the Money Advice Service®

# Stakeholder pensions and decision trees

The **Money Advice Service** is here to help you manage your money better. We provide clear, unbiased advice to help you make informed choices.

The information in this guide is based on the 2012/13 tax year.

We try to ensure that the information and advice in this guide is correct at time of print. For up-to-date information and money advice please visit our website – moneyadviceservice.org.uk.

# About this guide

## This guide is for you if you want to know about stakeholder pensions.

**When you read it you will know:**

- how stakeholder pensions work, and
- what you need to think about when considering whether a stakeholder pension is a good choice for you.

## Contents

# What is a stakeholder pension?

**A stakeholder pension is a private pension – it's not a State Pension. It must meet minimum standards laid down by the government about charges, flexibility and the regular information you must be given. These standards are designed to help ensure that all stakeholder pensions give good basic value.**

With a stakeholder pension you can pay in regular amounts and you can also make lump-sum payments whenever you like. Your employer can contribute too. You will benefit from tax relief on your own payments – see page 4.

See the *Jargon buster* on page 28 for an explanation of some of the words you may come across.

## How a stakeholder pension works

The money you pay in is invested to build up your own pension fund. The amount of your fund 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 it.

A stakeholder pension scheme will usually offer you a range of investment funds to invest your money in, with differing levels of investment risk and potential investment growth.

## The minimum standards

Stakeholder pensions must meet the following standards laid down by the government. These standards relate to the charges and operation of stakeholder pensions, and do not mean that your money is protected.

## Charges

Providers of stakeholder pensions are able to charge an upper limit of 1.5% of the value of your fund each year for the first 10 years, which then reduces to 1%. But if you started your stakeholder pension before 6 April 2005, the maximum that you can be charged is 1%, so it will probably be cheaper to continue contributing to it rather than take out a new stakeholder pension.

Some stakeholder pensions might charge less than 1.5% a year. Shop around, as charges can have a major effect on your pension, particularly if you hope to build up a substantial amount of money in your fund over the years.

## Flexibility

You can pay in regularly or occasionally. It is always best to make regular weekly or monthly payments but you can change the amount. You can pay in as little as £20, (or less, if the provider allows), and you can stop paying in without having to pay any penalty, and restart later.

If you are employed and your employer provides a stakeholder pension, they may, if you wish, deduct your payments direct from your salary and pay them into your pension fund.

You can take your stakeholder pension with you when you change jobs. You can switch to another stakeholder pension at any time if you want to, without having to pay any charges for the transfer.

## Information

Your stakeholder pension provider must give you regular information about your fund. This will include an annual statement to let you know how much you have paid in and how your fund is growing.

It will also include a forecast of how much your pension could be worth in today's prices. Look out for this forecast – it's called a **Statutory Money Purchase Illustration** – which is updated each year and can help you decide whether you are saving enough for your retirement.

## Investments

The performance of your stakeholder pension depends on the type of investment fund you choose and how those investments perform. The Pensions Advisory Service has an online investment choices planner to help you decide how to invest your contributions – see www.pensionsadvisoryservice.org.uk.

Remember that investments linked to the stock market can fall as well as rise.

You don't have to make decisions about how your contributions will be invested. All stakeholder pensions have to offer a default investment option. If you do not want to choose an investment fund when you take out your stakeholder pension your contributions will be invested automatically in the default fund.

Stakeholder pensions must also provide what is 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 investment value as retirement approaches. You can, however, choose to turn off the lifestyling before it begins.

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

## Tax relief

Everybody who contributes to a pension will get tax relief on their contributions. Under present arrangements, for each £1 you pay into your pension fund, HM Revenue & Customs (HMRC) will pay an extra 25p into your fund, even if you don't normally pay Income Tax. For example, if you pay in £50 a month, tax relief will increase your contribution to £62.50.

Under current tax rules you can pay as much as you like into a stakeholder pension, but there are limits on the amount of tax relief you are given. You will receive tax relief on yearly contributions made by and for you in any year up to the higher value of either £2,880 or 100% of your UK earnings (tax year 2012/13) (subject to any annual allowance restrictions – see below). This means that if you pay in £2,880 each tax year, the tax relief would automatically increase your contribution to £3,600.

If you pay Income Tax at the higher or additional rate, you will be able to claim back the extra tax from HMRC at the end of each tax year.

Even if you have no form of paid employment you can start a stakeholder pension. You can then benefit from tax relief on your contributions up to £2,880, even if you don't pay any Income Tax.

There is, however, a maximum annual allowance (set at £50,000 for tax year 2012/13) as well as an overall lifetime allowance (set at £1.5 million for tax year 2012/13 on the total amount of money you can save in your pension, which will be free of any tax charge when you come to take your benefits. If you don't use your full annual allowance, you may be able to carry forward the amount you haven't used for up to three years.

These apply to all contributions made by and for you (including from an employer), and the lifetime allowance includes the value of all the other current or existing pension schemes you may have from previous jobs.

If the contributions made in any year are more than the annual allowance (after any allowance carried forward has been used), you will have to pay an 'annual allowance tax charge' of up to 50% on your excess contributions.

## Who can have one?

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

They suit a wide range of people. But they are likely to be particularly useful to you if you don't have any other pension provision apart from the State Pensions, for example if you're self-employed or an employee whose employer does not currently contribute to a workplace pension.

They can also be used to top up benefits provided by an employer's own scheme. But if your employer offers to match any additional voluntary contributions (AVCs) that you choose to make to their scheme, this is likely to be better value than taking out a separate stakeholder pension.

## Taking your pension

You do not need to retire to take your stakeholder pension benefits. You can take benefits at any time from 55 but not before unless you are in poor health.

When you take benefits, you can choose to take up to 25% of your pension fund as a cash lump sum (based on tax law at the time of writing). And you can convert the rest of your pension fund (or all of it, if you decide against a cash lump sum) into retirement income.

That income will depend on both the size of your pension fund and rates at the time you take your retirement income. You may have to pay tax on your retirement income. For more information read the **Your pension – it's time to choose** guide – see *Useful contacts* on page 31.

If the total value of **all** your pension funds is not more than £18,000, you can take it all as a cash lump sum instead of an income. This is known as trivial commutation.

New legislation, allowing people with small **personal** pension pots of £2,000 or less to cash in a maximum of two such pots in their lifetime, came into effect on 6 April 2012.

## Pension changes

From October 2012 all employers will have to offer and contribute to a pension scheme to help more people save for their retirement. This will be introduced in stages.

If they have a pension scheme and you are eligible to join it, your employer will enrol you automatically into it (known as 'automatic enrolment'). For more information about automatic enrolment, see our website at moneyadviceservice.org.uk.

Employers who haven't offered a workplace pension in the past may set up their own scheme, or may choose to contribute into a new workplace pension scheme called National Employment Savings Trust (NEST). For information about NEST, see the NEST Corporation website at www.nestpensions.org.uk.

# Key things to think about

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

You will need to think about whether your State Pensions, any existing private pensions, any workplace pensions and any other sources of income will be enough for you to live on when you retire. See below for more information.

You also need to think about the standard of living you want to enjoy when you retire and the income you'll need to support it.

## Basic State Pension

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.

State Pension age is the earliest age at which you can claim your State Pension – currently 65 for men and between 60 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. Further increases after that will be linked to changes in the average length of time people are living. For information on the basic State Pension, see the Directgov website at www.direct.gov.uk.

The government reviews the amount of the basic State Pension every year – see page 26 for the current rates.

## The State Second Pension (formerly SERPS)

The State Second Pension is payable when you reach State Pension age, on top of the basic State Pension. The amount depends on your earnings while you were in employment and the National Insurance contributions you paid. Since April 2002, you may qualify for the State Second 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 the State Second Pension.

If you were contracted out of the State Second Pension you will not qualify for the additional pension for the period when you were contracted out.

From 6 April 2012 everyone will be in the State Second Pension unless you are a member of a workplace defined benefit scheme that chooses to remain contracted out.

You can get a forecast of your State Pensions from the Future Pension Centre – see www.direct.gov.uk/pensionforecast.

## If your current employer provides a pension scheme

If your employer already has a pension scheme for employees and you haven't joined it, check it out before you do anything else. Joining your employer's scheme is often the best way to save for your retirement – especially if your employer contributes. Find out when your employer will have to enrol you automatically into a pension scheme – see page 6.

If you are a member of an employer's scheme, you should get regular statements setting out what your benefits may be when you retire. If you cannot find these statements, check with your employer.

## If you are already contributing to a personal or stakeholder pension

Find out what retirement income they might provide. Look at the most recent benefit statements you have been sent, or check with your pension plan provider.

## If you have any existing personal or workplace pensions

Check on the pension plans you have paid into in the past but no longer pay into. You need to have some idea of the retirement income you may get from them.

Look at the most recent benefit statements you have been sent. If you cannot find any statements, contact your pension plan provider, for example the insurance company or the employer that offered the pension to you.

For details on how to track down personal or workplace pensions, contact the Pension Tracing Service at www.direct.gov.uk/pensiontracing.

## Pension Credit

Pension Credit is an income-related benefit for pensioners. It is made up of two parts, Guarantee Credit and Savings Credit. The age from which you can get the Guarantee Credit is gradually increasing in line with women's State Pension age.

If you are 65 or over you may be entitled to Savings Credit on its own or with the Guarantee Credit, even if you have some modest savings. These savings could, for example, be in the form of a workplace, stakeholder or personal pension, or the State Second Pension. This is not a complete list, and you could have other savings that will count.

For most people, it will pay to save in a pension or some other scheme, even with the effect of Pension Credit.

For a few people, however, the decision will not be so clear cut, and they will have to think carefully about their personal circumstances. In particular, people in their 50s and over who have not been able to save much in the past and don't have much scope for saving as they approach retirement should seek professional financial advice before they take out a stakeholder pension – see *Useful contacts* on page 31.

## What next?

You need to bear in mind that 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.

If the income you expect in retirement is less than you want, you need to think about saving more to make up the difference. A stakeholder pension is one of your options. But before you decide anything, you need to think about your priorities.

### Your priorities

You may have other financial commitments that will affect what you can afford to pay in to a stakeholder pension. For help in working out your financial priorities, try our online **health check** at moneyadviceservice.org.uk/healthcheck. Answer some straightforward questions and get your personal action plan to help you with your money must-do's and longer-term goals.

### Your other financial commitments

You need to consider your mortgage repayments or rent, life insurance and credit cards, as well as any other financial commitments you have. Make sure that you do your sums before entering a stakeholder scheme and that you would still be able to afford your other commitments. Our online **budget planner** at moneyadviceservice.org.uk/budget can help you. Just type in your income and outgoings and let it do the maths for you.

### Whether you can afford it

Remember that saving through a pension scheme is a long-term commitment, and any change in how you spend your money may need to last for a long time.

### Whether there are other things you need to do first

For example, you may want to consider life insurance for you and your family, or building up some emergency cash savings before thinking about a stakeholder pension.

### If you already have a pension

If you are a member of your current **employer's pension scheme**, it may make sense to pay AVCs to that scheme rather than start a stakeholder scheme.

And if you are currently contributing to a **personal** or **stakeholder pension**, it may make sense to increase your contributions to that scheme rather than start a new stakeholder pension, especially if you have a stakeholder pension that has kept to the original 1% limit on charges.

Contact your pension company or financial adviser to find out how the annual charges of your existing personal pension compare with a stakeholder pension. Also, find out what other features your existing personal pension has, for example the choice of funds you can invest in. You also need to check if there would be any charges for switching.

Although stakeholder pensions are designed to be cheaper to run than most personal pensions, you should get professional financial advice before switching to a stakeholder pension.

## Starting a stakeholder pension

Firms selling stakeholder pensions must be regulated by the Financial Services Authority (FSA), the UK's financial services regulator. This means firms have to meet certain standards which the FSA monitors, and it can take action if they don't. You can get a stakeholder pension from a range of providers including banks, building societies, insurance or investment companies, or through a financial adviser.

All firms that sell stakeholder pensions must give you a copy of their **Key Features Document** before you sign up. This sets out basic information, such as the charges and the investment choices available, and will help you compare stakeholder pensions. Please read and keep it so you can refer to it later if you need to.

When you have signed up to a stakeholder pension, the stakeholder pension company will give you written details of whether you have a right to change your mind and cancel the contract. This will happen either before or immediately after you enter into the contract.

This right to cancel the contract lasts for 30 days. After this you can only get access to your money when you take your pension benefits.

## Changes to the way you receive professional financial advice

The way you receive investment advice from financial advisers is changing from 31 December 2012. Advisers will offer either totally independent advice from across the market or restricted advice. Where they offer restricted advice, they will explain to you what that restriction is.

The changes do not alter how much the advice should cost. Advisers will tell you how much their services cost and agree with you how much you will pay.

Many firms are already changing the way they operate and your adviser should be able to tell you what their plans are.

Always ask your adviser how much they are charging you for their advice both now and in the future.

## How much to pay into your 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 will not give you a large pension when you retire. And the older you are when you start saving, the less time there is for your pension fund to grow to something worthwhile.

See the Pension table on page 21 for an idea of what paying in certain amounts would give you in the future.

Or use our **pension calculator** if you'd like to pay in different amounts to those shown in the table – see moneyadviceservice.org.uk/pensioncalc.

# Decision trees

**The decision trees on pages 13-18 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. Because the decision trees do not give personalised advice, any decision you take is your own responsibility.**

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 professional financial advice. You may have to pay for this.

Stakeholder pensions have many advantages for many people, but they may not be the right choice for everyone. Please read *Key things to think about* on page 7 before using the decision trees.

For general information about pensions, read our **Pensions** guide – see *Useful contacts* on page 31.

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. You should get help if you require advice.

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

**Yes** ☐ If yes, tick

**No** ☐ If no, tick → Go to the **Pension table**

**Do you currently pay into a self-employed pension, a stakeholder pension or other personal pension?**

**Yes** ☐ If yes, tick

**No** ☐ If no, tick → Go to the **Pension table**

You may wish to consider making increased contributions to your existing plan, especially if you have a stakeholder pension that has kept the original 1% limit on charges.

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

Alternatively, see *Next steps* on page 22.

**You have completed the trees**

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# 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. You should get help if you require advice.

**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 company pension scheme with your current employer?**

**Yes** ☐ If yes, tick

**No** ☐ If no, tick

It is likely to be a good idea to stay in your employer's scheme.

Before thinking of leaving your employer's scheme, always take advice.

As well as your company pension, you may wish to consider increasing your benefits by making Additional Voluntary Contributions (AVCs) or contributing to a stakeholder pension. Check whether your employer offers to match any AVCs that you may decide to make. If they do, then AVCs to your employer's scheme are likely to be better value than a stakeholder 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 rebate-only personal or stakeholder pension (sometimes called a 'State Second Pension (or SERPS) opt-out')?**

**Yes** ☐ If yes, tick

**No** ☐ If no, tick

You may wish to consider making increased contributions to your existing scheme, especially if you have a stakeholder pension that has kept to the original 1% limit on charges.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider. Alternatively, see *Next steps* on page 22.

If there is a company pension scheme where you work and your employer pays contributions to it, ask your adviser if joining it would be better for you than your present arrangement.

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. You should get help if you require advice.

## No current pensions

**Does your current employer offer a company pension scheme?**

**Yes** ☐ If yes, tick

**No** ☐ If no, tick → Go to the **Pension table**

**Can you join your employer's 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 your employer's 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, you should check with your employer to make sure you will never be able to join the scheme.

Go to the **Pension table**

**Yes** ☐ If yes, tick

**No** ☐ If no, tick

Go to the **Pension table**

**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. You should get help if you require advice.

**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.

Go to the **Pension table**

**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.

Go to the **Pension table**

You may wish to consider making increased contributions to your existing plan, especially if you have a stakeholder pension that has kept the original 1% limit on charges.

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

Alternatively, see *Next steps* on page 22.

**You have completed the trees**

## Pension table

The table on page 21 will give you a fair idea of the pension income you could get, depending on your age and contributions.

This information is intended to help you make your own choice about your pension arrangements. It does not give you professional financial advice and you should not regard it as doing so. You should take professional financial advice if you need it.

But please 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. When you receive your pension during retirement you may be taxed on it. The current basic-rate tax level is 20% (tax year 2012/13).

**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 fund grows by 7% a year
- charges deducted from your fund are 1.5% of the fund each year for 10 years, then reduce to 1%, and
- you get tax rebates on contributions of basic-level tax at 20%.

### When you retire:

- your entire fund is converted into retirement income and you do not take any cash lump sum
- retirement income rates assume that the investment return after retirement is 0.4% a year above the rate of inflation
- your pension increases in line with inflation, and
- your spouse will receive half your pension on your death.

# How much should I 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.

The following table shows the **estimated monthly pension**, at today's prices, that you would get for different **regular monthly payments**. The amounts shown are assumed to **increase each year in line with inflation**. The government will also add tax rebates to increase the amounts paid into your stakeholder pension (although all tax breaks are subject to change). The estimated pension figures include this tax rebate calculated using current basic-rate tax level (20% for tax year 2012/13). They also assume that your pension will increase in line with inflation.

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 when you retire. 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 and the age at which you want to retire, or use our online **pension calculator** – see moneyadviceservice.org.uk/pensioncalc.

| Your approximate age now | What you pay per month for the first year (tax rebates will be added to this amount) £20 Initial monthly pension if you retire at 65 | £20 60 | £50 Initial monthly pension if you retire at 65 | £50 60 | £100 Initial monthly pension if you retire at 65 | £100 60 | £200 Initial monthly pension if you retire at 65 | £200 60 |
|---|---|---|---|---|---|---|---|---|
| **20** | £78 | £53 | £195 | £132 | £391 | £264 | £781 | £528 |
| **25** | £62 | £42 | £156 | £104 | £312 | £208 | £624 | £416 |
| **30** | £49 | £32 | £123 | £81 | £246 | £161 | £492 | £322 |
| **35** | £38 | £24 | £95 | £61 | £190 | £122 | £381 | £243 |
| **40** | £29 | £18 | £72 | £44 | £144 | £88 | £287 | £176 |
| **45** | £21 | £12 | £52 | £30 | £104 | £60 | £208 | £120 |
| **50** | £14 | £7 | £35 | £18 | £71 | £36 | £142 | £72 |
| **55** | £9 | £3 | £21 | £8 | £43 | £17 | £86 | £34 |
| **60** | £4 | n/a | £10 | n/a | £20 | n/a | £40 | n/a |

**Have you found the level of monthly pension that you need in the table and can you afford the monthly contribution?**

**Yes** ☐
If yes, tick

I've found the pension I need and can afford the monthly contribution

↓

Consider starting a stakeholder pension or restart making contributions to a stakeholder pension. If you are employed, check if your employer offers workplace access to a particular stakeholder pension and if they offer a contribution to it. If in doubt, seek help from a professional financial adviser. See *Next steps* on the following page.

**No** ☐
If no, tick

I can't find the pension I need or I can't afford the contribution

↓

For details of where to get further help, see *Next steps* on the following page.

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# Next steps

**Step 1**

Having looked through the decision trees, you now need to make some decisions.

**Step 2**

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.

## Step 3

Consider getting professional financial advice if:

- 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 4

If you decide that a stakeholder pension is right for you, contact several firms selling stakeholder pensions and ask them for a brochure or **Key Features Document**, so you can compare products. The **Key Features Document** will set out important details about that firm's particular stakeholder pension product.

You can use our **comparison tables** to compare different stakeholder and personal pension schemes at moneyadviceservice.org.uk/tables.

You can find a register of stakeholder pension providers on the Pensions Regulator's website – see www.thepensionsregulator.gov.uk – or you can contact a professional financial adviser to help you choose a particular stakeholder pension provider – see *Useful contacts* on page 31.

# Your questions answered

## Question:

## Where can I get a stakeholder pension?

## Answer:

You can buy one by contacting a professional financial adviser or a firm that sells stakeholder pensions. You will see stakeholder pensions advertised widely, for example in the newspapers, or at your local bank or building society.

A full list of registered stakeholder pension scheme providers is available on the Pensions Regulator website – see www.thepensionsregulator.gov.uk.

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

Find out when they will enrol you automatically into a pension scheme.

If your employer provides access to a stakeholder pension, ask if they intend to make a regular contribution for employees. If so, it is often a good idea to join their stakeholder pension plan.

Question:

## How do I choose between stakeholder pensions?

Answer:

You can use our **comparison tables** to compare features and costs of stakeholder pensions at moneyadviceservice.org.uk/tables.

Look at independent surveys published in personal finance magazines. Many are available in your local library or on sale in newsagents.

Contact several firms selling stakeholder pensions and ask them for a brochure or **Key Features Document**. This gives important details about that firm's particular stakeholder pension product.

All firms that provide stakeholder pensions are regulated by the Financial Services Authority (FSA), the UK's financial services regulator, and by the Pensions Regulator. And all stakeholder pensions must meet minimum standards set by the government – see page 2.

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 firms selling stakeholder pensions might offer better terms than the government standards.

## Question:

# What are the current basic State Pension and Pension Credit rates?

## Answer:

Here are the current basic State Pension and Pension Credit rates (2012/13 tax year).

| BASIC STATE PENSION from age 65 (men) or 60 (women) | | |
|---|---|---|
| | **Weekly** | **Monthly equivalent** |
| One person with a full National Insurance contribution record | £107.45 | £465.62 |
| Full rate based on a spouse's National Insurance contribution record | £171.85 | £744.68 |
| Couples who have *both* paid full National Insurance contribution | £107.45 each | £465.62 each |

| PENSION CREDIT guarantees a minimum income from age 60 of at least: | | |
|---|---|---|
| | **Weekly** | **Monthly equivalent** |
| Single person | £142.70 | £618.37 |
| Couple | £217.90 | £944.23 |

# If things go wrong

## Complaints

If you have a complaint about the advice you received when you bought your stakeholder pension, you should first contact the firm you dealt with.

They have a procedure to follow when dealing with complaints.

If you're not satisfied with their response, you may be able to take your complaint to the Financial Ombudsman Service.

The firm should give you the details of this free service – see *Useful contacts* on page 31.

For more information get a copy of our **Making a complaint** guide – see *Useful contacts*.

## 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*.

# Jargon buster

## Some key words and phrases explained.

### Asset classes
The underlying investments – shares, bonds, property and cash deposits.

### Automatic enrolment
Fom October 2012 employers will automatically enrol eligible employees into a workplace pension scheme.

### AVCs
Additional Voluntary Contributions – a pension top-up for a workplace pension. You pay contributions into a scheme run by your employer to boost your main pension.

### Cash lump sum
An amount of cash set by HM Revenue & Customs which you can take at retirement free of tax. Individual pension schemes may have different rules on how much you can take.

### 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 most schemes from 6 April 2012, although some salary-related schemes will keep the option.

### 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
Another name for a money purchase workplace pension scheme where you know how much you and (in some cases) your employer contribute.

### FSAVCs
Free-Standing Additional Voluntary Contributions – a money purchase pension top-up policy for a workplace pension. This is separate from your employer's pension scheme and is normally run by an insurance firm

### Group personal pension
A type of personal pension offered by some employers.

## HMRC

HM Revenue & Customs – responsible for collecting taxes and paying tax credits.

## Money purchase pension

A pension where your contributions are invested in, for example, the stock market. The size of your pension fund depends on how much is invested and how well the investments do. At retirement, some or all of the fund may be used to buy an annuity. This includes some workplace pensions and all personal pensions, group personal pensions, stakeholder pensions, FSAVCs and some AVCs.

## National Insurance contributions (NICs)

You pay these if you are employed or self-employed to build up your entitlement to certain social security benefits, including the State Pension. You stop paying NICs at State Pension age.

## Personal pension

A money purchase pension from a financial services company into which you and/or your employer make contributions.

## Protected rights pension

The part of your pension fund which was used to contract out of the State Second Pension (previously SERPS) and must be used to buy a protected rights annuity.

## Retirement income (also known as 'annuity')

An investment that converts a lump sum (for example your pension fund) into regular income, which is taxable.

## Salary-related pension scheme

Another name for a 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 called the State Second Pension.

## State Pension

A pension based on your National Insurance contribution record.

## State Second Pension (S2P)

An additional State Pension paid on top of your basic State Pension. It used to be called 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.

## Tax year

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

# Useful contacts

## Money Advice Service

For advice based on your own circumstances or to order other guides

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

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

### Other Money Advice Service guides

- Borrowing money
- Credit unions
- Getting financial advice
- Making a complaint
- Making the most of your money
- Managing in retirement
- Mortgages
- Pension transfers
- Saving and investing

For more titles, call us or go to **moneyadviceservice.org.uk/publications**

### On our Money Advice Service website you can find:

- a **health check** to help you build up some good financial habits and reach your goals
- a **budget planner** to help you work out your spending
- **comparison tables** for stakeholder and personal pensions
- interactive **stakeholder pensions decision trees**
- a **workplace pension contribution calculator**, and
- a **pension calculator** to help you work out how much retirement income you might get.

Go to **moneyadviceservice.org.uk/tools**

**Call rates to the following organisations may vary – check with your telephone provider.**

### Financial Services Authority (FSA)

To check the FSA register, or to report misleading adverts or other promotions.

Consumer helpline: 0845 606 1234
Minicom/textphone: 0845 730 0104
**www.fsa.gov.uk**

# Pension information and advice

### The Pension Information Ordering Line

For booklets about State Pensions.

0845 731 3233
Textphone: 0845 604 0210
**www.direct.gov.uk**

### The Pension Service

For information about deferring your pensions.

0845 606 0265
**www.direct.gov.uk**

### Future Pension Centre

For a State Pension forecast.

0845 300 0168
Textphone: 0845 300 0169
**www.direct.gov.uk/pensionforecast**

### Pension Tracing Service

To trace pensions you've lost track of.

0845 600 2537
**www.direct.gov.uk/pensiontracing**

### The Pensions Advisory Service

For general information on any pensions.

0845 601 2923
**www.pensionsadvisoryservice.org.uk**

### The Pensions Regulator

Provides a register of stakeholder pension scheme providers.

0870 606 3636
**www.thepensionsregulator.gov.uk**

### NEST

To find out more about National Employment Savings Trust.

0300 303 1949
**www.nestpensions.org.uk**

### HM Revenue & Customs (HMRC)

To find out if you are contracted out.

0845 915 0150
**www.hmrc.gov.uk**

### Directgov

The government's public service information website.

For information about Pension Credit and changes to the State Pension.

**www.direct.gov.uk**

For help with planning your retirement.

**www.direct.gov.uk/betterfuture**

## Finding a financial adviser

### Unbiased.co.uk

For financial advisers in your area.

**www.unbiased.co.uk**

### Institute of Financial Planning

Financial planners can help you to achieve your goals by planning your finances.

**www.financialplanning.org.uk**

### Personal Finance Society

For financial advisers in your area.

**www.findanadviser.org**

## Complaints and compensation

### Financial Ombudsman Service

South Quay Plaza
183 Marsh Wall
London E14 9SR

0800 023 4567 or 0300 123 9123
**www.financial-ombudsman.org.uk**

### Financial Services Compensation Scheme (FSCS)

7th floor Lloyds Chambers
Portsoken Street
London E1 8BN

0800 678 1100 or 020 7741 4100
**www.fscs.org.uk**

# This guide is part of our pensions and retirement series.

**Other titles in this series include:**

- Pensions
- Your pension – it's time to choose
- Salary-related pension transfers

**All our guides are available from:**

**Our website**
**moneyadviceservice.org.uk**

**Money Advice Line**
**0300 500 5000**

If you would like this guide in Braille, large print or audio format, please call us on 0300 500 5000 or Typetalk on 1800 1 0300 500 5000.

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

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