

Our **Money made clear** guides – here to help you

This guide is part of our **Pensions and retirement** series.



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**No selling. No jargon. Just the facts.**

**No selling.  
No jargon.**

**Just the facts  
about  
stakeholder  
pensions and  
decision trees.**

If you would like this guide in Braille, large print or audio format, please call our Moneymadeclear helpline on 0300 500 5000 or Tynetalk on 1800 1 0300 500 5000. (Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.)

To help us maintain and improve our service, we may record or monitor calls.



**Money made clear**  
from the **Financial Services Authority (FSA)**

# This guide is for you if

## You want

- to know about stakeholder pensions.

## It explains:

- how they work; and
- what you need to think about when considering whether a stakeholder pension is a good choice for you.

It also answers some of the questions you may have.

The information in this guide is based on the 2009/10 tax year.

We try to ensure that the information in this guide, some of which comes from sources outside the FSA, is correct at the time of print. It is possible that some of it is oversimplified, or may become inaccurate over time, for example because of changes in the law. You should check the current position before you take any action.

This is general information to help you make financial decisions. It is not advice, and cannot take account of your individual circumstances. When making decisions about your own circumstances you should consider whether to consult a financial or other professional adviser.

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# What is a stakeholder pension?

A stakeholder pension is a *private (or personal) pension* – it's not a *State pension*. It must meet minimum standards laid down by the Government about charges, flexibility and the regular information you must be given. These standards are designed to help ensure that all stakeholder pensions give good basic value – see page 16.

With a stakeholder pension you can pay regular contributions and you can also make lump-sum contributions whenever you like. Your employer can contribute too. You will benefit from tax relief on your own contributions – see page 16.

## How a stakeholder pension works

Your contributions are invested to build up your own pension fund. The amount of your fund when you come to retire is not guaranteed and depends on:

- how much has been paid in;
- the type of investment fund you choose;
- how those investments perform; and
- the level of charges deducted from it.

A stakeholder pension scheme will usually offer you a range of investment funds, with differing levels of investment risk and potential investment growth.

## Who can have one?

You can contribute to a stakeholder pension whether you are in employment, a fixed-contract worker, self-employed, or even not working.

They suit a wide range of people. But they are likely to be particularly useful to people who have no existing pension provision apart from the State pensions, such as the self-employed or any employee whose employer does not contribute to a work-based pension.

They can also be used to top up benefits provided by an employer's own scheme. But if your employer offers to match any additional voluntary contributions (AVCs) that you choose to make to their scheme, this is likely to be better value than taking out a separate stakeholder pension.

## Taking your pension

You do not need to retire to take your stakeholder pension benefits. You can take benefits at any time from a certain minimum age, but not before. The minimum age for all pensions is going up from 50 to 55 by April 2010 at the latest. The precise timing may vary between different stakeholder pension schemes. You will need to bear this in mind when deciding on your retirement plans.

When you take benefits, you can choose to take up to 25% of your pension fund as a tax-free lump sum (based on tax law at the time of writing). And you can use the rest of your pension fund (or all of it, if you decide against a tax-free lump sum) to buy an annuity, which will pay you a regular income during your retirement. That income will depend on both the size of your pension fund and annuity rates at the time you take your pension. You may have to pay tax on your annuity income. For more information about annuities read our **Retirement options** guide – see *Useful contacts*.

# Key things to think about

**There are several things to consider before choosing a stakeholder pension. We set out some of them here. But if you need more help, consider getting professional financial advice – see *Useful contacts*.**

You will need to think about whether your State pensions, any existing private pensions, any occupational pensions and any other sources of income will be enough for you to live on when you retire. See below for more information.

You also need to think about the standard of living you want to enjoy when you retire and the income you'll need to support it.

## Basic State Pension

Basic State Pension is the retirement income you can claim once you have reached State Pension age if you have paid or are treated as having paid enough National Insurance contributions, or have received credits during your working life.

State Pension age is the earliest age at which you can claim your State Pension. At present it is different for men and women. Men can get their State Pension from 65 and, until 6 April 2010, women can get theirs at 60.

State Pension age for women will go up to 65 so that it will be the same for both men and women by 2020. This change will be phased in from 2010.

Further increases in the State Pension age for both men and women, from 65 to 68, are expected to take place in stages between 2024 and 2046. For more information, see The Pension Service's website – see *Useful contacts*.

The Government reviews the amount of the basic State Pension every year – see page 14 for the current rates.

## The State Second Pension (formerly SERPS)

The State Second Pension is payable when you reach State Pension age, on top of the Basic State Pension. The amount depends on your earnings while you were in employment and the National Insurance contributions you paid. Since April 2002, you may qualify for the State Second Pension if you are a carer or have a long-term illness or disability.

If you are self-employed you are not building up an entitlement to the State Second Pension.

Employees who were contracted out of the State Second Pension will not qualify for the additional pension for the period when they were contracted out.

Some people will be contracted out through an employer's occupational pension scheme and some through private pension arrangements. Check with your employer or pension provider if you are not sure. You can also contact the HMRC Contracted Out Pension helpline – see *Useful contacts*. See page 14 for more information on contracting out.

You can get a forecast of your State Pensions from the Future Pension Centre – see *Useful contacts*.

## If your current employer provides a pension scheme

If your employer already has a pension scheme for employees and you haven't joined it, check it out before you do anything else. In most cases, joining your employer's scheme is the best way to save for your retirement – especially if your employer contributes.

If you are a member of an employer's scheme, you should get regular statements setting out what your benefits may be when you retire. If you cannot find these statements, check with your employer.

## If you are already contributing to a personal pension scheme or a stakeholder pension

Find out what retirement income they might provide. Look at the most recent benefit statements you have been sent, or check with your pension plan provider.

## If you have any existing pensions from previous employers' schemes or from personal pension schemes

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 may get from them.

Look at the most recent benefit statements you have been sent. If you cannot find any statements, contact your pension plan provider, for example the insurance company or the employer that offered the pension to you.

For details on how to track down personal pensions or pensions provided by any former employers, contact the Pension Tracing Service – see *Useful contacts*.

## Pension Credit

Pension Credit is designed to make sure that people aged 60 and over have a minimum income and that those aged 65 and over with modest savings get some credit for having saved. These savings could, for example, be in the form of an employer's pension, a stakeholder or other personal pension, or the State Second Pension. This is not a complete list, and you could have other savings that will count.

For most people, it will pay to save in a pension or some other scheme, even with the effect of Pension Credit.

For a few people, however, the decision will not be so clear-cut, and they 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 in the past and don't have much scope for saving as they approach retirement should seek expert advice before they take out a stakeholder pension.

## What next?

You need to bear in mind that governments can change the rules for State pensions and benefits at any time. So it may be unwise to rely on any particular type or level of benefit being available when you retire.

If the income you expect in retirement is less than you want, you need to think about saving more to make up the difference. A stakeholder pension is one of your options. But before you decide anything, you need to think about your priorities.

## Your priorities

You may have other financial commitments that will affect what you can afford to contribute to a stakeholder pension. Or you may feel that other financial needs must come first.

## Your other financial commitments

You need to consider your mortgage repayments or rent, life insurance and credit cards, as well as any other financial commitments you have. Make sure that you do your sums before entering a stakeholder scheme and that you would still be able to afford your other commitments. Our online **Budget calculator** can help you. Just type in your income and outgoings and let it do the maths for you – see *Useful contacts*.

## Key things to think about

### Whether you can afford it

Remember that saving through a pension scheme is a long-term commitment, and any change in how you spend your money may need to last for a long time.

### Whether there are other things you need to do first

For example, you may want to consider life insurance for you and your family, or building up some emergency cash savings before thinking about a stakeholder pension.

If you are a member of your current employer's pension scheme, it may make sense to pay AVCs to that scheme rather than contribute to a stakeholder scheme. And if you are currently contributing to a personal pension or stakeholder pension, it may make sense to increase your contributions to that scheme rather than start a new stakeholder pension, especially if you have a stakeholder pension that has kept to the original 1% limit on charges.

### If you already have a personal pension

It is a good idea to contact your pension company or financial adviser to find out how the annual charges of your existing personal pension compare with a stakeholder pension. Also, find out what other features your existing personal pension has, for example the choice of funds you can invest in. You also need to check if there would be any charges for switching.

Although stakeholder pensions are designed to be cheaper to run than most personal pensions, you should get advice before switching to a stakeholder pension.

### Starting a stakeholder pension

You can get a stakeholder pension from a range of providers including banks, building societies, insurance or investment companies, or through a financial adviser.

All firms that sell stakeholder pensions must give you a copy of their **Key Features Document** before you sign up. This sets out basic information, such as the charges and the investment choices available, and will help you compare stakeholder pensions. Please read and keep it so you can refer to it later if you need to.

When you have signed up to a stakeholder pension, the stakeholder pension company will give you written details of whether you have a right to change your mind and cancel the contract. This will happen either before or immediately after you enter into the contract. This right to cancel the contract lasts for 30 days. After this you can only get access to your money when you take your pension benefits.

### How much should I contribute?

You can contribute as little as £20. But, even a regular monthly contribution of £20 over several years will not give you a large pension when you retire. And the older you are when you start saving, the less time there is for your pension fund to grow to something worthwhile.

See the Pension Table on page 11 for an idea of what paying in certain amounts would give you in the future.

# Decision trees

**The decision trees on pages 7-10 can help you decide whether a stakeholder pension would be a good choice for you. Take the time to read and use them carefully, giving accurate answers to the questions. Because the decision trees do not give personalised advice, any decision you take is your own responsibility.**

There are separate decision trees for those who are employed, self-employed and not employed.

When you have found the right decision tree, work through the questions from the top of the page and tick the box for each question you answer.

If the decision 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 decision 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.

Stakeholder pensions have many advantages for many people, but they may not be the right choice for everyone. Please read *Key things to think about* before using the decision trees.

For general information about pensions, read our **Pensions** guide – see *Useful contacts*.

After the decision trees you'll find the Pension Table, as well as further information about what to do next.

### The Pension Table

The Pension Table on page 11 will give you a fair idea of the pension income you could get, depending on your age and contributions.

**But please remember that the figures in the table are only estimates and are not guaranteed. You may get less, or you may get more.**

The pension figures are also shown before income tax. When you receive your pension during retirement you may be taxed on it. The current basic rate tax level is 20% (in tax year 2009/10).

**The figures in the table are based on the following assumptions.**

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 are 1.5% of the fund each year for 10 years, then reduce to 1%; and
- you get tax rebates on contributions of basic-level tax at 20%.

When you retire:

- your entire fund is used to buy an annuity, and you do not take any tax-free lump sum;
- annuity rates assume that the investment return after retirement is 0.6% a year above the rate of inflation;
- your pension increases in line with inflation; and
- your spouse will receive half your pension on your death.

# Employed Tree 1

This information 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.

## Current pensions

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

Yes  If yes, tick No  If no, tick Go to **Employed Tree 2**

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

Yes  If yes, tick No  If no, tick

It is likely to be a good idea 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 contributing to a stakeholder pension. Check whether your employer offers to match any AVCs that you may decide to make. If they do, then AVCs to your employer's scheme are likely to be better value than a stakeholder pension.

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 or stakeholder pension (sometimes called a 'State Second Pension (or SERPS) opt-out')?

Yes  If yes, tick No  If no, tick

You may wish to consider making increased contributions to your existing scheme, especially if you have a stakeholder pension that has kept to the original 1% limit on charges.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider. Alternatively, see *Next steps* after the decision trees flowcharts.

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

Go to **Employed Tree 2**

2009/2010

# Employed Tree 2

This information 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.

## No current pension

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  If yes, tick

I can join now or in the near future.

No  If no, tick

I will never be able to join the scheme.

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.

Go to the **Pension Table**

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

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 likely to be a good idea for you to do so.

You have completed the trees

In answering no, you should think carefully about the value of any additional benefits to you, both now and in the future.

Go to the **Pension Table**

2009/2010

## Self-employed

This information 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

Do you **currently** pay into a self-employed pension, a stakeholder pension or other personal pension?

Yes  If yes, tick

No  If no, tick

You may wish to consider making increased contributions to your existing plan, especially if you have a stakeholder pension that has kept the original 1% limit on charges.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider.

Alternatively, see *Next steps* after the decision trees flowcharts.

You have completed the trees

Go to the **Pension Table**

2009/2010

## Not employed

This information 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

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

Yes  If yes, tick

No  If no, tick

You may wish to consider making increased contributions to your existing plan, especially if you have a stakeholder pension that has kept the original 1% limit on charges.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider.

Alternatively, see *Next steps* after the decision trees flowcharts.

You can save for your retirement by contributing to a stakeholder pension.

You have completed the trees

Go to the **Pension Table**

2009/2010

## How much should I save towards a pension?

### 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 amounts paid into your stakeholder pension (although all tax breaks are subject to change). The estimated pension figures include this tax rebate calculated using current basic rate (20% for tax year 2009/10). They also assume that 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 in addition to 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 the top to find the monthly contribution you want to pay and the age at which you want to retire.

What you pay per month for the first year (tax rebates will be added to this amount)

Your approximate age now	£20		£50		£100		£200	
	Initial monthly payment if you retire at		Initial monthly payment if you retire at		Initial monthly payment if you retire at		Initial monthly payment if you retire at	
	65	60	65	60	65	60	65	60
20	£95	£66	£238	£165	£477	£330	£954	£661
25	£76	£52	£192	£131	£384	£262	£768	£525
30	£61	£41	£152	£102	£305	£205	£611	£410
35	£47	£31	£119	£77	£238	£155	£477	£311
40	£36	£22	£90	£56	£181	£113	£362	£227
45	£26	£15	£66	£39	£132	£78	£265	£156
50	£18	£9	£45	£23	£91	£47	£182	£95
55	£11	£4	£27	£11	£55	£22	£111	£44
60	£5		£13		£26		£52	

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.

For details of where to get further help, see *Next steps* on the following page.

Consider starting a stakeholder pension or restart making contributions to a stakeholder pension. If you are employed, check if your employer offers workplace access to a particular stakeholder pension and if they offer a contribution to it. If in doubt, seek help from an expert adviser. See *Next steps* on the following page.

You have completed the trees

# Next steps

## Step 1

Having looked through the decision trees, you now need to make some decisions.

## Step 2

If you decide that a stakeholder pension is right for you, contact several firms selling stakeholder pensions and ask them for a brochure or **Key Features Document**, so you can compare products. The **Key Features Document** will set out important details about that firm's particular stakeholder pension product.

You can compare different stakeholder pension and personal pension schemes at **Compare products** on our Moneymadeclear website – see *Useful contacts*.

You can find a register of stakeholder pension providers on the Pensions Regulator's website, or you can contact a financial adviser to help you choose a particular stakeholder pension provider – see *Useful contacts*.

## Step 3

Get more help before making a decision, particularly if:

- you already have a pension arrangement;
- your personal circumstances do not fit the questions in the decision trees;
- you want advice that takes account of all your personal circumstances;
- you're unsure how to answer some of the questions in the decision trees;
- you are not sure if you are making the right decision; or
- you feel you cannot afford to save for retirement.

## Step 4

Consider getting advice if:

- you are not sure that saving through a pension plan is a good idea for you; or
- you want to look at other ways of saving and investing for the long term.

No selling.  
No jargon.

Just the facts about stakeholder pensions and decision trees.

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# Your questions answered

Question

**Where can I get a stakeholder pension?**

Answer

You can buy one privately by contacting a financial adviser or a firm that sells stakeholder pensions. You will see stakeholder pensions advertised widely, for example in the newspapers, or at your local bank or building society.

A full list of registered stakeholder pension scheme providers is available from the Pensions Regulator's website – see *Useful contacts*.

If your employer already has a pension scheme and you haven't joined it, check it out before you do anything else. In most cases, joining your employer's scheme is the best way to save for your retirement – especially if your employer contributes.

Employers normally have to provide access to a stakeholder pension if they have five or more employees and do not have any other pension scheme arrangement for their staff. If your employer provides access to a stakeholder pension, ask if they intend to make a regular contribution for employees. If so, it is usually a good idea to join their stakeholder pension plan.

Question

**How do I choose between stakeholder pensions?**

Answer

You can compare features and costs of stakeholder pensions at **Compare products** on our Money made clear website – see *Useful contacts*.

Look at independent surveys published in personal finance magazines. Many are available in your local library or on sale in newsagents.

Contact several firms selling stakeholder pensions and ask them for a brochure or **Key Features Document**. This gives important details about that firm's particular stakeholder pension product.

All firms that provide stakeholder pensions are regulated by the FSA and by the Pensions Regulator. And all stakeholder pensions must meet minimum standards set by the Government – see page 15.

Don't assume that the first advert you spot, or salesperson you talk to, has the best deal. Shop around and find out what else is on offer. Some firms selling stakeholder pensions might offer better terms than the Government standards.

Question

**Can I use a stakeholder pension to contract out of the State Second Pension (S2P)?**

Answer

Yes, you can, but it's not an easy decision.

The decision to contract out or stay contracted out during the 2009/10 tax year is likely to be finely balanced in purely financial terms. However, older age groups, particularly those closer to retirement, are likely to be financially worse off by contracting out.

Your decision will depend on factors such as your personal circumstances, how you wish to receive your benefits at retirement and your attitude to investment risk.

If you have already contracted out through a personal or stakeholder pension, you should review your decision now. Make sure you review your decision every year. The decision you make this year will not affect past years in which you were contracted out.

You may wish to contact your pension provider for further information or seek financial advice to help you make your decision.

It is worth noting that the Government has recently announced that from 2012 at the earliest, contracting out into a private pension scheme will no longer be allowed.

For more information about contracting out, read our guide **The State Second Pension – should you be contracted out?** – see *Useful contacts*.

Question

**What are the current basic State Pension and Pension Credit rates?**

Answer

**The basic State Pension and Pension Credit rates given here apply in the 2009/10 tax year.**

**BASIC STATE PENSION from age 65 (men) or 60 (women)**

	Weekly	Monthly equivalent
One person with a full National Insurance contribution record	£95.25	£412.75
Full rate based on a spouse's National Insurance contribution record	£152.30	£659.97
Couples who have both paid full National Insurance contribution	£95.25 each	£412.75 each

**PENSION CREDIT guarantees a minimum income from age 60 of at least:**

	Weekly	Monthly equivalent
Single person	£130.00	£565.33
Couple	£198.45	£859.95

# Further information

## The minimum standards

Stakeholder pensions must meet the following standards laid down by the Government. These standards relate to the charges and operation of stakeholder pensions, and do not mean that your money is protected.

### Charges

Providers of stakeholder pensions are able to charge an upper limit of 1.5% of the value of your fund each year for the first 10 years, which then reduces to 1%. But if you started your stakeholder pension before 6 April 2005, the maximum that you can be charged is 1%, so it will probably be cheaper to continue contributing to it rather than take out a new stakeholder pension.

Some stakeholder pensions might charge less than 1.5% a year. Shop around, as charges can have a major effect on your pension, particularly if you hope to build up a substantial amount of money in your fund over the years.

### 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 employer provides 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 will also include a forecast of how much your pension could be in today's prices. Look out for this forecast – it's called a **Statutory Money Purchase Illustration** – which is updated each year and will help you decide whether you are saving enough for your retirement.

## Investments

The performance of your stakeholder pension depends on the type of investment fund you choose and how those investments perform. **Remember that investments linked to the stockmarket can fall as well as rise.**

You don't have to make decisions about how your contributions will be invested. All stakeholder pensions have to offer a default investment option. If you do not want to choose a particular investment fund when you take out your stakeholder pension your contributions will be invested automatically in the default fund.

Stakeholder pensions must also provide what is called 'lifestyling'. This means that at least five years before retirement your pension savings will start to be moved into less risky investments. This will help to guard against falls in investment value as retirement approaches. You can, however, choose to turn off the lifestyling before it begins.

If you want more choice in how your contributions are invested, look at stakeholder pensions that have a wide range of funds.

## Tax relief

Everybody who contributes to a pension will get tax relief on their contributions. Under present arrangements, for each £1 you pay into your pension fund, HM Revenue & Customs (HMRC) will pay an extra 25p into your fund, even if you don't normally pay income tax. For example, if you pay in £50 a month, income tax relief will increase your contribution to £62.50.

Under the new tax rules introduced in April 2006 you can pay as much as you like into a stakeholder pension, but there are limits on the amount of tax relief you are given. You will receive tax relief on yearly contributions made by and for you in any year up to the higher value of either £2,880 or 100% of your UK earnings (for tax year 2009/10).

Most people can contribute up to £3,600 to a stakeholder pension in any tax year, including basic-rate tax relief. This means you could pay in £2,880 each tax year from April 2009, and the income tax relief would automatically increase your contribution to £3,600.

If you pay income tax at the higher rate, you will be able to claim back the extra tax from HMRC at the end of each tax year.

Even if you have no form of paid employment you can start a stakeholder pension. You can then benefit from tax relief on your contributions, even if you don't pay any income tax.

There is, however, a maximum annual allowance (set at £245,000 for tax year 2009/10) as well as an overall lifetime allowance (set at £1.75 million for tax year 2009/10) on the total amount of money you can save in your pension, which will be free of any tax charge when you come to take your benefits.

These apply to all contributions made by and for you (including from an employer), and the lifetime allowance includes the value of all the other current or existing pension schemes you may have from previous jobs.

If the contributions made in any year exceed the annual allowance, the contributions above the limit will still attract tax relief, but you will have to pay a 40% tax charge on them.

## Pension changes

The Government is planning changes that will mean all employers will have to offer and contribute to a pension in future. Employers who haven't offered an occupational pension in the past may set up their own scheme, or may pay pensions into a new central scheme that is being set up. This is expected from 2012. For more information, go to the Pension Service website – see *Useful contacts*.

# If things go wrong

## Complaints

If you have a complaint about the advice you received when you bought your stakeholder pension, you should first contact the firm you dealt with.

They have a procedure to follow when dealing with complaints.

If you're not satisfied with their response, you may be able to take your complaint to the Financial Ombudsman Service.

The firm should give you the details of this free service – see *Useful contacts*.

For more information get a copy of our **Making a complaint** guide – see *Useful contacts*.

## Compensation

If a regulated firm is unable (or likely to be unable) to pay claims against it, you may be able to get compensation from the Financial Services Compensation Scheme. This will be subject to a number of conditions and exclusions.

There are limits to the amount of compensation it can pay depending on the type of claim.

The service is free to claimants – see *Useful contacts*.

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# Jargon buster

## Some key words and phrases explained.

### Annuity

An investment that converts a lump sum (for example your pension fund) into regular income, which is taxable.

### AVCs

Additional Voluntary Contributions – a pension top-up for an occupational pension. You pay contributions into a scheme run by your employer to boost your main pension.

### Contracting out

The facility to leave the State Second Pension (previously SERPS) and build up benefits in a personal or stakeholder pension.

### Defined benefit pension scheme

Another name for a salary-related occupational pension scheme, where what you get when you retire depends on your earnings and years of membership of the scheme.

### Defined contribution pension scheme

Another name for a money purchase occupational pension scheme where you know how much you and (in some cases) your employer contribute.

### FSAVCs

Free-Standing Additional Voluntary Contributions – a money purchase pension top-up policy for an occupational pension. This is separate from your employer's pension scheme and is normally run by an insurance firm.

### Group Personal Pension

A type of personal pension offered by some employers but not classified as an occupational pension scheme.

### HMRC

HM Revenue & Customs – responsible for collecting taxes and paying tax credits.

### Money purchase pension

A pension where your contributions are invested in, for example, the stockmarket. The size of your pension fund depends on how much is invested and how well the investments do. At retirement, some or all of the fund may be used to buy an annuity. This includes some occupational pensions and all personal pensions, group personal pensions, stakeholder pensions, FSAVCs and some AVCs.

### National Insurance contributions (NICs)

You pay these if you are employed or self-employed to build up your entitlement to certain social security benefits, including the State Pension. You stop paying NICs at State Retirement age.

### Occupational pension

Available through employers and run by pension scheme trustees. There are two types – salary-related (defined benefit) and money purchase (defined contribution).

## Jargon buster

### Personal pension

A money purchase pension from a financial services company into which you and/or your employer make contributions.

### Protected rights pension

The part of your pension fund which was used to contract out of the State Second Pension (previously SERPS) and must be used to buy a protected rights annuity.

### Salary-related occupational pension scheme

Also known as a final salary or defined benefit scheme – a type of occupational pension. The amount of pension you get is worked out on your salary at or near retirement, or when you left employment, and on the length of your pensionable service.

### SERPS

State Earnings Related Pension Scheme – an additional State pension for employees, based on earnings and NIC record. Now called the State Second Pension.

### State Pension

A pension based on your National Insurance contribution record.

### State Second Pension (S2P)

An additional State pension paid on top of your basic State Pension. It used to be called SERPS. Self-employed people cannot build up a State Second Pension.

### Statutory Money Purchase Illustration (SMPI)

Under government regulations for defined contribution pension schemes, your pension provider must give you a yearly illustration of the pension income you might get at retirement.

### Tax-free lump sum

An amount of cash set by HM Revenue & Customs which you can take at retirement free of tax. Individual pension schemes may have different rules on how much you can take.

### Tax year

From 6 April one year till 5 April the following year.

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# Useful contacts

Call rates may vary – check with your telephone provider.

### Financial Services Authority (FSA)

To order other Money made clear guides, check our Register, report misleading financial adverts or other promotions, or for general information or guidance

Helpline: 0300 500 5000

Typetalk: 1800 1 0300 500 5000

(Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.)

### Other Money made clear guides

- About the Financial Services Authority
- Borrowing money
- Credit unions
- Getting financial advice
- Making a complaint
- Managing in retirement
- Mortgages
- Pensions
- Proving your identity
- Retirement options
- Saving and investing
- The State Second Pension – should you be contracted out?

For more titles, call us or go online  
[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

On our Money made clear website you can find:

- Compare products tables to compare stakeholder and personal pensions;
- a Budget calculator to help you work out your spending, as well as other useful tools; and
- Stakeholder pensions decision trees – interactive version.

Go to [www.moneymadeclear.fsa.gov.uk/tools](http://www.moneymadeclear.fsa.gov.uk/tools).

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## Useful contacts

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### Pension information and advice

#### DWP Pensions Information Order Line

0845 731 3233  
Textphone: 0845 604 0210  
[www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)

For booklets about State pensions.

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#### The Pension Service

[www.thepensionservice.gov.uk/statepensiondeferral/home.asp](http://www.thepensionservice.gov.uk/statepensiondeferral/home.asp)

For information about deferring your pensions.

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#### The Pension Service

0800 991 234  
[www.thepensionservice.gov.uk/pensioncredit/home.asp](http://www.thepensionservice.gov.uk/pensioncredit/home.asp)

For information about Pension Credit.

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#### Future Pension Centre

0845 300 0168  
Textphone: 0845 300 0169  
[www.thepensionservice.gov.uk/resourcecentre/e-services/home.asp](http://www.thepensionservice.gov.uk/resourcecentre/e-services/home.asp)

For a State Pension forecast.

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#### Pension Tracing Service

0845 600 2537  
Textphone: 0845 604 0210  
[www.thepensionservice.gov.uk/atoz/atozdetailed/pensiontracing.asp](http://www.thepensionservice.gov.uk/atoz/atozdetailed/pensiontracing.asp)

To trace pensions you've lost track of.

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#### The Pension Service

[www.thepensionservice.gov.uk/pensions-reform/home.asp](http://www.thepensionservice.gov.uk/pensions-reform/home.asp)

For proposed changes to pensions.

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### The Pensions Advisory Service

0845 601 2923  
[www.stakeholderhelpline.org.uk](http://www.stakeholderhelpline.org.uk)

For general information on any pensions.

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### The Pensions Regulator

0870 606 3636  
[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

Provides a register of stakeholder pension scheme providers.

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### HM Revenue & Customs (HMRC)

Contracted Out Pension helpline  
0845 915 0150  
[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

To find out if you are contracted out.

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### Directgov

[www.direct.gov.uk](http://www.direct.gov.uk)  
The Government's public service information website.

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### Finding a financial adviser

#### IFA Promotion

[www.unbiased.co.uk](http://www.unbiased.co.uk)

Provides a list of eight local financial advisers.

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#### Institute of Financial Planning

0117 945 2470  
[www.financialplanning.org.uk](http://www.financialplanning.org.uk)

For help in planning your finances.

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#### The Personal Finance Society

[www.findanadviser.org](http://www.findanadviser.org)

Provides a list of six local financial advisers.

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### Complaints and compensation

#### Financial Ombudsman Service

South Quay Plaza  
183 Marsh Wall  
London E14 9SR  
0845 080 1800  
[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

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#### Financial Services Compensation Scheme

7th floor, Lloyds Chambers  
Portsoken Street  
London E1 8BN  
020 7892 7300  
[www.fscs.org.uk](http://www.fscs.org.uk)

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