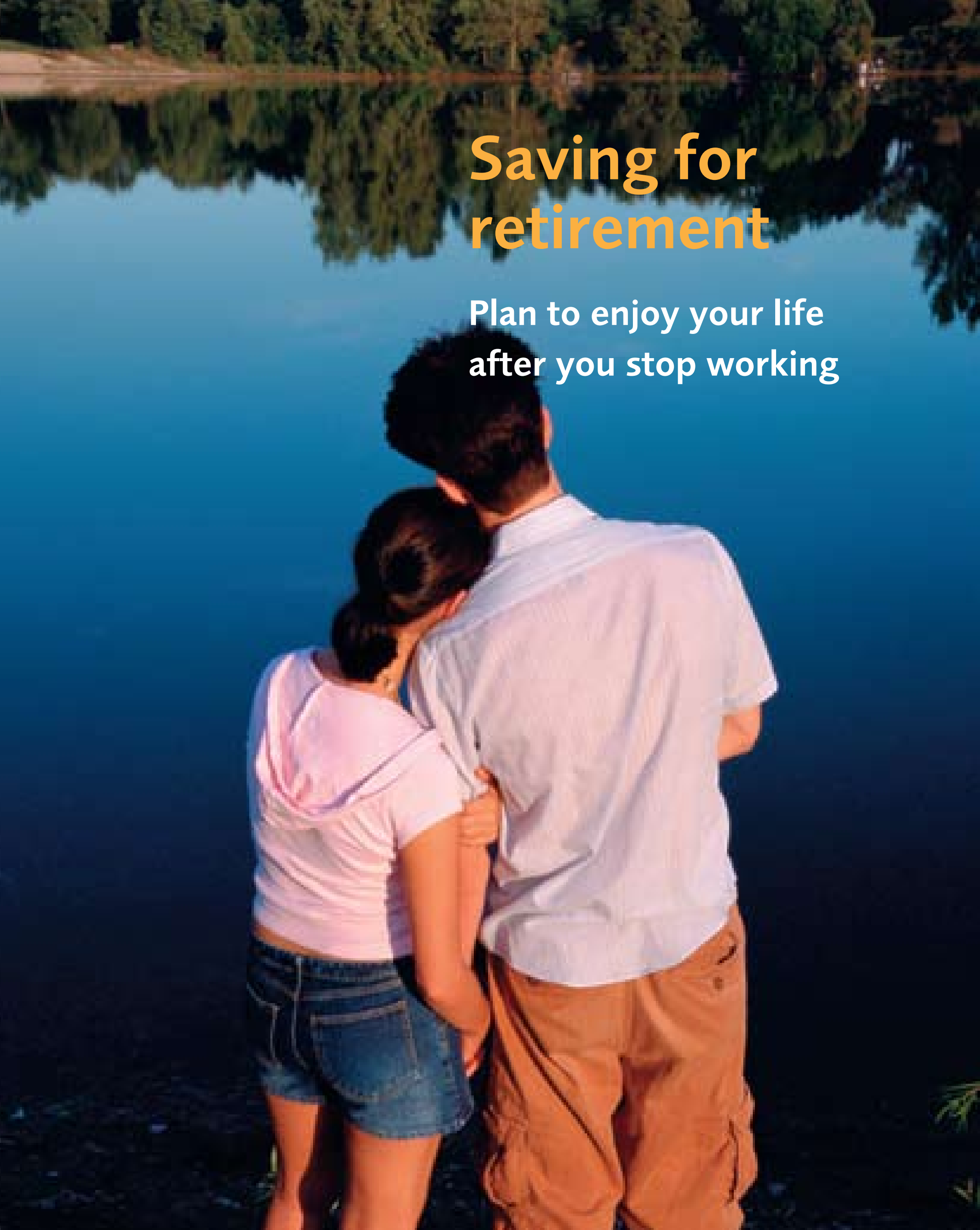
Saving for retirement

Plan to enjoy your life after you stop working



the pensions advisory service

Contents

About this booklet

This booklet aims to help you understand pensions and retirement planning if you live and work in the United Kingdom.

We also explain how to get more help if you need it.

The booklet is in six parts. The **Introduction** describes what we are trying to help you do. In **Planning**, we help you imagine where you want to be. In **What will you have?** we help you find out more about the money you already have and what you might have if nothing changes when you retire.

In **Bridging the gap** we suggest ways of plugging the gap between what you have and what you need, and **Your action plan** shows you how. We also encourage you to do some homework for yourself.

We finish with **Resources**, including a jargon buster, contact details and a notebook to help you record your progress.

Introduction

About The Pensions Advisory Service

The Pensions Advisory Service (TPAS) has helped members of the public on pension matters since 1983. In 2008, we celebrated 25 years of service to the public.

We are independent and dedicated to helping the public. We are supported by a grant from the Department for Work and Pensions. All our services are free of charge to you.

How we help you

Internet – You can find out about all types of pensions on our website www.pensionsadvisoryservice.org.uk

We regularly update our website to reflect any changes, so do check it whenever you have a question.

Telephone helpline – You can talk to an adviser on our helpline 0845 601 2923. The helpline is open Monday to Friday between 9am and 5pm (calls charged at local rate). You can also write in with your question to TPAS, 11 Belgrave Road, London, SW1V 1RB or email us at enquiries@pensionsadvisoryservice.org.uk

Disputes – Our dispute resolution team can help you resolve disputes. Write to us or talk to an adviser on our helpline 0845 601 2923.

Workplace team – Our workplace team gives talks in the workplace or local community. Ask an adviser to refer you or call 020 7630 2250.

Why save for retirement?

Can you rely on the state to provide enough income for you in retirement?

Improved medical science, education, diet and healthcare mean that people are living longer and staying healthier. But are your finances healthy?

The proportion of the population in retirement is growing. Now, about 3.5 people work to pay for every pensioner; by 2050 this may be nearer 2 working people to one pensioner! The strain on the National Insurance fund is getting bigger and something has to give! The pressure is on the Government to direct money to those who need it most and to encourage people to provide more for themselves.

Will your state pension be enough to live on?

Your Basic State Pension might keep you warm, fed and clothed, but you cannot expect it to do much more. It is unlikely to help you get more from life when you retire.

So you need to do more to help yourself – you should not be satisfied with the Basic State Pension.

Tip: Don't delay getting started. Pension funds need time to grow. You may be missing out on employer contributions, too. It costs much more to catch up on lost opportunities.

Planning

What lifestyle do you want?

Do you want to visit the more exotic parts of the world? Do you want to visit family in far-flung places, or just take in the sights and sounds of different cultures? Or will your home, garden, hobbies, food or sport be your delight? Will you buy that special car, or a boat, perhaps?

What will you do with all the time that you now spend travelling to work, working and then travelling home? Have you talked to your spouse or partner about this?

What income will you need?

Start by looking at what you spend now. By going through your budget now, you can see what things you will have to keep paying for when you retire. Most of the costs then will be the same as those now, with inflation added to them. You'll still need to pay for food, lighting, heating, clothes and council tax. You may also have to budget for the car, current hobbies and grandchildren. You also need to think about how you would pay for care when you can no longer look after yourself. From this you can work out roughly how much you will need.

If you struggle to manage on your budget today, the Financial Services Authority's website can help you make the most of your money.

www.moneymadeclear.fsa.gov.uk

Where are you now?

Now is a good time to add up your pensions and other investments. What do you have – and where is it invested?

You need to prepare a summary that answers these questions:

- What pension(s) and investments do you have?
- Where are they invested?
- Where do you keep the documents?
- What years of your working life do they cover?
- What type of plan are they?
- What rules apply to your plan?
- What happens when you retire?

When you've gathered all this information, keep it safe, secure and up to date.

You'll need to get a statement of current values and figures from each scheme or plan that you have. The statement should show you what to expect at the retirement age shown on the scheme. If you intend to retire at a different age, you will need to let the scheme provider know so they can give you a forecast for that age.

You'll need to look at your state pensions as well as any occupational or personal plans that you have. You can get a forecast of your state pension from The Pension Service:

www.direct.gov.uk

Click Pensions and retirement planning, then Getting a state pension forecast.

When are you going to retire?

When you have decided when you wish to retire, the question might now be: Can you afford to? This might, in the end, govern when you retire.

When will your current pensions start being paid?

Check when all your current pensions will start. These may be:

- The Basic State Pension and Additional State Pension – these pay out at your state retirement age
- Other pensions – these pay out when you want and as allowed by current law and scheme rules

Will you retire...

- early?
- late?
- partially?
- flexibly?

How does timing affect how much you get?

Rules – The rules of the state pension, occupational scheme or private pension you have will say when you can take your pension income.

Timing – Do you want to retire early or carry on working past your retirement date? If you carry on working, you can build a larger pension income for when you do stop working.

Values – Market downturns can severely affect investment-backed pensions. Values go up and down, so when you take your benefits can affect how much you get.

Penalties – retiring early can incur large penalties.

So rules, timing, values, penalties and your desired income will all help you decide when you retire and what you can have.

Balance between risk and reward

People have different attitudes to risk and reward and are sometimes not prepared to gamble too much, especially in difficult market conditions. Taking more risk sometimes gets you bigger returns. But that is not guaranteed and you may lose money on riskier investments.

Before you make financial plans you should decide what risks you want to take.

What will you have?

Basic State Pension

The full Basic State Pension is £97.65 a week (2010/11). The current state retirement age for men is age 65, and for women it is changing.

The state retirement age gradually increases to age 65 for women born between 5 April 1950 and 5 April 1955. This change started on 6 April 2010 and finishes on 5 April 2020.

This also has an effect upon Pension Credit for both men and women, as it moves the Qualifying Age (QA) to 65 over the next 10 years from 6 April 2010 (see page 10).

You can find out more in our booklet *Women and Pensions*, which you can download from the publications section of our website.

www.pensionsadvisoryservice.org.uk

Please also note that state retirement age for men and women starts to change again from 6 April 2024, moving everyone's retirement age gradually again to 66, then in 2034 towards 67 and in 2044 towards 68.

The rules for building up your state pension change for those people retiring after 6 April 2010. If you were due to retire before 6 April 2010, please check our website for the old rules for building up your state pension.

Tip: You can use the state pension age calculator on the front page of our website to see what this means for you.

www.pensionsadvisoryservice.org.uk

Rules from 6 April 2010

From 6 April 2010, men and women who reach state retirement age need 30 qualifying years to get the maximum state pension. If you have less than 30 years, you get a proportion e.g. 15 years equals 50% of the maximum pension.

A qualifying year is a year when you:

- paid enough National Insurance contributions; or
- were credited with National Insurance contributions e.g. if you were receiving jobseeker's allowance or child benefit.

On our website you'll find ways to build up your Basic State Pension if you haven't paid enough National Insurance contributions.

There will be no minimum number of qualifying years from 6 April 2010. Before this date you needed to have at least 25% of the maximum requirement to qualify for any pension.

Additional State Pension

If you are in work, you may also be building up entitlement to the Additional State Pension. Additional State Pension is based on your earnings in tax years from April 1978 up to the last complete tax year before you reach state pension age.

Between April 1978 and April 2002, this extra pension was called State Earnings-Related Pension (SERPS). Since April 2002 it has been called the State Second Pension (S2P). The calculation of S2P is more generous for low and moderate earners, so they get proportionately more from the S2P. Also, since April 2002, it has become possible for people who are carers, or have a long-term illness or disability, to qualify for Additional State Pension.

All employees who earn more than the lower earnings limit for the relevant tax year will qualify for the Additional State Pension unless they join an occupational or personal pension scheme that is contracted out (see page 8).

If you are a carer, you can build up your entitlement to Additional State Pension, for example, if:

- you receive Child Benefit and look after a child under 6;
- you are entitled to Carer's Allowance;
- you look after a sick or disabled person and are getting Home Responsibilities Protection.

Self-employed people do not qualify for Additional State Pension.

Calculating how much you will get is complicated and your best option is to leave it to the Pension Service. Make sure that the information they hold about your qualifying years is up to date, and that there are no gaps in their records. Do talk to them if you think some work history is missing.

Tip: Get a state pension forecast from the Pension Service:

- by telephone 0845 300 0168
- by post, using form BR19
- online at www.direct.gov.uk
  click Pensions and retirement planning, then Getting a state pension forecast.

Contracting out of the Additional State Pension

Back in 1988, it was possible for employees to contract out of SERPS, now called S2P, where their work scheme did not do this for them already, and set up a form of personal pension plan called 'protected rights'.

Occupational Final Salary (also known as Defined Benefit (DB)) schemes have been able to do this for a lot longer than that. Such a scheme would provide comparable benefits to the Additional State Pension in return for lower National Insurance contributions. Companies could also contract out via a money purchase scheme on a similar basis; the scheme would then be called a Contracted Out Money Purchase Scheme or COMP Scheme.

However, from 1988 contracting out was also possible for employees (not the self-employed, though) who were either in a contracted-in occupational scheme or in a personal pension. Employees who did contract out paid the full National Insurance rate as normal and the DWP repaid some of it in the following tax year, to the plan of the employee's choice.

This money was invested as the employee chose from the range of funds made available by the insurance company they were using. The money usually attracted lower charges than that of the main personal pension plan of the day. Today, there is little difference between these charges and those of stakeholder pensions.

If you are contracted out, you need to review the benefits your scheme provides because you may be better off back in the state scheme. We recommend that you read the guide from the Financial Services Authority mentioned below.

From 6 April 2012, you will not be allowed to contract out through a personal pension or an occupational money purchase scheme.

Find out more

You'll find the Financial Services Authority's guide *'The State Second Pension (formerly SERPS) – should you be contracted out?'* on www.moneymadeclear.fsa.gov.uk
Click through to Publications, then Pensions and Retirement Options

Our website has an interactive tool, the Contracting Out Planner, to help you make your decision. www.pensionsadvisoryservice.org.uk

Or you can call our helpline: 0845 601 2923

Pension Credit

Pension Credit is a means-tested, tax-free payment for people at the Qualifying Age (QA) or over, regardless of their National Insurance contribution record. It aims to give people at QA and over a minimum level of income, and to give extra cash to people aged over 65 with modest incomes who have made savings for their retirement.

You need to claim Pension Credit – you won't receive it automatically.

When the Department for Work and Pensions calculates your entitlement to Pension Credit, it ignores the first £10,000 of savings. For every £500 over £10,000, they assume you earn £1 of weekly income.

The amount of savings that the Department for Work and Pensions ignores when working out Pension Credit increased from £6,000 to £10,000 from November 2009.

There are 2 parts to Pension Credit – Guarantee Credit and Savings Credit.

Guarantee Credit is payable from the QA. It tops up your weekly income to a guaranteed minimum level. For a single person, Pension Credit could top up your weekly income to £132.60 (2010/11). For couples, it could top up your joint weekly income to £202.40 (2010/11).

Savings Credit rewards people who have saved extra for their retirement and who have a modest amount of income or savings. Savings Credit is payable from age 65.

You may be entitled to get some money from Savings Credit if you have income of up to about £184 a week (if you are single) or up to £270 a week (for couples). Savings Credit is currently worth up to £20.62 a week for a single person and £27.09 a week for couples (2010/11).

You may receive either Savings Credit or Guarantee Credit or both.

From 2010, the age from which you can get Pension Credit will gradually increase in line with increases to the state pension age (see page 6).

Tip: The Pension Service has an online calculator that can work out your potential entitlement to Pension Credit. However, it doesn't cover every circumstance, so treat it just as a guide. You can find the calculator at:

www.direct.gov.uk

Click Pensions and retirement planning, then Pension Credit followed by Get a Pension Credit estimate.

You can apply for Pension Credit by ringing the Pension Credit helpline on

0800 99 1234

Lines are open Monday to Friday 8am to 8pm.

Occupational and personal pension plans

The Government offers tax incentives to encourage saving in a pension scheme. It has set some rules for these tax advantages.

Rules applying to occupational and personal pensions

Retirement age The earliest date that a healthy person can take a pension was age 50, but has gone to age 55 from 6 April 2010. You must take benefits by age 75.

Annual allowance for contributions HM Revenue & Customs (HMRC) sets a limit on the contributions you can make into occupational and personal pension schemes. For money purchase schemes, it's the limit on how much can be paid in total in a tax year.

For final salary schemes, the limit is on the value put on the increase in your pension gained during the tax year.

The annual allowance for the tax year 2010/11 is £255,000.

If you pay more than the annual allowance into such a pension scheme, or the value of your pension exceeds the allowance, you will be charged tax at 40% on the excess.

The annual allowance does not apply in the tax year when you start to draw retirement benefits.

Lifetime allowance for fund value There is a limit on the value of retirement benefits that you can draw from an approved pension scheme before tax penalties apply. This limit is called the lifetime allowance.

The lifetime allowance is £1.80m in the 2010/11 tax year.

When you start to draw your pension, HMRC will apply a recovery charge to the value of retirement benefits that exceed the lifetime allowance. The amount will depend on how you pay the excess.

Occupational schemes

Occupational pension schemes are pension arrangements that employers set up to provide retirement income for their employees. The employer sponsors the scheme, and a board of trustees ensures that benefits are paid. Public-sector occupational pension schemes are different in that they are established by an Act of parliament which lays down the scheme rules.

The benefits of an occupational scheme are that:

- your employer pays a contribution on your behalf; and
- your contributions are paid before tax is deducted – so you get tax relief at your highest rate.

There are two different types of occupational pension scheme: money-purchase schemes and salary-related schemes.

Salary-related occupational pensions

Salary-related schemes are sometimes called defined benefit or final salary schemes. Members contribute to the scheme with the promise of a certain level of pension. Your contributions are pooled with those paid by all other members and the employer. The trustees invest the money for the benefit of all members.

The amount of pension payable from such a scheme depends on:

- **pensionable service** – the length of time served in the scheme;
- **final pensionable salary** – earnings before retirement; and
- **accrual rate** – the proportion of salary that is received for each year of service. So, if the scheme has an accrual rate of 60, you would receive 1/60th of your final pensionable salary for each year of completed service.

For example:

- Years of service = 30
- Final salary = £25,000 per year
- Pension would be 30/60 x £25,000 = £12,500

You can usually exchange some of your pension for a lump sum, paid free of tax. The pension counts as earned income and therefore will be subject to income tax.

Make sure you know how your benefits have built up so far. Ask for a benefit statement from the trustees of your scheme so that you can work out how much your pension benefit is likely to be when you retire.

Money purchase plans

Money purchase plans, sometimes called defined contributions plans, are funds that, at maturity, need to be converted to cash and income to suit the person (personal pensions work the same way).

At retirement, you can take up to 25% (a quarter) of the fund as cash tax free and you must use the rest to provide an income. More commonly you secure your income by shopping around and buying an annuity (an income for life) on the open market (called the 'open market option'). You will have many different types of annuity to choose from to suit your circumstances, such as a joint or single-life annuity. We have an annuity planner on our website to help you choose the best annuity for you.

The contributions of the employer and the employee are invested until retirement. You may be able to choose investment funds from a selection of funds chosen by the scheme trustees. You need to understand the risks of investing in each fund to decide if a money purchase plan is suitable for you.

Phased retirement and unsecured pensions

Phased retirement and unsecured pensions are other ways of getting an income from your pension that involve leaving your pension fund invested. You can find out more by reading *Just the facts about your retirement options* from the Financial Services Authority which you can get from the publications section of their website.

www.moneymadeclear.fsa.gov.uk

Tip: Many people who reach retirement in money purchase schemes don't use the open market option to shop around for the best price annuity. As a result they can end up with a much lower income in retirement. To make the most of your retirement fund, use your open market option.

Personal pensions and stakeholder schemes

A personal pension plan is an investment policy designed to offer a lump sum and income in retirement. It is available to any United Kingdom resident under 75 years of age. You can buy personal pension plans from insurance companies, high-street banks, investment organisations and some supermarkets and high-street shops.

Stakeholder and personal pension plans are money purchase plans. 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 depends on:

- the amount of money paid in;
- how well the investment funds perform; and
- the annuity rate at the date of retirement. The annuity rate is used to convert the fund 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. You must use the rest of the fund to:

- buy an annuity with an insurance company; or
- provide an income through an unsecured pension (before age 75) or an alternatively secured pension (after age 75).

Both are ways of drawing an income while your fund stays invested. Stakeholder pensions have to meet some minimum standards:

Low cost The company managing your stakeholder pension cannot charge more than 1.5% of the fund value per year for the first 10 years after you take out the pension, and up to 1% after that.

There are no penalties for stopping contributions and you can pay into it whether or not you are earning an income.

Flexible payments The lowest contribution is £20 (unless your provider has a lower limit) in any period, whether a regular or a 'one-off' payment. This may suit you if your income fluctuates and you need flexibility.

Penalty-free transfers If you want to move your stakeholder 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 (see page 16), check whether your provider will make a market value reduction if you switch.

Group personal pension (GPP)
This is a form of personal pension that companies used as an alternative to an occupational scheme. It follows the same rules as an individual personal pension but normally benefits from an employer contribution and, sometimes, lower charges on the invested money. Companies can also use a group stakeholder to provide benefits.

Self-invested personal pension (SIPP) This is a plan that has much wider investment options directed by you, the policy holder. They are for people who want to be more active in the way their money is invested. You can find out more on our website.

www.pensionsadvisoryservice.org.uk

Click on Personal and Stakeholder pensions, then Self Invested Personal Pension (SIPP).

Auto-enrolment The Government has introduced auto-enrolment, due to start in 2012, to encourage up to 8 million more people to pay into a pension plan. The details and legislation have yet to be finalised. You may be able to opt out, but the Government will discourage this. Companies will need to provide a qualifying scheme or use the new National Pension Scheme that is being developed. This new scheme will be a money purchase scheme with a low cap on charges.

Tip: Older personal pension plans often had expensive and complicated charging structures. It won't always benefit you to restart or continue with one of these schemes – check the scheme rules before doing so. Some schemes had valuable benefits that you could lose if you changed your policy. Please take professional advice if you need to.

Savings and investments

Your income at retirement may also include your savings and investments, property and inheritances.

You cannot take your pension benefits until you are at least age 55, so you will need to have other accessible short-term and longer-term funds to cover, for example, your mortgage, car or holidays.

Savings and investments are another important part of your financial planning. But where should you invest? Here are some examples:

- Individual savings accounts (ISAs) – anyone over 16 can invest in cash ISAs and anyone over 18 can invest in equity ISAs
- National Savings and Investments (NS&I) – premium bonds, fixed-interest and index-linked savings certificates all have tax free investment rules and worth studying
- Investment bonds
- Open-ended investment companies
- Investment trusts
- Shares
- Unit trusts
- Private and commercial property
- Overseas investments
- Banks and building society savings accounts

For more information, go to the Financial Services Authority's website and click on Savings and Investments.

www.moneymadeclear.fsa.gov.uk

Please seek qualified professional advice before you invest in any specialist or more risky areas.

Tip: Avoid going into retirement with heavy debts and few savings. Try to avoid using credit cards and store cards as the charges on these are relatively high. Try to clear them and your mortgage before you stop working. Many people end up relying on the lump sums available from their pensions to pay off debts.

Understanding investments

The name of each fund usually describes the type of investment it holds, for example with-profits, unit-linked, property, and fixed-interest. You can usually switch between funds and the first switch in each year will normally be free. The most common choices are:

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 invest in a range of assets such as stocks and shares and fixed-interest bonds. Some funds invest 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 investment.
- **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 fewer decisions are 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. Bonuses reflect market performance and 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. 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.

Tax

Pensions are attractive to many people because they are relatively tax efficient:

- Contributions receive tax relief.
- Investment growth is mostly free from tax, although dividends are taxable.
- There are tax-free cash options when you retire.

However, income from your pension is taxable.

Contributions

Contributions you pay to an occupational pension scheme are taken from your employer's payroll and attract tax relief.

Tip: Some higher-rate tax payers will receive two rates of tax relief on their contributions. This happens when earnings are just above the threshold, moving someone into the higher rate. Say your higher-rate threshold is £45,000 and you earn £46,000. Then £1,000 of your contribution would attract tax relief at 40% and the excess at 20%.

The contribution comes from your gross pay before income tax is deducted. This gives you tax relief on your contribution 'at source'. If you're a basic-rate tax payer, the tax relief is 20% on the whole of your contribution. If you're a higher-rate tax payer, you get 40% tax relief on your contribution.

Contributions you pay to a personal pension plan or a stakeholder pension scheme are made net of basic-rate tax (i.e. 20%). This means that for every £100 you want to save, you only pay £80. HM Revenue & Customs (HMRC) then add tax relief of £20, topping your contribution up to £100.

If you are a higher-rate tax payer (i.e. 40%), you can claim an extra 20% through your tax return. This gives you total tax relief of 40%, meaning that every £100 you save actually only costs you £60.

The maximum amount you can contribute to a personal pension plan or stakeholder pension scheme, and on which you can receive tax relief, is 100% of your earnings or £3,600, whichever is greater. This is capped by the annual allowance.

You can pay more than this but there will be no tax relief on the excess.

Contributions can also be paid by the employer and these count towards the annual allowance.

The Chancellor's 2009 budget speech said the Government will limit higher-rate tax relief on pension contributions for people with incomes over £150,000 a year. This will take effect from 6 April 2011.

Details of how exactly this will work have not yet been decided. However, the Chancellor said that for incomes above the £150,000 level, the value of pension tax relief will be tapered down until it is 20% for people on incomes over £180,000 a year.

The Chancellor announced that before this change, the Government will introduce a law to prevent people taking advantage of the pensions tax relief while it is still available to them at a higher rate.

Investment growth

Once the money is invested, growth in the value of the assets is free of tax within your chosen scheme. However, in 1997, the Government introduced a tax on dividend payments within the scheme, which now means that not all the investment can grow tax free.

Tax-free cash

On reaching retirement, you can choose to take some of the fund as a tax-free lump sum. (Also called pension commencement lump sum, PCLS). This is limited to 25% of the total value of your pension investments. How much you take will depend on your personal circumstances and the type of scheme. Seek professional advice or phone our helpline if you need more information about this:

0845 601 2923

Retirement income

Income in retirement, including your state pension, is subject to tax. This will affect your tax code.

Bridging the gap

The gap is the difference between what you have in pensions and other investments and what you will need.

Most of us can expect to have a gap, so as soon as you can, you need to:

- put more money into your pensions and savings; or
- re-rethink your target; or
- a bit of both.

How can you bridge the gap?

When you have decided when your pension income needs to start coming in, how much you may need and how much you may have, you should have a pretty good idea of what you need to bridge that gap.

Create a budget so that you can work out what you can afford. You have 3 main options when putting aside enough for your retirement:

- topping up an existing pension;
- starting a new pension; or
- saving through other investments, such as ISAs.

Are there any schemes that you can add to, such as an additional voluntary contribution (AVC) scheme or a personal pension plan? Do be careful to check that the charges are acceptable – some older schemes can carry high charges in the form of investment charges, running costs and exit penalties.

If you need a new plan, it is fairly simple to set up a low-charge stakeholder pension. If you want more options than a stakeholder plan can offer, you may need professional advice.

Your pension contributions are not the only choice, as we have already said. You need to set up 'rainy day' accessible cash funds or top them up to your target amount. These funds should perhaps be the equivalent to at least 3 months' income.

Be practical: start paying in at a level that you can afford.

Tip: You may want to get advice from a financial adviser. Do make sure that if you seek advice, you know the adviser's status and how they are being paid, especially for the first time you meet them. They may charge you a fee, and they may only be able to give advice about certain products.

Warning! Once you have paid money into the pension you choose, you cannot normally take it out before your minimum retirement age. Your pension is not your only method of saving.

Looking again at the balance between risk and reward

When you have decided how much to contribute and which scheme to pay into, you need to think about how much risk you are comfortable with taking. This will depend on how cautious you are with money and what you think will happen to the value of investments.

You will not need to do this if the scheme you are using is an occupational final salary (defined benefit) scheme, as the investment risk is taken by the employer not the scheme member.

Tip: If you are choosing to put your money into investment funds, you must check which funds are most suitable for your attitude to risk. Also check the charges and any other conditions that may also apply.

Usually, the higher the risk, the higher the potential reward – but the greater the potential fall too. It's a good idea to spread your investment funds in different places.

As with all your retirement planning, it's vital to keep your investment choices under review. This is to make sure the funds you choose are doing what you want them to do.

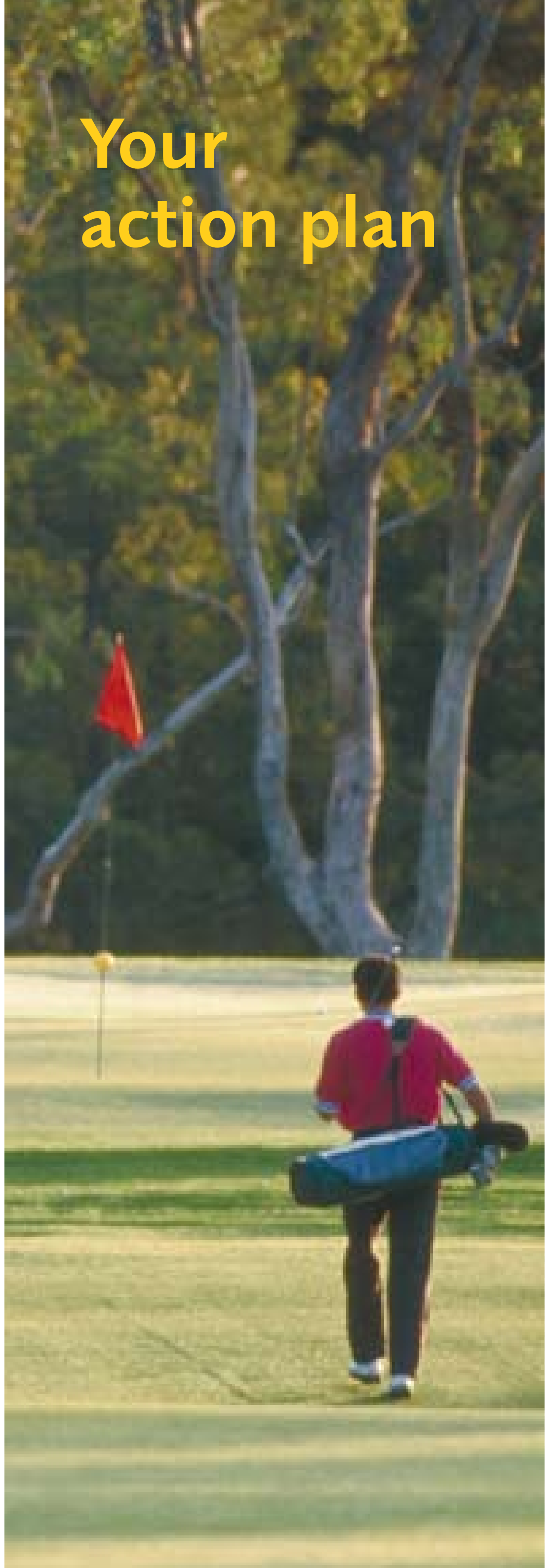
To help with your review, you may choose to seek financial advice.

One way to even out the cost of investing over time is to put money in regularly. This is called 'pound cost averaging'.

Exit timing could also be important. You naturally want to come out of the funds you've chosen on an all-time high, but no-one can be sure when this will be. If your retirement date is more than 5 years away, you could choose scheme providers who will move the funds for you into safer investments over time, or you could do this for yourself. This is called 'lifestyling' and means that by your target retirement age, most if not all of your funds have been moved to lower-risk investments.

Lifestyling may not be right for everybody, so do seek advice if you wish to consider this.

Your action plan



Decisions

- Decide when you want to retire
- Decide what level of income you want in retirement
- Decide if you need a lump sum

Information-gathering

- Find out what you will get from the state – get a state pension forecast
- Find out what you have already got or have access to through your employer – get statements from your pension providers

Problem-solving

- Work out any income gap
- Work out any timing gap
- Decide the best way for you to bridge the gap or change your plans to fit what you can afford

The future

- Review your plan annually and when things in your life change, for example:
  - changing job
  - change in family circumstances
  - illness
  - death in the family.

Tip: To use the retirement planner on our website, you will need:

- information from all your pension and investments; and your state pension forecast.

Get started

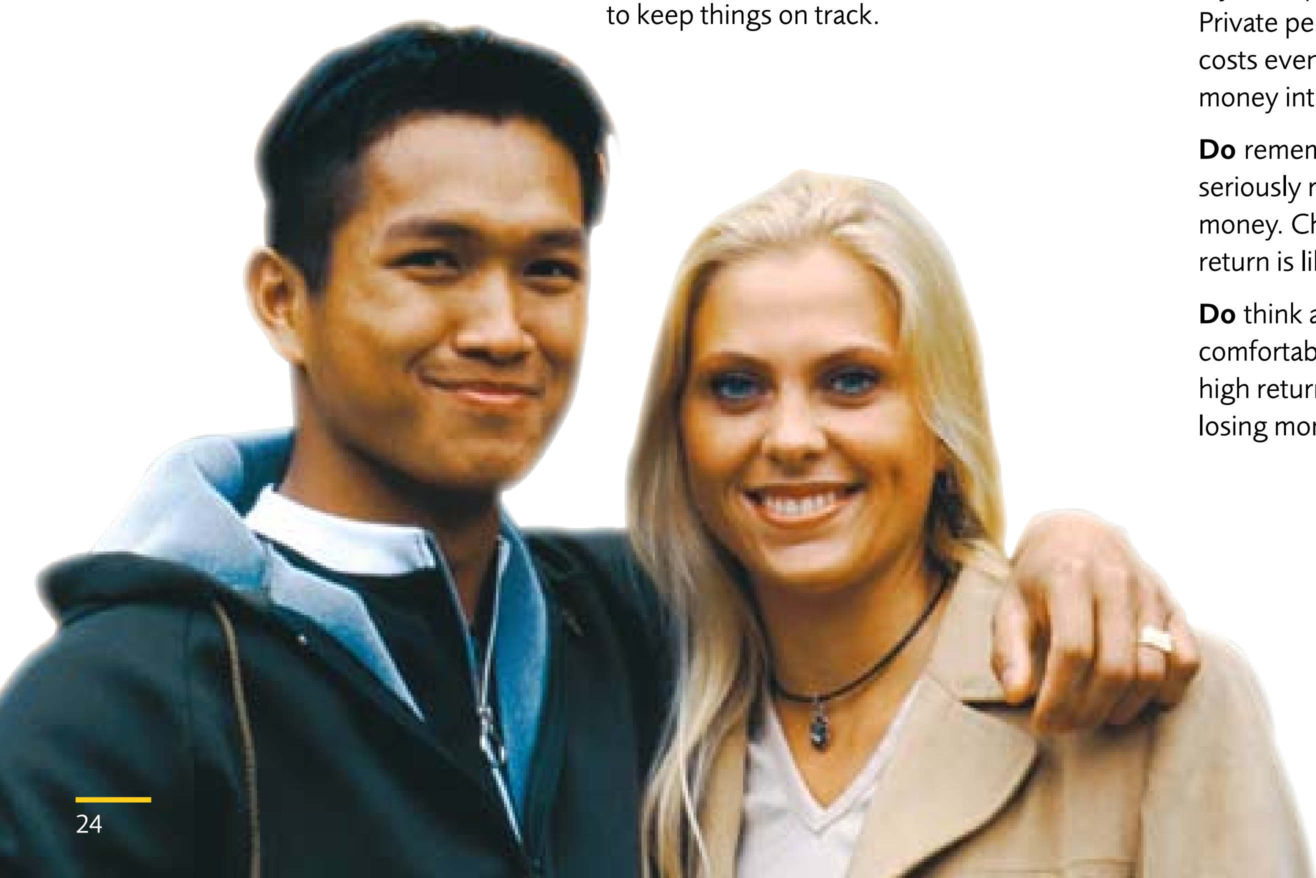
You can download a separate copy of the action plan, which has extra help with each point, from our website.

www.pensionsadvisoryservice.org.uk

Create a pension schedule that you can use to record details of any pension plans that you already have. This will help you get the information you need to make your plans. It will also make it easier for you to use our online retirement planner. Ours should be available later this year. Keep it simple.

Review your retirement plan

- Update your state pension forecast at least every 3 years.
- Get annual statements from your pension plans.
- Make sure your pension schemes have recorded correctly everything you have asked to be done.
- Change your plan to take account of any changes in your personal circumstances.
- Compare the new forecasts with your updated retirement plan.
- Make any necessary changes to your plan, for example contribution levels, to keep things on track.
- Review your investment choices in light of the fund performance and your current attitude to risk.
- **Stay interested in how your funds are doing. Remember: this is your retirement money!**



Tips

The Financial Services Authority (FSA) offers these tips 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 savings plans early. Private pension plan providers charge costs even when you are not paying money into the plan.

Do remember that inflation can seriously reduce 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', 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, 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.

Measure your progress

Put the review dates in your diary. Try to get all the information on all your schemes coming in at the same time. Some providers respond very quickly, others are slow. You may need to plan your review date around the slowest. Once you've gathered all the information, work out if you are on track for your target.

Resources

Pensions jargon buster – Terms and explanation

Accrual rate
The factor used to calculate benefits in a defined benefit scheme. For example, a scheme with an accrual rate of 1/60th will provide 1/60th of pensionable salary for each year of pensionable service.

Alternatively secured pension (ASP)
Allows a pension scheme member to put off buying an annuity at age 75. A defined level of income can be drawn on the invested funds until the member decides to buy an annuity or dies.

Annuity
A policy that provides an income in retirement.

Annuity – capital protected
This type of annuity is used for people who need an income but on death want the balance of unused funds to pay out as a lump sum. The remaining funds when paid out would be subject to a tax charge of 35%.

Annuity – impaired life
People in poor health and who are not expected to survive very long in retirement may get better rates, as it is unlikely that their pension will be paid for long.

Annuity – indexed
When you draw your annuity, you may be offered an **indexed** annuity. This plan will probably offer a much lower income at first. The income will increase over time and eventually exceed that from a level annuity. Whether you actually draw more money than another type of annuity will depend on how long you live.

Annuity – investment linked
When you draw your annuity, this method links the income that you will get with variations, up or down, on the stock market. This might be exciting, but it has no certainty of a guaranteed income.

Annuity – level
When you draw your annuity, you may be offered a **level** annuity. This income is fixed for life. It will not increase or decrease. It is likely to offer a far better rate at first than a more typical indexed annuity (see above). After some years the income advantage may be cancelled out.

Annuity – term
When you draw your annuity, this option allows some plans, such as an unsecured pension plan (see below), to draw an income for a set period of up to 5 years. This is useful for those taking early retirement.

Auto-enrolment
An arrangement where an employer automatically enrols an employee into a pension scheme. This arrangement is to be compulsory for employers from April 2012. Employees will be able to opt out.

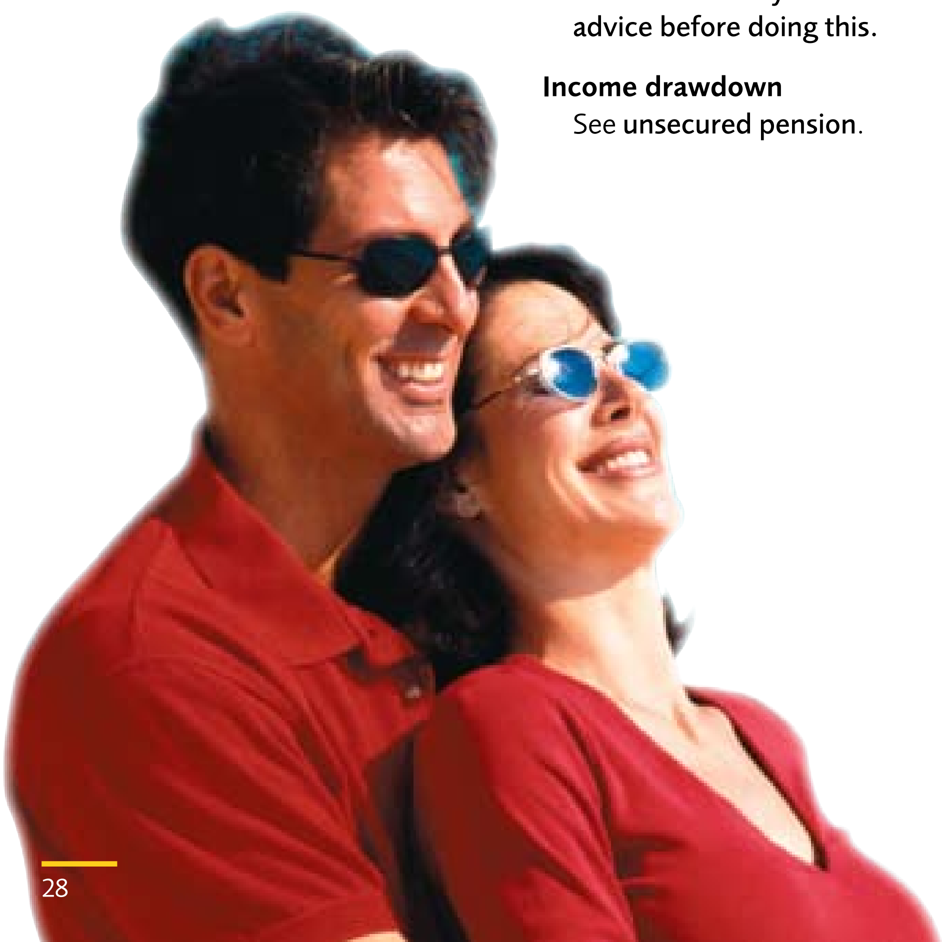
Career-averaged revalued earnings (CARE) scheme
A defined benefit scheme that calculates retirement benefits using the average of pensionable salaries over the member's time in pensionable service. The salaries are revalued to current levels.

Cash equivalent transfer value
The amount offered to a member of an occupational pension scheme who wants to transfer to another pension scheme.

Defined benefit scheme (DB)
An occupational pension scheme that provides benefits based on accrual rate, pensionable service and pensionable salary.

Defined contribution scheme (DC)
A scheme that provides benefits based on building up of a pot of money from investing contributions paid by the employee and, possibly, the employer

Divorce – earmarking or attachment
Provides a spouse with a share of a pension scheme member's pension rights on divorce. The spouse's share is paid when the member draws benefits



Divorce – offsetting
A member's pension rights are offset against other assets as part of a divorce settlement.

Divorce – sharing
The courts can order that a portion of the pension of one be transferred to a plan for the other. Typically this will be in a separate plan and can even be in a separate scheme. Once done, it becomes a clean break so neither party expects any further payment. This looks easy, but may not always be suitable. **Always seek financial advice before doing this.**

Income drawdown
See **unsecured pension**.

Lifestyling
An investment strategy on defined contribution schemes where a member's investments are switched automatically as they get older to more secure holdings, such as cash, bonds and gilts.

Means tested
Entitlement is affected by the amount of income and savings.

Money purchase scheme
See **defined contribution scheme.**

Open market option
Some defined contribution schemes allow members to transfer their funds at retirement so that they can draw an immediate annuity from another provider.

Pension commencement lump sum (PCLS)
Sometimes called tax-free cash. The tax-free lump sum paid to a member of a pension scheme when their benefits come into payment.

Personal account
A new low-cost pension scheme being introduced in April 2012. 'Personal account' is a temporary term until the scheme is introduced.

Personal pension plans (PPP)
A type of defined contribution scheme. It provides retirement benefits based on building up a pot of money by investing contributions.

Phased retirement
An arrangement by which only part of a pension is used to provide an income, with the rest remaining invested or put off ('deferred') to a later time

Stakeholder pension
A type of personal pension plan, offering a low-cost and flexible alternative to other personal pension schemes, and which must comply with requirements laid down in legislation.

Unsecured pension
Also called income drawdown or income withdrawal. It allows pension scheme members to continue to invest funds while drawing a limited income. Only for people under 75.

With-profits funds
Insurance companies offer this type of investment as an alternative to stock market funds. If the investment grows, they usually give yearly bonuses. The fund values do not usually fall but may stay frozen in difficult market conditions. At maturity there could also be a terminal (loyalty) bonus. If a person were to transfer or sell early, there could be a penalty, sometimes called a market value adjustment (MVA).

Contact numbers and addresses

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Textline: 0845 300 0169
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Pension Tracing Service
Helpline: 0845 600 2537
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The Pension Service
Helpline: 0847 31 32 33
www.direct.gov.uk

Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

Helpline: 0845 080 1800

The Pensions Regulator
Helpline: 0870 606 3636
www.thepensionsregulator.gov.uk

Financial Services Compensation Scheme (FSCS)
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Portsoken Street
London E1 8BN

Phone: 020 7892 7300

www.fscs.org.uk

The Pensions Ombudsman
Phone: 020 7630 2200

www.pensions-ombudsman.org.uk

Financial Services Authority (FSA) Money Made Clear
Helpline: 0300 500 5000
www.moneymadeclear.fsa.gov.uk

IFA Promotion (finding a financial adviser)
www.unbiased.co.uk

Ethical Investment Research Service (EIRIS)
Helpline: 020 7840 5741
www.eiris.org

Notebook

A place for your notes and numbers

We also publish the following information leaflets:

Concerned about your pension?

Employee Advice Service – Free independent retirement planning information available through employers

Getting information about your pension

How to become an adviser for The Pensions Advisory Service

Ill-health early retirement

Mistakes & overpayments

Pension dispute procedure

Pensions and leaving work

Saving for Retirement

Saving for Retirement – The self-employed

Saving for Retirement – Small business owners

State death benefit factsheet

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 scheme members

Women and Pensions – Know your rights and options

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.

Plain Language Commission Clear English Standard Winning Document

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This leaflet is available in large print or Braille.

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the pensions advisory service

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Registered in England and Wales No. 2459671.
Registered Office as shown.

April 2010