Pensions

The NFWI created this booklet and the Financial Services Authority
paid for this work as part of the National Strategy for Financial Capability.

This booklet forms part of a series of five, written by the speakers at You and Your Money - A Conference on Personal Finance, held at Denman College in May 2008. The conference offered the opportunity to discover where to find advice, and how to keep track of finances, choose financial products, plan ahead, and stay informed about financial matters.

This booklet was written by Jonquil Lowe.

This booklet was created by Denman College, and the Financial Services Authority paid for this work as part of the National Strategy for Financial Capability. We aim to give you general information to help you make financial decisions. The information does not constitute financial or other professional advice; for advice about your own circumstances, you should consult a professional adviser.
May 2008

Contents

Why are Pensions Important?

Saving for a pension is the main way of ensuring you can maintain your living standards when you retire.

Retirement can easily last 20 years or more. Funding such a long period is costly. Pension schemes help you build up the retirement income you need. They have advantages over other ways of saving because pension schemes are tax-efficient and employers often contribute. But pension schemes are inflexible and can be poor value for money if your retirement income will be so low that any pension will reduce your entitlement to claim means-tested state benefits. So deciding whether to save, in what form and how much is not straightforward.

Once you reach retirement, there are other important decisions to make, such as, what type of pension to choose, whether to defer your state pension and how to protect your income from inflation.

Methods of saving compared

Method of saving	Employer contributes?	Tax relief on what you pay in?	Income and growth tax-free while invested?	Proceeds as tax-free lump sum	Can take proceeds as lump sum rather than income?
Pension scheme	Yes, with some schemes	Yes	Yes, mostly	Yes, 25%	No (except 25%)
Individual savings account (ISA)	No	No	Yes, mostly	Yes, all	Yes
Buy-to-let	No	No	No	No	Yes

How much you might need to save

For each £1,000 a year of pension, saving through a pension scheme

Age now, retirement	Monthly savings needed
Woman, 30, retiring 68*	£19
Woman, 40, retiring 66*	£38
Woman 50, retiring 64*	£95

* State pension age, given age now in 2008

TOP TIP

Tax relief and contributions from an employer can more than halve the cost of saving for a pension.

Scenario

Ann went back to work once her children were old enough. She belongs to her current employer's pension scheme and has a preserved pension from working before having a family. She's not sure if she should transfer the preserved pension to her new employer's scheme. And should she be saving extra or rely on her husband to make sure they retire comfortably?

Should Ann transfer her old pension?

She needs to compare what she might get at retirement from the old scheme (by checking her latest benefit statement) with what she might get if she transferred (by asking the new scheme about its transfer terms). Some points to consider:

- **switching from a salary-related to a money purchase scheme** increases risk because she would give up a promised, known pension for one that varies with investment conditions and charges
- **if switching from one money purchase scheme to another**, compare the charges and investment choices for each.

Should the couple save extra?

The couple should compare the retirement income they want with the pensions they are on track for so far (checking their state pension forecasts and benefit statements). If there is a shortfall, look at saving extra.

TOP TIP

To help work out if you are on track for retirement use www.pensioncalculator.org.uk or the Age Concern MoneyTrail CDROM.

Jargon buster

Preserved pension Pension you built up through a job you've now left.

Salary-related scheme (also called defined benefit). Your pension at retirement is linked to your number of years and pay while in the scheme. A preserved pension is increased between leaving and retirement in line with inflation up to a limit.

Money purchase scheme (also called defined contribution). Your pension depends on the amount paid in, how your investments grow, charges and annuity rates when you retire.

Should Ann save extra?

There are two reasons Ann might be wary of relying on her husband's retirement savings:

- **relationship breakdown**. If the couple divorced, their assets would be split between them. A court could order that her husband's pension savings be shared with Ann. But she might be better off if she has her own retirement savings. This is even more important if you live together without being married because you have no legal claim to your partner's pensions
- **bereavement**. Ann should discuss with her husband what widow's pension she might get in retirement if he dies first. Her own pensions could top this up if it would not be enough.

TOP TIP

For help making pension decisions - such as transfers and saving extra - contact an independent financial adviser (IFA). Only use firms authorised by the Financial Services Authority - check the FSA Register.

Jargon buster

Annuity rate. The rate at which you exchange your pension fund for pension.

State pension forecast. A forecast of how much state pension you might get from state pension age.

Benefit statement. A forecast from your employer or pension provider of how much pension you might get from a specified retirement age.

State pension age

Date of birth	Pension age
Before 6 April 1950	60 (women); 65 (men)
6 April 1950 to 5 April 1955	Between 60 and 65 (women); 65 (men)
6 April 1955 to 5 April 1959	65
6 April 1959 to 5 April 1960	Between 65 and 66
6 April 1960 to 5 April 1968	66
6 April 1968 to 5 April 1969	Between 66 and 67
6 April 1969 to 5 April 1977	67
6 April 1977 to 5 April 1978	Between 67 and 68
6 April 1978 onwards	68

Frequently Asked Questions

Q Can I cash in my pension savings?

A The earliest you can draw savings from a pension scheme is normally 50 (55 from 2010). You can take a quarter as a tax-free lump sum. The rest must be drawn as taxable pension. But, if your total pension savings are small (worth a lump sum of £16,500 or less in 2008-9), you can take the lot as cash instead of pension.

Q What annuity choices do I have?

A A basic annuity provides you with a level income year after year. Inflation is a problem. For example, if inflation averaged 2.5% a year, £1,000 would have lost over a third of its value after 20 years. You could protect yourself by choosing an annuity where the income increases each year. If you are a couple consider an annuity that pays out for your joint lifetime.

Q Do I have to buy an annuity?

A You can opt for income withdrawal instead. There are charges and both your fund and income will be affected by stock market performance, so this is generally suitable only if you are comfortable with these risks and you have a six-figure fund or other sources of retirement income. Get advice from an IFA.

Q Do I have to start my state pension straight away?

A No you can defer it to earn extra pension or a one-off taxable lump sum. For example, deferring the full basic pension one year would increase your pension by 10.4% or might earn a lump sum of around £5,000. Contact The Pension Service.

TOP TIP

You don't have to buy an annuity through your current pension scheme. You'll often get a better deal by shopping around. Use www.fsa.gov.uk/tables to compare rates.

Jargon buster

Annuity Investment that provides you with your pension. You give up your pension fund and in return get a regular income normally payable for the rest of your life (lifetime annuity).

Income withdrawal You leave your pension fund invested and draw an income direct from the fund.

Useful Contacts

Financial Services Authority (FSA)
Consumer helpline: 0845 606 1234
www.moneymadeclear.fsa.gov.uk
www.fsa.gov.uk/register
www.fsa.gov.uk/tables

Independent financial adviser - to find one
For a list of members in your area, contact the following organisations:
IFA Promotion Tel: 0800 085 3250 www.unbiased.co.uk
Institute of Financial Planning Tel: 0117 945 2470 www.financialplanning.org.uk
Personal Finance Society Tel: 020 8530 0852 www.thepfs.co.uk

Pension savings calculators
Age Concern MoneyTrail Age Concern England, Astral House, 1268 London Road, London SW16 4ER www.ageconcern.org.uk/moneytrail
Association of British Insurers/Financial Services Authority www.pensioncalculator.org.uk

The Pension Service
Government department dealing with state pensions and benefits for pensioners. For local centre, see phone book or website.
www.thepensionservice.gov.uk

The Pensions Advisory Service
For all types of pension information and help sorting out disputes.
11 Belgrave Road
London
SW1V 1RB
Tel: 0845 601 2923
www.pensionsadvisoryservice.org.uk

Pension Tracing Service
To trace pension providers you have lost touch with.
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA
Tel: 0845 6002 537
www.thepensionservice.gov.uk

State pension forecast
(Until autumn 2008 forecasts are available only if you will reach state pension age before 6 April 2010.)
Future Pension Centre
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA
Tel: 0845 300 0168
www.thepensionservice.gov.uk
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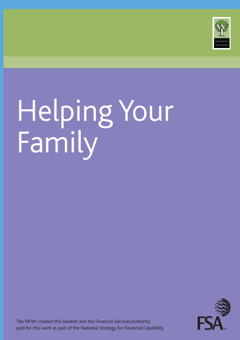
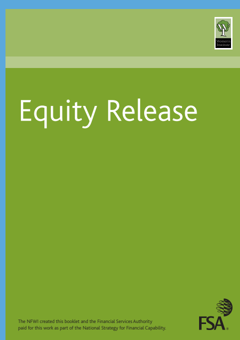
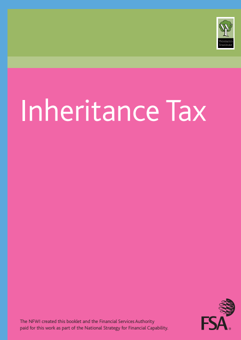
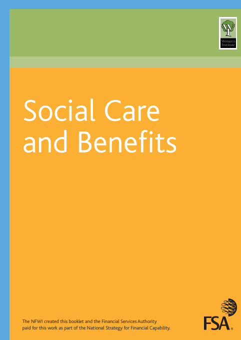
Other guides in the series









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