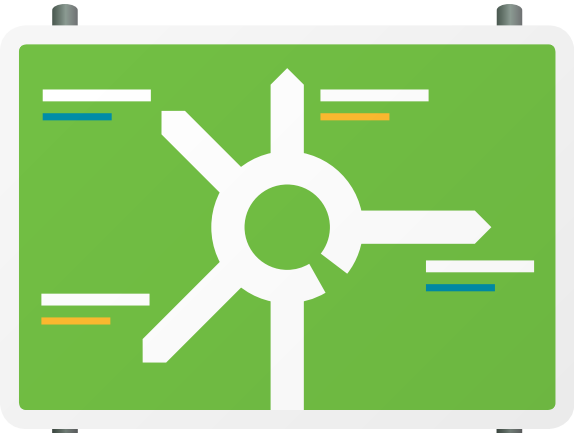
the Money Advice Service

Stakeholder pensions and decision trees

How stakeholder pensions work and when they are a good choice for saving for retirement



- The options available
- Things to consider
- Deciding if a stakeholder pension is right for you

The **Money Advice Service** is independent and set up by government to help people make the most of their money by giving free, impartial advice. As well as advice about pensions, we offer information on a wide range of other money topics.

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Here to help you

If you are self-employed, or can't join a workplace pension scheme, and want to save for retirement, this guide will help you decide whether a stakeholder pension is right for you.

Contents

Start saving for your retirement as soon as you can. That way your savings have time to grow. It will mean that you'll have more than just the State Pension to rely on when you retire.

Getting started

First things to do

1. Find out what your State Pension and other pensions might be worth when you retire.

   See how to do this on pages 11 and 12.

2. Think about whether this would be enough to manage on in retirement and how much you can afford to save into a pension.

   See page 13.

3. Check if your employer offers a workplace pension or will soon. For most people, joining this will be the best option, as your employer must contribute to it.

   See page 14.

4. See what pension options are available to you by answering a few simple questions.

   See page 19-24.

5. Get advice if you need help – have a look at our *Next steps* to see when taking professional advice can be a good idea.

   See page 28.

Pensions are long-term investments which usually give you a better return than savings accounts. Having your own pension does not affect how much State Pension you'll get.

Pension basics and recent changes

Everyone who pays National Insurance Contributions for a certain number of years qualify for all or part of the Basic State Pension which you receive when you reach State Pension age. Currently full basic State Pension is £113.10 a week. Some people will also qualify for Additional State Pension based on their earnings from employment. Self-employed people qualify for Basic State Pension but not for Additional State Pension.

To find out how much you can expect to receive, get a State Pension statement on the gov.uk website at **gov.uk/state-pension-statement**

State Pension age is changing. The age at which you can retire will depend on when you were born and, for retirement dates before December 2018, whether you are a man or a woman.

Check when you'll reach State Pension age at **gov.uk/calculate-state-pension**

See page 11.

Over the next few years, all employers must by law offer a workplace pension scheme. The biggest employers have already started enrolling workers and medium-sized and smaller employers are set to follow between now and 2018.

Find out more about automatic enrolment, visit **moneyadviceservice.org.uk/automaticenrolment**

All personal pensions (including stakeholder pensions) and most workplace pensions are *defined contribution pension schemes* – where the amount in your pension pot at retirement depends on how much is paid in, what charges you pay and how your investments perform.

If you don't understand any of the pension terms used check our *Jargon buster* on page 29 and 30.

What is a stakeholder pension?

A stakeholder pension is a type of personal pension – it's not a State Pension. The money paid in is invested to build up your own pension pot. By law, stakeholder pensions must be flexible, have capped charges and the minimum amount you can pay in is set at a low level.

With a stakeholder pension you can pay in regular amounts and make additional lump-sum payments whenever you like.

Stakeholder pensions are good for people who don't have access to a workplace scheme, for example if you are self-employed or not in paid employment.

Some employers may offer group stakeholder schemes as their workplace schemes. Whatever type your workplace scheme is, you are likely to be better off joining that rather than taking out a stakeholder pension yourself.

Stakeholder pensions must meet standards set by the government – set out on page 5. You get tax relief up to certain limits on what you pay in, even if you are a non-taxpayer – see page 8.

How a stakeholder pension works

The money you pay in is invested to build up your own pension pot. The amount in your pot when you come to retire is not guaranteed and depends on:

- how much has been paid in
- the type of investment fund you choose
- how those investments perform, and
- the level of charges deducted from your pot.

A stakeholder pension will usually offer you a range of funds to invest your money in, with differing levels of investment risk and therefore differing potential for investment growth (or loss).

Minimum standards

Stakeholder pensions must meet minimum standards set by the government, which are designed to make sure people taking out these schemes get a fair deal. These include:

- capped charges
- low minimum contributions
- flexibility
- annual statements
- penalty-free transfers, and
- a 'default' investment fund where your money will be invested if you don't want to choose one yourself.

  Default funds include lifestyling (see page 7) – this is where your pension savings are moved to less risky investments as you approach retirement in order to guard against sudden falls in the value of your pot just before you retire.

The above minimum standards set the rules for how stakeholder pensions work. But they do not mean that your money is protected, because pensions may invest in the stock market where the value of your investments can go up and down.

Over the next few pages you can read what each of these standards means in practice.

Capped charges

Stakeholder pension providers can make management charges no more than 1.5% of the value of your pension pot each year for the first 10 years, and no more than 1% after that. So if your pot is worth £240 in the first year, the maximum you will pay in management charges is £3.60. There are other charges such as dealing charges which aren't included in the annual management charge and are usually deducted directly from the funds you are invested in.

If you started your stakeholder pension before 6 April 2005, the maximum you can be charged is 1%, so it will probably be cheaper to continue contributing to it rather than starting a new stakeholder pension.

Not all stakeholder providers will charge the maximum so it's always worth checking the charge before buying or switching.

Low minimum contributions

You can pay in as little as £20 – or less if the provider allows. However, if you want a comfortable retirement you'll have to pay in more.

Find out how much you need to save by using our **Pension calculator** at **moneyadviceservice.org.uk/pensioncalculator**

Flexibility

You can pay in regularly or occasionally and if you need to change the amount or to stop paying in and restart later, you can do so without any penalty.

If you're employed and your employer offers a stakeholder pension, they can take your payments direct from your salary and pay them into your pension pot for you (this applies to any type of workplace pension scheme).

If you move jobs you may be able to transfer your stakeholder pension to your new employer's scheme. If you become self-employed you can take your stakeholder pension with you and continue paying into it.

Annual statement

Your stakeholder pension provider must give you regular information about your pension pot. This includes an annual statement – called a *Statutory Money Purchase Illustration* – to let you know how much has been paid in, how your pot is performing and a forecast of how much your pension could be worth at retirement. You should receive an updated illustration each year.

- Check your annual statement to make sure you are saving enough for your retirement.

Remember

Charges taken out of your pension pot year after year can have a big impact on your pension – be sure to shop around.

Penalty-free transfers

You can switch to another pension at any time if you want to, without having to pay any charges for the transfer.

- Check the annual charges for any new pension arrangements before you switch.

Choosing investments

The performance of your stakeholder pension depends on the type of fund you choose and how those investments perform. If you don't want to choose, your money will be automatically invested in a fund that meets the needs of most people.

If you want more choice about how your money is invested, look at stakeholder pensions that have a wide range of funds.

- Use the Pensions Advisory Service investment choices planner to help decide how to invest your contributions - at **pensionsadvisoryservice.org.uk/online-planners**

Key point

- Remember that your pension pot may be invested in the stock market, which can fall as well as rise, and you may not get back what you have invested.

Default funds and lifestyling

If you don't want to choose an investment fund yourself you will be placed into the 'default' fund. Some default funds provide what it called 'lifestyling'. This means that at least five years before retirement your pension savings will start to be moved into less risky investments. This will help to guard against large falls in the value of your pot as retirement approaches. You can, however, choose to turn off the lifestyling before it begins, and either leave your investments where they are or choose other funds yourself.

Who can have a stakeholder pension?

You can pay into a stakeholder pension whether you are employed, self-employed, a fixed-contract worker, a carer or not working.

They suit a wide range of people and may be worth considering if:

- you are self-employed
- you don't have any other pension provision apart from the State Pension
- you're an employee and do not currently have access to a workplace pension scheme
- you have an irregular income or are taking time off work, say, to bring up children or care for others.

Bear in mind that even if you are not in paid employment you can pay into a stakeholder pension. You can even save into a pension scheme for your children or grandchildren.

Stakeholder pensions can also be used to top up a workplace pension. But if your employer offers an additional voluntary contribution (AVC) scheme, this is likely to be better value than taking out a separate stakeholder pension, especially if they will match what you choose to pay in.

If you're self-employed

If you are self-employed you are also eligible to join NEST – a national workplace pension scheme designed to help employers manage their pension responsibilities. It has low charges and is simple to administer. The minimum you can pay in is £10 each time and the maximum for the tax year 2013/14 is £4,500 (including tax relief).

Find out about NEST pensions for the self-employed at **nestpensions.org.uk**

Key point

It's never too early to start paying into a pension. The sooner you start the larger your pension pot is likely to be – giving you a more secure retirement.

Tax relief

Most people resident in the UK who contribute to a stakeholder (or other) pension get tax relief on their contributions – even if they don't usually pay Income Tax.

For every 80p you pay into your pension, you end up with £1 in your pension pot because HM Revenue & Customs (HMRC) adds an extra 20p of basic rate tax relief. For example, if you pay in £40 a month, tax relief will increase your contribution to £50. If you pay higher or additional rate tax you can claim back the difference from HMRC.

There is a limit on the total amount paid into all pension schemes for an individual each tax year that qualifies for this relief. Currently the limit is the greater of:

- £3,600 or
- 100% of your UK earnings, but must not exceed your 'annual allowance'.

The limit includes the amount added in tax relief. For example, if you earned less than £3,600 a year, the maximum you could pay in would be £2,880 a year (£240 a month). The pension provider would then claim £720 (£60 a month) from HMRC and add this to your pot. That means £3,600 (£300 a month) would go into your pot in total.

Because the tax relief is claimed by the provider and automatically added to your pot, everyone gets it – so you'll get tax relief even if you have no form of paid employment or don't pay Income Tax because your earnings are low.

Higher rate tax payers

The tax relief described is given at the basic rate of Income Tax, 20% in 2014/15. If you pay Income Tax at the higher rate of 40% you can claim the difference of 20% through your tax return or by telephoning or writing to HMRC. If you're an additional rate taxpayer (45%) you'll have to claim the difference of 25% through your tax return.

Using the example above of paying in £40 a month this would equate to claiming back an extra £10 in tax relief if you pay higher rate tax or £12.50 if you pay tax at the additional rate.

The annual allowance

The **annual allowance** caps the amount of tax relief you can get on pension contributions at the lower of 100% of your earnings or £40,000 for tax year 2014/15. However, you can carry forward unused allowance from the previous three years. The annual allowance applies in total to all the pension schemes you have (apart from the State Pension).

If you go over the annual allowance, the value of your contributions that exceed it is added to your income for the tax year and Income Tax is charged in the normal way. In this case you must complete a self-assessment tax return and you normally then pay the tax direct to HMRC. But you may be able to arrange for the tax to come out of your pension pot.

The lifetime allowance

There is also a maximum pension pot value (excluding the State Pension) that will benefit from tax relief. This is known as the **lifetime allowance** and is currently £1.25 million (2014/15 tax year).

You can build up pension savings of more than the lifetime allowance but you will pay a tax charge on the excess when you take your pension.

If you have gone over the lifetime allowance, the pension provider will deduct tax from the excess (on top of normal Income Tax) at the following rates when you start to draw from your pension scheme:

- 25% if it's paid as income
- 55% if it's paid as a lump sum.

Taking your pension

You do not need to retire to start drawing money from your stakeholder pension. You can currently access your pension pot:

- at any time from 55
- before 55 if you are in poor health.

At that time, **you can choose to take up to a quarter (25%) of your pension pot as a tax-free cash lump sum.**

Under proposals put forward in the 2014 Budget which, if adopted, will come into effect from April 2015, you will then be able to:

- convert some or all of the rest into a regular retirement income (known as an annuity), and/or
- withdraw the remaining pot in stages or as one lump sum to use as you wish, subject to tax at your highest marginal rate.

Before April 2015, there are interim rules about how much of your pension pot you can take after the tax-free lump sum.

See our guide 'Your pension: it's time to choose' to find out more.

Key things to think about

There are several things to consider before choosing a stakeholder pension. We set out some of them here. If you need more help, get professional financial advice. See *Useful contacts* on page 31.

What to do when considering a stakeholder pension

To make sure a stakeholder pension is right for you it makes sense first to:

1. Work out what pension you need to live on when your retire.
2. Consider your financial priorities.
3. Work out your budget.
4. Weigh up your pension options and get advice if necessary.
5. If a stakeholder pension is right for you, choose a provider.

Read the next few pages for help with each of these steps.

1. Work out what pension you need to live on when you retire

You will need to think about whether you will have enough money to live on when you retire from your:

- State Pensions
- any workplace pensions
- any other existing pensions; and
- any other sources of income or benefits.

Think about the standard of living you want to enjoy when you retire and whether this income is enough to support it.

Basic State Pension

The basic State Pension is the retirement income you can claim once you have reached State Pension age if you have paid or are treated as having paid enough National Insurance contributions, or have received credits during your working life.

The government reviews the amount of the basic State Pension every year – for the tax year 2014/15 it is £113.10 a week.

Additional State Pension

Additional State Pension is payable when you reach State Pension age, on top of the basic State Pension. The amount you receive depends on your earnings while you were in employment and the National Insurance contributions you paid.

Since April 2001 you may qualify for Additional State Pension if you are a carer or have a long-term illness or disability.

If you are self-employed, you are not building up an entitlement to Additional State Pension.

A new State Pension

The government is replacing the basic State Pension and Additional State Pension with a new, simpler State Pension for people who reach State Pension age from 6 April 2016 onwards.

This will be payable at the same flat rate for everyone who has built up 35 'qualifying years' National Insurance Contributions (the current requirement for people retiring before 6 April 2016 is 30 years).

If you have built up Additional State Pension for working years prior to April 2016 you will still receive this when you retire. But for any years you work after April 2016 you won't accrue any further Additional State Pension.

Key point

Most people over-estimate how much the State Pension will provide and would find it difficult to manage on it with no other income.

State Pension age

The earliest age at which you can claim your State Pension is also changing. Retirement ages for men and women are being equalised and the age is then slowly being increased for everyone.

State Pension age is currently 65 for men and between 61 and 65 for women, depending on when you were born. The State Pension age for men and women is increasing and will reach 66 by 2020 and 67 by April 2028. Further increases will be linked to changes in the average length of time people are living.

For information on the basic State Pension and what age you can claim it, go to gov.uk website at **gov.uk/state-pension**

You may have periods, during your working life, when you have been contracted out of the Additional State Pension. In this case you won't receive Additional State Pension for the years you were contracted out, but will instead have built up some pension in a workplace pension or in another type of private pension such as a personal or stakeholder pension for those years.

Nowadays, only members of workplace defined benefit schemes (see *jargon buster* on page 29) can be contracted out and this will stop when the new State Pension is introduced in 2016.

To get an estimated of your State Pension visit **gov.uk/state-pension-statement**

Find out how much your other pensions will pay

A) Current and previous workplace pension schemes

If you are a member of a workplace scheme, or have been a member of one in the past, you should get regular statements setting out what your benefits may be when you retire.

- If you can't find these statements, check with your current or previous employer or, for a personal or stakeholder pension, with the pension plan provider (usually an insurance company).

B) Existing personal or stakeholder pensions

If you are already contributing to your own personal or stakeholder pension find out what retirement income it might provide.

- Look at the most recent benefit statements you have been sent. If you can't find any statements, contact your pension plan provider.

- To track down personal or workplace pensions, contact the Pension Tracing Service at **gov.uk/find-lost-pension**

Other income or benefits

You may have non-pension savings that you are setting aside for retirement, for example, in an ISA (Individual Savings Account) or a New ISA (from July 2014). Be wary of relying on these savings to provide retirement income if there is any risk that you might spend them before you retire.

Under current rules, pensioners on a low income can claim income-related benefits, such as Pension Credit to top up a low income, Housing Benefit to help with rent, and help with their Council Tax. When the new State Pension is introduced from 2016 , it will be set at a level that matches the minimum amount pensioners are deemed to need to live on. This means that in future fewer retired people are likely to be able to claim some or all of these state benefits.

Key point

- **Joining your workplace scheme is often the best way to save for your retirement** – especially as your employer contributes. All employers will have to offer and contribute into a pension scheme for most of their workers. The process started with the largest employers first in October 2012. By 2018 even small employers will have to enrol you automatically in a workplace pension if you are eligible to join it. This is known as automatic enrolment. For more information about automatic enrolment see **moneyadviceservice.org.uk/autoenrolment**

Add up your expected income

Once you have got figures for all your pensions and any other income you expect to have when you retire, add them up to see whether you have enough money to live on in retirement. If it isn't enough then move on to steps 2 and 3 to think about your options for making up the difference.

2. Consider your financial priorities

Think about your financial needs now and what should take priority. For example, you may have debt problems that need to be sorted before thinking about a pension. But if your employer will contribute to your pension, saving for retirement should normally be a top priority, along with life insurance for you and your family and building up some emergency cash savings.

We can help you work out your financial priorities with our online **Money Health check.**

Use our **Money Health check** on **moneyadviceservice.org.uk/healthcheck**

3. Work out your budget

You may have other financial commitments that will affect what you can afford to pay in to a pension.

Before you take out a pension consider your existing mortgage repayments or rent, life insurance and credit cards and all other bills and expenses. Do your sums to make sure you can afford it and see where you could cut your spending to make pension savings affordable.

Working out how much you can afford to save towards a pension is an important decision. Most people save every month. Although stakeholder pensions offer the flexibility to allow you to stop and start payments, like all pensions, saving into them should be a long-term commitment. So it is better to commit to an affordable sum that you can stick to over the long term.

With a stakeholder pension, you can pay in as little as £20 (or less if the provider allows). But, even a regular monthly contribution of £20 over several years is not likely to give you a large pension when you retire. The earlier you can start saving and the more you can save, the more secure your retirement is likely to be.

See the *Pension table* on page 27 for an idea of what paying in certain amounts would give you in the future based on your age if you start saving for your pension now.

Use our **Pension calculator** if you'd like to pay in different amounts from those shown in the table – see **moneyadviceservice.org.uk/pensioncalculator**

Remember

Governments can change the rules for State Pensions and benefits at any time. So it may be unwise to rely on any particular type or level of benefit being available when you retire.

4. Weigh up your pension options and get advice if necessary

Whether a stakeholder pension is best for you will depend on your circumstances. Below is a quick overview of possible options based on different circumstances - but to get a clearer view on your pension options we've got some decision trees.

- If you're self-employed on page 19.
- If you're an employee on pages 20-23.
- If you're not working page 24.

These are to help you get an idea of the options open to you. If you need further help, consult a regulated financial adviser.

Check your pension situation…

If you are already a member of a workplace pension scheme, it may make sense to pay extra money into that pension to top it up rather than start a separate stakeholder pension or other personal pension.

If your employer already has a workplace pension and you haven't joined it, check it out before you do anything else. In many cases joining your employer's scheme is the best way to save for your retirement – especially as your employer contributes.

Key point

The earlier you start saving for retirement, the more time there is for your pension pot to grow to something worthwhile.

If your employer hasn't yet automatically enrolled you in a workplace pension scheme – find out when they will. In most cases, your employer will make regular contributions for you and it will be a good idea to join this scheme.

If you work for a small firm that does not yet have a workplace pension scheme and you have money you want to put into a pension now, you may want to consider a stakeholder pension or putting your money into an ISA until your workplace scheme is up and running.

If you are already contributing to your own personal or stakeholder pension, it may make sense to increase your contributions to that scheme rather than start a new stakeholder pension, especially if your existing scheme has lower charges.

If you are self-employed – you can set up a stakeholder (or non-stakeholder) pension. You can also join the NEST scheme. See page 7.

Get more information at **nestpensions.org.uk**

If you are not employed and haven't already got a pension a stakeholder pension might be a good idea. Have a look at the options on page 24.

If you need help – if you are not sure about what to do then get some advice. See *Useful contacts* on page 31.

5. Choose a provider

When stakeholder pensions were first introduced, they were intended to offer a low-cost way of saving for retirement. Since then, the charges for other personal pensions have come down so, it is no longer the case that a stakeholder pension is necessarily the best option and it makes sense to check out both.

You can buy a stakeholder scheme or personal pension by contacting a regulated financial adviser or by going direct to the firms that sell pensions. They are offered by a range of companies including insurance or investment companies. However, if you buy direct without taking advice the choice is yours alone and you can't later complain if the product you buy turns out to be unsuitable.

If in doubt about the type of pension that's right for you always consult a regulated financial adviser who will recommend a product to you and take responsibility for that recommendation.

If you are thinking of switching from your existing stakeholder pension or personal pension to a new one, contact your current provider or financial adviser to find out how the annual charges of your existing pension compare with a new pension plan. Also, find out what other features your existing pension has, for example, the choice of funds you can invest in. And check whether there would be any charges for switching. You should get professional regulated financial advice before switching to a new pension.

All firms that provide advice on stakeholder pensions and other types of pension schemes or personal pensions are regulated by the Financial Conduct Authority (FCA), the UK's financial services regulator.

Insurance companies that provide stakeholder and personal pensions are regulated by the Financial Conduct Authority and by the Prudential Regulatory Authority (PRA).

All stakeholder pensions must meet minimum standards set by the government – see page 5 – which the FCA monitors and it can take action if the standards aren't met.

To check the full list of registered stakeholder pension scheme providers visit **thepensionsregulator.gov.uk**

Key points

- Don't assume that the first advert you spot or salesperson you talk to has the best deal. Shop around and find out what else is on offer.
- Some non-stakeholder personal pensions have lower charges than stakeholder pensions, but may not be as flexible, for example, if you want to stop and start your contributions. Also – their charges can always go up as non-stakeholder personal pensions don't have a charge cap.

Getting professional advice

Pensions can be complicated so it can pay to seek professional advice. Financial advisers can be classified as 'independent' or 'restricted'.

Independent advisers can advise on any product and can choose products and providers from across the whole market.

Restricted advisers may be restricted in the type of products they advise on, or on the providers they can choose from.

However, don't get too hung up by labels. Just make sure the adviser you consult can recommend a product from any provider in the market and is giving you regulated advice, ie recommending a product that is suitable for your needs.

Some firms that sell products just provide help and information without giving you actual advice and if you buy through this route you can't later complain if the product turns out to be unsuitable.

Regulated financial advisers must tell you how much their services cost and agree with you how much you will pay.

Key point

- A regulated financial adviser will be able to give you advice tailored to your particular circumstances and help you choose a provider.

- Always ask your adviser how much they are charging you for their advice both now and in the future.
- To find an adviser near you – see Useful contacts on page 32.

If you change your mind after you sign up for a pension

When you have signed up to a stakeholder pension or other personal pension, the right to cancel the contract lasts for 30 days. After this you can only get access to your money once you reach the age of 55.

Complaints

If you have a complaint about the advice you received when you bought your pension, you should first contact the firm you dealt with. They have a set complaints procedure to follow.

If you're not satisfied with their response, you can take your complaint to the Financial Ombudsman Service. The firm should give you the details of this free service – see Useful contacts on page 32.

Compensation

If a UK financial services firm is unable (or likely to be unable) to pay claims against it, you may be able to get compensation from the Financial Services Compensation Scheme.

This will be subject to a number of conditions and exclusions.

There are limits to the amount of compensation it can pay depending on the type of claim. The service is free to claimants – see *Useful contacts* on page 32.

Pension calculator

Start saving into a pension as early as you can: the sooner you start the larger your pension pot is likely to be.

To help you to work out how much retirement income you may receive from saving into a pension use our **Pension calculator** on **moneyadviceservice.org.uk/pensioncalculator**

the Money Advice Service

Is a stakeholder pension right for you?

The decision trees on the next few pages can help you decide whether a stakeholder pension would be a good choice for you. Take the time to read and use them carefully, giving accurate answers to the questions.

There are separate decision trees for employees, self-employed and those who are not employed.

When you have found the right decision tree, work through the questions from the top of the page and tick the box for each question you answer.

If the decision tree asks you about your present pension arrangements and you are not sure of the correct answer, find out the right information – don't guess.

If the decision tree recommends you take professional financial advice, or if you are not sure what is right for you, then you should seek help from a regulated financial adviser. You will usually have to pay for this – see page 15.

Stakeholder pensions have advantages for many people, but they may not be the right choice for everyone. Please read *Key things to think about* on page 10 before using the decision trees.

For general information about pensions, search for *'Pensions'* on the Money Advice Service website.

After the decision trees you'll find the Pension table, as well as further information about what to do next.

Self-employed

This information is intended to help you make your own choice about your pension arrangements. It does not give you financial or professional advice and you should not regard it as doing so. Consult a regulated financial adviser if you need more help.

Apart from the State Pensions, do you have any pension arrangements?

Yes ☐ If yes, tick

No ☐ If no, tick → You may wish to consider joining the National Employment Savings Trust (NEST). Alternatively, you could start a stakeholder pension or other personal pension. Seek advice from a regulated financial adviser (see *Useful contacts* page 31).

Do you currently pay into a stakeholder pension or other personal pension?

Yes ☐ If yes, tick

No ☐ If no, tick → You may wish to consider joining the National Employment Savings Trust (NEST). Alternatively, you may be able to restart payments to your existing plan. Seek advice from a regulated financial adviser (see *Useful contacts* page 31).

You may wish to consider making increased contributions to your existing plan.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider.

Alternatively, see *Next steps* on page 29.

You have completed the trees

Employed – tree 1

This information is intended to help you make your own choice about your pension arrangements. It does not give you financial or professional advice and you should not regard it as doing so. Consult a regulated financial adviser if you need more help.

Apart from the State Pensions, do you have any pension arrangements?

Yes ☐ If yes, tick

No ☐ If no, tick → Go to **Employed – tree 2**

Are you a member of a workplace pension scheme with your current employer?

Yes ☐ If yes, tick

No ☐ If no, tick

If your employer pays into the scheme for you, it is likely to be a good idea to stay in this scheme.

You may wish to consider paying in extra if this is allowed. This will be particularly worthwhile if your employer offers to match the extra that you pay in. In that case, your extra contributions are likely to be better value than a separate stakeholder pension or other personal pension.

You have completed the trees

Do you currently pay into a stakeholder pension or other personal pension?

Yes ☐
If yes, tick

No ☐
If no, tick

Do you have a stakeholder or other personal pension you are not currently paying into?

Yes ☐
If yes, tick

No ☐
If no, tick

If there is a workplace pension where you work, check it out – it is often the best way to save for retirement, especially if your employer pays into it for you. By 2018, all employers will have to enrol most workers into a workplace pension and pay towards it.

Otherwise you may wish to consider increasing contributions to your existing scheme.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider. Alternatively, see *Next steps* on page 29.

Go to **Employed – tree 2**

Employed – tree 2

This information is intended to help you make your own choice about your pension arrangements. It does not give you financial or professional advice and you should not regard it as doing so. Consult a regulated financial adviser if you need more help.

No current pensions

Does your current employer offer a workplace pension scheme?

Yes ☐ If yes, tick

No ☐ If no, tick

Can you join this workplace scheme?
Ask your employer if you are not sure.

Yes ☐ If yes, tick

I can join now or in the near future.

No ☐ If no, tick

I will never be able to join the scheme.

Does your employer normally pay contributions to the scheme?
Ask your employer if you are not sure.

Yes ☐ If yes, tick

No ☐ If no, tick

Does your employer's scheme give you other benefits such as free life cover, health insurance and so on? *Ask your employer if you are not sure.*

If you can join the workplace pension scheme, or can do so after a waiting period, it is likely to be a good idea for you to do so.

You have completed the trees

Before you continue using the decision trees, check whether your employer will soon be offering a workplace scheme that you can join and when this will be.

In the period until this workplace scheme starts, or if you definitely will not be able to join, you may want to consider a stakeholder pension or other personal pension.

Seek advice from a regulated financial adviser

Go to the **Useful contacts**

Yes ☐
If yes, tick

No ☐
If no, tick

Seek advice from a regulated financial adviser

Go to the **Useful contacts**

Are these other benefits important to you?

Yes ☐
If yes, tick

No ☐
If no, tick

In answering no, you should think carefully about the value of any additional benefits to you, both now and in the future.

Not employed

This information is intended to help you make your own choice about your pension arrangements. It does not give you financial or professional advice and you should not regard it as doing so. Consult a regulated financial adviser if you need more help.

Apart from the State Pensions, do you have any pension arrangements?

Yes ☐ If yes, tick

No ☐ If no, tick → You can save for your retirement by contributing to a stakeholder pension or other personal pension.

↓

Seek advice from a regulated financial adviser

Go to the **Useful contacts**

Do you currently pay into a stakeholder pension or other personal pension?

Yes ☐ If yes, tick

No ☐ If no, tick → You can save for your retirement by contributing to a stakeholder pension or other personal pension.

↓

Seek advice from a regulated financial adviser

Go to the **Useful contacts**

↓

You may wish to consider making increased contributions to your existing plan.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider.

Alternatively, see *Next steps* on page 29.

↓

You have completed the trees

Money Health check

Our **Money Health check** can help you work out your financial priorities in less than five minutes.

1. Answer some straightforward questions.
2. Get a personal action plan.
3. Get help with your money must do's and long term goal.

Visit **moneyadviceservice.org.uk/healthcheck**

the Money Advice Service

How much should you save into a pension

You can get an idea of the pension income you could get, depending on your age and contributions from the table on the next page.

The information here is intended to help you make your own choice about your pension arrangements. It does not give you professional financial advice. Make sure you **take professional financial advice if you need it.**

Remember that the figures in the table are only estimates and are not guaranteed. You may get less or you may get more.

The pension figures are also shown before Income Tax is deducted. When you receive your pension during retirement you may be taxed on it. The current basic rate of Income Tax is 20% (tax year 2014/15).

The figures in the table are based on the following assumptions.

Before you retire:

- your monthly contributions increase in line with inflation (2.5% a year)
- before charges, your pension pot grows by 5% a year
- charges deducted from your pot are 1.5% of the pot each year for 10 years, then reduce to 1%, and
- you get tax relief on contributions at the 20% basic rate of tax.

When you retire:

- your entire pension pot is converted into retirement income and you do not take any cash lump-sum
- the amount of pension received stays level throughout life and does not increase
- the pension you receive is a single life pension and stops when you die.

How much should you save towards a pension?

This is an important decision
Most people save every month. It is better if you can keep up your monthly payments. Work out your budget and see what you can afford.

The following table shows the **estimated monthly retirement income at age 65** you would be able to buy in the form of an lifetime annuity (in today's prices), for different monthly pension contributions.

A lifetime annuity is a retirement income product that provides you with a guaranteed amount of income for life, in return for a single lump sum.

The amounts shown are assumed to stay level throughout your retirement (so, not increasing each year in line with inflation and payable only to you (so doesn't include a pension for a spouse or partner after you die). The government adds tax relief to the amounts paid into your stakeholder pension as described on page 8. The amounts in the table assume relief is given at the current basic rate of tax (20% for tax year 2014/15), although as with all tax breaks, this could change in the future. The estimated pension figures take into account the addition of this tax relief.

The table gives you an idea of how much you need to pay now – as a regular monthly payment – to receive the monthly pension you want in the form of an annuity when you retire.

The 2014 Budget proposed changes to the way you take retirement income. If these changes are adopted they will come into effect in April 2015 and mean that you can take as much, or as little, as you wish from your pension pot and therefore don't have to buy an annuity. However, unlike with an annuity, there is no guarantee that the income you draw will last throughout your lifetime. You can find out more about the proposed changes to how you draw your retirement income in Your pension – it's time to choose.

First look down the left-hand column to find the age closest to your age now. Then look across the top to find the monthly amount you want to pay. For a more detailed estimate, use our online **Pension calculator** – see **moneyadviceservice.org.uk/pensioncalculator**

Monthly retirement income at age 65[1]

	Monthly pension contribution[2]			
	£20	£50	£100	£200
Your approximate age now				
20	£81	£202	£404	£808
25	£70	£175	£349	£698
30	£59	£149	£297	£594
35	£50	£124	£248	£496
40	£40	£101	£201	£402
45	£31	£78	£157	£313
50	£23	£57	£114	£228
55	£15	£37	£74	£148
60	£7	£18	£37	£73

Assumptions

1. This is the estimated retirement income you may receive and it is shown in today's money.
2. This is the amount you will pay in for the first year. It will increase every year by 2.5% and tax rebates will be added to this amount.

Next steps

Having looked through the decision trees, take the next steps.

Step 1

Get more help before making a decision, particularly if:

- you already have a pension arrangement
- your personal circumstances do not fit the questions in the decision trees
- you want advice that takes account of all your personal circumstances
- you are not sure how to answer some of the questions in the decision trees
- you are not sure if you are making the right decision, or
- you feel you cannot afford to save for retirement.
- you are not sure that saving through a pension plan is a good idea for you, or
- you want to look at other ways of saving and investing for the long term.

Step 2

If you decide that a stakeholder pension is right for you, contact at least three regulated financial advisers and ask them what they would charge to recommend and help you set up a stakeholder pension scheme. Make sure the adviser can recommend products and providers from the whole of the market, and that they will give you 'regulated financial advice' and not just information.

- Check that the financial adviser you choose to deal with is on the FCA register at **fca.org.uk/register**
- Check the scheme is included on the register of stakeholder pension providers on the Pensions Regulator's website **thepensionsregulator.gov.uk**
- To find a regulated financial adviser near you to help you choose a particular stakeholder pension provider – see *Useful contacts* on page 32.

Jargon buster

Automatic enrolment
Employers will automatically enrol eligible workers into a workplace pension scheme – this started for large employers in October 2012. Dates have been set over the next few years for medium-sized and smaller employers to offer pension schemes. The process should be complete by 2018.

AVCs – Additional Voluntary Contributions
A pension top-up policy for a workplace pension. You pay contributions into a scheme run by your employer.

Annuity
A type of retirement income product which provides you with a regular payment, usually for life.

Basic State Pension
A state pension based on your National Insurance contribution record.

Contracting out
The facility to leave the State Second Pension (previously SERPS) and build up benefits in a personal or stakeholder pension. This option was removed for many schemes from 6 April 2012, and is likely to cease for salary-related schemes from 2016.

Defined benefit pension scheme
Another name for a salary-related pension scheme, where the amount of pension you get is worked out using your salary and the length of your pensionable service.

Defined contribution pension scheme
A pension where your contributions are invested in, for example, the stock market. The size of your pension pot depends on how much is invested, charges and how well the investments do. Defined contribution pension schemes include some workplace pensions and all personal pensions, group personal pensions, stakeholder pensions and some AVCs.

Group personal or stakeholder pension
A personal or stakeholder scheme offered as a workplace scheme by some employers.

Money purchase pension
Another name for a defined contribution pension scheme.

National Insurance contributions (NICs)

You pay these if you are employed or self-employed to build up your entitlement to certain state benefits, including the State Pension. You may also pay NICs voluntarily to fill gaps in your record. You stop paying NICs at State Pension age.

Personal pension

A type of defined contribution pension scheme from a financial services company into which you and/or your employer make contributions.

Protected rights pension

The part of your pension pot that you built up in place of the State Second Pension (previously SERPS) while contracted out through a defined contribution pension scheme. Protected rights pensions have now been abolished and are treated in the same way as any other defined contribution pension.

Retirement income

This may mean an annuity (see separate entry above). May also refer to income drawdown, which means taking a pension direct from your pension pot while leaving the pot invested.

Salary-related pension scheme

A type of defined benefit scheme, where the amount of pension you get is worked out using your salary and the length of your pensionable service.

SERPS

State Earnings Related Pension Scheme – an additional State Pension for employees, based on earnings and National Insurance contribution record. Now replaced by the State Second Pension – also known as Additional State Pension.

State Second Pension (S2P)

Also known as Additional State Pension and paid on top of your basic State Pension. It replaced SERPS. Self-employed people cannot build up a State Second Pension.

Statutory Money Purchase Illustration (SMPI)

Under government regulations for defined contribution pension schemes, your pension provider must give you a yearly illustration of the pension income you might get at retirement in today's money.

Today's prices

The amount of money you would get if you were receiving the pension now.

Tax-free cash lump sum

An amount of cash set by HMRC which you can take at retirement free of tax.

Individual pension schemes may have different rules on how much you can take but it is usually up to a quarter of your pension pot.

Tax year

From 6 April one year till 5 April the following year.

Useful contacts

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online, over the phone and face-to-face.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life changing events such as starting a family or losing your job.

For advice and to access our tools and planners visit
moneyadviceservice.org.uk

Or call our Money Advice Line on
0300 500 5000*

Typetalk
1800 1 0300 500 5000

Financial Conduct Authority (FCA)

To check if your adviser is registered with the Financial Conduct Authority, check the FCA register.
Consumer helpline: 0800 111 6768
Typetalk: 1800 108 00111 6768
fca.org.uk/register

Pension information and advice

The Pensions Advisory Service

For free, independent information and guidance on all pension matters, including help with resolving a pension complaint or dispute.
0845 601 2923
pensionsadvisoryservice.org.uk

GOV.UK

For information about planning and saving for retirement, including State Pensions and how to find a lost pension.

State Pension statements
0845 300 0168

The Pension Tracing Service
0845 600 2537
gov.uk/find-lost-pension

Finding a financial adviser/planner

You can use any of the following websites to find a financial adviser:

Institute of Financial Planning
financialplanning.org.uk/wayfinder

Personal Finance Society
findanadviser.org/

Unbiased.co.uk
unbiased.co.uk

VouchedFor
vouchedfor.co.uk

Complaints and compensation

Financial Ombudsman Service
0800 0 234 567 or 0300 123 9123
financial-ombudsman.org.uk

The Pensions Ombudsman
020 7630 2200
pensions-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)
0800 678 1100 or 020 7741 4100
fscs.org.uk

Use this page to record your notes

the Money Advice Service

Stakeholder pensions and decision trees is one of the guides available from the Money Advice Service. To see our full range of guides and request copies visit **moneyadviceservice.org.uk**

Money Advice Line **0300 500 5000***
Typetalk **1800 1 0300 500 5000**

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*Calls to 0300 numbers are free if you have free or inclusive call minutes as a part of the contract you have with your landline or mobile phone provider. If you don't have free or inclusive call minutes then calls to 0300 numbers will be charged at standard rates for UK geographic numbers (eg UK numbers starting with 01 or 02). To help us maintain and improve our service, we may record or monitor calls.

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