jane smith financial planning ltd

A Guide to

RETIREMENT PLANNING

Developing strategies to accumulate wealth in order for you to enjoy your retirement years

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A Guide to **Retirement Planning**

Welcome to 'A Guide to Retirement Planning'. This guide provides a wealth of information on planning for retirement.

Current Office for National Statistics figures report men living for 78 and women 84 years on average, with these predicted to rise to 85 and 89 years old respectively. However, nearly half the working population is not saving enough for their retirement, and one fifth are failing to save anything at all, according to a major study on pensions.

Following the introduction of pension simplification, the legislation has changed again. With the new pension rules now in force, there's no better time to review your existing retirement arrangements.

The latest amendments add new rules to an already complex subject. The changes will affect those with larger funds, those who wish to save more than £20,000 to their pensions, those who want alternatives to buying an annuity and anyone with a defined benefit scheme.

Some of the proposed changes are favourable from the previous position, especially for higher rate tax payers. In this guide we consider the major changes.

RECEIVING ADVICE ABOUT THESE CHANGES AND HOW TO COPE WITH THE NEW MINIMUM INCOME REQUIREMENT IS ESSENTIAL. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

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Drawing on a State retirement income

Nearly a quarter of the UK population is currently over the State pension age

Nearly a quarter of the UK population is currently over the State pension age, according to United Nations figures. The same analysis predicts this will rise to almost 30 per cent by 2030.
As it stands the Government has pledged to raise this from 60 for women and 65 for men to 66 for both by April 2020, with an unspecified timetable to raise this to 68 in future.

HIGHEST STATE PENSION

The highest State pension available to individuals is just £102.15 per week. Recently the Department for Work and Pensions (DWP) announced a consultation on increasing the State pension to £140 per week, while doing away with the means tested element of the supplementary benefits, with draft legislation on the issue expected later this year.

The cost to the taxpayer of this provision – £4 billion by next year according to the DWP – limits the Government in its ability to raise provision beyond inflation.

Meanwhile, the ageing population will prove increasingly expensive. Yet the split in total UK retirement income between private savings and public pension benefits is approximately 50/50, according to statistics from think tank the Organisation for Economic Co-operation and Development.
For the 12 million healthy UK adults of economically productive age currently making no contributions to a private pension or long term savings product, maintaining an acceptable living standard to the end of their lives is further compounded by how long that figure is likely to become.

LIFE EXPECTANCY

Current Office for National Statistics (ONS) figures report men living for 78 and women 84 years on average, with these predicted to rise to 85 and 89 years old respectively. Club Vita, which provided specialist life expectancy research to pension schemes, claims 80,000 UK citizens will live to 100 by 2033.

The easiest way for many to access a private pension is through their employers. Most large companies offer a workplace scheme. Furthermore, the Government is set to make this provision compulsory for all firms by 2017, with some automatically enrolling staff from 2012.

This will be complemented by a State managed defined contribution (DC) pension scheme called the National Employment Savings Trust (NEST). In DC arrangements workers pay a percentage of their salary into a fund, to which the employer can pay an additional sum.

This is invested in a range of assets – mostly stock markets – until the saver retires, at which point they cash in the accumulated pot and use it to buy an insurance policy called an annuity, guaranteeing them an annual income for the rest of their lives.

“Nearly a quarter of the UK population is currently over the State pension age, according to United Nations figures. The same analysis predicts this will rise to almost 30 per cent by 2030.”

When will you claim your State pension benefits?

New rules mean much more dramatic rises than had been expected

For many years the age at which you can claim your State pension benefits has been 65 for men and 60 for women. But the previous Labour Government set out plans, based on recommendations from Lord Turner, to steadily increase the State pension age to 68 for both men and women over the next four decades.

In May 2010, the new coalition Government initially signalled its intent to speed up the process, bringing forward the first rise to 66 for men from 2026 to 2016.

In the end, the Comprehensive Spending Review in October 2010 settled on a less radical option, confirming the rise to 66 for both men and women would come by 2020.

However, the Government said it will have to rise even higher in following years. This could see many Britons working today wait until age 68 or even 70 before they receive their State pension.

NEW RULES

For women, the new rules mean much more dramatic rises than had been expected. The women's State pension age will now move to 65 by 2018 and then increase to 66 (same as men) by 2020.

The previous Labour Government's policy had been to raise the State pension age to 66 by 2026 and then incrementally to 68 by 2046. Retirement was due to equalise for men and women at 65 by 2020, rise to 66 between 2024 and 2026, 67 between 2034 and 2036, and 68 between 2044 and 2046.

> "When you do eventually decide to take your State pension, you can choose to receive either extra State pension for the rest of your life, or receive a one-off, taxable lump-sum payment, equivalent to the benefits you put off claiming plus interest - as well as your regular weekly State pension."

LIFE EXPECTANCY

In the March 2011 Budget, the Government also revealed plans to link the State pension age to life expectancy in the future. If the pension age rose from now in line with the change in life expectancy over the past three decades (since 1981), someone born in 1970 could have to wait until age 71.

A fresh-faced twenty-something starting out in the world of work today could see their State pension age reach 75. And a seventeen-year-old A-Level student may not be able to retire until 2071 - when they'll be 77. (All figures Standard Life estimates).

The pension age for both men and women will rise to 66 by 2020 - much sooner than the 2026 target set by Labour.

DECISIONS, DECISIONS

When you reach the milestone of the State pension age, you essentially have three choices.

- cease your working life and receive your State pension
- continue to work and receive your State pension as well
- carry on working and hold off claiming your State pension

When you do eventually decide to take your State pension, you can choose to receive either an extra State pension for the rest of your life, or receive a one-off, taxable lump-sum payment, equivalent to the benefits you put off claiming plus interest - as well as your regular weekly State pension.

In addition, you can also choose to stop claiming it after having claimed it for a period. And remember, if you carry on working after State pension age, you don't have to carry on paying National Insurance contributions (NICs).

How much retirement income will you need?

Nearly half the working population are not saving enough

Only 51 per cent of British workers are saving adequately for old age, according to the latest annual Scottish Widows pension report.

Nearly half the working population is not saving enough for retirement, and one fifth are failing to save anything at all, according to a major study on pensions.

People want, on average, an annual retirement income of £24,300 to live comfortably, down from the pre-recession figure of £27,900. Although three-quarters of those questioned understand the need to take personal responsibility for their future, only 51 per cent save adequately for their old age. This drops to around 25 per cent when those with a final salary pension are excluded.

INGRAINED INERTIA

The seventh annual Scottish Widows UK pension report, based on interviews with 5,200 adults, shows there is "widespread and ingrained inertia" across the country, with savings levels remaining broadly consistent during the past five years, regardless of the economic downturn.

The Scottish Widows average savings ratio – which tracks the percentage of income being saved for retirement by UK workers not expecting to get their main retirement income from a final salary pension – remains at just over 9 per cent. This is a 3 per cent shortfall on the 12 per cent the insurer believes people should be saving to achieve a comfortable retirement.

> "Nearly half the working population is not saving enough for retirement, and one fifth are failing to save anything at all, according to a major study on pensions."

Despite recent moves to abolish the default retirement age (the minimum age at which employers could force staff to retire) and raise the State pension age, the average age people would like to retire at remains the same as last year at 61 years and eight months. Only one in five said they would be happy to carry on working until the age of 70.

MAKE UP THE SHORTFALL

Ian Naismith of Scottish Widows said: "Put simply, people need to save an extra £58 per month on average to prepare adequately for retirement and make up the shortfall we are seeing currently. That is roughly the cost of a cup of coffee every day.

"Even though for many this is realistic, and is in under the average £97.10 per month people say they can afford, we appreciate the difficulty in setting aside extra money. It's about breaking through that inertia. And for some the amount that needs to be saved will be higher but it's about taking small steps, getting on to the savings ladder and, more importantly, staying on it. Much higher saving levels are needed to get towards the average £24,300 a year people aspire to. The message is that everyone should be putting aside as much as they can afford for their retirement."

Private sector workers

Figures show the lowest company pension levels since the 1950s

The number of private sector workers with a company pension has fallen to its lowest level since the 1950s according to figures from the Office for National Statistics (ONS). Of the total private sector workforce of 23.1m, only 3.3m – some 14 per cent - are in a company scheme. This contrasts starkly with the public sector, where almost nine in ten will receive a pension.

The ONS recently published its latest Pension Trends report, and although it did not include provisions such as Stakeholder or Group Personal Pension schemes, it shows that 5.4m of the UK's 6.2m public sector workers have a generous company pension - close to a record high.

PRIVATE SECTOR

The figure for the private sector has fallen to its lowest for decades. Since 1997, the proportion of private sector workers with a guaranteed defined benefit pension has dropped from 34 per cent to 11 per cent. This is the type offered to all State workers, which promises to pay a percentage of their final salary, or the average over your career, when they retire.

Joanne Segars, chief executive of the National Association of Pension Funds, warned that Britain's ageing society is on 'a collision course with its own retirement' as it fails to save enough. She said: 'Far too many people are either choosing not to bother with their workplace pension, or are not being offered one in the first place.

'This is storing up huge problems for the future. Those relying purely on a State pension face a rude shock come retirement and the grim prospect of their final decades spent in poverty.'

The basic State pension is currently worth a little over £100 a week, although many are not eligible to claim the full amount. The typical public sector worker enjoys a pension of £7,841 a year, or about £150 a week.

If a private sector worker happens to be in the minority that gets a company pension, the average payout is in the region of £1,300 a year - just £25 a week.

“The basic State pension is currently worth a little over £100 a week, although many are not eligible to claim the full amount. The typical public sector worker enjoys a pension of £7,841 a year, or about £150 a week.”

Occupational pensions

Joining your employer's scheme

Occupational pension schemes vary from company to company. Your scheme is likely to be one of two general types, Final Salary related or Defined Contribution Scheme.

Occupational pension schemes are pension arrangements that employers set up to provide retirement income for their employees. The employer sponsors the scheme and a board of trustees ensures that benefits are paid.

Public-sector occupational pension schemes are different in that they are established by an Act of Parliament, which lays down the scheme rules.

FINAL SALARY SCHEMES

Final Salary Schemes are also known as Defined Benefit Schemes. With these, the amount you receive on retirement depends on your salary when you leave the company or retire, and the length of time you have been a member of the scheme.

It is usually paid at the rate of one-sixtieth of final salary multiplied by the number of years of scheme membership (the accrual rate). So someone who has been a scheme member for 40 years would retire on two-thirds of final salary.

Your pension will depend on your final earnings and not on stock market conditions over your working life. But these schemes are becoming rarer, and many companies are changing their plans from Final Salary to Defined Contribution Schemes.

When you leave a company, you normally have the choice of leaving the money where it is to claim on retirement or transferring it to a new company's occupational scheme or to a Personal Pension Plan. And if you leave a firm within two years of joining its pension you can have your own contributions, minus tax relief, returned to you, if the scheme's rules allow.

DEFINED CONTRIBUTION SCHEMES

Defined Contribution Schemes are also known as Money Purchase Schemes. With these you know what you are contributing towards your pension, but what you receive when you retire depends on the performance of your pension fund(s) over the years and on economic conditions when you actually retire.

On retirement, the money would normally be used to purchase an annuity (a regular income for life) which pays an income until you die. You do not have to accept the annuity offered by the company running your scheme. You have the right to choose the open market option, in other words, you can shop around for the best annuity rates.

JOINING AN OCCUPATIONAL PENSION SCHEME

Your employer is required to offer you the chance to join a pension scheme. If you work part-time and your employer has an occupational pension scheme, you will usually be allowed to join it.

Before you join an occupational pension scheme, you should check:

- how much you will have to pay
- what contribution your employer is going to make

You receive 'tax relief' on the money you pay into your pension scheme. This means you pay less tax because your employer takes the pension contributions from your pay before deducting tax (but not National Insurance Contributions).

CONTRIBUTIONS YOU CAN MAKE

HM Revenue & Customs (HMRC) sets a limit on the contributions you can make into occupational pension schemes. For Defined Contribution Schemes, the limit is on how much can be paid in total in a tax year. For Final Salary Schemes, the limit is on the value put on the increase in your pension gained during the tax year.

Where your pension exceeds the Annual Allowance, after carrying over any unused allowance amount, you will be liable to pay a tax charge at your marginal tax rate.

There is also a limit on the value of retirement benefits that you can draw from an approved pension scheme before tax penalties apply. This limit is called the Lifetime Allowance. The Lifetime Allowance is £1.8m for the 2011/12 tax year. When you start to draw your pension, HMRC will apply a recovery charge to the value of retirement benefits that exceed the Lifetime Allowance. The amount will depend on how you pay the excess.

INCREASING YOUR BENEFITS

Occupational pension schemes usually require you to make a regular contribution based on a percentage of your salary. You may also be able to increase your benefits by making Additional Voluntary Contributions (AVCs).

Money Purchase AVC - One of the ways you can do this is by paying into an Additional Voluntary Contribution (AVC) arrangement run by your scheme trustees. The majority of these are money purchase, which means that your contributions are invested, usually with an insurance company, to build up a fund. An AVC arrangement run through your employer's pension scheme is known as an 'in-house' AVC scheme. The employer normally bears the cost of administration of this scheme and so costs tend to be lower than topping up pensions through other means.

Added Years - If your scheme allows you to buy added years, this will enable you to increase the number of years of service you have in your main scheme. The extra service will increase both the amount of pension that you will receive and your tax-free cash allowance, irrespective of when you started contributing. How much you pay as voluntary contributions will be worked out by your main scheme. The cost will depend on how many years you want to buy and certain factors such as your age and salary for pension purposes.

Free-Standing AVC (FSAVC) - It may be possible for you to pay into a FSAVC arrangement. This is similar to a money purchase AVC but is provided by external providers. Since 6 April 2006, it has no longer been compulsory for occupational pension scheme trustees to offer an AVC facility to its members.

If you joined your occupational pension scheme during or after 1989, you were restricted on how much you could put into the scheme. However, following changes to pension rules in April 2006, you can now save as much as you like into any number and type of pensions. You are able to do this at any age. You also receive tax relief on contributions of up to 100 per cent of your earnings (salary and other income) each year, subject to an upper 'Annual Allowance'.

TAX CHARGES

Savings above the Annual Allowance and a separate Lifetime Allowance will be subject to tax charges. These allowances will be restricted if you become unemployed and wish to continue to pay into your pension scheme.

Having an occupational pension does not affect your Additional State Pension entitlements. But you will lose some or all of your Additional State Pension if your company pension scheme is contracted out.

Your pension scheme administrator can provide you with an estimate of:

- how much you will receive when you retire
- the value of any survivor's benefits that may become payable
- how much you will receive if you have to retire early due to ill health

Up until April 2006 you could not draw your pension from an occupational scheme and continue to work for the same employer. Following the 6 April 2006 changes, you are now able to do this, providing your particular scheme allows you to. Also, if you leave your employer, it's important to find out what your occupational pension scheme options are.

All employers currently with five or more employees have to offer access to a pension scheme. If your employer doesn't offer a pension, there are lots of pension providers for you to choose from and you should seek professional financial advice so that you can make an informed decision about which pension option is right for you.

From 2012 employers will need to automatically enrol their eligible workers into a qualifying pension scheme and make contributions to it.

"Where your pension exceeds the Annual Allowance, after carrying over any unused allowance amount, you will be liable to pay a tax charge at your marginal tax rate."

DID YOU KNOW?

The Annual Allowance is the maximum amount of pension saving you can have each year that benefits from tax relief. This includes pension savings that you make plus any made for you by someone else - for example, your employer.

There is no limit on the amount you can save in a pension scheme, but there is a limit on the amount that can get tax relief each year. If your pension saving is more than the Annual Allowance you will pay a tax charge on the amount over the Annual Allowance. This tax charge is called the Annual Allowance charge.

The amount of the Annual Allowance for 2011/12 the amount of the annual allowance is £50,000.

Salary Sacrifice

Contributing a preferential sum into an employee's pension plan

Salary sacrifice (sometimes known as 'salary waiver') in the context of retirement planning is a contractual agreement to waive all or part of an employee's salary in return for the employer contributing a preferential (equivalent) sum into their pension plan.

Salary sacrifice is about varying the employee's terms and conditions as they relate to remuneration, and is a matter for agreement between the employer and employee.

SACRIFICED INCOME

To be effective, a salary sacrifice must be 'given up' before it's subjected to tax or National Insurance Contributions (NICs). This allows the employee to save the entire amount of their sacrificed income in their pension plan free of tax and NICs.

There are also savings for an employer, as they don't have to pay NICs on the employee's sacrificed income. If the employer passes some or all of these savings on to the employee, they'll benefit from even larger tax and NICs-free at no extra cost.

LONG-TERM VALUE

For these reasons, salary sacrifice could significantly enhance the long-term value of the employee's pension plan, as well as allowing them to enjoy considerable savings.

However, salary sacrifice may not be appropriate for individuals with earnings of £150,000 as, in accordance with current pensions tax relief regulations for high earners, any amount of employment income foregone by salary sacrifice in return for an equivalent pension contribution, where the agreement was put in place on or after 22 April 2009, will be considered relevant income and could result in the application of a Special Annual Allowance charge that reduces the tax relief available.

"Salary sacrifice is about varying the employee's terms and conditions as they relate to remuneration, and is a matter for agreement between the employer and employee."

FINAL SALARY PENSION CHANGES

How the new rules could affect your retirement provision

From 6 April 2011, private sector Final Salary Pensions need only be uprated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). Typically, CPI runs below RPI and, consequently, over time this could mean some final salary members experience a reduction in their retirement income.

INFLATION-LINKING SCHEMES

This may not apply to all schemes. Some schemes may specifically State in their rules that they will uprate benefits in line with RPI. It's also worth bearing in mind that, although the Government sets what the minimum inflation-linking schemes must provide, it's perfectly possible for a scheme to provide increases in excess of this level.

If your scheme does intend to adopt CPI uprating, this could have a negative impact on the income you can expect to receive from the scheme. Ultimately, this depends on the RPI and CPI levels and how they differ, but historically CPI has trailed behind RPI. The impact on your income will also depend on when you built up benefits, because the inflation protection afforded to final salary scheme members has changed over the years.

From 6 April 2011, if you earn more than £150,000 you will have to pay a tax bill based on your age, length of service and salary.

Personal Pension Schemes through your employer

Options available when an occupational pension is not provided

Your employer is currently required to offer you the chance to join a pension scheme if they currently employ five or more employees. If an occupational pension is not provided, then this would normally be a Stakeholder Pension Scheme or alternative Personal Pension Scheme. The requirement for employers to provide access to Stakeholder Pension Schemes is regulated by the Pensions Regulator.

Your employer must offer you access to a Stakeholder Pension Scheme so long as both the following apply:

- you earn more than the National Insurance lower earnings limit
- there are five or more employees where you work

Your employer does not have to offer you access to a Stakeholder Pension Scheme if one of the following apply:

- you are able to join an occupational pension scheme
- you are able to join an alternative personal pension scheme where your employer pays in an amount equal to at least 3 per cent of your pay

Your employer must allow you to pay into your Stakeholder Pension Scheme directly from your wages through the company's pay system. Many employers are prepared to pay into your Stakeholder Pension Scheme and pay the cost of the Stakeholder Pension Scheme provider's administration charges. However, they are not required by law to do so.
If you leave your employer, or transfer your money out of the Stakeholder Pension Scheme to another scheme, you don't lose the money your employer has already paid in.

If your employer offers you an alternative Personal Pension Scheme instead of a Stakeholder Pension Scheme, its terms must meet minimum standards set by the Government. Your employer is obliged to contribute the equivalent of at least 3 per cent of your salary if they are offering it as an alternative to a Stakeholder Pension Scheme. But they don't have to pay the administration costs of the pension scheme.

Your employer may arrange for a pension provider to set up a Personal Pension arrangement through the workplace. A Personal Pension Scheme (including a Stakeholder Pension Scheme) arranged in this way is called a 'Group Personal Pension Plan' (GPPP).

Although they are sometimes referred to as company pensions, GPPPs are not run by employers and should not be confused with occupational pensions. A GPPP is a type of Personal Pension Scheme arrangement where your employer chooses the financial provider on your behalf.

Some advantages of contributing to a GPPP arranged by your employer:

- your employer will normally contribute to your pension and if the GPPP is offered as an alternative to a Stakeholder Pension Scheme your employer must contribute an amount equal to at least 3 per cent of your basic salary
- if your employer has contributed to your pension and you leave your employment you do not lose the money they have contributed
- your employer will normally deduct your contributions from your pay and send them to your pension provider
- a GPPP is negotiated with the pension provider on behalf of a group of people and your employer may be able to negotiate better terms than you would get individually, for instance, they may negotiate reduced administration costs
- you will usually be able to continue making contributions to your pension if you change employers

The National Employment Savings Trust

A new, simple, low-cost pension scheme

In December 2006, the former Government published a White Paper outlining its workplace pension reforms, including proposals for NEST (the National Employment Savings Trust) – previously called Personal Accounts. This led to the Workplace Pension Reforms set out in the Pensions Act 2008. These reforms aim to increase individuals' savings for retirement.

A new, simple, low-cost pension scheme, NEST will be introduced as part of the workplace pension reforms. The new employer duties under the Government's workplace pension reforms will be introduced over a four-year period from 1 October 2012. The staggered introduction of these duties is known as 'staging'.

Broadly speaking, the new duties will apply to the largest employers first, with some of the smallest employers not being affected until 2016. As part of the new duties, firms will be enrolled into NEST.

PENSION REFORMS

The former Government established NEST as part of pension reforms aimed at tackling a lack of adequate pension savings among low- and middle-income UK workers. The NEST's investment strategy will be low-risk and there may be a possibility that, after five years, savers will be able to move their money out of the NEST into other pension schemes.

The reforms include the stipulation that from 2012 employers either pay a minimum contribution of 3 per cent into the scheme or automatically enroll workers in existing pension vehicles. NEST will launch its scheme for voluntary enrolment in the second quarter of this year.

TRUST-BASED

NEST will be a trust-based defined contribution occupational pension scheme. It will be regulated in the same way as existing trust-based defined contribution schemes and will provide people with access to a simple, low-cost pension scheme. The charges are a 1.8 per cent charge on the value of each contribution to cover NEST's start-up costs, and an annual management charge of 0.3 per cent of the value of the fund.

The new two-part charge by NEST will work as follows: if a member has a fund of £10,000, they will pay £30, due to the 0.3 per cent annual management charge; if that same member makes a monthly contribution of £100, including tax relief, they will pay £1.80 on the sum, due to the 1.8 per cent contribution charge.

ANNUAL CONTRIBUTION

There will be an annual contribution limit of £3,600 (in 2005 earnings' terms) into NEST. This will be uprated by earnings year on year. This limit will be reviewed in 2017. Workers will be automatically enrolled into the default investment fund but there is likely to be a choice of investment funds, which may include options such as social, environmental and ethical investments. Those not wishing to make an investment choice will stay in the default fund.

Employers will need to automatically enrol their eligible workers into a qualifying pension scheme and make contributions to it. Workers will be able to opt out of their employer's scheme if they choose not to participate.

FORMAL OPT-OUT

Workers who give notice during the formal opt-out period will be put back in the position they would have been in if they had not become members in the first place, which may include

a refund of any contributions taken following automatic enrolment.

Anyone who joins NEST will be able to continue to save in the scheme even after they leave the workplace or move to an employer that does not use NEST. The self-employed and single person directors are not eligible for auto-enrolment but will be able to join NEST.

GUARANTEEING BENEFITS

The cost of guaranteeing these benefits for an ever longer living population has made almost all private sector firms still offering DB drop it for new joiners and the Government has commissioned an ongoing review aimed at reducing the cost of DB schemes in the public sector.

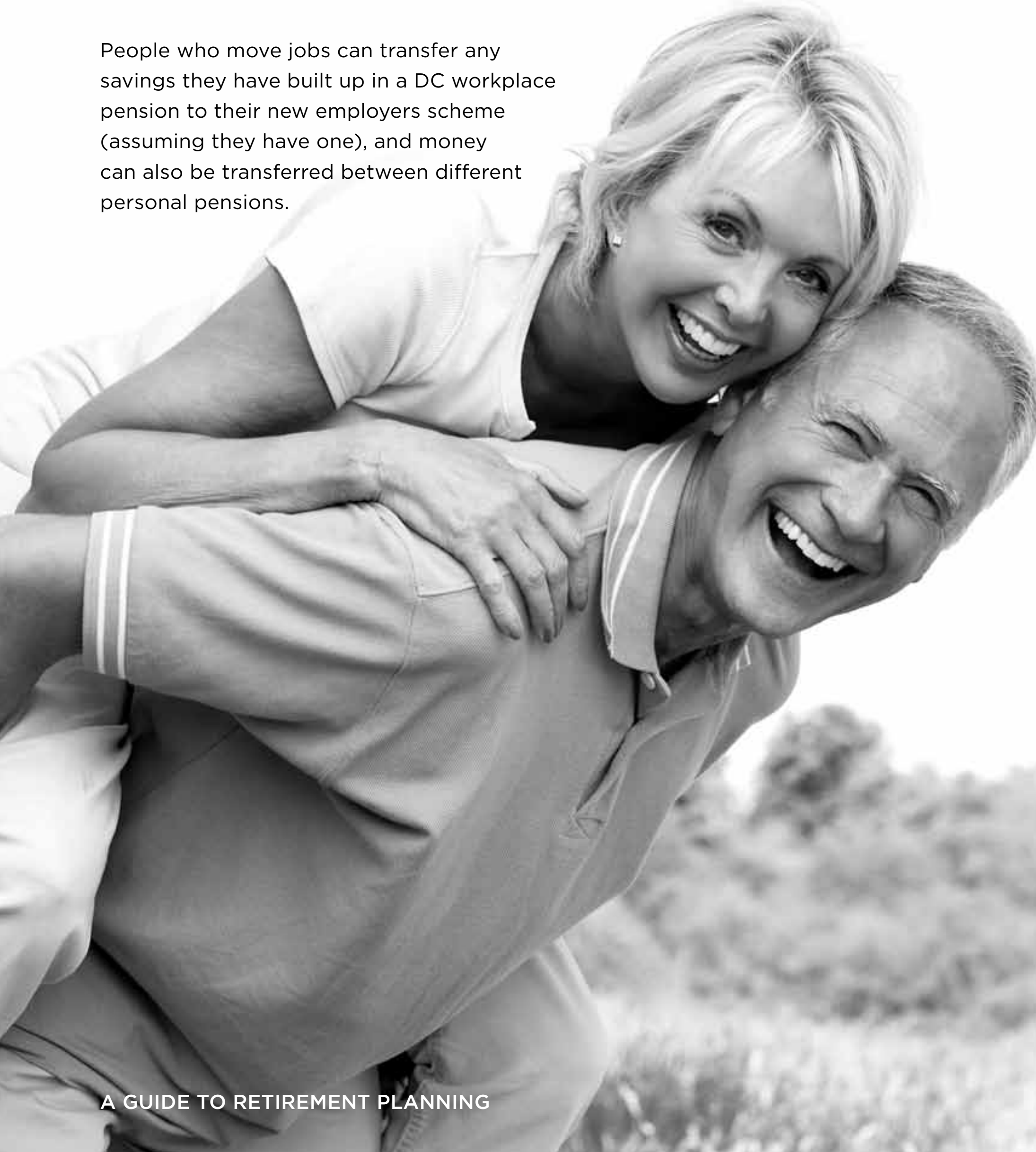
People who move jobs can transfer any savings they have built up in a DC workplace pension to their new employers scheme (assuming they have one), and money can also be transferred between different personal pensions.

Personal or individual pensions are DC schemes in which people pay into funds independent of their employers, managed by insurance companies, and again buy an annuity at retirement.

NEST has confirmed the five product providers for its annuity panel.

Tim Jones, chief executive at NEST, said, ‘Our panel will enable members to buy a retirement income product if this is appropriate to their needs, even if they have a small pot.

‘Establishing a panel of high quality providers committed to NEST’s requirements means we can help members meet their aspirations.’



NEST FACTS

Companies can choose to take on ‘NEST’ as their pension scheme, set up a different scheme with a private provider or maintain their existing schemes if they have one, but all staff have to be enrolled in such a scheme and only withdrawn at their own request, which in turn must be within three months of joining.

In the latter of those three scenarios, the employer must pay the equivalent of a minimum of 3 per cent of the scheme members’ annual salary.

Workers under 22 years old and/or earning less than the minimum tax paying wage (currently £7,475 per year) are exempt from this change in the law. Certain workplaces – the vast majority in the public sector – will still offer staff a defined benefit (DB) pension scheme.

As with defined contribution (DC) pensions, employers and employees will pay into a pot, but the employer guarantees an annual income, post retirement, based on a percentage of the employee’s salary at retirement (or occasionally, the average salary during their time with that employer).

Pension transfers

Bringing your pensions under one roof

Pension transfers can be complicated and you should always seek professional financial advice before going ahead. Remember, whether a transfer is suitable or not will very much depend upon your individual circumstances and objectives.

There are a number of different reasons why you may wish to consider transferring your pension(s), whether this is the result of a change of employment, poor investment performance, high charges and issues over the security of the pension scheme, or a need to improve flexibility.

You might well have several different types of pension, including a final-salary related scheme(s), which pays a pension based on your salary when you leave your job and on years of service. Your previous employer might try to encourage you to move your occupational pension away by boosting your fund with an 'enhanced' transfer value and even a cash lump sum.

However, this still may not compensate for the benefits you are giving up, and you may need an exceptionally high rate of investment return on the funds you are given to match what you would receive if you remained in the final-salary related scheme.

Alternatively, you may have a defined contribution (money purchase) occupational scheme or a personal pension. These pensions rely on contributions and investment growth to build up a fund.

If appropriate to your particular situation, it may make sense to bring these pensions under one roof to benefit from lower charges, make fund monitoring easier and aim to improve fund performance. But remember that transferring your pension will not necessarily guarantee greater benefits in retirement.

You will need to consider that your pension(s) might have or had other valuable benefits that you could lose when transferring out, such as death benefits or a Guaranteed Annuity Rate (GAR) option. A GAR is where the insurance company guarantees to pay your pension at a particular rate, which may be much higher than the rates available in the market when you retire.

In addition, some pensions may also apply a penalty on transferring out. These can be significant depending on the size of your fund, so it is important to check if one applies in your case.

It is also important that the investments chosen are appropriate for the level of risk you are prepared to take. Obtaining professional financial advice will mean that you are fully able to understand the risks and potential benefits of the different funds and investments and can make an informed decision about the level of risk you are prepared to take.

TRANSFERRING YOUR PENSION OVERSEAS

The ability to transfer a pension from the UK to another country formed part of the pension simplification reform known as A-Day, introduced on 6 April 2006. Under these changes people no longer resident in the UK, but who have UK pensions, are now allowed to transfer their pensions across to a Qualifying Recognised Overseas Pension Scheme (QROPS), provided they meet certain conditions.

Transferring your pension overseas into a QROPS, which has been approved by HM Revenue & Customs (HMRC) to accept a pension transfer from a UK pension scheme, is an important decision that may give you extra benefits.

It is vital that you understand all aspects of any QROPS pension transfer, which is why you should seek professional financial advice to evaluate your personal situation and to understand the process in full.

With reference to HMRC rules, a transfer into an offshore pension scheme qualifies as a benefit crystallisation event. This means that your UK pension is given a valuation against your Lifetime Allowance, which is the limit on the value of retirement benefits that you can draw from an approved pension scheme before tax penalties apply. The allowance currently set is £1.8m for 2011/12, and in 2012/13 the figure will reduce to £1.5m.

The possibility of transferring a UK pension into a QROPS can be extremely beneficial to expatriates living abroad in Europe and the rest of the world. A QROPS pension transfer can also be of great interest for someone who has not yet left the UK but is in the process of planning to do so.

QROPS pension schemes are not just for UK nationals either. People of different nationalities who have accumulated a pension fund through working in the UK can also transfer their pension into a QROPS.

Flexible Drawdown

Removing the cap on the income you can take

After years of saving into your pension fund, you've now decided you want to retire and are overwhelmed by the retirement options available. We can work with you to choose the right strategy in order for you to enjoy your retirement years.

If appropriate to your particular situation, one option you may wish to consider is Flexible Drawdown. Perhaps the most radical aspect of the new income drawdown rules that were introduced from 6 April 2011 is that, under Flexible Drawdown, there is no limit on the amount of income that you can draw each year.

The usual tax-free lump sum is allowed but any other withdrawals taken by you are taxed as income in the tax year they are paid. If you become a non-UK resident while in Flexible Drawdown, any income drawn when non-resident will be subject to UK tax if you return to the UK within five tax years of taking it.

As the name suggests, this option is more flexible than income drawdown. Qualifying for this option removes the cap on the income you can take.

You can draw as much income as you like when you like. However, Flexible Drawdown will not be available to everyone and there are certain criteria that must be met before you can choose it.

GIVING THOSE WITH VERY LARGE FUNDS MORE FLEXIBILITY

Those over the age of 55 who can show that they have secured pension income in excess of £20,000 per annum will be able to drawdown an unlimited amount from their pension funds each year, but this will be treated as income for tax purposes.

“As the name suggests, this option is more flexible than income drawdown. Qualifying for this option removes the cap on the income you can take.”

The income included for satisfying the new Minimum Income Requirement (MIR) includes the basic State pension, additional State pension, level annuity income and scheme pensions. Please note income from purchased life annuities and drawdown arrangements do not count.

The lump sum required to purchase an annuity that will satisfy the MIR, assuming the full State pension is payable, will be about £200,000. This means that this option is available only to a small number of wealthy individuals.

A drawdown pension, using income withdrawal or short-term annuities is complex and is not suitable for everyone. It is riskier than an annuity as the income received is not guaranteed and will vary depending on the value and performance of underlying assets.

Alternative options for investors

Making retirement more flexible

The Treasury published its draft Finance Act legislation on 9 December 2010. The rules revolutionise the way pension benefits are taken and are designed to make retirement more flexible.

There is no longer a requirement to set up benefits by age 75. Whilst the majority of retirees will still want a secure income at the point of retirement, this change provides an alternative option for investors who would prefer to have greater control and flexibility over how and when their pension income is paid.

The age 75 rule has been abolished and there is no longer a requirement to take pension benefits by a certain age. Historically, individuals have had to set up an annuity or move into an Alternatively Secured Pension (ASP) by the age of 75.

TAXABLE INCOME

It is now possible to leave your pension fund untouched for as long as you like. If you still have enough income from employment or other savings your pension can continue to grow free of UK Income and Capital Gains Tax. When you are ready you can still take up to 25 per cent as tax-free cash and use the remainder to provide a taxable income using an annuity or Income Drawdown.

However you need to bear in mind that the death benefits change once you reach age 75 if you have not taken benefits at this point. Retirees can use Income Drawdown indefinitely and use this or take no income at all from their pension for as long as they want. However, tax charges on any lump sum death payments prevent this option being used to avoid Inheritance Tax. ASP, which had a number of restrictions and limited death benefits, has ceased.

If at age 75 and you decide to remain in drawdown you can still benefit from the same income rules and death benefits as pre 75. It is also now possible to defer drawing any income until after age 75.

FLEXIBLE DRAWDOWN

A new drawdown option has been introduced called Flexible Drawdown which allows those who meet certain criteria to take as much income as they require from their fund in retirement. It will normally only be available for those over 55 who can prove that they are already receiving a secure pension income of over £20,000 a year when they first go into Flexible Drawdown.

The secure income can be made up of State pension or from a pension scheme, and does not need to be inflation proofed - investment income does not count. There are restrictions that are designed to prevent people from taking all their Protected Rights or from using Flexible Drawdown while still building up pension benefits.

If you meet the set criteria, Flexible Drawdown will allow you to draw as much taxable income from pensions as you need, when you need it. It will also be possible to use part of your pension to buy an annuity to secure the £20,000 and then move the rest of your pension to Flexible Drawdown.

CAPPED DRAWDOWN

The previous name for drawdown is replaced with Capped Drawdown. The maximum income is broadly equivalent to the income available from a single life, level annuity. There is no minimum income, even after age 75 and the maximum amount is now reviewed every 3 years rather than every 5 years.

Reviews that take place after age 75 are carried out annually, unlike the previous ASP, the income available after age 75 is based on your actual age rather than defaulting to age 75.

Capped Drawdown is very similar to the previous drawdown system. The main changes are that the maximum income available under age 75 is a little lower than previously and the maximum income over age 75 is a little higher. There is no longer the requirement to take an income after age 75. Under ASP it was assumed you are 75 when calculating your income limits. Under Capped Drawdown your actual age is used, meaning the percentage of your pension that can be drawn should increase as you get older, rather than remaining static.

If you die whilst your pension fund is in either form of drawdown, or after the age of 75, all your remaining fund can be used to provide a taxable income for a spouse or dependant. Alternatively it can be passed on to a beneficiary of your choice as a lump sum, subject to a 55 per cent tax charge.

For investors in drawdown before age 75, the tax charge is now higher if you want to pass your remaining fund as a lump sum in the event of your death, however this is more than balanced out by the fact the tax charge is significantly reduced for passing your fund on after age 75. It is also important to note that the 55 per cent tax charge will be applied on death after age 75 even if you have not purchased an annuity or moved into drawdown.

TRANSITIONAL RULES

Individuals who were already in drawdown will not be immediately

subject to the new requirements however transitional rules will apply. They will need to adopt the new rules either at the end of their current review period or earlier if they transfer to another drawdown plan.

Investors already in drawdown can benefit from the new rules and can continue in drawdown past age 75. However it is likely that when they adopt the new rules, they may see a reduction in the maximum income they can take.

The ability for most people to take up to a quarter of the pension fund as tax-free cash is still available when the individual sets up an annuity or goes into Income Drawdown, even if they take no income.

ANNUITIES

Annuities themselves have not been changed however it is now possible to buy an annuity at any age after 55. An annuity will still be the option of choice for most retiring investors because unlike drawdown it provides a secure income for life. Annuities are expected to be used to secure the minimum income requirement of £20,000 to allow investors to use the rest of their pension to go into Flexible Drawdown.

A drawdown pension, using income withdrawal or using short term annuities, is complex and is not suitable for everyone. It is riskier than an annuity as the income received is not guaranteed and will vary depending on the value and performance of underlying assets.

Bear in mind that a pension is a long-term investment. Your eventual income will depend on the size of fund at retirement, future interest rates, and tax legislation.

Self-Invested Personal Pensions

Taking more control over your pension fund investment decisions

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of professional help, a Self-Invested Personal Pension (SIPP) could be the retirement planning solution to discuss.

MORE ACCESSIBLITY

A SIPP is a personal pension wrapper that offers individuals greater freedom of choice than conventional personal pensions. However, they are more complex than conventional products and it is essential you seek expert professional advice.

SIPPs allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf.

Individuals have to appoint a trustee to oversee the operation of the SIPP but, having done that, the individual can effectively run the pension fund on his or her own.

A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

THOUSANDS OF FUNDS

You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs.

Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

TAX BENEFITS

There are significant tax benefits. The Government contributes 20 per cent of every gross contribution you pay – meaning that a £1,000 investment in your SIPP costs you just £800. If you are a higher or additional rate taxpayer, the tax benefits could be even greater. In the above example, higher rate (40 per cent) taxpayers could claim back as much as a further £200 via their tax return. Additional rate (50 per cent) taxpayers could claim back as much as a further £300.

OTHER CONSIDERATIONS

You cannot draw on a SIPP pension before age 55 and you should be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income and, in some cases, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs are higher than those of a normal pension fund.

The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned.

Reintroduction of Carry Forward rules

Increasing pension contributions by using unused annual allowances

From 6 April 2011 the annual allowance for pension contributions reduced from £255,000 to £50,000. While this restricts the levels of contributions you can make without attracting an Annual Allowance charge, on the plus side the Government has brought back the Carry Forward rules.

INCREASING PENSION CONTRIBUTIONS

The principle of Carry Forward allows you to increase pension contributions by using unused annual allowances from the previous three tax years. The facility therefore enables contributions in excess of the £50,000 annual allowance still to be possible.

The Carry Forward facility applies on a rolling three-year basis, so for 2011/12 the three previous tax years will be 2008/09, 2009/10 and 2010/11 – with any unused allowances from the earliest year being used up first. So, for example, if you made no contributions to a pension in the 2008/09, 2009/10 and 2010/11 tax years, you could contribute up to £200,000 in the 2011/12 tax year.

Even though tax years 2008/09 to 2010/11 inclusive are before the rule changes, the calculation of contribution allowances is based on the new rules, so:

- the annual allowance is £50,000
- any defined benefit pension plans and cash balance accruals are based on a factor of 16 instead of 10, with some inflation proofing

in a year when retirement benefits are taken, any pension contributions made will be assessed against the annual allowance

QUALIFYING CONTRIBUTIONS

To qualify, you can Carry Forward any unused annual allowances from a tax year, in which you are a member of, or join, a registered pension scheme. You do not need to have a Pension Input Period (PIP) ending in that tax year, or have to contribute to the pension scheme in each tax year. Only unused annual allowances from PIPs ending in the previous three tax years can be carried forward.

ANNUAL ALLOWANCE

The annual allowance that applies to pension contributions is based upon the tax year in which the PIP ends. Each arrangement in a scheme can have its own PIP; however, the scheme may set the PIP dates or the member can nominate them.

Where the PIP dates are not nominated by the client, the PIP runs from the first contribution date to the end of the tax year in which it started – for example, if the first contribution was made on 7 May 2011, then the first PIP runs from 7 May 2011 to 5 April 2012.

Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

Where it is possible to nominate a different end date for a PIP, you need to notify the scheme administrator in advance. Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

EXTRA OPPORTUNITIES

Adjusting the PIP dates within the rules can provide extra Carry Forward opportunities.

You could amend the PIP dates provided that:

- the first PIP can end in the same tax year that it started
- the first PIP must end prior to the anniversary of payment and can be in the same tax year that it started
- the second and subsequent PIPs must end in the tax year after the tax year the previous PIP ended
- there can be only one PIP ending in each tax year

“From 6 April 2011 the annual allowance for pension contributions reduced from £255,000 to £50,000. While this restricts the levels of contributions you can make without attracting an Annual Allowance charge, on the plus side the Government has brought back the Carry Forward rules.”

Annuities

Taking greater responsibility for your financial future

On 9 December 2010, the Treasury published its draft Finance Act legislation which explained the way pension benefits would be taken in the future. Annuities themselves have not been changed; however, it is now possible to buy an annuity at any age after 55. An annuity will still be the option of choice for most retiring investors because, unlike drawdown, it provides a secure income for life. Annuities are to be used to secure the minimum income requirement of £20,000 to allow investors to use the rest of their pension to go into Flexible Drawdown.

Choosing the right annuity at the start is very important as once you have bought your annuity you cannot change your decision. In order that we make the right recommendation to you it is important, therefore, that all your circumstances and requirements are taken into consideration.

An annuity is a regular income paid in exchange for a lump sum, usually the result of years of investing in an approved, tax-free pension scheme. There are different types. The vast majority of annuities are conventional and pay a risk-free income that is guaranteed for life. The amount you receive will depend on your age, whether you are male or female, and the size of your pension fund and, in some circumstances, the State of your health.

Your pension company may want you to choose its annuity offering, but the law says you don’t have to. Everyone has the right to use the ‘Open Market Option’, to shop around and choose the annuity that best suits their needs. There can often be a significant difference between the highest and lowest annuity rates available.

Some insurance companies will pay a higher income if you have certain medical conditions. These specialist insurers use this to your advantage and will pay you a higher income because they calculate that, on average, your income should be paid out for a shorter period of time.

The annuity rate you receive will depend on several factors, for example whether you require:

- a joint life or single life policy
- want the policy to be index linked to increase in line with inflation
- whether you have any health or lifestyle considerations
- whether you wish to take the 25 per cent cash tax-free as a lump sum from your pension fund

Some older pension policies have special guarantees that mean they will pay a much higher rate than is usual. Guaranteed Annuity Rates (GARs) could result in an income twice or even three times as high as policies without a GAR.

A conventional annuity is a contract whereby the insurance company agrees to pay you a guaranteed income either for a specific period or for the rest of your life in return for a capital sum. The capital is non-returnable and hence the income paid is relatively high.

Income paid is based on your age, for example, the mortality factor, and interest rates on long-term gilts, and income is paid annually, half yearly, quarterly or monthly.

Annuities can be on one life or two. If they are on two lives, the annuity will normally continue until the death of the second life. And if the annuitant dies early, some or all of the capital is lost. Capital protected annuities return the balance of the capital on early death.

Payments from pension annuities are taxed as income. Purchased life annuities have a capital and an interest element;

the capital element is tax-free, the interest element is taxable.

TYPES OF ANNUITY

Types of annuity include the following:

IMMEDIATE ANNUITY
The purchase price is paid to the insurance company and the income starts immediately and is paid for the lifetime of the annuitant.

GUARANTEED ANNUITY
Income is paid for the annuitant's life, but in the event of early death within a guaranteed period, say five or ten years, the income is paid for the balance of the guaranteed period to the beneficiaries.

COMPULSORY PURCHASE
Also known as open market option annuities, these are bought with the proceeds of pension funds. A fund from an occupational scheme or buy-out (S32) policy will buy a compulsory purchase annuity. A fund from a retirement annuity or personal pension will buy an open market option annuity, an opportunity to move the fund to a provider offering higher annuity rates.

DEFERRED ANNUITIES
A single payment or regular payments are made to an insurance company, but payment of the income does not start for some months or years.

TEMPORARY ANNUITY
A lump sum payment is made to the insurance company and income starts immediately, but it is only for a limited period, say five years. Payments finish at the end of the fixed period or on earlier death.

LEVEL ANNUITY
The income is level at all times and does not keep pace with inflation.

INCREASING OR ESCALATING ANNUITY
The annuitant selects a rate of increase and the income will rise each year by the chosen percentage.

Some life offices now offer an annuity where the performance is linked to some extent to either a unit-linked or with-profits fund to give exposure to equities and hopefully increase returns.

> "Income paid is based on your age, for example, the mortality factor, and interest rates on long-term gilts, and income is paid annually, half yearly, quarterly or monthly."

DID YOU KNOW?
Many people are unaware that they have the right to shop around for a different annuity provider, to provide them a pension income for their retirement. By shopping around, you could get a better annuity rate for your pension fund! This is known as an 'Open Market Option' and it can make a significant difference to your retirement income.

A-Z of retirement planning

Understanding the jargon

ACCRUAL RATE
The factor used to calculate benefits in a defined benefit scheme. For example, a scheme with an accrual rate of 1/60th will provide 1/60th of pensionable salary for each year of pensionable service.

ACTIVE MEMBER
An occupational pension scheme member who is earning new defined benefit scheme benefits or paying defined contribution scheme contributions.

ACTUARIAL REDUCTION
A reduction made to a pension paid early to the member of a defined benefit scheme.

ACTUARIAL VALUATION
An assessment of a defined benefit scheme's ability to meet its liabilities. Carried out by the scheme actuary at least once every three years.

ACTUARY
The individual appointed by the trustees of an occupational pension scheme to carry out valuations and advise on funding matters.

A-DAY
6 April 2006 – the effective date of pension's simplification, when HMRC introduced a single tax regime for all UK pension schemes.

ADDED YEARS
A provision of some defined benefit scheme for building extra pensionable service in return for additional contributions.

ADDITIONAL PENSION
The earnings-related part of the State pension paid in addition to the basic State pension.

ADDITIONAL VOLUNTARY CONTRIBUTION (AVC)
A facility provided by occupational pension schemes for members to boost retirement savings.

ALTERNATIVELY SECURED PENSION (ASP)
Allowed a pension scheme member to defer purchasing an annuity at age 75. A defined level of income could be drawn on the invested funds until the member decides to purchase an annuity or dies.

ANNUAL ALLOWANCE (AA)
The maximum pension input (earned in a defined benefit scheme and contributions paid into a defined contribution scheme) a pension scheme member is allowed each year without giving rise to a tax charge.

ANNUAL MANAGEMENT CHARGE (AMC)
The administration fee levied each year on a defined contribution scheme, a personal pension plan or a Stakeholder pension scheme.

ANNUITY
A policy that provides an income in retirement.

BASIC STATE PENSION
The benefit provided at State pension age to those with a sufficient National Insurance Contribution record.

CAREER AVERAGE REVALUED EARNINGS (CARE) SCHEME
A type of defined benefit scheme that calculates retirement benefits using the average of revalued pensionable salaries over the member's pensionable service.

CASH EQUIVALENT TRANSFER VALUE (CETV)
The amount offered to a member of an occupational pension scheme who wants to transfer to another pension scheme.

CLASS 1 NATIONAL INSURANCE CONTRIBUTION
Contribution paid by the employed (not self-employed), calculated as a percentage of pay.

CLASS 2 NATIONAL INSURANCE CONTRIBUTION
Flat-rate contribution paid by the self-employed.

CLASS 3 NATIONAL INSURANCE CONTRIBUTION
Voluntary contribution paid to improve basic State pension entitlement.

CLASS 4 NATIONAL INSURANCE CONTRIBUTION
Profit-based contribution paid by the self-employed in addition to the Class 2 contribution.

CLOSED SCHEME
An occupational pension scheme where the membership is no longer open to new employees.

COMBINED PENSION FORECAST (CPF)
A Statement that shows both estimated pension scheme and State pension benefits. Issued voluntarily by pension schemes.

COMMUTATION FACTOR
Used to calculate how much pension from a defined benefit scheme is given up in exchange for a tax-free lump sum.

CONCURRENCY
The principle allowing someone to pay into more than one pension scheme at the same time.

CONTRACTED-OUT DEDUCTION (COD)
The deduction applied to a person's SERPS entitlement for the period they were contracted out between 1978 and 1997.

CONTRACTED-OUT EMPLOYMENTS GROUP (COEG)
A part of the DWP, it administers pension scheme members' contracting out records.

CONTRACTING OUT
The facility to opt out of the State additional pension and build up benefits in a pension scheme.

CRYSTALLISATION EVENT
An event where pension benefits become payable, i.e. annuity purchase, death, starting an unsecured pension etc, and at which time a test against the Lifetime Allowance is carried out.

DEFERRED MEMBER
An occupational pension scheme member who has left service with a deferred pension or fund.

DEFERRED PENSION
The benefit awarded to a defined benefit scheme member who has left service early.

DEFINED BENEFIT (DB) SCHEME
An occupational pension scheme that provides benefits based on accrual rate, pensionable service and pensionable salary.

DEFINED CONTRIBUTION (DC) SCHEME
A scheme that provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions paid by both the employee and the employer.

DEPARTMENT FOR WORK AND PENSIONS (DWP)
The Government department with overall responsible for the rules governing pension schemes and the administration of the State pension.

DEPENDANT
An individual who is eligible to receive retirement benefits, i.e. pension and/or lump sum, following the death of a pension scheme member.

EARLY LEAVER
An occupational pension scheme member who leaves service before reaching their normal retirement age.

EARLY RETIREMENT
The payment of retirement benefits from a pension scheme before a member's normal retirement date.

EARMARKING
Provides a spouse with a share of a pension scheme member's pension rights on divorce. Spouse's share is paid when the member draws their benefits.

EMPLOYER ACCESS
Employers with five or more staff but with no pension arrangement in place must designate a Stakeholder pension scheme and offer access to qualifying employees.

EMPLOYER FUNDED RETIREMENT BENEFIT SCHEME (EFRBS)
Previously known as FURBS and UURBS. These are unapproved schemes with no tax reliefs that an employer funds to provide a member with a lump sum and/or income.

ENHANCED PROTECTION
If a member is worried their pension rights exceed, or may exceed, the Lifetime Allowance, they can safeguard them against a tax charge.

EQUIVALENT PENSION BENEFIT (EPB)
A non-revaluing pension built up while contracted out of the State graduated pension scheme through an occupational pension scheme.

ESCALATION
The increments applied to a pension in payment.

EXECUTIVE PENSION SCHEME (EPP)
An occupational pension scheme for selected directors and senior staff.

EXPRESSION OF WISH
Notification by a member to their pension scheme of how they wish their lump sum death benefits to be paid.

FINAL SALARY SCHEME
An occupational pension scheme that provides benefits based on accrual rate, pensionable service and pensionable salary.

FINANCIAL ASSISTANCE SCHEME (FAS)
A Government-funded scheme, operated by the DWP, set up in 2005 to pay compensation to wound-up occupational pension scheme members who have lost pension rights following an employer's insolvency.

FINANCIAL SERVICES AUTHORITY (FSA)
An independent, Government-funded body that regulates the financial services business in the UK.

FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)
An independent, levy-funded body that compensates consumers who cannot complete claims because their provider is insolvent.

FRAUD COMPENSATION FUND (FCF)
Levy funded and operated by the PPF, this fund compensates occupational pension schemes that have suffered financial injustice as a result of dishonesty.

FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTION (FSAVC)
A facility provided by insurance companies for members to boost their occupational pension scheme savings.

FUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (FURBS)
Now known as an EFRBS. These are unapproved schemes with no tax reliefs that an employer funds to provide a member with a lump sum and/or income.

GROUP PERSONAL PENSION PLAN (GPP)
A collection of personal pension plans provided by an employer to its staff.

GUARANTEED MINIMUM PENSION (GMP)
The benefit built up in a defined benefit scheme as a result of being contracted out of the State additional pension.

HOME RESPONSIBILITIES PROTECTION (HRP)
Available to carers and those looking after children, this benefit reduces the number of qualifying years required for the basic State pension.

HYBRID SCHEME
An occupational pension scheme that calculates retirement benefits as some combination of two alternatives, defined benefit scheme or defined contribution scheme.

ILL HEALTH EARLY RETIREMENT
If an occupational pension scheme member is unable to work as a result of a medical condition, they may be entitled to draw retirement benefits early (sometimes enhanced) at any age (no later than 75).

IMPAIRED LIFE ANNUITY
A member of a defined contribution scheme may be able to claim an immediate annuity on enhanced terms if they are suffering from poor health, such as high blood pressure, diabetes, heart condition, kidney failure, certain types of cancer, multiple sclerosis and chronic asthma.

INCOME DRAWDOWN (NOW KNOWN AS CAPPED DRAWDOWN)
Also previously known as an unsecured pension. Allows a pension scheme member to continue to invest a fund while drawing a limited income. Available to under 75s only.

INCOME WITHDRAWAL
Also known as an unsecured pension. Allows a pension scheme member to continue to invest a fund while drawing a limited income. Available to under 75s only.

LATE RETIREMENT
The payment of retirement benefits from a pension scheme after a member's normal retirement date.

LIFESTYLING
An investment strategy on defined contribution schemes where a member's investments are switched automatically as they get older to more secure holdings, such as cash.

LIFETIME ALLOWANCE (LA)
The maximum value of fund a pension scheme member can accumulate without incurring a tax charge.

LIMITED PRICE INDEX (LPI)
The change in the Retail Price Index between 1 October and the following 30 September, capped at 5 per cent (from April 1997 to April 2005) and 2.5 per cent (since April 2005). Used by pension schemes for pension increases and revaluation.

LUMP SUM
The tax-free lump sum paid to a member of a pension scheme when their benefits come into payment.

MARKET VALUE REDUCTION (MVR)
An adjustment made to the value of a With-Profit fund to reflect the difference between the market and actuarial values of the fund.

MONEY PURCHASE SCHEME
A scheme that provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions paid by both the employee and the employer.

NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)
A new, simple, low-cost pension scheme to be introduced from 2012 as part of the workplace pension reforms.

NATIONAL INSURANCE CONTRIBUTION (NIC)
Payments deducted from pay or declared through self assessment, used by the DWP to fund the State pension and other State benefits.

NATIONAL INSURANCE CONTRIBUTIONS OFFICE (NICO)
A part of HMRC. They administer the collection of National Insurance Contributions.

NORMAL RETIREMENT AGE (NRA)
The contractual age at which retirement benefits are paid from an occupational pension scheme.

NORMAL RETIREMENT DATE (NRD)
The date that an occupational pension scheme member reaches normal retirement age.

OCCUPATIONAL PENSION SCHEME
A scheme set up by an employer to provide retirement and/or death benefits to employees.

OFFSETTING
A member's pension rights are offset against other assets as part of a divorce settlement.

OPEN MARKET OPTION (OMO)
A provision of defined contribution schemes allowing members to transfer funds at retirement to draw an immediate annuity with another provider.

PAID UP
The status given to a personal pension plan when a member chooses to cease contributing.

PENSION COMMENCEMENT LUMP SUM (PCLS)
The tax-free lump sum paid to a member of a pension scheme when their benefits come into payment.

PENSION CREDIT
A means-tested benefit that boosts a pensioner's State pension to ensure they have a minimum level of income.

PENSION EARMARKING
Provides a spouse with a share of a pension scheme member's pension rights on divorce. Spouse's share is paid when the member draws benefits.

PENSION GUARANTEE
Incorporated into a pension once put into payment. It ensures that pension instalments for a specified period are paid, even if the member dies before the period expires.

PENSION OFFSETTING
A member's pension rights are offset against other assets as part of a divorce settlement.

PENSION PROTECTION FUND (PPF)
An independent, levy-funded body that compensates members of occupational pension schemes who have lost pension benefits as a result of an employer's insolvency.

PENSION SHARING
Provides a spouse with a share of a pension scheme member's retirement benefits on divorce. Spouse is given a credit to put towards his or her own retirement benefits.

PENSION SIMPLIFICATION
The name given to the changes introduced by HMRC on A-Day. One single tax regime was introduced to replace the previous eight.

PENSIONABLE SALARY
Earnings used to calculate retirement benefits in a defined benefit scheme.

PENSIONABLE SERVICE
Length of qualifying time in a defined benefit scheme used to calculate retirement benefits.

PERSONAL PENSION PLAN (PPP)
A type of defined contribution scheme. Provides retirement benefits based on the build-up of a 'pot' of money, accumulated through the investment of contributions.

PRESERVED MEMBER
An occupational pension scheme member who has left service with a preserved pension or fund.

PRESERVED PENSION
The benefit awarded to a defined benefit scheme member who has left service early.

PROTECTED RIGHTS (PR)
The fund built up in a defined contribution scheme from rebates paid as a result of being contracted out of the State additional pension.

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEME (QROPS)
An overseas pension scheme that meets HMRC rules that allow overseas transfers.

QUALIFYING YEAR
A year in which an individual has paid, or is treated as having paid, National Insurance contributions.

RECORD OF PAYMENTS DUE
Produced by an employer, it records how much they and their employees will contribute to the designated Stakeholder pension scheme.

RETAIL PRICE INDEX (RPI)
Used by pension schemes to calculate pension increases. It is the average measure of change in the prices of goods and services bought in the UK.

RETIREMENT ANNUITY CONTRACT (RAC)
The predecessor of the personal pension plan. Available before April 1988 to the self-employed and those in employment who did not have access to an occupational pension scheme.

REVALUATION
The increase, normally in line with inflation, of a deferred pension between the date the member leaves service and their Normal Retirement Age (NRA).

SALARY SACRIFICE
An arrangement between an employer and an employee where the employee forgoes part of their pay for a corresponding employer contribution to the pension scheme.

SALARY-RELATED SCHEME
An occupational pension scheme that provides benefits based on accrual rate, pensionable service and pensionable salary.

SCHEDULE OF CONTRIBUTIONS
Produced by the scheme actuary, it shows the trustees of a defined benefit scheme how much the employer and employees will contribute.

SECTION 32 PLAN
An insurance policy designed to accept transfers from defined benefit schemes.

SELECTED PENSION AGE (SPA)
The age chosen by a personal pension plan member to draw retirement benefits.

SELF-INVESTED PENSION PLAN (SIPP)
A type of personal pension plan that gives an individual more investment control.

SHORT-TERM ANNUITY
A temporary annuity that runs for no longer than five years. Allows an individual to draw an income while deferring purchasing a full annuity.

SMALL SELF-ADMINISTERED SCHEME (SSAS)
An occupational pension scheme, usually for small businesses, that gives members more investment control.

STAKEHOLDER DESIGNATION
The process followed by an employer who is not exempt from the employer access requirements. The employer must choose a Stakeholder pension scheme and provide access to their employees.

STAKEHOLDER PENSION SCHEME
A type of personal pension plan, offering a low-cost and flexible alternative and which must comply with requirements laid down in legislation.

STATE ADDITIONAL PENSION
The earnings-related part of the State pension, paid in addition to the basic State pension.

STATE EARNINGS-RELATED PENSION SCHEME (SERPS)
Alternative name given to the State additional pension between April 1978 and April 2002.

STATE GRADUATED PENSION SCHEME
Alternative name given to the State additional pension between April 1961 and April 1975.

STATE PENSION
Administered and paid by The Pension Service, this benefit is made up of the basic State pension and the State additional pension.

STATE PENSION AGE (SPA)
The earliest age at which the State pension can be taken.

STATE PENSION DATE (SPD)
The earliest date that the State pension can be paid.

STATE PENSION DEFERRAL
On reaching State pension age, a pensioner can defer taking their State pension in exchange for a higher pension or lump sum in the future.

STATE PENSION FORECAST
An illustration provided by The Pension Service giving an estimate of what State pension an individual may receive at State pension age.

STATE SECOND PENSION (S2P)
Alternative name given to the State additional pension since April 2002.

TAX RELIEF
Incentive given to those contributing to pension schemes.

The Government pays tax relief at the investor's highest marginal rate; that is, a basic rate taxpayer will receive 20 per cent tax relief, a higher rate tax payer 40 per cent and a 50 per cent tax payer 50 per cent relief of a member's gross contribution.

TAX-APPROVED SCHEME
A pension scheme that has been approved to operate by HMRC.

THE PENSION SERVICE
A part of the DWP. Responsible for administering and paying the State pension.

THE PENSIONS ADVISORY SERVICE (TPAS)
An independent, Government-funded body that provides general information about pensions to the public and also helps resolve pension disputes through mediation and conciliation.

THE PENSIONS REGULATOR (TPR)
A Government body that regulates the running of occupational pension schemes.

TRANSITIONAL PROTECTION
Comes in two forms – primary and enhanced. Allows an individual to protect accrued pension rights that may exceed the Lifetime Allowance, thereby avoiding a tax charge on the excess.

UNFUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (UURBS)
Now known as an EFRBS. These are unapproved schemes with no tax reliefs that an employer funds to provide a member with a lump sum and/or income.

UNSECURED PENSION
Also known as Income Drawdown or income withdrawal. Allows a pension scheme member to continue to invest a fund while drawing a limited income. Available to under 75s only.

WINDING UP
The process of terminating an occupational pension scheme, usually by transferring member's benefits to individual arrangements.

WINDING UP PRIORITY ORDER
The order in which members' benefits are distributed on the winding up of a defined benefit scheme with an insolvent employer and a funding shortfall.

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