the pensions advisory service

Free independent information and guidance on pensions

Saving into a pension

Planning for your future

Introduction

About The Pensions Advisory Service

The Pensions Advisory Service (TPAS) is an independent voluntary organisation, formed in 1983. We are funded by means of grant-in-aid from the Department for Work and Pensions (DWP). We provide independent, non-regulated, one-stop information and guidance on pensions matters.

Our vision is to make pensions accessible.

Our mission is to explain and resolve pension issues for everyone.

We aim to:

- Resolve specific problems you may be experiencing with a private pension provider;
- Give general information and guidance on all pensions matters; and
- Bring areas of concern to the attention of government departments, the public and the pensions industry.

Our service is free to the public.

Each year we take about 80,000 enquiries from the public.

You can find out how to contact us over the page.

About this booklet

This booklet aims to help you understand pensions and retirement planning if you live and work in the United Kingdom.

We have explained words in **bold print** at the end of this booklet in the **pensions jargon buster**.

We also explain how to get more help if you need it.

How to Contact us:

The Pensions Advisory Service

11 Belgrave Road
London SW1V 1RB

Helpline: 0845 601 2923
General office: 020 7630 2250
Fax: 020 7233 8016

Website: www.pensionsadvisoryservice.org.uk

For enquiries, please use our online enquiries form:

http://www.pensionsadvisoryservice.org.uk/online-enquiry

Contents

1. Why save for retirement?

In the UK we are seeing the national average life expectancy steadily increasing through improvements in medical science, education and diet and it looks to continue. We are also seeing a change in the balance of population between those in work and those in retirement with fewer workers supporting more pensioners. This means that the current state pension will need to change.

Your state pension might cover your basic needs, but not much more. If you wish to maintain your standard of living in retirement, you may need to save more into your pension.

This booklet is designed to help you.

Pensions are attractive to many people because they are a relatively tax efficient way to save for retirement.

- You get tax relief on your contributions
- Investment growth is mostly free from tax, although dividends are taxable
- There are tax-free cash lump sum options available when you retire.

The government offers these tax incentives to encourage saving in a pension scheme. It has set some rules for tax advantages. We explain these rules and the different types of pension in this booklet.

Tip: Don’t put off making a start as pension pots need time to grow. You may also be missing out on employer contributions, which means that you are turning down free money.

2. State Pensions

The state pension is split into two parts – the basic state pension and the additional state pension.

2.1 Your basic state pension

Your amount of basic state pension depends on how much national insurance you have paid. You will get the full basic state pension if you have paid national insurance contributions for 30 qualifying years, and reach state pension age on or after 6 April 2010. You will get less than the full amount if you have paid less than 30 qualifying years of national insurance. For example, if you have paid national insurance for 15 qualifying years, you will get half the full amount.

A qualifying year is a year when you:
- paid enough national insurance contributions; or
- were credited with national insurance contributions because you were receiving jobseeker's allowance, child benefit for a child under age 12 or if you were a foster parent or registered carer.

You will be building up your state pension if you earn £107.00 per week (£5,564 per annum) or more; but you won't actually start paying national insurance until you earn £146.00 per week (£7,592 per annum) or more.

It's a good idea to check how much state pension you will have. You can get a state pension forecast. We tell you how to do this in section 2.6. On our website you'll find ways to build up your basic state pension if you haven't paid enough national insurance contributions.

The full basic state pension is **£107.45** a week.

2.2 Your state pension age

Under the rules which applied when this booklet was printed, the state pension age is:

- 65 for men born before 6 December 1953;
- 60 for women born before 6 April 1950;
- Between 60 and 65 for women born on or after 6 April 1950 but before 6 December 1953;
- Between 65 and 66 for men and women born on or after 6 December 1953 but before 6 October 1954;
- 66 for men and women born on or after 6 October 1954 but before 6 April 1968 will have an SPA of 66

The state pension age for men and women born on or after 6 April 1960 is changing, but at the time of printing, these changes were not law.

Tip: You can use the state pension age calculator on the home page of our website to check your own state pension age. Our website address is at the front of this booklet.

2.3 Your additional state pension

Employees

If you are in work, and paying the full national insurance rate, you may also be building up entitlement to additional state pension. The amount you get depends on your earnings and national insurance contributions paid during the whole of your working life.

Between April 1978 and April 2002, this additional state pension was called State Earnings-Related Pension

(SERPS). Since April 2002 it has been called State Second Pension (S2P).

You may be building up a pot replacing your additional state pension instead of additional state pension if you are in a workplace pension scheme or a personal pension. We explain this in section 2.7. You may have also heard this being called "Contracting out of SERPS or S2P".

Carers

You may also have built up additional state pension if you have had a period of long term illness or disability since April 2002.

If you are or were a carer, you may still have built up your entitlement to additional state pension, even if you were not working. This is through 'carer's credits'. Carer's credits may apply if:

- you receive child benefit and look after a child under 12;
- you are entitled to carer's national insurance credits; or
- you look after a sick or disabled person and are getting national insurance carer's credits.

This is similar to Home Responsibilities Protection (HRP), which applied before 6 April 2010.

You can check your eligibility by contacting the Pension Service. We tell you how to do this in section 2.6.

Self employed

You do not build up any additional state pension whilst you are self-employed. You may have some if you have been an employed worker for any period.

2.4 Claiming your state pension

Normally, about four months before you reach your state pension age, you will be sent a claim pack in the post by the Pension Service. This pack will provide information about your options and ways that you can claim.

If you do not receive an invitation to claim your state pension (for example, because the Pension Service does not have your current address), you should contact their claim line on 0800 731 7898.

After claiming, you will be sent details on how your state pension has been calculated and what to do if you do not agree with how it was calculated.

Once you reach age 80, you will be eligible for a higher rate pension. The Pension Service will pay the increase to your pension automatically; you do not need to claim it.

2.5 Putting off claiming your state pension

You do not have to claim your state pension at your state pension age. You can choose to put off payment.

If you decide not to claim your state pension, you can receive a pension at a higher rate at the time you eventually do decide to claim. If you put off claiming continuously for at least 12 months, you will also have the option of a lump sum. Please see our website. Our website address is at the front of this booklet.

2.6 Getting a state pension forecast

Calculating how much you will get is complicated and your best option is to leave it to the Pension Service. Make sure that the information they hold about your qualifying years is up to date and accurate, and that there are no gaps in their records. You should let them know if you think some of your working history is missing.

Contact the Pension Service:
- by telephone 0845 300 0168
- by post, using form BR19
- online at www.direct.gov.uk

2.7 Additional state pension replacement

Some pension schemes provide replacement benefits to the additional state pension in return for lower national insurance contributions.

Defined benefit pension schemes
If you are in a **defined benefit pension scheme**, you may be building up replacement benefits to the additional state pension in your scheme. You may have heard this called 'contracting out'. If this applies to you, you will be paying a reduced rate of national insurance contributions.

Defined contribution pension schemes
You might also be building up a pot replacing the additional state pension if you are in a **defined contribution pension scheme**. This could be a

workplace pension scheme, **personal pension** or **stakeholder pension**.

If this applies to you, you will have paid the full national insurance rate as normal and the Department of Work & Pensions (DWP), or your employer, would have repaid some of it into your pension pot. This national insurance rebate was invested for you in the range of investment funds made available to you in your pension.

The pension pot you built up from the investment of your national insurance rebates could provide you with a retirement income that is less or more than the additional state pension that you have given up.

The amount of retirement income will depend on how well the investments have performed, retirement income rates at the time you buy your pension and the type of retirement income you choose to buy.

From 6 April 2012, the DWP will no longer offer the option to have national insurance rebated into a **defined contribution pension scheme**. This means you will automatically revert to building up additional state pension. The money invested so far remains in your pension pot.

2.8 Other State pension reforms

In 2011, the government issued a green paper to consult on changes to the state pension system. The proposals are far reaching. Please check our website for updates as to the progress of the consultation, the likely effects of the proposals and how they could affect you.

3. Pension Credit

3.1 About pension credit

Pension credit is a **means-tested**, tax-free retirement income for people who have reached the age (please see below) when they can claim it. There are two parts to it and they are currently claimable at different ages, until 2018. This is regardless of their national insurance contribution record. It aims to ensure all pensioners have a minimum level of retirement income.

You need to claim pension credit – you won't receive it automatically.

When the DWP calculates your entitlement to pension credit, they ignore the first £10,000 of savings. For every £500 over £10,000, they assume you earn £1 of weekly income from it and reduce the amount you can claim.

There are two parts to pension credit – guarantee credit and savings credit.

Guarantee credit is payable from the state pension age for a female of your age (even if you are male) called the qualifying age. It tops up your weekly income to a guaranteed minimum level. For a single person, pension credit could top up your weekly income to **£142.70**. For couples, it could top up your joint weekly income to **£217.90**.

Savings credit rewards people who have saved extra for their retirement and who have a modest amount of income or savings. Savings credit is only payable from age 65.

You may be entitled to get some money from savings credit if you have income of up to about **£189** a week (if you are single) or up to about **£277** a week (for couples). Savings credit is currently worth up to a maximum of **£18.54** a week for a single person and **£23.73** a week for couples.

You may receive either savings credit or guarantee credit or both.

3.2 How to apply for pension credit

You can apply for pension credit by ringing the pension credit helpline on 0800 99 1234. Lines are open Monday to Friday 8am to 8pm.

The Pension Service has an online calculator that can work out your potential entitlement to pension credit. However, it doesn't cover every circumstance, so treat it just as a guide. You can find the calculator at the following website address: www.direct.gov.uk

4. The different types of pension schemes

4.1 Workplace pensions

Workplace pensions are set up by employers to provide retirement income for their workers. The employer normally sponsors the scheme, and a board of trustees ensures that benefits are paid. Public-sector schemes are different in that they are established by an Act of Parliament which lays down the scheme rules.

The benefits of a workplace pension scheme are that:

- your employer usually pays a contribution on your behalf; and
- your contributions are paid before tax is deducted from your pay. This means that you get tax relief at your highest rate. We explain this in section 6.

Employers sometimes match any additional contributions you pay yourself.

There are four different types of workplace pension scheme – **defined benefit pension schemes**, **defined contribution pension schemes**, **personal pensions** and **stakeholder pensions**.

4.2 Workplace pensions - defined benefit pension schemes

Workers contribute to the scheme with the promise of a certain level of pension. Your contributions are pooled with those paid by all other workers and your employer. The trustees invest the money for the benefit of all workers.

The amount you get at retirement is based on your earnings and years of membership in your pension scheme.

It depends on:

- your pensionable service – your years of membership in your pension;
- your final pensionable salary – your earnings before retirement; or
- your average earnings, whilst in the scheme, increased to take into account inflation; and

- the proportion of salary that is received for each year of service.

Set out below is an example, if the pension scheme provides $1/60^{th}$s of your final salary for each year of membership in the pension scheme:

- Years of service = 30
- Final pensionable salary = £25,000
- Pension would be 30/60 x £25,000 = £12,500

If you are working part-time, your pensionable service is likely to be building up at a slower rate, as most schemes base their pensions on full-time pay.

Your pension is taxed when you receive it. We explain this in section 7.3.

You can usually exchange some of your pension for a tax free cash lump sum. We explain this in section 7.2.

Make sure you know how your benefits have built up to date. Ask for a statement from the trustees of your scheme so that you can work out how much your pension benefit is likely to be when you retire. Keep all your statements together.

4.3 Workplace pensions – defined contribution pension schemes

These workplace schemes give you a pot based on the amount of money paid in, the charges taken out and the investment growth of this money. At retirement you can shop around to choose how your regular income will be provided from the scheme.

You may be able to choose investment funds from a selection of funds chosen by the scheme trustees. You need to understand the risks of investing in each fund to decide which funds are suitable for you.

4.4 Personal pensions

A **personal pension** is a **defined contribution pension scheme**. You can have one of these even if you are self-employed or not working. You can buy these from insurance companies, high-street banks, investment organisations and even some supermarkets and high-street shops.

Some providers will allow you to take out one of these for your child, your grandchild or partner.

4.5 Stakeholder pensions

As a **stakeholder pension** is a **defined contribution pension scheme**. It is like a **personal pension**, but has to meet some minimum standards. You can have one of these even if you are self-employed or not working. You can buy one from the same providers of **personal pensions**. You can take out one of these for your child, grandchild or partner.

4.5.1 Low cost

The company managing your **stakeholder pension** cannot charge more than 1.5 per cent of the fund for each year during the first 10 years after you take out the pension, and not more than 1 per cent after that. There will be a range of funds and each fund will have its own fund charge, within the allowed range of charges. Employers can usually negotiate much lower charges for large groups of employees. You can read more about charges on our website. Our website address is at the front of this booklet.

4.5.2 Flexible payments

The lowest contribution is £20, whether a regular or a 'one-off' payment. This may suit you if your income fluctuates and you need flexibility. Some **stakeholder pension** providers accept lower contributions.

There are no penalties for stopping contributions.

4.5.3 Penalty-free transfers

If you want to move your **stakeholder pension** to another provider or another pension scheme, there will normally be no charges for making the transfer. If you have invested in a **with-profits fund**, check whether your provider will make a market value reduction if you make a transfer. You can read more about market value reductions on our website. Our website address is at the front of this booklet.

4.5.4 Investment funds

Each **stakeholder pension** has to offer a fund that your contributions will be invested in, if you don't want to choose your own. This is usually the provider's own managed fund, which is usually made up of a number of different investments.

4.6 Workplace personal pensions and stakeholder pensions

Your employer might provide a personal pension or stakeholder pension as your workplace pension. It is normally a collection of individual **personal pensions** or

stakeholder pensions grouped together under one scheme for the workers of one company. They follow the same rules as an individual **personal pension** but normally benefit from an employer contribution and, sometimes, lower charges on the money invested in your pension pot. You will be offered a choice of investment funds.

4.7 Self-invested personal pension (SIPP)

A SIPP is a **personal pension** that has a much wider range of investment options and they are for people who want to be more active in the way their money is invested in their pension pot. You can find out more on our website. Our website address is at the front of this booklet.

Tip: Older **personal pensions** often had expensive and complicated charging structures. It won't always benefit you to restart or continue with one of these schemes – check the scheme rules before doing so. Some schemes had valuable benefits that you could lose if you change your policy. Please take professional advice if you need to.

4.8 NEST – National Employment Savings Trust

NEST is a new workplace pension that gives workers a single pension pot which they can keep paying into even if they change employers or stop working. It is designed to meet the needs of people who may be new to pension saving. It is open to employers of any size and self-employed people.

NEST is a simple and low-cost pension scheme designed to give its members an easy way of building up their pension pot. It also makes it easy for employers to meet their new workplace pension duties that start to be introduced from October 2012. We explain this in section 10.

What NEST offers savers

- You'll get clear information and you can keep track of your pot online at any time.
- You can choose to just keep on saving and let **NEST** manage your retirement pot.
- You'll have one **NEST** retirement pot which you can keep paying into whether you change jobs, become self-employed or stop working.
- If your new employer also uses **NEST** you can continue to get employer contributions paid into your pot.
- **NEST** will aim to keep charges low. That means more of your contributions, your employer's contributions and any money the government pays in through tax relief goes into your pension pot.

How can you become a member of NEST?

Currently there are four ways people can become members of **NEST**.

- Volunteering to be a member in agreement with your employer.
- Joining **NEST** as a self-employed person.
- Joining **NEST** as a single person director.
- Being awarded a share of a **NEST** member's retirement pot by a court as a result of a divorce or the end of a civil partnership.

You can find out more about **NEST** at:

www.nestpensions.org.uk

4.9 Investing your money

You can choose where and how to grow your money in a **defined contribution pension scheme**, **personal pension**, **stakeholder pension** and **NEST**.

The aim of investing is that the value of your contributions could increase more than putting your money into a savings account or doing nothing.

Each pension will offer a range of funds from which you may pick one or more. They may have different levels of investment risk from which you may choose a fund or funds suitable to your attitude to risk. Each fund may have a different level of charge (within the allowed limits) depending upon its makeup. This might include a **with-profits fund**.

5. How much you can pay into your pension

Between 2012 and 2016 or 2017, the government is introducing new legal minimum contribution levels that employers must pay for the workers they automatically enrol into a pension scheme.

We explain **automatic enrolment** into pension schemes in section 10. We also explain the minimum contribution that employers must pay into their workers pension pot in section 10.

Whether you are an employee or self-employed, the maximum amount you (together with your employer, if applicable) can contribute to a pension, and on which you can receive tax relief, is 100 per cent of your UK earnings. This is capped by the annual allowance, which is currently £50,000. You may be able to pay more than this but there will be no tax relief on your extra contributions. You may also pay an extra tax charge. This is a complex area and we recommend that you take professional advice.

If your employer is contributing, your scheme booklet or contract of employment will tell you how much your employer will pay. If you join a workplace pension, the rules normally say the minimum you must pay if you want to join. If you want to pay more than this, find out if your employer will match any extra contributions which you pay.

Contributions paid by your employer also count towards the annual allowance. Please see our website for further details.

If you are not working, you can pay up to £2,880 each **tax year** into a **personal pension** or **stakeholder pension**. The government adds tax relief into your pension pot, making the maximum contribution up to £3,600. We explain this in section 6.

This is also the amount that you can pay if you take out a **personal pension** or **stakeholder pension** for your child, grandchild or partner.

The maximum into **NEST** is limited to £4,400 each **tax year**. This total annual contribution limit includes money from your employer, your contributions and the tax relief added to your pension pot by the government. It also includes any money your partner, husband or wife, for example, chooses to pay in for you.

For more up to date information please go to our website. Our website address is at the front of this booklet.

6. How the government helps - tax relief on your contributions

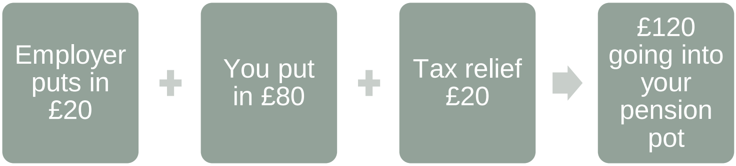
The government helps by giving you tax relief on your contributions. We explain how this works here.

6.1 Workplace pension schemes – defined benefit and defined contribution pension schemes

Contributions you pay are taken from your pay and you are given tax relief through your employer's payroll system. Your pension contribution is taken from your pay before your income tax is calculated. This means you pay less income tax than you would if you weren't paying into a pension.

6.2 Personal pensions, stakeholder pensions and NEST

Some of the money that would have gone to the government in the form of tax now goes into your pension pot instead. For every £100 you want to save, you only pay £80. HM Revenue & Customs then adds tax relief of £20 into your pension pot.



If you are a higher rate tax payer (paying tax at 40 per cent), you can claim an extra 20 per cent tax relief through your tax return. This gives you total tax relief of 40 per cent, meaning that every £100 you save only costs you £60. If you are an additional rate tax payer (paying tax at 50 per cent) you will be able to claim an extra 30 per cent through your tax return, giving you a total tax relief of 50 per cent.

Some higher rate tax payers will receive two rates of tax relief on their contributions. This happens when earnings are just above the threshold, moving you into a higher rate. For example, if the higher rate threshold is £45,000 and you earn £46,000, then £1,000 of your contribution would attract tax relief at 40 per cent and the rest at 20 per cent.

This is a complex area. If you are an additional rate tax payer, you may want to take professional advice.

7. Other tax implications

7.1 Tax relief on investment growth

Once the money is invested, most growth in the value of the assets is free from tax within your chosen scheme, although dividends are taxable.

7.2 Cash lump sums

When you first open your pension pot to get a retirement income you can receive up to 25 per cent of it as a tax free cash lump sum. How much you can take will depend on your personal circumstances. Please seek professional advice or phone our helpline if you need more information about this. Our number is at the front of this booklet.

7.3 Retirement income

Income in retirement, including your state pension, is taxed. Each pension you receive will have a separate tax code. Always check your tax codes to make sure you are not over-paying your tax. Your local tax office can help you with this if you are unsure.

7.4 Lifetime allowance

There is a limit on the value of retirement benefits that you can draw from your pensions before tax penalties apply. This limit is called the lifetime allowance.

The lifetime allowance is £1.5 million from 6 April 2012. It does not include the state pension.

Any amount drawn that is more than the lifetime allowance is subject to an extra tax charge when it is paid. If it is paid as a pension, you pay an extra 25 per cent tax on top of the income tax you pay on your pension, and 55 per cent if paid as a lump sum.

8. Starting your retirement income

8.1 When you can start your pension

The earliest that you can start your retirement income is 55. The only exceptions are if you are retiring early because you are suffering from ill-health (for which there is no minimum age) or if you have a protected retirement age. To read more about this topic, please see our website. Our website address is at the front of this booklet.

8.2 Defined benefit scheme

At retirement, your scheme will offer you a pension based on your earnings and years of membership. We describe this in section 4.2. You can find more details in your scheme booklet.

8.3 Defined contribution pension scheme

In this section we explain how you get your retirement income and cash sum from a defined contribution pension scheme. This includes **personal pensions**, **stakeholder pensions**, SIPP's and **NEST**.

At retirement you can shop around to choose how your regular income will be provided from the scheme. The amount of retirement income payable when you retire depends on:

- the amount of money paid in;
- the investment growth of this money;
- the charges taken out; and

- the retirement income rate at the date of retirement. This is the rate used to convert your pot into a retirement income.

When you first open your pot to get a retirement income you can receive up to 25 per cent tax of it as a free cash lump sum. You must use the rest of the fund to:

- buy a retirement income with an insurance company; or
- provide an income through a **phased retirement** or an **income drawdown pension**.

You will have many different types of retirement income to choose from to suit your circumstances, such as an income payable until you die or one that continues to be paid to your husband, wife or partner when you die.

We have a planner on our website to help you choose the best retirement income for you.

Shopping around could mean a bigger retirement income for you. Research, from the Association of British Insurers, shows that by shopping around for the best retirement income, most people could have obtained an income of between 10 and 30 per cent more. For those who qualified for an enhanced rate because of a medical condition or lifestyle factors – which was around half of those retiring – their incomes could have been up to 45 per cent more. These enhanced rate retirement incomes are commonly called **impaired life annuities**.

Tip: To make the most of your pension pot, shop around for the best retirement income rate. Contact us for help.

Phased retirement and income drawdown

Phased retirement and **income drawdown** are other ways of getting an income from your pension pot that involve leaving your pension fund invested. You can find out more from our website. Our website address is at the front of this booklet.

9. What happens when you die

If you are an active member of a defined benefit pension scheme, the benefits payable are usually divided into three separate elements - a lump sum, a return of your own contributions and a pension for your dependant (sometimes known as a 'survivor's pension'). These three elements do not automatically all feature in every pension scheme.

Most **defined benefit pension schemes** provide a cash lump sum if you die while still working for the company, similar to a life assurance policy. The lump sum is normally paid to the person you want to receive it when you die. The value of the lump sum is normally calculated as a multiple of your salary. A typical payment might be between two or four times your salary at the time of death.

If you are an active member of a defined contribution pension scheme, normally your pension pot is paid as a cash lump sum when you die, although your dependant may have the option to use your pension pot to provide a pension instead.

If you have left your defined benefit pension scheme, normally the only benefit is a refund of your own contributions, although some schemes do provide a lump sum, similar to a life assurance policy, calculated as a multiple of your salary at the date of leaving. Some schemes pay a pension to your dependant as well.

If you have left your defined contribution pension scheme, normally your pension pot is paid as a cash lump sum. Your dependant may have the option to use your pension pot to buy a pension instead.

If you are being paid a pension from a defined benefit pension scheme, it will normally continue to pay your pension to your dependant. The level of pension payable is set by the scheme rules. Alternatively, it may also provide a cash lump sum on death. This is a cash lump sum representing the difference between the cost of buying your retirement income when it started and the pension payments you received before tax. A 55 per cent tax charge is taken off the cash lump sum payment.

If you are being paid a retirement income, it may stop altogether when you die. However, you should be offered some choices at retirement to provide money for your dependant after you die. In most cases, you will be able to choose a pension that is guaranteed to be paid for a certain period, usually five or ten years, no matter what happens to you.

So, if you die four years after first drawing your retirement income and you have opted for a five-year guarantee, the remaining 12 months' payments will be paid to your dependant or your estate. If you opt for the five-year guarantee, but live for fifteen years after retirement, your retirement income will be paid to you for the whole of that period but nothing more will be paid when you die.

You might also have the option to use your pension pot to provide a pension to your dependant after you die. You may be able to choose the proportion of your retirement income that you would like to be paid to your dependant. This option will reduce the level of retirement income you will get, but it means that a proportion will continue to be paid to your husband, wife or partner for the rest of their life.

There are billions of pounds in unclaimed death and pension benefits left in schemes. This is because people haven't told their pension administrator they have moved or who they want their pension paid to if they die.

Tip: Make sure that you tell your pension provider when you move. Make sure that you tell your pension provider who you want your pension paid to when you die. Make sure that your dependants also know how to contact your scheme to tell them when you die.

Please see our website if you are interested in finding out more about death benefits. The address is at the front of this booklet.

If you would like information about your own particular pension scheme, you should contact your pension department or pension administrator.

10. Automatic enrolment into workplace pensions

Automatic enrolment is coming.

Workplace pensions are changing

The government has introduced a new law designed to help people save more for their retirement. It requires all employers to enrol their workers into a workplace pension scheme if they're not already in one, starting from 2012.

What is a workplace pension?

A workplace pension is a way of saving for your retirement arranged through your employer. It's sometimes known as a 'company pension', 'occupational pension' or 'works pension'.

When will this happen?

The timing of when employers will automatically enrol workers depends on their size. The Pensions Regulator will notify employers of the exact date. Very large employers are doing it first, starting in 2012.

What are the minimum contributions for defined contribution pension schemes?

The government has set a minimum percentage that has to be contributed to your pension pot by your employer and a minimum percentage that has to be contributed by you and your employer together.

These percentages do not apply to all of your salary. They apply to what you earn over a minimum (currently £5,715) up to a maximum limit (currently (£38,185). So for example, for someone who earns £18,000 a year, the minimum percentage is calculated on the difference between £18,000 and £5,715 which is £12,885. The percentages are:

- October 2012 to September 2016 - total minimum of 2 per cent of earnings with at least 1 per cent from your employer.
- October 2016 to September 2017 - total minimum of 5 per cent of earnings, with at least 2 per cent from your employer.
- From October 2017, total minimum of 8 per cent of earnings, with at least 3 per cent from your employer.

What about defined benefit pension schemes?

There are no minimum contribution levels for **defined benefit pension schemes**. Instead, the scheme has to meet minimum standards of pension provision.

Who will be automatically enrolled into a workplace pension scheme?

Starting from 2012, workers will be automatically enrolled into a workplace pension scheme by their employer if they:

- are not already in their employer's pension scheme;
- are age 22 and over;
- are under state pension age;
- earn more than £7,475 a year (this figure may change); and if they
- work, or usually work, in the UK.

Workers can choose to opt out of the pension scheme if they want to. But if they stay in, their employer will contribute to their pension and they will get some tax relief. Anyone who opts out, or stops making payments into their pension, will be automatically enrolled back in at regular intervals. They can opt out again if they want to.

You can find more information at:

www.dwp.gov.uk/workplace-pension-reforms

11. Pensions jargon buster

Terms	Explanation
Automatic enrolment	An arrangement where an employer automatically enrols workers into a workplace pension scheme. This arrangement is to be compulsory for employers starting from April 2012. Workers will be able to opt out.
Defined benefit pension scheme	A type of workplace pension scheme where the amount you get at retirement is based on your earnings and years of membership in your pension scheme.
Defined contribution pension scheme	A pension scheme that provides a pension pot based on the amount of money paid in and the investment growth of this money. At retirement you can shop around to choose how your regular income will be provided from the scheme. All personal pensions, including stakeholder pensions, are defined contribution schemes.
Impaired life annuities	People in poor health and who are not expected to survive very long in retirement may get better retirement income rates, as it is unlikely that their retirement income will be paid for long.

Income drawdown	An option available from some defined contribution pension schemes, which allows you to take an income directly from your pension pot rather than using it to buy a regular retirement income. Your pension pot remains invested so its value can go up and down. The amount of income you can take is subject to minimum and maximum limits set by government and reviewed regularly. The income you receive is taxable.
Means tested	Entitlement is affected by the amount of income and savings.
NEST	National Employment Savings Trust – a new low cost pension scheme introduced to help with **automatic enrolment**
Personal pension	A type of **defined contribution pension scheme**.
Phased retirement	An arrangement by which only part of a pension pot is used to provide an income and cash lump sum, with the rest remaining invested to a later time.
Stakeholder pension	A type of **personal pension** offering a low-cost and flexible alternative to other **personal pension** schemes, and which must comply with requirements laid down by law.
Tax year	A tax year runs from 6 April to 5 April. For example, the 2012/13 tax year runs from 6 April 2012 until 5 April 2013.

With-profits funds	Insurance companies offer this type of investment as an alternative to stock market funds. If the pot grows, they usually give bonuses. The value of the pot does not usually fall, but may stay frozen in difficult market conditions. At the end there could also be a terminal (loyalty) bonus. If you transfer or take your pot early, there could be a penalty, sometimes called a market value adjustment (MVA) or market value reduction (MVR).

12. Other contact numbers and addresses

Our contact details are shown at the front of this booklet

State Pension Forecasting Team
Helpline: 0845 300 0168
Textline: 0845 300 0169
Website: www.direct.gov.uk

Pension Tracing Service
Helpline: 0845 600 2537
Website: www.direct.gov.uk

The Pension Service (for information about your state pension)
Helpline: 0847 31 32 33
Website: www.direct.gov.uk

Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR
Helpline: 0845 080 1800

The Pensions Regulator
Helpline: 0870 606 3636
Website: www.thepensionsregulator.gov.uk

Financial Service Compensation Scheme (FSCS)
7th Floor
Lloyds Chambers
Portsoken Street
London E1 8BN
Phone: 020 7892 7300
Website: www.fscs.org.uk

The Pensions Ombudsman
Phone: 020 7630 2200
Website: www.pensions-ombudsman.org.uk

Money Advice Service
Helpline: 0300 500 5000
Website: www.moneyadviceservice.org.uk

IFA Promotion (finding a financial adviser)
Website: www.unbiased.co.uk or:
Personal Financial Society (Find an Adviser)
Website: www.findanadviser.org

Ethical Investment Research Service (EIRIS)
Helpline: 020 7840 5741
Website: www.eiris.org

Notes:

Please note that this is a guide for information only. The Pensions Advisory Service cannot be held responsible in law for any opinion expressed, nor should any such opinion be regarded as grounds for legal action.

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Registered in England and Wales No. 2459671
Registered office: 11 Belgrave Road, London SW1V 1RB