

Pensions

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What are pensions?

Pensions are a very simple idea, although they may sometimes seem complicated and it's easy to be put off by the jargon that surrounds them.

Pensions are special kinds of long term savings plans which attract certain tax reliefs, with contributions invested throughout your working life to provide you with income when you retire.

There are many different types of pension schemes but the aim of each – saving now to provide an income at retirement – is the same.

Why save into a pension scheme?

The Government will provide you with a minimum income when you retire, but that is designed to cover only very basic living costs. If you want to have a more comfortable retirement, you need to provide an income for yourself. A pension scheme is specially designed for this purpose.

Most people are either not saving anything for their retirement or, if they are, they aren't saving enough to provide the standard of living that most of us would like to enjoy once we've retired.

In a recent survey of licensees, half of those surveyed said that they didn't have a pension and, of these, 2/3 said they had no plans to save into one in the future.

If you fall into this category, you have three choices really. You can

- adjust downwards your expectations of what you'll be able to afford in retirement
- start saving more
- retire later.

You can get a forecast of your State Retirement Pension by clicking on the Pension Service link in 'Useful Links' below. But don't rely on the State Pension to keep you going in retirement. The maximum basic State Pension of £159.55 (new state pension) and £122.30 (old state pension) (tax year 2017-18) a week is far below what most people say they hope to retire on.

How do pension schemes work?

There are many different types of pension schemes but, as they are all saving schemes for retirement, once you put money into one you can't withdraw it and use it for another purpose. It can only be transferred to another pension scheme or used to provide your benefits at retirement or death.

If you're an employee, your employer may give you the opportunity to join a workplace pension scheme. There are different types of workplace

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schemes available, and each works in a different way. However, It's likely that your employer will contribute to the scheme to add to your savings. Normally, you'll need to make contributions into the scheme, with deductions being made from your wages.

If you'd like to know more about the different types of workplace schemes, click on the Pensions Advisory Service link in 'Useful Links' below.

If you're self-employed, you can set up a pension scheme yourself with a pension provider. These include insurance companies, building societies and banks and they attract the same tax reliefs as those available to employees.

When your salary or income is above a certain level, the government will take tax from you. If you put money into a pension plan, then you'll qualify for tax relief. This means that as well as the money that you are putting into your pension plan, some of the tax which would have gone to the government goes into the plan as well, thereby increasing the amount invested.

The contributions are invested until you retire.

You can usually start to draw down your pension when you are 55, although earlier draw down may be possible if you are suffering from ill health. You'll be able to take part of your savings as a tax-free lump sum and, in the past, the rest of your savings would be taken in the form of a pension.

However, in the budget of 2014 this all changed and, although still subject to ratification by parliament, it's likely that, from April 2015, as a pension saver you'll no longer be restricted to the amount of cash you

can withdraw from your pension savings on retirement. You'll still only be able to take a tax free lump sum of up to 25% of your savings, but in future, you'll be able to take as much as you want of the remaining balance whenever you want, although this will be taxed at your marginal rate of income tax.

This change opens up your options considerably, giving greater choice and flexibility to pension savers.

What is automatic enrolment?

In 2012, the government introduced new legislation to encourage people to save for their retirement. Historically, if you were an employee it was up to you to decide whether or not you wished to join your employer's pension scheme. But by 2017 all eligible workers will have to be automatically enrolled into a workplace pension scheme, with rights to opt out, after enrolment, within one month. Eligibility is based on your age and your earnings.

This means that not only will many more people be able to build up their savings for retirement but also that many more employers will need to set up workplace pensions.

If you run your own business, even if you only employ one person, this legislation will affect you and you'll need to take action.

You can find out when you need to take action by (your staging date) and what you need to do by using the link to the Pension Regulators website, shown in 'Useful Links' below.

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Useful links

The Pensions Advisory Service

www.pensionsadvisoryservice.org.uk

0300 123 1047

The Pensions Advisory Service is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of company, personal and stakeholder schemes. They can also help you understand how state pension issues interact with other pensions you may have.



Money Advice Service

www.moneyadviceservice.org.uk

0800 138 7777

The Money Advice Service helps people manage their money. They do this directly through their own free and impartial advice service. They also work in partnership with other organisations to help people make the most of their money. They are an independent service, set up by government.



The Pension Service – part of the Department for Work & Pensions

www.gov.uk/check-state-pension

This government service will give you an estimate of your individual State Pension.



Unbiased.co.uk

www.unbiased.co.uk

This website is designed to help you find an independent financial professional to help with pension decision making.



0800 023 6868

Government Pension Tracing Service

www.gov.uk/find-lost-pension

0345 600 2537



This is a government service to help you trace your lost pension schemes.

Government Basic State Pension Guide

www.gov.uk/state-pension/overview Government web site designed to advise you whether you are eligible to state pensions, what you will get and how to claim.



HM Revenue & Customs

www.hmrc.gov.uk/pensionschemes/reliefs-charges

Tax office web site detailing tax reliefs and charges that may apply to your pension scheme; details tax rules and reliefs, when you pay tax charges on pension payments and investments, and annual and lifetime allowances that apply to pensions.



The Pensions Regulator

www.thepensionsregulator.gov.uk

The Pension Regulator's objectives are set out in legislation and include promoting and improving good administration of work place pensions to protect members' benefits.

0345 600 1011

Mon-Fri 8am-6pm: Sat 9am-1pm

