Retirement Planning Factsheet – Your Guide to Pension Planning

There are a variety of ways of saving for your retirement. The correct choice for you will depend on the options available, your willingness to accept risk and your personal circumstances.

This factsheet has been prepared to provide an outline of the available options for personal pension planning.

We recommend that you read this before discussing your detailed and individual requirements with your Adviser. It describes how each option works in practice and we hope this will assist you to establish the most appropriate method of saving, in conjunction with your Adviser.

Please bear in mind that if your employer provides a pension scheme, it is likely to be in your best interests to join this. In some cases it is possible to save into both an Occupational Pension and a Personal Pension. Your Adviser will be able to discuss this further with you.

1. Personal Pensions
    a. Stakeholder
    b. Self Investment Personal Pensions (SIPPs)
2. State Benefits

Personal Pensions

Personal Pension Plans are available to the majority of people whether employed or self employed. Usually, a pension fund will be built up by regular premiums funded from earnings. Single lump sum payments can also be made either on an ad hoc or regular basis, subject to HM Revenue & Customs limits. Currently, an individual may contribute up to £3,600 per annum to a pension, irrespective of their earnings.

Your contributions, those of your employer and any investment returns achieved all contribute to your Personal Pension fund. Investment growth accrues largely free of UK taxes, although since July 1997 Providers have been unable to reclaim tax credits on UK dividends.

Tax relief, at the standard rate, is added to your contributions and higher rate taxpayers are entitled to additional tax relief, which can either be re-claimed via your tax return, or an adjustment to your PAYE tax coding.

You are able to select a suitable investment fund or funds to suit your individual needs and objectives. It is normally possible to switch between different funds, for a small charge, should your circumstances alter.

Stakeholder

The Government introduced Stakeholder Pensions in April 2001. Most employers are obliged to provide access to a Stakeholder Pension, although some employers already offer suitable pension provision, which exempts them from such an obligation.

There is no requirement for an employer to contribute to Stakeholder, but it is required to collect employees' contributions, net of basic rate tax and direct payments to the plan if requested. As with Personal Pensions, higher rate relief can be reclaimed via a tax return, or adjustment to PAYE coding. Stakeholder plans are also available on an individual basis to the self-employed and to employees who are not offered such a plan through their employer.

Broadly speaking, Stakeholder Pensions work in the same way as Personal Pensions but to be classified as "Stakeholder", they must meet certain mandatory standards including:

- an overall charge limited to a maximum of 1.5% per annum for the first 10 years of the contract. This charge must reduce to a maximum of 1% after this time
- the facility to stop and restart contributions without penalty
- transfers must be accepted and transfers out must be penalty free. The only exception to this is the facility for Providers to levy a Market Value Adjuster (MVA) on With Profit funds following prolonged poor market conditions
- a default investment fund incorporating an element of life styling
- an annual information statement to members
- a governance procedure established to safeguard the interests of members
- a minimum contribution level of no more than £20 per payment.

Legislation allows contributions to both Personal Pensions and Stakeholder Pensions. Many Personal Pensions also comply with these guidelines, but Providers' retain the right to alter the terms and conditions of the contracts at some future date. As with Personal Pensions, the member selects the investment fund(s) and any investment growth accrues, largely free of UK tax, on the contributions paid.

Benefits

Benefits can be drawn between the ages of 50 and 75 increasing to 55 with effect from 2010. Up to 25% of the fund can be taken as a tax-free cash lump sum. The funds accrued are subject to an overall Lifetime Allowance, this limit is £1.65 million for the 2008/09 tax year, raising gradually to £1.8 million in 2010/11 and is tested when benefits are taken. If funds exceed the Lifetime Allowance, a tax charge will be applied to the excess.

The type of pension can vary at the discretion of the planholder and this decision is made at retirement. The balance of the fund (after tax free cash) is normally used to provide a guaranteed annuity that provides a set monthly pension payment. For investors willing to accept a greater level of risk there are also alternatives including With-Profit, Unit Linked annuities and Unsecured Income. A Retirement Options fact sheet containing full information regarding these options is available upon request.

You are not limited to purchasing a pension with your Product Provider, and it may be possible to secure a higher pension elsewhere under a facility known as the Open Market Option.

Contributions

All contributions paid qualify for Income Tax relief at the individual's highest marginal rate of Income Tax. Premiums are actually paid net of basic rate income tax. Thus for an actual payment of £80, £100 is invested in the plan. If contributions qualify for higher rate tax relief this will be granted via PAYE 'notice of coding' or when completing a self-assessment tax return. It is possible to contribute to both Personal Pensions and Stakeholder subject to overall contribution limits. You can pay up to £3,600 per annum to a PPP / Stakeholder irrespective of any employment earnings. If you wish, higher amounts can be paid up to 100% of annual earnings, subject to an overall maximum of the annual allowance. (For 2008 / 09 the annual allowance is £235,000, and this figure is due to increase annually until 2010/11 when it will be reviewed). Tax relief is not available on contributions in excess of 100% of earnings and if contributions exceed the annual allowance a tax charge may be levied.

Most employer contributions qualify for Corporation Tax relief.

Death Benefits

The great majority of Personal Pension Plans and Stakeholder Plans are set up under a Master Trust. This mechanism

allows you, should you die before drawing benefits, to nominate chosen beneficiaries to receive your Pension fund as a lump sum death benefit, usually free of Inheritance Tax.

Prior to the December 2006 Pre Budget report life cover was available under pension rules and you may have such a policy still in force. This cover tends to be a little more expensive than standard life cover however the premiums are eligible for tax relief. The benefits will count towards your Lifetime Allowance and the premiums towards your Annual Allowance and it is therefore important to consider these issues as well as your Protection needs. Your Adviser will be able to help determine whether this is an appropriate form of Protection for you.

In the event of death following retirement, the benefits available will be dependent on the option(s) selected. Annuities can include a guaranteed period whereby, if death occurs within the time period, payment will continue until the guarantee period ends. In addition, provision can be made for a percentage of the pension to be paid to any surviving spouse or dependants. A new option has recently been introduced to allow a return of any remaining fund, less a tax charge. The Unsecured Income option and Phased Retirement options provide various ways for benefits to be paid, either by continuing income payments, return of fund less a tax charge or annuity purchase. Again, full details can be found in the Retirement Options Factsheet.

Contribution Protection

This is a benefit whereby if you are unable to work through illness or disability prior to retirement, amounts equal to the contributions you were previously paying will be credited to your arrangement. This protection is only available on contributions up to £3,600 per annum.

Investment Options

Most Providers offer a range of unit linked funds, usually including investment in UK Equities, International Funds (including North America, Asia etc.), Property, With Profits, Fixed Interest and Cash. . Alternatively you can opt for a more broad based approach via the "managed" fund, which invests in a broad range of these assets. Changes in the composition of the managed fund are at the discretion of the fund manager on an ongoing basis.

Many plans offer external fund links. The pension provider negotiates with selected investment houses, chosen for their track records in managing these types of funds and their research and investment management expertise. The external fund links will usually be subject to an additional annual management charge. A wide range of funds from investment houses with very different investment styles is thus provided. As a general rule, Personal Pensions offer a larger range of fund links than Stakeholder does but the management charges may be higher.

Self Invested Personal Pensions

It is possible to set up a Personal Pension plan under what is known as a Self Invested Pension Plan (SIPP). In simple terms, this route would offer additional retirement planning flexibility for the future. Self investment gives you the opportunity to invest wider afield than the chosen provider’s insured funds if you so wish, for example, commercial property, stocks and shares, investment trusts and investment funds offered by other providers. It is also possible for the pension fund to borrow in order to facilitate, for example, a property purchase; however, such investments are subject to strict controls. Your choice of a SIPP Provider is not limited to Insurance Companies, and SIPPs are available from Banks, Accountancy and Actuarial firms.

It should however be noted when considering use of the self-investment facility that only “Insured” investments held within a SIPP are covered by the Financial Services Compensation Scheme. This Scheme affords a degree of protection in the event of insolvency of a Life Office.

State Benefits

The Basic State Pension is available at age 65. For women born before 1950 the benefit will be payable at age 60, and

for those born between 1950 and 1955 it will be payable between age 60 and 65 on a sliding scale. In order to achieve a full Basic State Pension, a person needs to have paid National Insurance for 9/10ths of their working life. The contribution record of people who have been unable to work due to unemployment, sickness or caring responsibilities, may be protected by credits or "home responsibilities protection". It is a flat rate taxable benefit. For a forecast of the future value of your pension, fill out form BR19, available either from your local Social Security office or by writing to the Retirement Pension Forecast and Advice Unit, Pensions and Overseas Directorate, Tyneview Park, Newcastle Upon Tyne, NE98 1BA.

Contracting out

The State Second Pension (S2P) was introduced on 6 April 2002, in place of the State Earnings Related Pension Scheme (SERPS). It is part of the State Pension benefit and is available to employees who have made sufficient National Insurance contributions during their working life. The new system also opens the additional State Pension to certain carers and people with erratic work patterns, due to a long-term illness or disability

You are able to “contract out” of the government plan and a proportion of your National Insurance contributions will be rebated into your Personal Pension Plan. By contracting out, you give up any perceived security inherent in State Pensions, for a pension determined solely by investment returns and interest rates at retirement. The combination of lower investment returns achievable in the current economic climate and decreasing annuity rates means that the funds which could be built up from the rebates on offer are by no means certain to provide benefits which will compensate for those given up, by opting out of S2P.

Your decision on this will be determined by your attitude to risk and the extent to which you believe the Government may worsen or reduce State Benefits in future.

This information is based our understanding of the current legislation and proposals.