Stakeholder Pensions

Decision Trees

NORWICH UNION
an AVIVA company

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You should read these notes before using the decision trees. Decision trees provide information and help you to answer the question: "Would a stakeholder pension be a good choice for me as part of my financial planning for retirement?"

2002/2003

What is a stakeholder pension?

A stakeholder pension is a *private pension*, it's *not a State pension*. You can contribute to a stakeholder pension whether you are in employment, a fixed-contract worker, self-employed, or even not working but able to afford contributions. You can get one from a bank, building society, insurance company, investment company, or through a financial adviser.

You pay contributions regularly which are invested to build up your own pension fund. You can also make lump-sum contributions whenever you like.

When you retire, you use your pension fund to buy an "annuity". The annuity will pay you a regular income during your retirement. That income will depend on the size of your fund and the annuity rates at the time you take your pension.

You can't withdraw any money from your fund before you take your pension. But when you take your pension you can choose to have up to 25% of your fund as a tax-free lump sum.

What's different about stakeholder pensions?

Stakeholder pensions must meet the standards laid down by the Government.

The standards include:

- **Charges**
  Providers of stakeholder pensions usually charge for managing your money. There is an upper limit on this charge. The limit is 1% of the value of your fund each year. The charge is taken from your fund.
- **Flexibility**
  You can contribute regularly or occasionally. It is always best to make regular weekly or monthly contributions but you can change the amount. You can pay in as little as £20, and you can stop paying in without having to pay any penalty and restart later. If you are employed and your employers provide a stakeholder pension, they may, if you wish, deduct your contributions direct from your pay and put them into your pension fund. You can take your stakeholder pension with you when you change jobs. You can switch to another stakeholder pension at any time if you want to, without having to pay any charges for the transfer.
- **Information**
  Your stakeholder pension provider must give you regular information about your fund. This will include an annual statement to let you know how much you have paid in and how your fund is growing. It may also include a forecast of how much your pension might be.

Will I get any tax relief?

Everybody who contributes to a stakeholder pension will get tax relief on their contributions.

Under present tax arrangements, for each £1 you pay into your stakeholder pension fund, the Inland Revenue will pay an extra 28p into your fund, even if you don't normally pay income tax.

Example - If you pay in £50 a month, the income tax relief will increase your contribution to £64.10.

Most people can contribute up to £3,600 to a stakeholder pension in any tax year including basic rate tax relief. What this means is that you could pay in £2,808 and the income tax relief would increase your contribution to £3,600.

If you are employed or self-employed you might be able to contribute more than £3,600 and still get income tax relief, depending on your age and earnings. For example, up to age 35 you can contribute up to 17.5% of your earnings in any tax year. If you are over 35, there is a scale that allows you to contribute higher percentages of your earnings. The Inland Revenue sets the limits on what you can contribute to a pension scheme. If you pay income tax at the higher rate you will be able to claim back the extra tax from the Inland Revenue at the end of each tax year.

Won't the State pension be enough for me to retire on?

To answer this question, you need to think about three things:

- **BASIC STATE RETIREMENT PENSION**
  If you have a full National Insurance contribution record, you are entitled to the full basic State Retirement Pension. You cannot get your basic State Retirement Pension until you reach State pension age (currently 65 for men and 60 for women). The Government reviews the basic State Retirement Pension every year.

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- **STATE SECOND PENSION (FORMERLY SERPS)**
  From 6 April 2002, the State Second Pension replaced the State Earnings Related Pension Scheme (SERPS). This provides a more generous additional state pension for low and moderate earners (particularly those earning less than about £10,000) and for certain carers and people with a long-term illness.
  The State Second Pension pension is payable when you reach State pension age. It depends on your earnings while you were in employment and the National Insurance contributions you paid. The State Second Pension is paid in addition to the basic State Retirement Pension.

Self-employed people do not qualify for the State Second Pension (formerly SERPS).

- **GUARANTEED MINIMUM INCOME AND PENSION CREDIT**
  The current Minimum Income Guarantee (MIG) is a benefit that helps people with low incomes in retirement. MIG is means-tested. If you apply, the Department for Work and Pensions (DWP) assesses your income and decides whether you get a top-up. If you qualify for a MIG top-up,or have an income just above the MIG level, you may also qualify for other benefits, such as housing benefit.

The Government has announced plans to introduce the Pension Credit from 2003, which includes a guaranteed minimum income.

THE BASIC STATE RETIREMENT PENSION AND MIG RATES GIVEN HERE ARE THOSE ANNOUNCED BY THE GOVERNMENT AS APPLYING IN THE TAX YEAR 2002/2003.

	Weekly	**Monthly equivalent**
One person	£75.50	£327.17
Man with dependent wife	£120.70	£523.03
Couples who have *both* paid full National Insurance contribution	£75.50 each	£327.17 each
If you get the full MIG top-up, your income would rise to:		
Single person	£98.15	£425.32
Couple	£149.80	£649.13

How do I get more information on my State pensions?

Rates of State pensions and benefits change every year. These notes can only give you basic information about what is available. Other information you can get:

- A forecast of your State pensions by calling the Retirement Pension Forecasting and Advice Team (RPFAT) on 0845 300 0168 between 9am and 5pm. You can complete an application form over the phone or ask for the forecast form BR19 to be sent to you. Or you can write to:
  RPFAT
  The Pension Service
  Tyneview Park
  Whitley Road
  Newcastle upon Tyne
  NE98 1BA
  You can also complete and send the form direct on the Internet at the DWP website, www.dwp.gov.uk or send it by post in the normal way.
- There are changes to the State pension age which affect women born on or after 6 April 1950. Women born on or after 6 April 1955 will not get a State pension until age 65. For more information on these changes, see the DWP guide *Pensions for women - Your guide (PM6).*
- The DWP produces a series of guides that give basic information on pensions. You can get copies by calling the DWP on 0845 731 3233. The line is open 24 hours a day and calls are charged at local rate. A textphone service is available on 0845 604 0210. You can also order copies of these information guides on the Internet at www.dwp.gov.uk

Do I need to save more for my retirement?

You need to make your own judgment about whether State retirement pensions and any existing private pensions will be enough for you to live on when you retire. Ask yourself:

- **Roughly how much will I need to live on when I retire?**
- **Is the basic State Retirement Pension likely to be enough for me?**
- **Will I qualify for an additional pension through the State Second Pension (formerly SERPS)?**
- **Have I got any other private pensions, maybe from previous employers' schemes or from personal pension schemes? If so, how much income will they give me?**

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Can I afford to contribute regularly to a stakeholder pension?

Before you answer this question, you should ask yourself:

- **What are my other financial commitments?** For example, mortgage repayments, rent, life assurance, and credit cards. Make sure you do your sums before using the decision trees.
- **Would I be prepared, if necessary, to give up anything so that I can pay into a stakeholder pension?**
- **Should I be thinking of other things first?** For example, life assurance protection for me and my family, or building up some "rainy-day" cash savings.

Whatever you decide you can afford, think about increasing your contributions especially when your earnings rise.

What if I can't afford to contribute much regularly?

The Government has announced proposals to introduce the Pension Credit, which will replace the current Minimum Income Guarantee arrangements from October 2003. The intention of Pension Credit is to ensure that all pensioners are entitled to a minimum income in retirement and that those with modest savings get some credit for having saved. This saving could be in the form of an occupational pension, a stakeholder or other personal pension, the State Second Pension or other savings.

The Pension Credit will now mean that, for most people, most of the time, it will pay to save. For a limited group of people, however, the decision will not be so clear-cut, and these people will have to think carefully about their personal circumstances. In particular, people in their fifties and over who have not been able to save much and have only a limited ability to save as they approach retirement should seek expert advice before they take out a stakeholder pension.

Of course, future governments can change State pensions and benefits at any time and it may be unwise to rely on any particular type or level being available when you retire.

Further information about the Pension Credit can be found on the DWP's web-site at www.dwp.gov.uk/publications/2001/index.htm

I can't afford to contribute much regularly - so what will I get from my stakeholder pension?

Stakeholder pensions allow contributions as low as £20. But, a regular monthly contribution of £20 will not produce a large pension when you retire. And the older you are when you start saving, the less time there will be for your pension fund to grow to something worthwhile. The tables in the decision trees will give you a fair idea of the pension you could get, depending on your age and contributions.

The figures in the tables, however, are only estimates and are not guaranteed. They are also shown before income tax. When you receive your pension during retirement you may be taxed on it.

The figures are calculated on the following basis:

- **Before you retire**

Your monthly contributions increase in line with inflation	**2.5% a year**
Before charges your fund grows by	**7% a year**
Charges deducted from your fund	**1% of fund a year**

- **When you retire**

Annuity rates assume that the investment return after retirement is	**2.4% a year in excess of inflation**
Your pension increases in line with inflation	
Your spouse will receive half your pension on your death.	

What does contracting-out of the State Second Pension (formerly SERPS) mean for me?

Everyone in employment earning above the lower earnings limit (a minimum level of earnings set by the Government for State benefit purposes) is automatically included in the State Second Pension unless they decide to leave it. The State Second Pension has now taken the place of SERPS. Leaving the State Second Pension is called 'contracting-out'. If you contract-out, you give up your State Second Pension entitlement and instead build up a replacement for it in your own private pension arrangement. The private pension can be your employer's pension scheme or your own stakeholder pension scheme or other personal pension.

Some employers' occupational pension schemes contract-out all scheme members automatically. Other employers' occupational schemes are 'contracted- in' and the scheme pension is paid on top of any State Second Pension entitlement. If you are in one of these contracted-in schemes, you can still decide to contract out on an individual basis with a personal pension or a stakeholder pension.

If you are not a member of your employer's occupational pension scheme but you have a personal pension or a stakeholder pension, you can use that pension arrangement to contract-out.

If you contract-out using a personal pension or a stakeholder pension, the Inland Revenue will pay a rebate of your National Insurance contributions into your private pension fund. The rebate is invested and you build up a replacement pension for the State Second Pension given up.

The rebate that is paid into your pension scheme is set by the Government. The rebate is intended to provide benefits at around the same level as those you would have got if you had remained in the State Second Pension.

Contracting-out is an important decision and you need to consider all the implications, particularly if you are around the age of 50. If you want help with your decision, you should consult a financial adviser. You may have to pay for this help. Or you can ask your pension provider for a comparison of the State Second Pension you'll be giving up and the possible replacement pension you might get from a private arrangement.

Deciding to contract-out in one tax year does not commit you to do the same in later years. In fact, it's a good idea to review your decision regularly.

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What else do I need to check?

IF YOU ARE EMPLOYED

Employers' pension plans are always worth checking first as they usually provide extra benefits, such as added contributions from your employer or free life assurance.

You need to check:

- **Does your employer provide a pension plan?**
- **Are you a member of your employer's pension plan?**
- **If you are not a member, could you join now or later?**

If your employer does not provide a pension plan for you at the moment, he or she may be required to give you access to a Stakeholder Pension Scheme.

- **Ask your employer if he or she provides access to or will provide access to a new pension plan for staff as it might be better than a private pension you arrange yourself.**
- **Employers might agree to pay the stakeholder annual charge or make payments to your fund on top of your own contributions, but they don't have to.**

IF YOU ARE SELF-EMPLOYED

- **Are you contributing to a pension plan?**

If you have no pension to look forward to except the basic State Retirement Pension, you should consider setting up a personal pension, such as a stakeholder pension.

IF YOU HAVE NO FORM OF PAID EMPLOYMENT

- **Can you afford to contribute to a pension plan?**

You can now set up a stakeholder pension. You can then benefit from tax relief on your contributions, even if you don't normally pay income tax.

EVERYBODY

Check on the pension plans you have contributed to in the past but no longer pay into today. You need to have some idea of the retirement income you might get from an old pension plan.

To check on the value of old pension plans, look at the most recent benefit statements you have been sent. If you cannot find any statements, contact the pension plan provider, for example the insurance company or the employer that offered the pension to you.

Alternatively, the Pension Schemes Registry provides a free tracing service. It can help you identify pension schemes you have belonged to in the past. To contact the Pension Schemes Registry, phone them on 0191 225 6316 and ask for a tracing request form or write to them at:

Pension Schemes Registry
PO Box 1NN
Newcastle upon Tyne
NE99 1NN

There is also an online form available at www.opra.gov.uk

AND FINALLY

You should consider getting advice if you're not sure that saving in a pension plan is right for you, or if you want to look at other ways of saving and investing for the long term.

If you are not sure what's the best thing for you to do, get help. The decision trees suggest some organisations that might be able to help you.

If you do decide that a stakeholder pension is a good choice for you, you should contact several firms selling stakeholder pensions and ask them for a brochure or a Key Features Document. The Key Features Document sets out important details about that particular firm's stakeholder pension.

How to use the decision trees overleaf.

- **These decision trees have been designed to help you decide whether a stakeholder pension would be a good choice for you. Please take the time to read and use them carefully, giving accurate answers to the questions. The decision you take will be your responsibility.**
- **Start with 'tree 1' and work through the questions from the top of the page. Depending on your answers, you may only need to use the first tree or be asked to go to another tree in the set.**
- **Always work from the top of the page and tick the box for each question you answer.**
- **If the tree asks you about your present pension arrangements and you are not sure of the correct answer, find out the right information - don't guess.**
- **If the tree recommends you take advice, or if you are not sure what is right for you, then you should seek advice. You may have to pay for this advice.**

Employed Tree 1 - Current pensions

The decision tree is intended to help you make your own choice about your pension arrangements.It does not give you financial or professional advice and you should not regard it as doing so. **You should get help if you require advice.**

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

Yes if yes, tick ☐

No if no, tick ☐

Are you a member of a company pension scheme with your **current** employer?

Yes if yes, tick ☐

No if no, tick ☐

Do you **currently** pay into a stakeholder pension or other personal pension?

Yes if yes, tick ☐

No if no, tick ☐

Do you have a rebate-only personal pension (sometimes called a 'State Second Pension (or SERPS) opt-out') or a stakeholder pension?

Yes if yes, tick ☐

No if no, tick ☐

It is usually best to stay in your employer's scheme.

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

As well as your company pension you may wish to consider increasing your benefits by making Additional Voluntary Contributions (AVCs) or, if you are eligible, contributing to a stakeholder pension.

If you have a stakeholder pension, or other personal pension, you may wish to consider increasing your benefits by making more contributions

If you would like to review your pension arrangement, contact your financial adviser or your pension provider. Alternatively, see Employed Tree 4 for details of where to get help.

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

You have completed the trees.

You have completed the trees.

Go to Employed Tree 2.

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Employed Tree 2 - No Current pension

The decision tree is intended to help you make your own choice about your pension arrangements.It does not give you financial or professional advice and you should not regard it as doing so. **You should get help if you require advice.**

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

Yes if yes, tick ☐

No if no, tick ☐

Can you join your employer's scheme?
Ask your employer if you are not sure.

Yes, I can join now or in the near future. if yes, tick ☐

No, I will never be able to join the scheme. if no, tick ☐

Does your employer normally pay contributions to the scheme? **Check with your employer.**

Before you continue using the decision trees, you should check with your employer to make sure you will never be able to join the scheme.

Yes if yes, tick ☐

No if no, tick ☐

Does your employer's scheme give you other benefits such as free life cover, health insurance and so on? **Check with your employer**

Yes if yes, tick ☐

No if no, tick ☐

Are these other benefits important to you?

Yes if yes, tick ☐

No if no, tick ☐

If you can join your employer's scheme, or can do so after a waiting period, it is usually best for you to do so.

You have completed the trees.

Go to Employed Tree 3.

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Employed Tree 3 - How much should I save towards a pension?

The decision tree is intended to help you make your own choice about your pension arrangements.It does not give you financial or professional advice and you should not regard it as doing so. **You should get help if you require advice.**

THIS IS AN IMPORTANT DECISION

Most people save every month. It is better if you can keep up your monthly contributions.

The following table shows the **estimated monthly pension,** at today's prices,that you would get for different **regular monthly contributions.** The contribution shown is assumed to **increase each year in line with inflation.** The Government will also add tax rebates to increase the actual amounts paid into your stakeholder pension (although all tax breaks are subject to change).The estimated pension figures include this tax rebate. When you retire, your pension will increase in line with inflation.

Remember: these estimates are not guaranteed - you could get more or less than the amounts shown. A stakeholder pension would be on top of any State pensions you are entitled to.

The table gives you an idea of how much you need to pay now - as a regular monthly contribution - to receive the monthly pension you want when you retire. First look down the left-hand column to find the age closest to your age now.Then look across to find the monthly contribution you want to pay and the age at which you want to retire.

Your approximate age now	What you pay per month for the first year (tax rebates will be added to this amount)							
	£20		£50		£100		£200	
	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60
20	£133	£94	£333	£236	£667	£473	£1,334	£947
25	£107	£75	£269	£188	£538	£376	£1,076	£753
30	£85	£58	£214	£147	£428	£294	£857	£588
35	£67	£44	£167	£112	£335	£224	£670	£448
40	£51	£32	£127	£82	£255	£164	£511	£329
45	£37	£22	£94	£56	£188	£113	£376	£227
50	£26	£13	£65	£34	£130	£69	£260	£139
55	£16	£6	£40	£16	£80	£32	£160	£64
60	£7		£18		£37		£74	

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

Yes if yes, tick ☐ I've found the pension I need and can afford the monthly contribution.

No if no, tick ☐ I can't find the pension I need or I can't afford the contribution.

Consider starting a stakeholder pension or restart making contributions to a stakeholder pension. Check if your employer has designated a particular stakeholder pension.

If in doubt seek help from an expert adviser. See Employed Tree 4 for details.

You have completed the trees.

For details of where to get further help, go to Employed Tree 4.

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Employed Tree 4 - Where do I go from here?

The decision tree is intended to help you make your own choice about your pension arrangements.It does not give you financial or professional advice and you should not regard it as doing so. **You should get help if you require advice.**

DO YOU NEED FURTHER HELP?

You may want to get further help, particularly if you are in one or more of the following situations:

- You already have a pension arrangement and want to review your situation.
- Your personal circumstances do not seem to fit the questions in the decision trees.
- You wish to get advice that takes account of all your personal circumstances.
- You are not sure how to answer some of the questions in the decision trees.
- You are not sure if you are making the right decision.
- You feel you cannot afford to save for retirement.

WHERE TO GET FURTHER HELP?

You can get help from a number of sources.

You could contact the OPAS Pensions Helpline provided by the Pensions Advisory Service on 0845 601 29 23. You can also visit their website at www.stakeholderhelpline.org.uk

They will be able to give you more information about your options. This information is free but your call will be charged at local rates.

If you already have a financial adviser, you may want to speak to them about your retirement needs. If you do not have a financial adviser but want to talk to one, the following organisations can help:

- **Association of Independent Financial Advisers: 020 7628 1287**
- **IFA Promotions: 0800 085 3250**
  (for a list of three independent financial advisers local to your area)
- **Life Insurance Association: www.find-an-adviser.co.uk**
- **Society of Financial Advisers: 020 7417 4442**
- **Solicitors for Independent Financial Advice: 01372 721172**

Alternatively, contact the pension provider of your choice.

Please note that advisers may charge for any help or advice they give you.

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