Contacting us

There are lots of ways you can contact us.

Pensions Helpline **0300 123 1047**
(Monday- Friday 9:00am- 5:00pm)

Web chat live
www.pensionsadvisoryservice.org.uk

Online enquiry form
www.pensionsadvisoryservice.org.uk/online-enquiry

Write to us The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

@TPASnews

/pensionsadvisoryservice

INVESTORS IN PEOPLE

Saving into a pension

All the things you'll need to know about when you start saving into a pension

The PENSIONS Advisory Service

About The Pensions Advisory Service

Pensions can change people's lives. Most of us would like to be able to choose to stop work one day and choose how we live when we do. A good pension is a good way to achieve that. Our vision is a future where people are empowered to make the most of their pensions.

The Pensions Advisory Service (TPAS) is here to give people professional, independent and impartial help with their pensions – for free.

We are here to:

- give you independent information and guidance on pension matters
- mediate and resolve problems you may have with your pension

We will always try our hardest to help you with your pension query. Our service is about you and your needs, helping you to navigate through all the options that may be relevant to your personal circumstances. Based upon what you tell us, we will always try to help you get the answers you need or identify the people you need to speak to.

At the Pensions Advisory Service, we understand pensions, and are passionate about making them accessible to you.

For a number of reasons, there *are* some things we can't help with...

- if your problem is about your job
- if you're in dispute about social security benefits (including State Pension)
- if you want regulated financial advice
- if you want to try to change the rules of a pension arrangement or lobby for change
- if the Pensions Ombudsman has already investigated your complaint
- if you've already started legal proceedings

What happens when things go wrong?

If you think something has gone wrong with your pension and you feel you have a complaint, it is really important that you contact the scheme provider. They will know all of the rules and how these apply to you.

If they can't resolve the problem and they have been unable to explain why something is as it is or if you feel they aren't dealing with it properly, then you can ask us to help you. We will always look at the evidence about your case impartially and we will give our independent opinion.

In order for us to look into your case, we will need to have copies of your initial correspondence with the scheme and any other relevant documents you think will help resolve your problem. After considering the information you send us, we will then talk to you about what we think your options are and possible next steps. This might involve us asking for your authority to contact your scheme or provider.

We are experienced pensions specialists, who will use their expert knowledge to consider your complaint and try to resolve it. If they do not think this is possible, they will recommend any further action you might wish to take.

Saving into a pension

If you're reading this leaflet, you're probably already thinking about starting a pension or reviewing the one you've already got.

As you go through life, whether you're in or out of work, your ability to contribute to a pension will make a big difference to the quality of your life in older age.

Putting a little away can make a big difference.

Retirement may seem a long way off, but the earlier you can start saving, the better. Even saving a small amount can make a difference when you come to retire.

It's important to save as much as you can, as often as you can, so that you can stop working and enjoy a comfortable retirement. Pension schemes are one option to save for your retirement.

Pensions are a tax efficient way to save because:

- you get tax relief on your contributions (subject to limits)
- the investments grow in tax-friendly way and
- you have the option to take a tax-free cash lump sum when you retire.

Other reasons why saving in pensions are a good way to save for your retirement are:

- if you are in a workplace scheme, you may benefit from an employer contributions and
- There has been legislation to ensure that cost effective pensions are available.

So what's next?

We've produced this booklet to tell you more about pensions and to help you decide what you should think about, what options you have and what you should do next. But, you should contact your pension scheme or provider straight away, ask them to explain what's happened and to answer your concerns.

Step 1– Work out how much State Pension you could receive

Basic State Pension (BSP)

You qualify for a Basic State Pension by paying a certain number of National Insurance Contributions during the course of your working life. Currently, you will have a full NI record if you have paid (or been credited with) 30 years' National Insurance Contributions. This is likely to increase to 35 years for people retiring after 2016.

You receive your State Pension once you reach your State Pension age. To find out what your State Pension age is, please visit our website (details can be found at the back of this booklet). The most you can currently receive from your basic State Pension is £110.15 a week (2013/14). If you haven't paid enough contributions to reach the full amount, you will receive a proportion of this amount.

For example, if you've paid 5 years' contributions, you will receive 5/30th of the full basic State Pension or, £ 18.36 a week.

Your BSP will increase every year by whichever is the highest:

- Earnings -average percentage growth in wages (in Great Britain)
- Prices -the percentage growth in prices in the UK, as measured by the Consumer Prices Index (CPI) or
- 2.5%

Taking payments from your defined benefit pension scheme

When you're thinking about taking payments from your scheme, you need to think about:

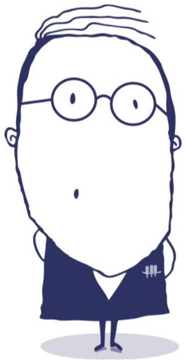
- when you want to start your pension;
- how much cash lump sum you might want to take; and
- what the rules of your scheme allow.

Death benefits

Pension scheme may also provide lump sum or dependants' incomes if you die. These benefit may be paid if you die whilst working or after you have taken the benefits. It's a subject many people don't like to think about. However, it is important to ensure that your dependants' will have enough to financial support if you die and if you will have enough if your partner dies.

Our website covers this topic in more detail.

"Pensions can be a little daunting – but, we're always here to help you"



Taking payments from your defined contribution pension pot

When you're thinking about opening your pension pot and using the money to provide yourself with an income, you need to:

- decide when you want to open your pot;
- decide what sort of pension is right for you; and
- shop around to get the best deal.

You have the following choices:

- You can buy a retirement income (called an annuity) from an insurance company. The amount will depend on the annuity rates in force at the time. An annuity rate is the price offered by the insurance company to change your pot into retirement income.
- You can take an income directly from your pension pot. This is known as income drawdown.
- You can take some or all of the pot as a cash sum

You may opt to take a combination of these choices. You can take up to 25% of the pot as a cash sum. Any further cash sum that you can will be taxed at your marginal tax rate in the year that you take it. (This option is only available from April 2016.)

"If you're not sure about what your options are, we can help explain them to you"

Additional State Pension

Currently, you will qualify for this if you've been employed or received certain benefits. The table below sets out who qualifies for the Additional State Pension.

- Employed and earning over the lower earnings limit of £5,668 a year (2013/14)
- Looking after children under 12 and claiming Child Benefit
- Caring for a sick or disable person more than 20 hours a week and claiming Carer's Credit
- Working as a registered foster carer and claiming Carer's Credit
- Receiving certain other benefits due to illness or disability

To find out more about paying in National Insurance Contributions please visit GOV.UK website:

The current Government is planning to change the State Pension system over the next few years. If you're retiring after 2016, you may qualify for the new State pension, which will combine the Basic and Additional State Pensions and requires 35 years contributions to qualify for the full pension.

Pensions credit– what is it?

Pension credit is a means-tested benefit currently made up of two parts - guarantee credit and savings credit.

Guarantee credit tops up your weekly income if it’s below £148.35 (single people) or £226.50 (couples) (2014/15).

Savings credit is an extra payment for people who have saved some money towards their retirement.

You don’t pay tax on pension credit.

What happens to your State Pension if you’re already working or you plan to work abroad?

You may be able to pay voluntary National Insurance contributions in order to get credits for the State Pension. Visit the HMRC website to find out more: www.hmrc.gov.uk/ni/volcontr/abroad.htm

If you currently live and have worked in any of the following countries, you must claim their state pension through the relevant authority of that country:

Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and Switzerland.

If you’ve worked or lived in a country not listed above then contact the **International Pension Centre**:

Telephone:+**44(0)1912187777**
(Monday to Friday, 8am to 6pm)

How much can you pay?

You can pay as much as you like into your pension pot, however there are limits on the amount of tax relief you can receive.

Contributing to a pension allows you to get some tax relief. The maximum contribution you can receive tax relief on each year is limited to the lower of:

- 100% of your earnings (or £3,600 if you are not earning); and
- the annual allowance, the total annual limit, set by the Government, to limit tax relief on pensions. It is £40,000 from 6 April 2014. (If you do not pay the maximum limit, it is possible to go back and used unused relief for up to 3 previous tax years.)

You can pay more to your pension pot, but you will not get tax relief on contributions above these limits.

When can you retire?

Usually you need to be 55 before you can open your pot and use the money in it to give yourself an income. However, there are times when you can open your pot before age 55.

- If sickness is stopping you from working and your scheme allows you to take an ill-health pension.
- If you have the right under your scheme to take your pension at an age before 55. This is known as a protected pension age.

What to think about when you choose a pension

Providers offer pensions with different terms and conditions. Below we have outlined some things we think you should think about when choosing your pension and provider

- Is there a minimum or maximum level of contribution under the plan?
- How long will it be before you want to take benefits?
- What other savings do you have?
- What are your feelings about risk?
- Will you have the option to stop and start your contributions?
- Can you pay a lump sum as well as regular contributions?
- Is there clear information about where you can invest your contributions?
- Does the plan give you access to the vehicles in which you wish to invest?
- What are the charges?
- Will the provider claim basic tax relief back for you?
- What help and support is offered to help you plan and monitor your investment options?

What will I get from the State Pension when I retire?

The GOV.UK website can help you to work out how much you should expect to receive from your State Pension in a few simple steps with this online tool: www.gov.uk/calculate-state-pension. It will only take a couple of minutes to complete. If you don't have easy access to the internet, ring:

The Pension Service on **0845 060 265**.

When should I claim my State Pension?

Usually, about four months before you reach your State Pension age, the Pension Service will send you a claim pack in the post. This pack will explain your options, and ask how you would like to claim your pension. If you don't receive a pack three months before your state pension age, you should contact the Pension Service claim line on:

Telephone: **0800 731 7898**

(Monday to Friday, 8am to 6pm except public holidays)

You may get extra money if you put off claiming your state pension

If you put off claiming your State Pension for at least five weeks, you may earn extra state pension. Your State Pension will increase by 1% for every five weeks you put off claiming. This is the same as 10.4% for every full year you put off claiming.

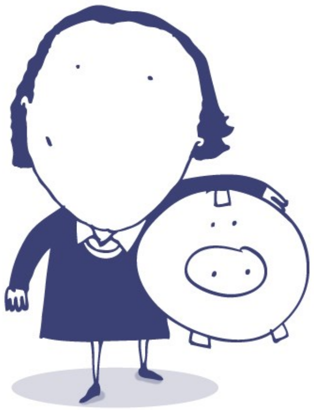
You could get this as either extra pension or a lump sum payment. The Government is planning to remove the option to take a lump sum payment in April 2016, when the New State Pension is introduced.

Step 2 – Consider joining your workplace pension scheme

Joining a workplace pension scheme is a good place to start saving. If you are employed, most employers give you the opportunity to join a workplace pension scheme. By 2018 all employers will have to do this. There are different types of workplace pension schemes available, and each works in a different way.

There are different types of workplace pension schemes; some schemes promise to provide a certain level of pension based on how long you work for the employer (Defined Benefit Schemes) and other schemes build up a pension pot from contributions paid by you and your employer (Defined Contribution Schemes).

"Pensions change lives. The sooner you start saving, the better"



How to choose your own pension

It's a good idea to get expert advice from a regulated financial adviser. We can't provide financial advice but we've outlined some of things to thing about when you choose a financial adviser.

Think about what advice you're looking for; is it just advice on your retirement savings or do you want help with all of your financial planning?

Consider the level and experience that the adviser has, particularly in the areas where you think you need help.

Look at the typical clients the adviser looks after in their business, do they have needs similar to your requirements?

Think about whether you will be dealing with one adviser or different advisers, or, perhaps a team of people.

Look at the services they offer and think about how they will interact with you.

Look at what products they recommend for you. Do they recommend products from the whole market, or are they products tied to one, or a small number of providers?

Understand what the adviser will charge for their services and that you can afford to pay these charges.

You should always check that the adviser is an authorised to provide financial advice. You can check the Financial Conduct Authorities' (FCA) Register.

You can **also** visit the FCA's website, to get help in understanding what a financial adviser should do.

Self-invested personal pensions (SIPPs)

A SIPP is a type of personal pension. Like a personal pension, you set it up yourself to give yourself a retirement income.

The main difference is that you have a wider choice of how you invest your pension pot. You can decide your own investment strategy, or you can appoint a fund manager or stockbroker to manage your investments. You can start a self-invested pension from scratch or you can transfer funds from another pension scheme.

You don't need a substantial fund to invest in your self-invested pension plan, but the larger the fund the greater the range of investment opportunities you are likely to have.

You will have to pay some charges. There can be additional charges for self-invested personal pensions because of the specialist investments.

"We can help you navigate through all the savings options"

Defined benefit schemes

Some schemes may provide benefits at retirement, based on your service and earnings. These are called defined benefit schemes. Examples of defined benefit schemes are final salary and career averaged revalued earnings schemes (CARE schemes).

Final salary schemes - There are three important parties in these schemes:

- your employer is responsible for supporting the scheme,
- The Board of Trustees (except for most public sector schemes) are responsible for paying retirement and death benefits and
- you are the member who benefits from the scheme and may be required to contribute.

The scheme promises you a certain amount of pension at retirement. The amount of pension paid to you depends on the following:

- the length of time you have been in the scheme (pensionable service);
- your earnings close to retirement (final pensionable salary); and
- the scheme's accrual rate - the rate at which pension benefits build up for you. You get a certain amount for each year of your pensionable service. So, if your scheme has an accrual rate of 1/60, you will get 1/60th of your final pensionable salary for each period of service you complete. In some cases, this will be worked out in complete years, in others years and months, or even years and days.

For example: if your pensionable service is 40 years, and your pensionable salary is £40,000, your pension will be calculated as 40 X £40,000 divided by 60 = £26,666.66

CARE schemes — Career average revalued earnings (CARE) schemes are a type of defined benefit scheme. Your employer may run one to give you a retirement income. They work in a similar way to final salary schemes, except that your pension is worked out using your average salary across your career (increased in line with inflation) rather than your salary close to retirement.

Defined contribution schemes

Money purchase schemes - Money purchase schemes are defined contribution schemes. Your employer may run one to give you a retirement income. There are two types of money purchase schemes; one has a Board of Trustees running it and the other is looked after by a pension provider. The amount of pension you will be able to take from a money purchase scheme depends on the following:

- the amount of money you and your employer pay into your pot;
- the charges taken to pay for the cost of investing and administering your pot;
- how much your pension pot grows, based on your chosen investments; and
- how you choose to use the money when you retire.

Cash balance schemes — Cash balance plans work in a similar way to defined contribution schemes. They are sometimes called hybrid schemes because they have some features of defined benefit schemes. In most cases, your employer promises you a minimum amount of pension savings from the scheme for each period of service. When you come to retire, if there is not enough money in your pot to meet the minimum amount of savings promised, your employer will have to make up the shortfall. These scheme usually have a Board of Trustees who are responsible for paying the benefits.

The amount of pension you will be able to take from your personal pension depends on the following:

- the amount of money you pay into your pot;
- the charges taken to pay for the cost of investing and administering your pot;
- how much your savings grow, based on your chosen
- investments; and
- how you choose to use the money when you retire.

Stakeholder pensions

A stakeholder pension is a pension you set up yourself, to give yourself a retirement income. It is a type of defined contribution scheme and very similar to a personal pension. You can buy one from insurance companies, high street banks, investment organisations and some supermarkets and high street shops.

A stakeholder pension works in the same way as a personal pension.

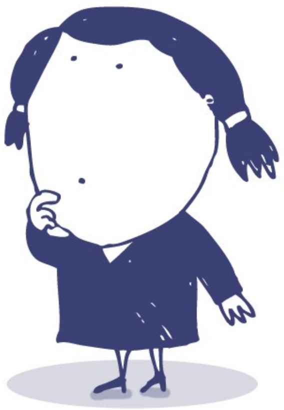
You build up your pension pot in the same way and your options when you take the money from your pot are the same. However, stakeholder pensions have to meet minimum standards set by the Government. These include:

- a limit to the charges you have to pay; and
- no charges for altering or stopping your contributions, or transferring your funds.

Also, your provider must:

- accept your contribution if it is more than £20;
- accept any transfers you want to make from your other pensions.

Step 3 – What other options for saving into a pension are available?



If you don’t have access to a workplace pension or you want to set up your own pension in addition to a workplace pension, you have the following options to choose from.

Personal pensions

A personal pension plan is a pension you set up yourself, to give yourself a retirement income. It is a type of defined contribution scheme. You can buy one from insurance companies, high street banks, investment organisations and some supermarkets and high street shops.

You can have a personal pension and use it to save for your retirement, even if you are already saving for a retirement income elsewhere; for example in your employer's workplace pension scheme.

Your contributions receive tax relief up to certain limits.

As with other defined contribution schemes, you build up a pension pot that provides you with cash sums and income at retirement.

Automatic enrolment

The Government wants to encourage all workers to save for their retirement, in as easy a way as possible. Therefore, it has introduced a new law designed to help people save more.

From 2012, all employers, starting with the largest employers first, must enrol their eligible workers into a workplace pension, if they are not already in one, if they:

- are at least **22** years old;
- have **not** reached State Pension age;
- earn **more** than a minimum amount a year (currently £10,000); and
- work, or ordinarily work, in the **UK** (under their employment contract).

The employer must make all the arrangements and the individual need do nothing to be put into the scheme.

Employers also have to pay a minimum contribution into the pension scheme for their eligible workers.

The Government will also pay into it, in the form of tax relief. You will not be automatically enrolled into a pension scheme if:

- you’re not eligible or
- you’re already in a workplace pension scheme that meets the Government's standards.

All employers will have to automatically enrol its employees into a suitable workplace scheme by 2018.

You do have the option to opt out of the scheme but your Employer will rerun the automatic enrolment process every 3 years.