the same financial rights as divorce.

Many pension schemes provide lump sum benefits on death to any class of beneficiary. However, many occupational pension schemes pay pensions on death only to the legally married spouse or civil partner. In some cases, you would need to prove financial dependence to entitle you to benefit from your late partner's occupational pension scheme. This may prove a very stressful process at a time of bereavement. For example, if your deceased partner had been separated but not divorced from his wife, then she may have a first claim on any pension entitlement, that means you could be excluded. Furthermore, any dependant children may have a claim for entitlement. State benefits on bereavement are almost exclusively payable to spouses.

What you can do

If possible, try to ensure you have adequate pension provision in your own right, be this from the State or from your own employment. Most employers nowadays have to provide access to a stakeholder pension scheme where they do not operate an occupational pension arrangement or provide pension benefits. Where you are self-employed or not earning, you might wish to consider a private arrangement such as a stakeholder pension. Do not leave it too late to make plans for your retirement.

Check if your partner is a member of an occupational pension scheme and if that scheme provides a lump sum benefit on death. This benefit can normally be paid to partners at the discretion of the trustees. You should find some information on this in the scheme booklet. Although you should refer to the scheme's trust deed and rules for full details [your partner can ask the scheme administrator for details of the relevant rule(s)]. Make sure your partner has completed an Expression of Wish form so that the trustees know who he wants this benefit paid to. This can also apply if he has

a personal pension where the accumulated fund can usually be paid as a lump sum. However, if there are contracted-out rights included in the personal pension then these must be used to purchase a pension if the survivor was married to the member.

You need to make sure that any income you receive on the death of your partner would be adequate. You may wish to consider other forms of life cover and income protection if you are not covered under your partner's pension arrangements.

Retiring early

Choosing to retire early is an expensive decision. Your pension will have had less time to build up and must be paid out for longer. If you do not want to retire on a low income, you need to save extra to afford early retirement.

Retiring early from an occupational pension scheme is usually only possible if the scheme rules allow.

You can currently retire at 50 from a personal or stakeholder pension but this is going up to 55 by 2010.

What you can do

If you decide to retire earlier (or later) than your proposed retirement date, you should check with the pension provider whether they will deduct any money from your pension fund (if it's a with-profits fund) called a 'market value reduction'. If you are in a private or occupational money purchase scheme, you should check if the scheme provides any guaranteed annuity rates (GAR), and the terms and conditions applicable. You may not be offered GAR, if you do not take the benefits at your chosen selected retirement date. If you are in a salary-related scheme, check if the trustees of the scheme would apply an early retirement reduction factor.



HELPLINE
0845 600 0806

If you are made redundant, you may be offered a good pension as part of the redundancy package. Consider carefully whether you want to start taking your pension straight away or leave it to carry on building up until a later date. Take care that in many circumstances early retirement may not be offered outside the immediate period of the redundancy, or if it is, the terms are not as good.

Looking ahead to what happens at Retirement

If you are in a salary-related pension scheme, you can expect the company pension scheme to pay you a regular income (usually monthly) and possibly a lump sum soon after you retire.

The size of the lump sum available depends on the scheme's rules, but in any event will generally be limited to 25% of the total value of your pension under HM Revenue rules in force since 6 April 2006.

A member of a money purchase style arrangement (i.e. an occupational money purchase scheme, a personal pension plan or a stakeholder pension scheme) builds up a 'pot of money'. On retirement, the member usually has to use all or part of the pot by age 75 to convert into an income, known as annuity - a pension payable for the remainder of the member's life.

There are four ways to convert your savings into an income, which are:

1. take a pension from your scheme (occupational schemes only)
2. buy an annuity from your provider
3. buy an annuity from another provider
4. set up an Income Drawdown arrangement.

Annuities

The pension provider must tell members about the different types of annuities that can be bought.

It is important to note that the pension provider that has been investing a member's fund is not always the one offering the best annuity rates. Members should consider taking advantage of the Open Market Option (OMO). This involves searching the market place for the best possible annuity. An Independent Financial Adviser (IFA) may be able to assist in doing this.

The value of the annuity is dependent on two factors - the size of the pot and the annuity rate offered by the insurance company selling the annuity. The annuity rate is basically the factor used to convert money into pension.

For example:

Value of fund x Annuity rate = Annuity

Annuity rates are calculated by actuaries using various factors - mortality and interest rates, age, gender and sometimes health. In general terms, annuity rates are higher the older a member is and if the member is a man (because men have a shorter life expectancy).

HELPLINE
0845 600 0806

Types of Annuities

There are many different types of annuities to choose from and the following are the main types:

Level Annuity – pays the same income year after year for the rest of your life.

Increasing Annuity – pays an income that is designed to increase each year either at a fixed rate or in line with the Retail Prices Index.

Investment-linked Annuity – this links your income to the ups and downs of the stockmarket. Investment-linked annuities can boost income, but you will not have the certainty of a fixed income.

Term Annuity – can be used as part of Income Drawdown (see page 33). Pays a fixed amount of income over a term (up to five years). Term annuity counts towards the maximum income withdrawal allowable under income drawdown up to the age of 75. All term annuities must end by age 75.

Capital-protected Annuity – returns the original capital (the pension pot at retirement), less annuity payments received, in the event of the annuitant's death before the age of 75. The proceeds are payable less 35% tax. The capital guarantee may mean the annuity rate is lower than without any capital guarantee.

In addition, enhanced annuities are available to those who have a shortened life expectancy due to poor health. These are known as impaired life annuities.

Unless the annuity derives from contracted-out rights, all of these annuities can be provided on a 'single life' or 'joint life' basis. A single life annuity pays out only during the annuity-holder's lifetime. A joint life annuity pays out until the second person dies.

You may also choose an annuity with a guarantee period. These guarantee to pay out at least 5 or 10 years worth of income if you die within this period. This income may be paid until the end of the guarantee period or if the maximum period is five years, paid as a lump sum, but not if death occurs after age 75.

For contracted-out rights the annuity cannot be guaranteed for more than five years. If you are married the annuity must be based on joint life.

Guarantee periods, however, should not be looked upon as a substitute for joint life annuities. You may live beyond the end of the guarantee period and then your survivors will not get this benefit. Note that any lump sums paid out under a guarantee may be taxed.



What you can do

Women receive lower annuities than men as they live longer and only annuities derived from contracting-out rights have to be unisex. There are currently no plans for unisex annuity rates to be applied to non-contracted-out rights. Annuities purchased from contracted-out rights must provide for a survivor's pension where the individual (both man or woman) is married at the time of purchase. Furthermore, if your husband's pension is a single life annuity this means that it is payable for his lifetime only, and therefore on death you may be left with no pension provision from his annuity. This can lead to considerable hardship so it is important that both partners are aware of exactly what they are buying when purchasing an annuity.

Make sure you are aware what happens to the pension provision your husband/partner has made in the event of his death. If your husband/partner was a member of a money purchase arrangement, is the annuity he has purchased a joint life annuity and does it have any guarantee to be paid for a fixed period after death? If he is a member of a final salary arrangement, what are the rules on widow/dependants pensions? Is there any provision for any offspring and, if so, to what age? Is there any life assurance or lump sum death in service benefits? You may need to get hold of the scheme booklet or policy provisions. TPAS can help clarify any widows/dependants pension you are entitled to.

In respect of pension provision in your own right, it is important that you consider taking advantage of any open market option if your pension provider is not currently offering the best annuity rates. Annuity rates can differ by up to 20%. It is therefore important that you shop around. Remember an annuity is for life and once you take it out it cannot be changed.

For more information on Annuity you can contact us on our special Pension Helpline for Women - 0845 600 0806 or permanent Helpline - 0845 601 2923. Alternatively, you can visit our website www.pensionsadvisoryservice.org.uk. It offers an online interactive guidance, *Online Annuity Planner*, to help you make your decision in converting your pension fund into income.



Pension Income Drawdown

Pension Income Drawdown and Phased Retirement, which is a variation using both pension drawdown and annuity purchase, are highly complicated options and you should not consider them without taking suitable financial advice.

With Drawdown, you choose the income you wish to take from your investments, but put off the purchase of an annuity (but not beyond age 75). Instead, the income you draw comes directly out of your pension pot; it does not depend on annuity rates.

You have to choose an income within a range prescribed by HM Revenue and Customs.

Since 6 April 2006, the minimum is £0 per annum, and the maximum is 120% of the annuity you could have purchased immediately instead, based on rates set by the Government Actuary's Department.

You keep the rest of your pot invested – if the pension fund is invested in equity-based investments, you must be prepared for some volatility in the fund in the future.

Annuity rates tend to be higher the older you are (reflecting the shorter period the annuity will have to be paid out for). However, this should be weighed against the fact that annuity rates in general can rise and fall. So, it is possible that by delaying a pension annuity you might not eventually purchase an annuity at a better rate.

Phased Retirement

The concept behind Phased Retirement is that a pension fund is split into a number of equal segments or policies (often 1,000) and the individual can take benefits from each segment separately.

This enables an individual to phase-in or stagger the purchase of annuities over a period (currently up to age 75).

Some of the advantages of phased retirement are:

- you can choose your level of income, and only cash-in the policies needed to produce it
- the pension fund not cashed-in remains in the phased retirement plan and continues to be invested, potentially providing higher future income

- as you get older there is the prospect of annuity rates rising, providing you with a higher income, although this is not certain to be the case when you retire
- the remaining pension fund, being the policies not cashed in (or 'vested'), can normally be returned to the individual's beneficiaries free of Inheritance Tax on his or her death.

The disadvantages include:

- there is no guarantee that your income will be as high as taking an annuity straightaway with your total fund or that it will beat the best rate on the open market
- the returns provided by gilts may drop over time, lowering annuity rates
- the value of the continued investment of your pension fund may go down as well as up
- annuity providers make a profit from the fact that some individuals die sooner than is expected. They utilise some of this 'mortality profit' to enhance current annuity rates. Your remaining investments need to enjoy better returns than the mortality profit margin to make you better off
- you may not know from year to year what your actual income will be.

Both pension drawdown and phased retirement will require a fairly large initial fund value in order to make it worthwhile, usually in excess of £100,000. They are also more suitable to people who continue to have other income sources to rely on such as working part-time or other income.

Equalisation of Retirement Ages in Occupational Pension Schemes

Men and women must now be treated equally in occupational pension schemes and this has led in some cases to women's retirement ages being increased under the scheme. This will have an effect on your prospective pension if your scheme has equalised retirement ages from say age 60 to 65.

The European Court of Justice ruled on 17 May 1990 (in the case of Barber v Guardian Royal Exchange) that benefits under occupational pension schemes had to be provided on equal terms to both men and women. This was clarified in subsequent rulings. However, equalisation only has to apply to benefits accrued from 17 May 1990 onwards.

The net effect of this is that it is possible for some employers to change their pension scheme rules to equalise retirement ages upwards to age 65 for both men and women. However, it is not normally possible for scheme trustees to raise a woman's retirement age for the whole of her service. That part of your pension earned by service completed before equalisation should still be available at age 60. This means that if your scheme has raised the retirement age from 60 to 65 it would usually be possible for you to retire at age 60. However, you may suffer a reduction to the benefits you have built up from the date of equalisation based on a normal retirement age of 65.

For any period between 17 May 1990 and the date retirement ages were equalised, the trustees must provide benefits to all members at the level enjoyed by the advantaged sex.

For example:

A woman reaches age 60 on 17 May 1999, having completed 30 years service in a scheme between 1969 and 1999. The trustees equalised benefits on 17 May 1994 by raising the retirement age for women to 65. She is given the option to retire at age 60 and she decides to do so. Her final salary is £20,000 and her benefits are worked out as follows:

Service 17 May 1969 – 17 May 1994
 $25/60 \times £20,000 = £8,333.00$

Service 17 May 1994 – 17 May 1999
 $5/60 \times £20,000 \times 0.574 = £ 956.66$

TOTAL £9,289.66

This member suffers no reduction on those benefits built up to the point when the scheme equalised retirement ages (0.574 is an example of an early retirement reduction factor which might be applied for taking a pension five years early).

What you can do

All occupational pension schemes are required by law to have equalised retirement ages. This means for many women that their normal retirement age may be later than expected. You should therefore check with your pension scheme your retirement age under the scheme so that you know when you are able to retire and any reduction that may be applied. You may also want to enquire what the rules are for early retirement and what reductions would apply if you were to take your benefits earlier than normal retirement age.

You should also be aware that by 6 April 2010, the earliest age that most people will be able to draw their pension will have been raised from 50 years to 55 years. There are however some exceptions, for instance, people retiring on ill health grounds and more exceptionally others with a contractual right to draw benefits earlier than age 55.

Unless you have an agreement that constitutes a binding contractual obligation on the pension fund to pay your pension benefits earlier, then you will not be able to take your benefits earlier than age 55, subject to the scheme rules.



Tracing pension benefits

It is sometimes the case that people lose contact with their old employers and do not realise that they have pension benefits held under an old scheme which they may have forgotten about. The pension scheme will have difficulty in contacting you if you do not inform them of your latest address. This can be further confused by any change of name on marriage, divorce or remarriage.

The Pension Tracing Service may be able to help you to trace any scheme you are looking for. All active pension schemes are obliged to lodge details of their address and other information with the Pension Tracing Service. The Pension Tracing Service does not keep details of any benefits.

Their address is as follows:

Pension Tracing Service
The Pension Service
Whitley Road
Newcastle upon Tyne
NE98 1BA

Telephone: 0845 600 2537

What you can do

In the first instance, you should bring together any documentation you may have relating to the scheme. You should then write to the last known address of your old employer. Failing this you can contact the Pension Tracing Service or alternatively we can provide you with an enquiry form PT1, which is a request for information on a pension scheme. You should complete as much of the form as possible and then send it to the Pension Tracing Service. They may then be able to give you an address where you will be able to contact the scheme authorities. Please note that the Pension Tracing Service keeps details of the scheme itself, rather than the level of individual members benefits.

Alternatively, you can complete the form online at:

www.thepensionservice.gov.uk/atoz/atozdetailed/pensiontracing.asp

You may also consider the feasibility of making contact with ex-colleagues from the time you were a member of the scheme. It quite often happens that other people have experienced the same problems and may be in possession of helpful information. If you are not in direct contact with any of these people, then you could try placing a personal advertisement in an appropriate local paper, with a request for information.

The Pensions Advisory Service operates two websites; one that deals specifically with stakeholder pensions:

www.stakeholderhelpline.org.uk

and the main website:

www.pensionsadvisoryservice.org.uk

that deals with all other aspects of pensions.

HELPLINE
0845 600 0806

