The Saga guide

...to Pensions

• State pensions explained • Pensions dos and don’ts • Retirement income tips

Saga

Welcome

Moving into retirement is one of the most important phases of your life to get right. Unfortunately it's also the time that throws up some extremely complex choices.

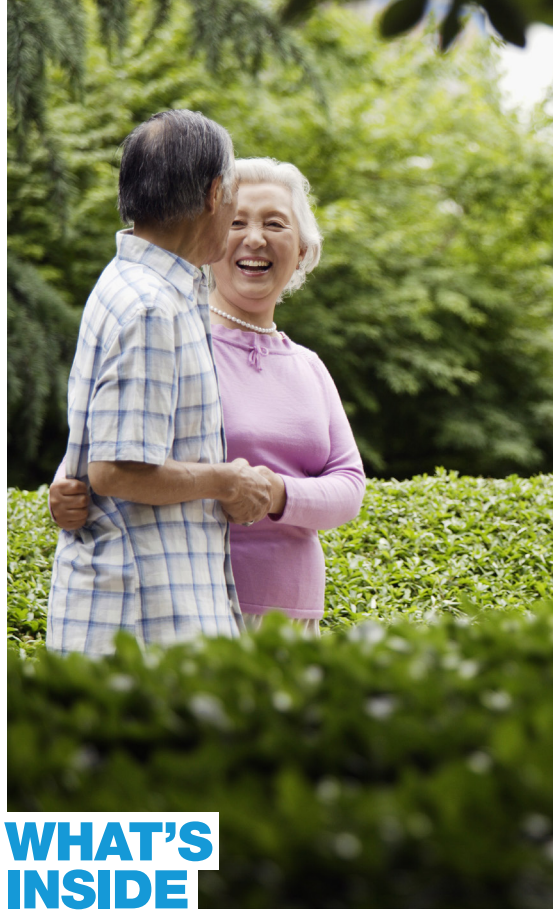
Many of us stick our heads in the sand – but knowing what your income will be in retirement is vital.

This guide aims to help you understand one of the biggest assets you have – your pension.

We'll help you work out what you already have and show you how to maximise it. Making the right choices with your pension fund could mean all the difference between an enjoyable retirement, fulfilling the dreams you have for your later years, and possibly struggling financially in older age.

So don't delay in getting to grips with your pension. Understanding what you have is not hard. But pensions can be a minefield for the unwary.

This clear guide will help you plan for a retirement that is worry-free and comfortable.



WHAT'S INSIDE

www **For more information on planning for your retirement, visit saga.co.uk/money**

Getting started

A few vital things to consider when planning retirement

When can you retire?

If you haven't reached state pension age, you may still be able to retire (or take semi-retirement if you intend to work part-time) if you have savings and investments to live off or are a member of a company or private pension scheme from which you can take benefits early.

These days, **many pensions can be taken from the age of 55**. But company schemes may have special rules. You may need to seek permission to take benefits early – and there may be penalties. Check with your scheme's administrators if you're considering this.

How much money will you need?

The big question! This guide will help you find out how much you can expect from your pensions. But you need to calculate carefully how much you think you will need in retirement and check that your expected income matches it. It's time to sit down and budget your annual outgoings (your heating bills are likely to rise, for instance, when you are at home in the daytime), the cost of any retirement dreams you have, and the possibility of needing care. If your income falls short, you'll need to adjust your plans.

However, unless you are planning to buy that Lamborghini, your tax and expenses are likely to be far less in retirement than when you were working, and you may have other savings and investments, too. The old rule of thumb was that you would need about two-thirds of your pre-retirement salary to maintain your standard of living. These days **half of your salary** is more realistic, particularly now the state pension is more generous.

Consider your other half

Don't forget to include your partner in your calculations: is he or she going to retire at the same time? Awkward as it may seem when you are just starting on a new and exciting chapter of your life together, you should stop and consider how each would manage if the other was no longer there – if either of you were widowed or one of you went into care.

> You'll need to calculate how much you think you will need in retirement and check that your expected income will match it

A generous pension that provides for two while both are alive could leave a surviving partner stranded if the benefits are in one name only. You should check that eventuality with your scheme's provider.

Don't have enough?

Don't panic, today you have many options to help. Now that state retirement age is rising and employers can no longer ask people to leave their job on age grounds – many people continue to earn income past the traditional 'retirement age'. You can also **boost your income** by topping up a pension, for instance, or buying some more National Insurance 'years' to increase your state pension – or even deferring it to increase the weekly rate. Read on!

Jargon buster *Annuity:* an income for your lifetime in retirement that you buy from an insurance company using the money you have saved in your pension pot.

Counting down to retirement

It's never too early to start planning to take your pension. Follow this pre-tirement timeline

5 years before your planned retirement

Nearly two-thirds of people aged over 45 haven't checked the performance of their pension, which means millions of people are saving in schemes that are at risk of underperforming.

- Ensure you know the type of pension(s) you have *(see p6)*.
- Contact the administrators of each scheme you are, or have been, a member of. Check the benefits they provide – and when you can receive them.
- If you believe you were a member of a scheme but can't quite remember which, or you have lost contact with the scheme administrators, contact the free Pension Tracing Service. Go to *gov.uk* and search for 'lost pensions'. Or you can ring *0345 6002 537*, Monday to Friday, 8am to 6pm.
- Depending on your age, you need a number of qualifying years of National Insurance contributions to receive a full state pension. Find out how much you stand to get by applying for a state pension statement from the Government. Go to *gov.uk* and search for 'pension statement' or you can call *0345 3000 168*.
- Head to the Government's Pension Wise website and start to do some research about retirement options. See *pensionwise.gov.uk*.
- Maximise your other savings and investments to bolster your retirement nest egg.

Boost your pension if it is not on track. You should have been receiving annual statements telling you how much each of your pensions will pay out when you reach your selected retirement age. If not, request up-to-date statements from your pension provider(s).

If the amount looks disappointing, you may still be able to make additional payments into a workplace scheme or a personal pension, and obtain valuable tax relief on the contributions. Or simply switch funds to something with better performance or with lower charges.

In some circumstances it may make sense to consolidate a number of pensions into one for easier management – but not necessarily. Some pensions may have valuable guarantees on future income. Take advice if you suspect this applies to you. See page 15 for how an adviser can help.

If you have gaps in your National Insurance record, you may be able to make extra contributions to top up your state pension *(see p13)*.

1 year to go

Unless you have complete confidence in your own capabilities, now is really the time to take some financial advice.

- Find an adviser on *unbiased.co.uk* or *vouchedfor.co.uk* – websites where customers rate their experiences.
- Start budgeting for your new life in retirement before you make any firm decisions about a date to retire.
- Many people opt to downsize their home in retirement. If you are intending to downsize to release cash to supplement your retirement income, start planning now.
- If you haven't tracked down your company pensions, or asked for a state pension statement *(see opposite)*, there is still time, but do it now.

6 months to go

You've done the maths and decided to retire.

- Now that you can no longer be asked to leave your job simply because you have reached a certain age, you'll need to have a meeting with your employer and agree your departure date.
- Four months before your state pension age you will receive details from the Pension Service of how to claim your state pension – it isn't just paid to you automatically. If you haven't received the letter, you should call the Pension Service on *0800 731 7898*. If you don't really need to take your state pension straight away, you may find it advantageous to wait a few years *(see 'Defer your pension', p12)*.

Nearly two-thirds of people aged over 45 haven't checked the performance of their pension

TOP TIP
Check your financial adviser's authorisation and qualifications with the Financial Conduct Authority at *fca.org.uk, 0800 111 6768*

Jargon buster *Lifetime Allowance:* the total benefits payable from all your pension pots (excluding state pension); for most people the limit is £1 million in 2016/17. Anything over the limit is taxed at up to 55%.

Jargon buster *Pension Wise:* the Government's free guidance on pensions, provided online at *pensionwise.gov.uk;* by phone by the Pensions Advisory Service, *0300 123 1047;* and in person at some Citizens Advice offices.

What kind of pension do you have?

There are different kinds of pension. Use our guide to understand what you have – then turn the page to see what you can do with each one

There are three main types of pension.

The state pension

This is paid to everyone who has qualified by paying enough National Insurance during their working life, by making voluntary contributions or receiving credits, such as for being a carer, or during periods of unemployment. When you can claim your state pension depends on your date of birth. To find out your state pension age, go to *gov.uk* and search for 'state pension timetable'.

Defined Benefit pension

Also known as a **final salary scheme** or a **career average scheme**. These are commonly found in the public sector and in older-style private schemes. Many have closed to new members on the grounds of cost, but if you have been a member you will have valuable benefits. Check with your scheme's provider.

How it works: You pay into the scheme throughout your employment and will receive payments related to:

- the **salary** you had on leaving the scheme
- the number of **years** you were a member
- its **'accrual rate'**, which is expressed as a fraction.

So if you worked 20 years for a firm offering an 'eightieths' scheme, you will receive 20 eightieths (20/80) of your final salary – ie a quarter of it. £40,000 a year salary will pay a pension of £10,000.

Career average schemes use your average salary during your employment rather than your final salary to determine your pension.

The date you can take your pension will be set out in the scheme's terms and conditions, but it may be possible to take your pension earlier or later. Consult the administrator.

TOP TIP
Concerned about Inheritance Tax?
The most recent pension reforms mean it could now be more tax efficient to draw income from investments liable to IHT on death, such as savings accounts, before tapping in to pensions.

In certain circumstances you can leave your Defined Contribution pension to anyone, free of tax, when you die

Defined Contribution pension

Also known as a **money purchase scheme**, which includes **stakeholder pensions**, many **workplace pensions** – including **AVCs** (additional voluntary contributions) – and personal pensions including **SIPPS** (Self Invested Personal Pensions).

You, and often your employer if you are not in a final salary scheme, pay into a scheme and receive tax relief on the contributions. How much your savings are worth by the time you retire will depend on how much you and your employer contributed and the performance of the investments that the money has been saved in.

How it works: You use the money saved to provide your retirement income. Traditionally this was done by buying an annuity – an income for life – from an insurance company, but you don't have to do this now. Instead, you can draw down the cash and spend it as you wish. Or, if you have other income sources, you can keep the money invested until you need it, and even leave it to someone after you die, subject to certain conditions.

Jargon buster *Annuitant:* the person who is the recipient of income guaranteed by an annuity; a person who has used their retirement pension pot to purchase the annuity.

Jargon buster *Guaranteed annuity:* an annuity that pays out for a certain number of years even if the annuitant dies in the meantime.

Your pension options

The kind of pension you have will dictate what you can do with the money in your pot. Here's your at-a-glance guide to the options

If you are a member of a **Defined Benefit scheme** your options will usually be pretty clear. You will switch from receiving a salary from your employer to receiving a monthly payment from the pension scheme.

But if you want to take cash you may be able to **switch your Defined Benefit scheme into a Defined Contribution one** to achieve more flexibility. This option is available only for some schemes and is never to be undertaken lightly, as you could be giving up very valuable benefits.

Those in a **Defined Contribution scheme** now have many options since the rules changed in 2015.

Buy an annuity. You can use your pension pot to buy an insurance policy that guarantees to provide an income for life. Although annuities have had a bad press in recent years, many people will still opt for this if their priority is peace of mind, knowing they will have an income for the rest of their life. You can index-link an annuity to keep pace with inflation, if you choose. Joint life annuities also provide a guaranteed income for a remaining partner. Running out of money is a very real fear for many pension savers.

Take the whole lot as a cash lump sum. But beware, only the first 25% of your pension savings can be taken tax-free; the rest is taxable at your highest rate. Withdrawing a large sum all at once could push you into a higher tax bracket and mean that a huge proportion of your savings could disappear into the hands of HMRC.

> You may be tempted to take the whole lot as a cash lump sum, but take care: only the first 25% of your pension savings can be taken tax-free

TOP TIP

Retirement Annuity Contracts (RACs) were a type of Defined Contribution scheme sold by insurance companies before July 1988. If you have one of these, you should check whether it has a guaranteed annuity rate: they can be very valuable.

Withdraw lump sums in different tax years. If you are determined to take out cash, you should plan staged withdrawals. If you make a mistake, the tax due could easily outweigh the cost of getting an adviser to help you to do it properly. In this case, taking financial advice is a must.

Draw down from your fund. Those with large pension pots can invest the money and draw down enough to live on. This can either be by taking an income, known as **flexible drawdown**, or in a series of lump sums, which are known somewhat clunkily as the **uncrystallised funds pension lump sum option**. Clever investment could mean you'd be able to live off the income from a pension investment portfolio and leave the portfolio itself untouched. But using your savings rather than buying an annuity does leave all but the wealthiest investors at risk of outliving their savings and being left in poverty in extreme old age.

Mix and match. Most people with larger pots will look at least in the first instance for a mix and match approach to pension spending.

A typical choice might be to take the tax-free lump sum *(see Beware of tax pitfalls, p14)*, perhaps to clear a mortgage, but leave the rest of the fund invested, drawing on it as required, or using it to buy an annuity later when rates have – hopefully – improved.

For those smaller pension pots

If you have only dribs and drabs in funds from short employments, it might be an idea to take the whole lot as cash.

If you are in one or a number of small Defined Benefit schemes and are at least 55 (or you're retiring earlier because of ill-health), and the value of your pensions (excluding state pension) together does not exceed £30,000 in total, you may be able to take the whole lot as cash.

The same applies to any single pension pot worth less than £10,000 – even if you have other pension benefits. Apply to your scheme administrator. The cash will be taxed as income in the year you withdraw the money, apart from the first 25%, which is tax free.

If you're a member of a Defined Contribution scheme, under the new rules you can take it as cash anyway (but see the tax warning opposite).

Remember that if you spend this money and have no other resources, then you may end up like the current one in seven retirees who have only the state pension to live on.

Jargon buster *Retail Prices Index (RPI):* the main measure of inflation in the UK; an index that tracks the prices of a representative 'basket' of retail goods and services every month.

Jargon buster *Open Market Option:* the right to shop around and buy a pension annuity from a provider other than the company you saved with.

All about your state pension

Find out what the recent radical pension reforms mean for you

Jargon buster *Contributions:* payments made by an individual or their employer to a pension scheme, to create a retirement income.

Old or new? Which version of the state pension will you get?

Huge reforms meant that it was all change on the state pension front on 6 April, 2016. However, the changes apply only to people who reach state pension age *after* this date. If you reached state pension age before this date then the old rules, and the old pension rate, apply.

Whether you qualify for the **new state pension** is dependent on your birth date. The key dates are:

- **a man born on or after 6 April, 1951 or**
- **a woman born on or after 6 April, 1953**

Note that when you opt to take your pension is irrelevant. So if you were born before these dates, you cannot get the new state pension simply by delaying claiming it.

The OLD state pension

Since 2010, the old scheme requires you to have made 30 years' National Insurance contributions for a full pension. If you don't have a complete record, the amount you receive will be pro rata for the years you did contribute. The current rate is £119.30 per week. If you paid into SERPS (the State Earnings Related Pension Scheme, also known as S2P or the state second pension) you may get more. If you have chosen to retire later, you can find out how much you will get by asking for a pension statement, formerly called a forecast *(see p4)*.

Spouses and civil partners who do not qualify for a pension in their own right may be able to use their partner's National Insurance record to increase their own pension entitlement.

The NEW state pension

You will need 35 years' National Insurance contributions to get the full state pension and you need 10 years' contributions to get anything at all.

Only your own record counts, although there are some circumstances when you may be able to inherit benefits from your spouse or civil partner – for instance, if they died before 6 April, 2016 but would have reached state pension age on or after that date. Go to *gov.uk/new-state-pension* and see point 6.

If you chose to pay married woman and widow's reduced-rate National Insurance contributions (sometimes called 'the married woman's stamp'), you may also have your pension calculated using different rules that could give you a higher rate.

For those people who reach state pension age after April 2016, it will be all change on the pensions front

The full new state pension is £155.65 per week. However, only one in three claimants is likely to get the full amount – not least because the full pension may not be paid to people who 'contracted out' of SERPS during their working lives.

Contracted out means that the National Insurance contributions that would have gone into SERPS were instead diverted to a private or company pension scheme.

Eventually the new pension will be a flat rate for everyone who qualifies with a full record. But during the transitional period, people who reach state retirement age on or after 6 April, 2016 who would have received more under the old system than the basic rate, because they paid into SERPS, will have their contributions taken into account. That way they should never receive less under the new scheme than they would have got under the old one. ▷

Jargon buster *Enhanced or impaired life annuity:* a special (higher) rate for people with a lifestyle or health condition, such as smokers or diabetics.

If you have other income or savings, you can 'defer' taking your state pension until a future date and receive more money every week as a reward

State pension checklist

- **Make sure you have the minimum number of National Insurance contributions needed to be able to claim the full state pension.**
- **Ask if you can fill in any gaps.**
- **If you are still below state pension age but not working, consider making voluntary National Insurance contributions until you have the right number.**
- **Consider deferring your pension.**
- **If you reached state pension age before April 2016, you could pay special additional voluntary contributions to increase the amount you'll get each week. They are called 'Class 3A voluntary contributions' *(see opposite).***

Defer your pension

You don't have to take your state pension when you become entitled to it. If you have other income or savings, you can 'defer' taking it until a future date and receive more money every week as a reward. Anyone who deferred their pension before April 2016 receives an uplift in their pension of 1% for every five weeks they defer – that's equivalent to about 10.25% a year. In April 2016, the rate for new deferrals fell to just under 5.8%, making the deal less attractive. Those who were already deferring still receive the higher rate.

While anyone deferring is, naturally, forgoing pension money in the bank while they hold off claiming – and could lose out if they die – the idea could be a good one for anyone anxious to improve this secure income, should they come from a particularly long-lived family.

If you reached state pension age before April 2016 and change your mind about deferral, you can claim the payments you have missed out on as a lump sum with interest. But this option is not available to those reaching state pension age after April 2016.

State pension booster

Don't be put off by the forbidding title of 'Class 3A voluntary contributions'. These top-ups will be available until April 2017 but only to people qualifying for the old scheme. Basically, for a lump sum you can buy an extra index-linked pension. For example, for a 65-year-old, an extra £10 of pension a week for the rest of their life will cost £8,900. The maximum top-up is £25 extra a week – costing a 65-year-old £22,250. Because older people are expected to claim the pension top-up for a shorter period, it will cost them less on a sliding scale. The additional pension increases in line with prices and is inheritable on death, with a minimum of 50% for your surviving spouse or civil partner.

Details and a calculator can be found at *gov.uk/state-pension-topup* or by calling *0345 600 4270*

Jargon buster *Index-linked:* payments – or receipts – that rise each year in line with inflation, usually the Retail Prices Index, or a predetermined amount.

Jargon buster *Spouse benefits:* benefits from your pension (if any) that can be passed on to your spouse or civil partner when you die.

Benefits may help

We all love a little extra…

People on a low income, particularly those who are not entitled to a full state pension, may be able to top up with a means-tested benefit called **Pension Credit**. Currently 45% of pensioners qualify for it, but a third of this number fail to claim it. Pension Credit is currently in two parts.

Guarantee Credit and Savings Credit

To claim **Guarantee Credit**, which tops up your income to £151.20 for a single person or £230.85 for a couple, you (or one of you if you are a couple) need to have reached the state pension age for women – whether you are a man or a woman – and you can claim it regardless of whether you are still working or have retired.

To receive **Savings Credit**, which gives a further top-up to people with a small amount of savings, you must be aged 65 or over. People who reach state pension age after 6 April 2016 will not be eligible for Savings Credit and it is being cut each year for existing claimants as the basic state pension rises. Guarantee Credit will remain.

Beware of tax pitfalls!

First the bad news...

With the exception of the first 25% of your pension fund (the 'tax-free lump sum'), payments from pension schemes – whether from a Defined Benefit scheme, via an annuity, or funds drawn from a Defined Contribution scheme in cash – are fully taxable. (Of course, you may not pay tax if your income is low and does not exceed your personal allowance, and some pension payments may be made to you with tax already taken off, so there is nothing more for you to pay.) All the payments you receive from pension schemes, including the state pension, count towards your income when you are working out your tax bill.

If you take any sort of employment in retirement, your earnings will be added to this income and to money from other sources, such as savings interest and investment dividends, when determining how much tax you need to pay. So judge whether the job is worth it.

If you are over state pension age and still working, you will not need to pay National Insurance, although your employer will.

Similarly, if you are on a low income and entitled to Pension Credit, ensure any extra earnings don't simply wipe out your benefit entitlement, or you could end up worse off.

Now the good news...

Prior to April 2015 the pension fund of anyone who died before drawing their pension attracted tax of 55% before it could be passed to heirs. Under the new rules, no tax is payable if the pension-fund saver dies before the age of 75, and the whole fund can be left to heirs tax-free.

If a pension saver has purchased a joint life or guaranteed term annuity with their pension savings and they die before the age of 75, they can now pass this annuity to a spouse or civil partner tax-free. Previously the income from such an annuity would have been subject to tax as if it belonged to the beneficiary in the first place – ie at the highest rate he or she paid tax.

If the pension-fund saver dies after the age of 75 but before they have exhausted their fund, heirs can draw money from the fund either as a lump sum or gradually. Tax will be payable as if it was their own income – so at the highest rate they themselves pay tax.

TOP TIP
Have a look at the Pension Wise website for more information about your pension options: *pensionwise.gov.uk.*

www

For more information on planning for your retirement, visit saga.co.uk/money

7 ways an adviser can help your retirement

A good financial planner will be able to:

- **Look at all your pension schemes and assess your benefits. In particular, they can spot hidden value – for example, if you are entitled to a guaranteed annuity rate, which could cost you dear if you failed to notice it.**
- **Help you switch schemes or merge them, if that would give you a better outcome.**
- **Negotiate with scheme administrators and do all the paperwork for you.**
- **Make sure you are not incurring unnecessary tax that will eat into your savings.**
- **Help you choose an annuity, if you decide to go down that route, or set up an investment portfolio to give you an income.**
- **Manage an investment portfolio for you and make sure it stays on track to generate sufficient income for you.**
- **Make sure your appetite for risk, your tolerance for risk and your investment strategy arrive at the best possible outcome.**

Jargon buster *Tax-free lump sum:* also known as the pension commencement lump sum or tax-free cash; the amount you can withdraw from your pension without paying tax, typically 25%.

Jargon buster *Uncrystallised Funds Pension Lump Sum (UFPLS):* a cash sum taken from a pension pot where the rest of the fund remains invested.

Your toolkit

THE MONEY ADVICE SERVICE
Free and impartial money advice, set up by the Government.
moneyadviceservice.org.uk, 0800 138 7777

PENSION WISE
A free and impartial Government service about your Defined Contribution pension options.
pensionwise.gov.uk, 0300 330 1001

PENSION TRACING SERVICE
Free service to help you track down lost pensions. Visit *gov.uk* and search for 'lost pensions' or call *0345 6002 537*

STATE PENSION
For everything you want to know about the state pension, go to *gov.uk* and search for 'state pension'. Call the Future Pension Centre on *0345 3000 168* for a full pension statement

NATIONAL INSURANCE
To check your record is up to date, go to *gov.uk* and search for 'check national insurance record' or call the National Insurance helpline on *0300 200 3500*

PENSIONS ADVISORY SERVICE
Free and impartial guidance on workplace or personal pensions and information about buying extra state pension, and much more
pensionsadvisoryservice.org.uk, 0300 123 1047

Your checklist

- ❑ **Track down your pensions and obtain statements**
- ❑ **Ask for a state pension statement**
- ❑ **Calculate if your pensions will give you enough to live on**
- ❑ **Consider boosting your pension with additional savings**
- ❑ **Check out the Government's Pension Wise website**
- ❑ **Keep an eye on the news: a lot of the recent pension changes came as a surprise**
- ❑ **Be aware that scammers are after your pensions savings**
- ❑ **Take financial advice from an independent regulated pensions professional**
- ❑ **Check your tax allowance**
- ❑ **Make sure your spouse will be provided for**

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