

PENSIONS

FROM PERSONAL PENSIONS TO STATE PENSIONS

What is a Pension?

Its a pot or pots of money which you save whilst you are working which can be used to support yourself after retirement

Types of Pension

State pension

Defined contribution pension schemes

Defined benefit pension schemes

Personal pensions

Stakeholder pensions

Self-invested personal pensions
(SIPPs)

NEST pensions

Multi-employer pension schemes

Pensions for the self-employed

Your first pension – the options

State Pension

The State Pension is a regular payment from the government most people can claim when they reach State Pension age

Not everyone gets the same amount

How much you get depends on how many National Insurance contributions you have made.



State Pension

You need 35 years contributions to get the full amount and 10 years to qualify at all

Full amount is currently £175.20 per week

State pension age is currently 66 but this is rising

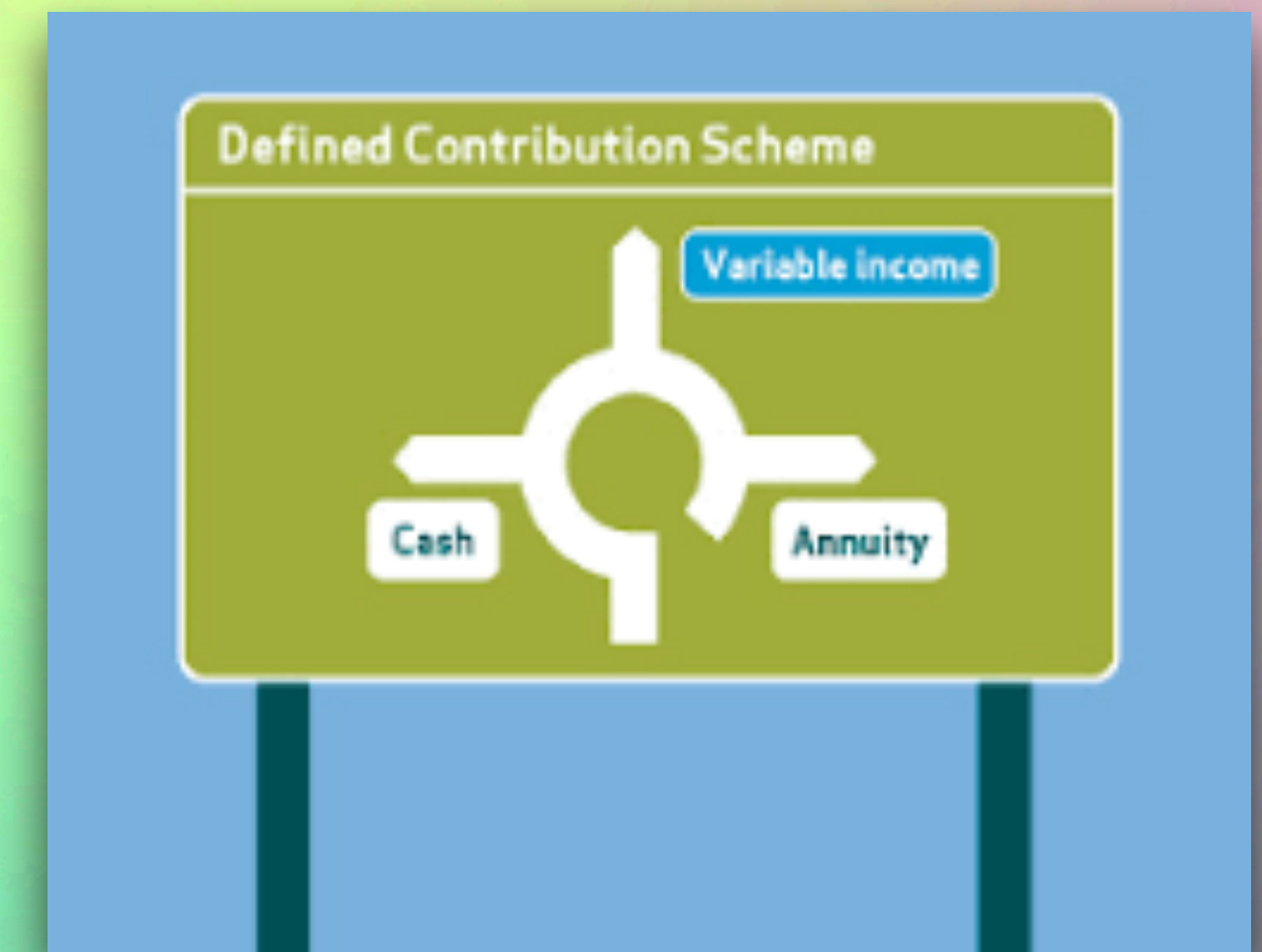


Defined Contribution Scheme

Pension pot built up using your contributions and your employer's contributions (if applicable) plus investment returns and tax relief

Employer usually deducts your contributions from your salary before it is taxed

If you've set the scheme up for yourself, you arrange the contributions yourself.

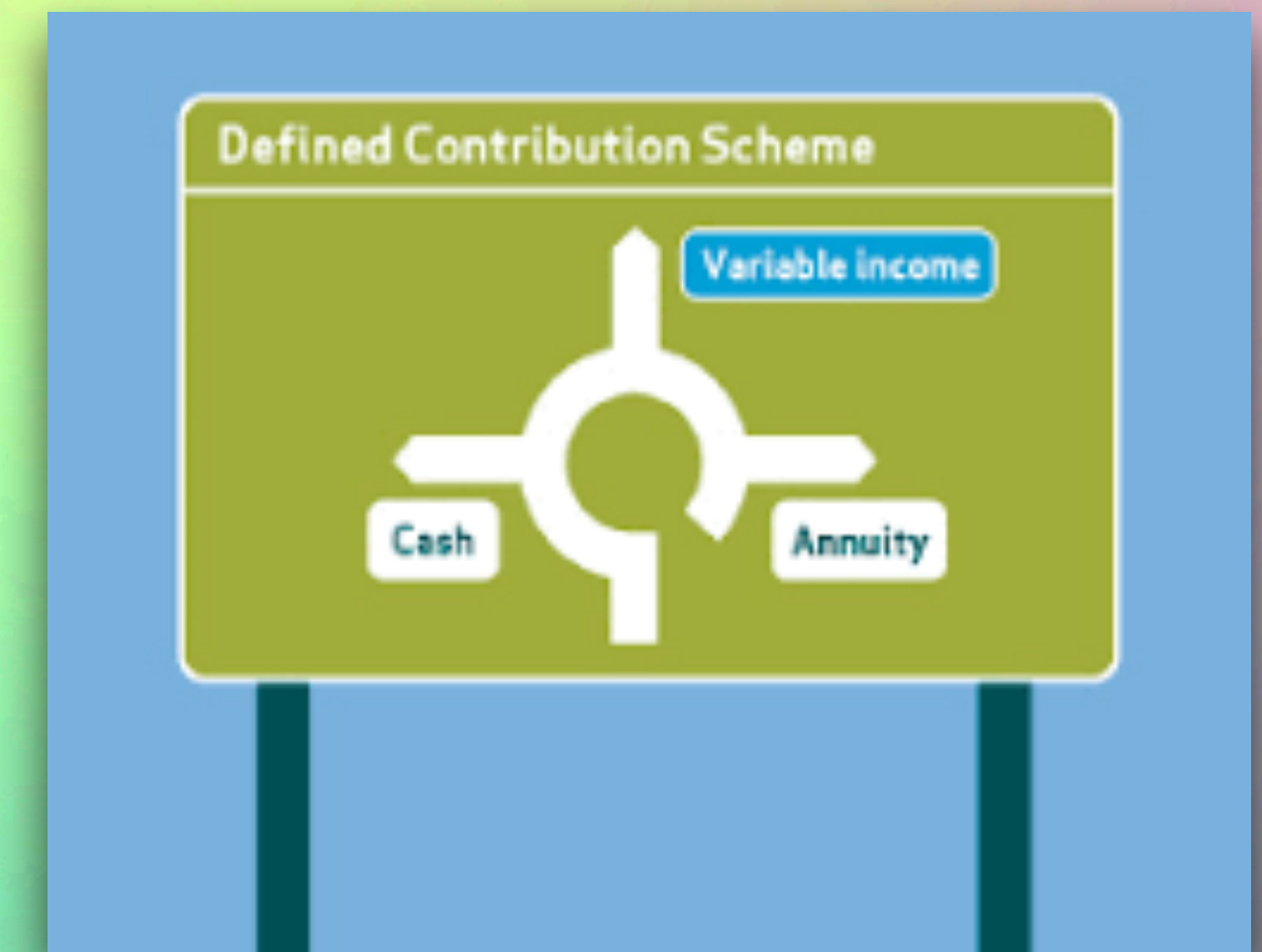


Defined Contribution Scheme

Money is invested by a pension fund

Size of your pot depends on how much has been put in and how the investments have fared

You can access the money from 55

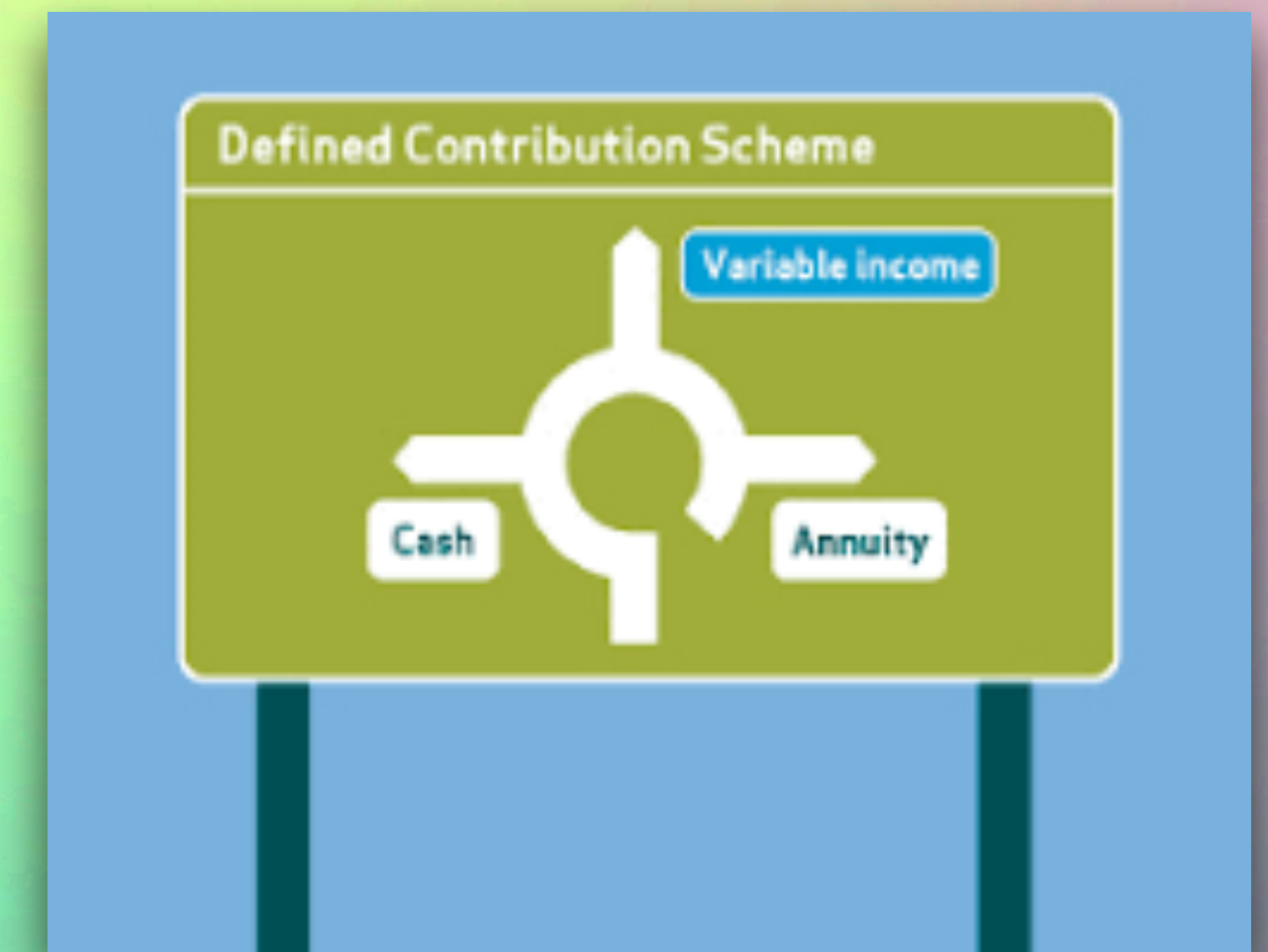


Defined Contribution Scheme

You can take 25% of pot value as a lump sum tax free

The remainder will be used to pay you a monthly allowance - this is taxable in the normal way. This can be done by drawing down cash or buying an annuity.

If you leave the job before retirement you can leave the pension where it is or transfer it.



Annuity

An annuity is a product you can buy with some or or all of your pension pot. It gives you a guaranteed monthly retirement income either for life or a set period.

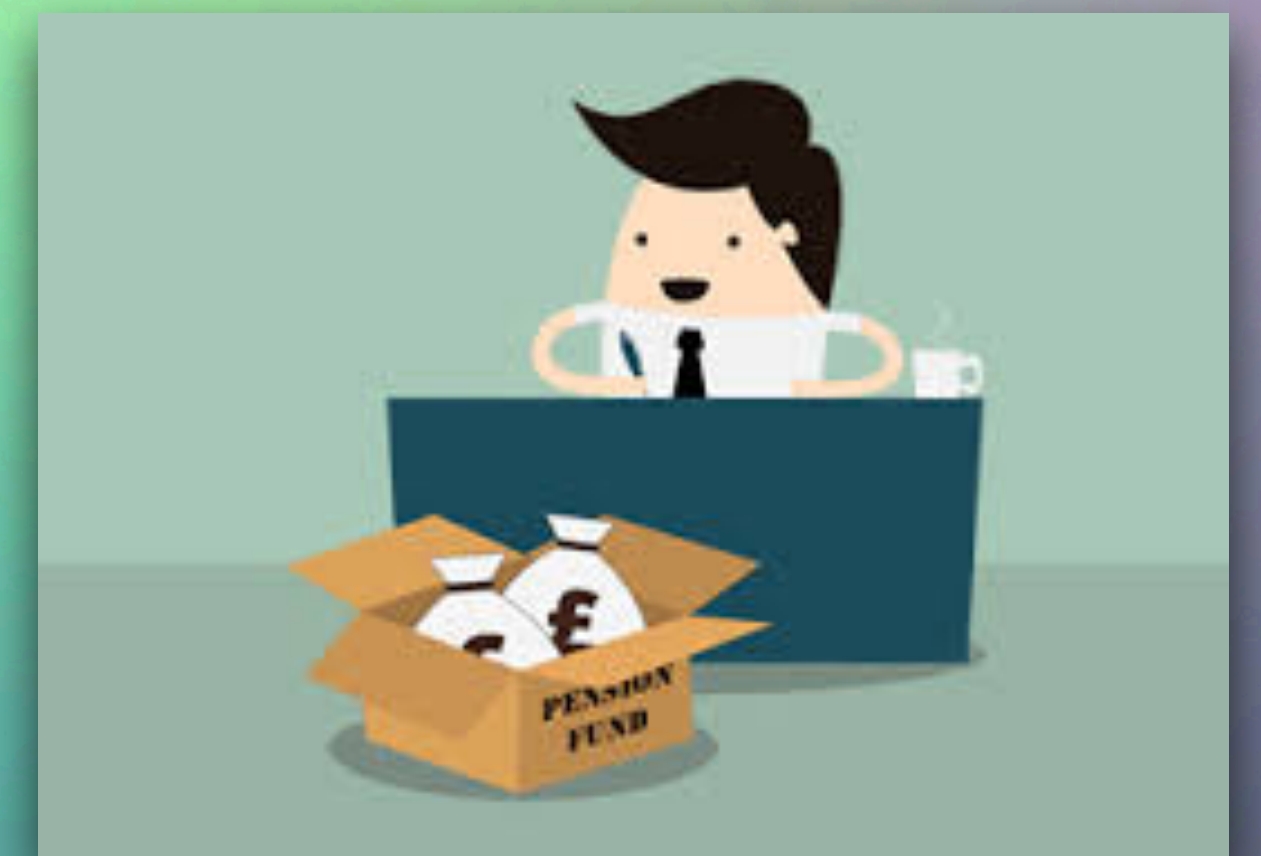
After you die you can nominate another beneficiary to receive the income.



Defined Benefits Scheme

A defined benefit pension scheme is one where the amount you're paid is based on how many years you've worked for your employer and the salary you've earned

Often referred to as a final salary scheme



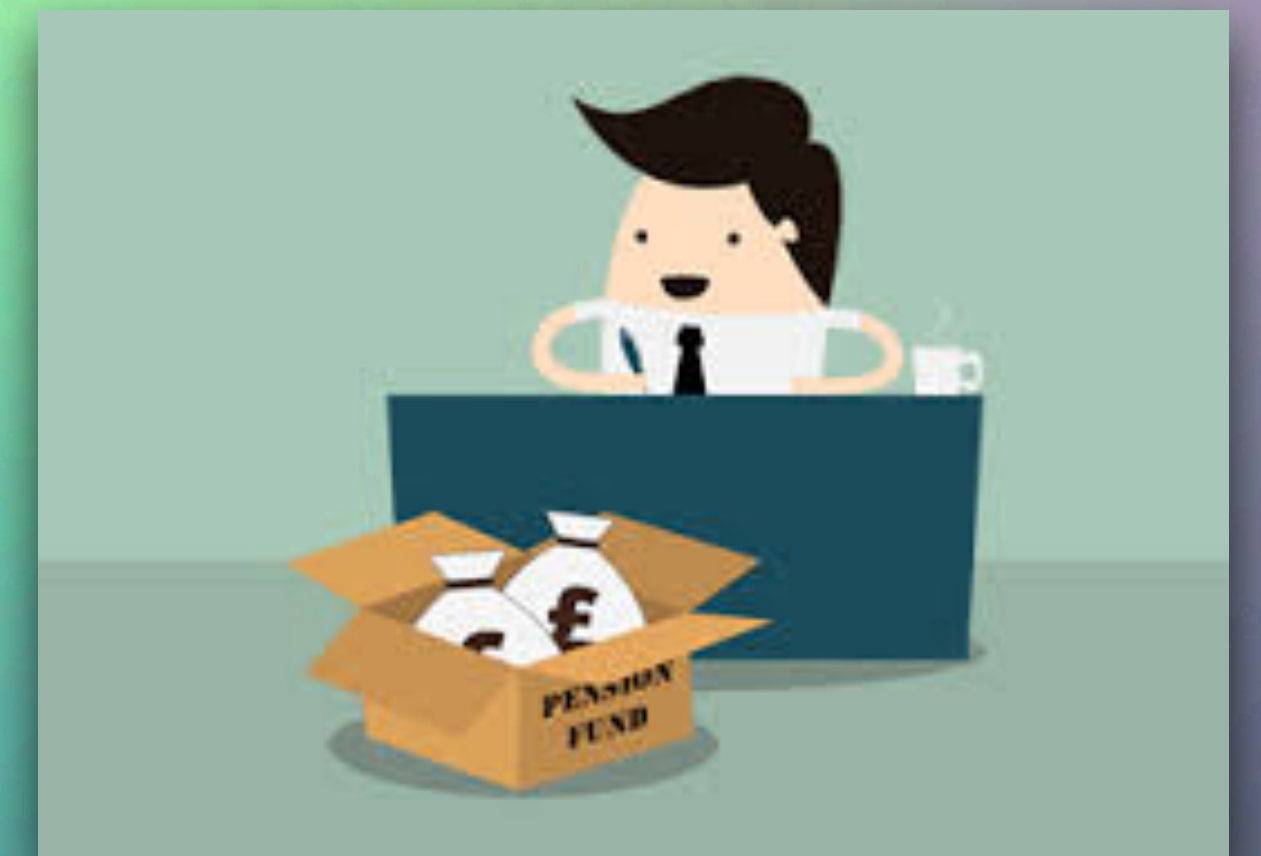
Defined Benefits Scheme

The amount you get is based on number of years you've been a member of the scheme and pensionable earnings

This could be your salary at retirement ('final salary'), salary averaged over a career ('career average') or something else

The proportion of your earnings you'll get as a pension for each year in the scheme (commonly $\frac{1}{60}$ th or $\frac{1}{80}$ th)

So if you've worked 30 years for the employer you may get $\frac{30}{60}$ ths of your final salary



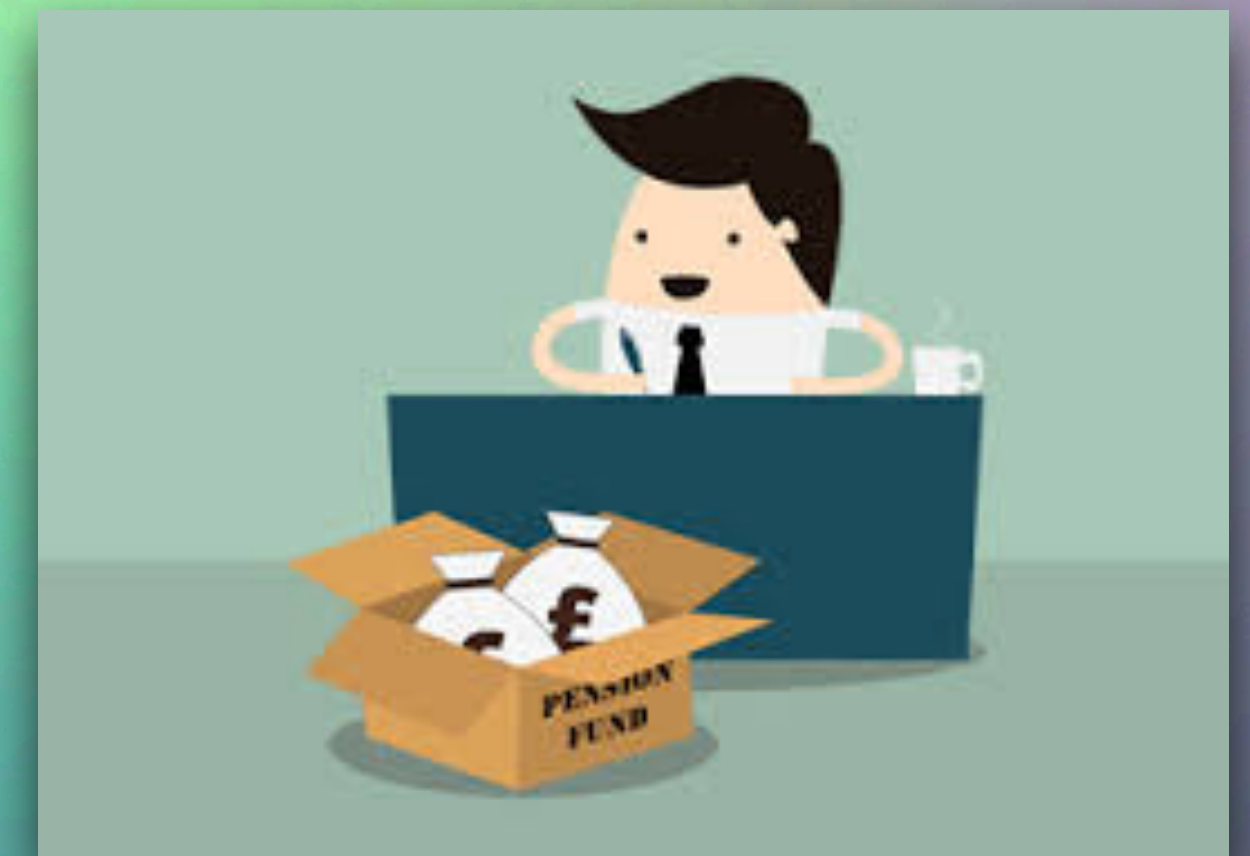
Defined Benefits Scheme

You can normally take your full pension at 65 (this may vary)

You can take it from 55 but amount will reduce

You can still take 25% of a calculated pot as a tax free lump sum

This will reduce your monthly income

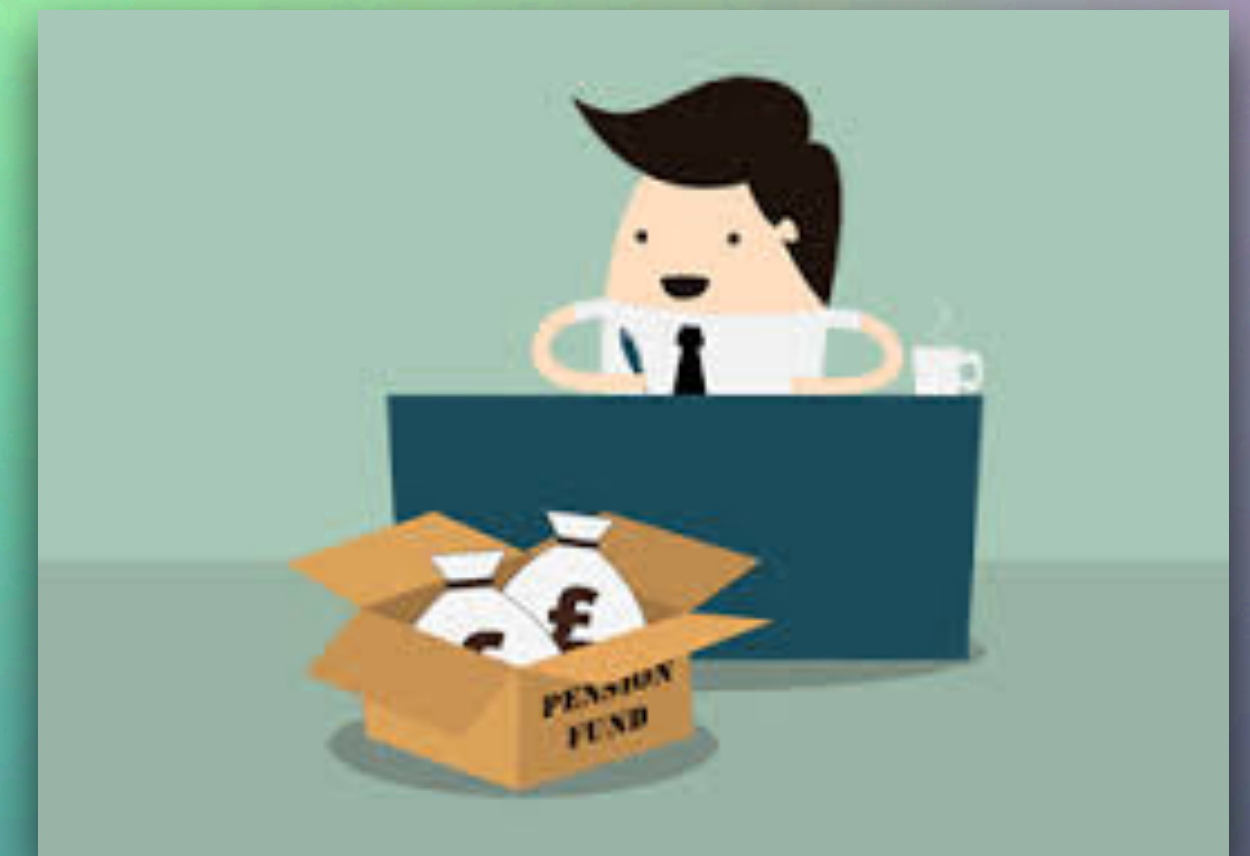


Defined Benefits Scheme

Your monthly earnings may increase every year in line with inflation

If you die a proportion of your pension will still be paid to your partner

Once you start drawing your pension you cannot transfer out of the scheme



Personal Pensions

A personal pension is a type of defined contribution pension

You choose the pension provider and make arrangements for your contributions to be paid - this could be a lump sum or a transfer of another pension

If you haven't got a workplace pension, getting a personal pension could be a good way of saving for retirement.

Stakeholder Pensions

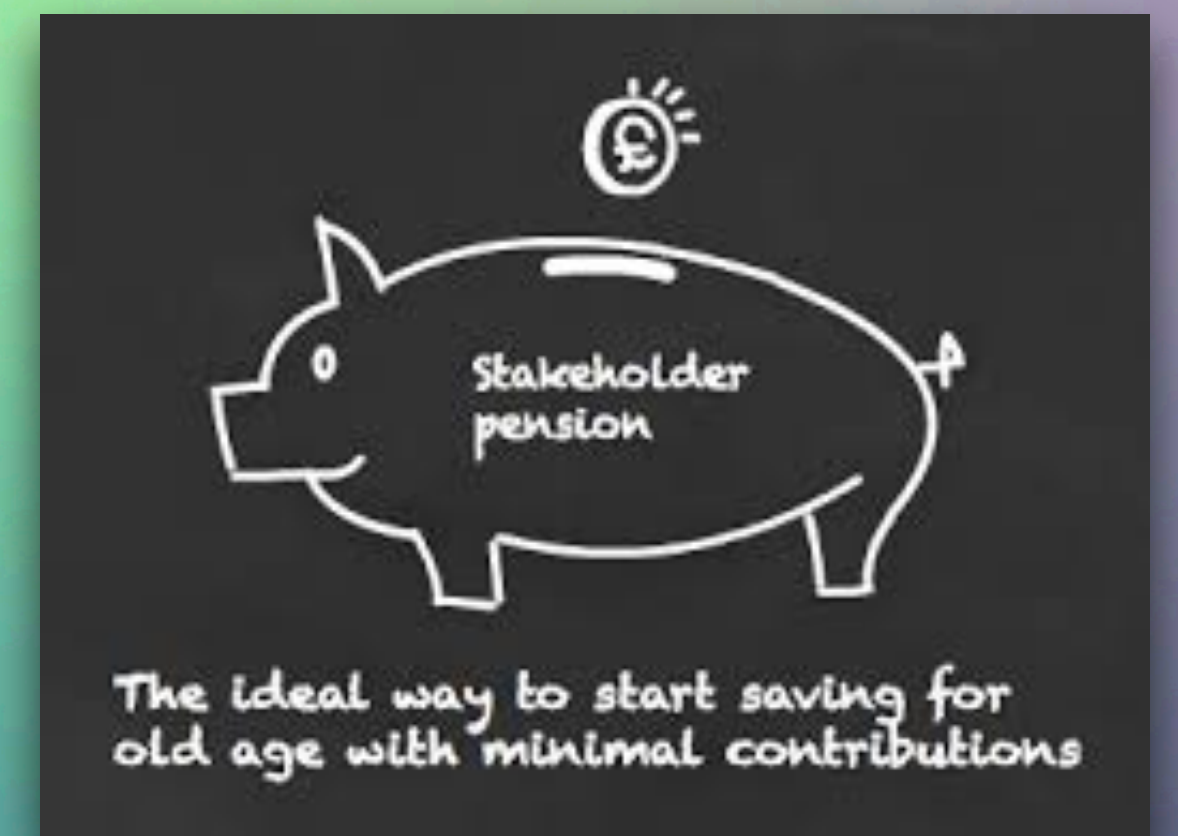
Stakeholder pensions are a form of defined contribution personal pension

They have low minimum contributions

They are cheap to run

Have simple investment strategies - normally stock market

They can be started yourself although some employers may offer them

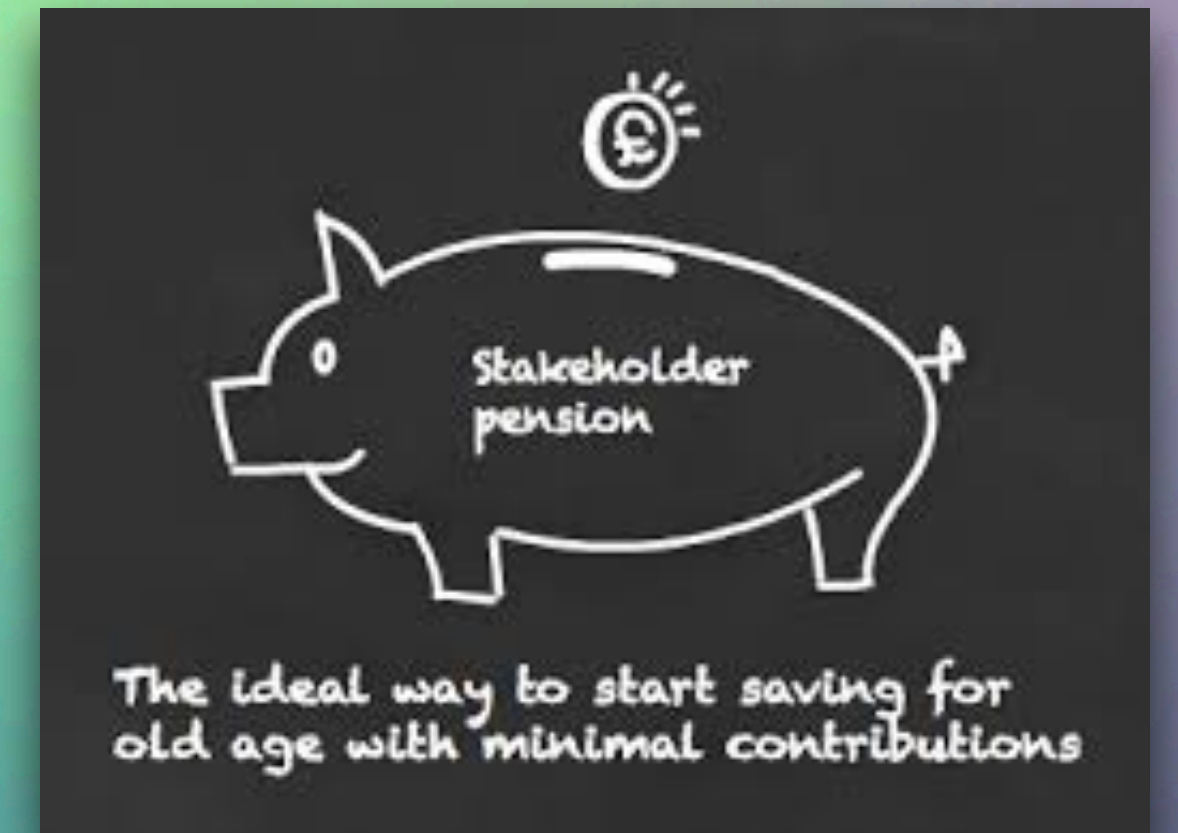


Stakeholder Pensions

Contributions can vary - don't have to be regular

Pension can be accessed from 55

Lots of options on how the pension can be taken



Self Invested Personal Pensions (SIPP)

The SIPP is a 'pot' of investments

You can manage you own investments rather than use a pension fund

You cannot include residential property in a SIPP

You can access the SIPP from 55



NEST Pensions

NEST is a defined contribution occupational pension scheme backed by the government

Both you and your employer contribute to your pension while you are working

It was set up by the government to give employers an auto enrolment scheme that makes the process as simple as possible.



NEST Pensions

Your employer must enrol you in a NEST scheme if there is no company pension scheme

You can transfer out of a NEST scheme into another pension scheme

You can access your NEST pension at 55



Pensions for self employed

There are around 4.8 million self-employed people in the UK accounting for 15% of the UK workforce. Only 31% of the self-employed are saving into a pension.

Tax relief on up to £40,000 in contributions

Pension options for self employed

State - No effort, low income

Ordinary personal pensions - common, fairly cheap

Stakeholder pensions - flexible, cheap

Self-invested personal pensions - lots of options, you are in control, expensive

Your first pension - employed

Every employer must invite you to join a pension scheme when you are 22

Your employer will deduct your pension contributions from your gross salary (before tax)

Your employer will also make contributions to your pension pot

Your first pension - self employed

If to join and what type of pension scheme to join is completely up to you

If you choose not to join a scheme then you may have to work longer than you want to

You get tax relief on your contributions up to £40,000

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