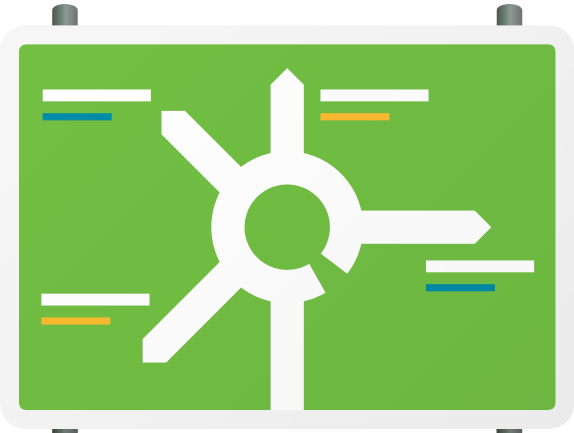
the Money Advice Service

Stakeholder pensions and decision trees

How stakeholder pensions work and when they are a good choice for saving for retirement



- The options available
- Things to consider
- Deciding if a stakeholder pension is right for you

The **Money Advice Service** is independent and set up by government to help people make the most of their money by giving free, impartial advice. As well as advice about pensions, we offer information on a wide range of other money topics.

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- on the phone
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Here to help you

If you are self-employed or can't join a workplace pension scheme and want to save for retirement, this guide will help you decide whether a stakeholder pension is right for you.

Contents

Start saving for your retirement as soon as you can. That way your savings have time to grow. It will mean that you'll have more than just the State Pension to rely on when you retire.

Getting started

First things to do

1 Find out what your State Pension and other pensions might be worth when you retire.

See how to do this on pages 12 and 13.

2 Think about whether this would be enough to manage on in retirement and how much you can afford to save into a pension.

See page 14.

3 Check if your employer offers a workplace pension or will soon. For most people, joining this will be the best option as your employer must contribute to it.

See page 15.

4 See what pension options are available to you by answering a few simple questions.

See page 20.

5 Get advice if you need help. Have a look at our 'Next steps' to see when taking professional advice can be a good idea.

See page 29.

Pensions are long-term investments which usually give you a better return than savings accounts. Having your own pension does not affect how much State Pension you'll get.

Pension basics

Everyone who pays National Insurance contributions for a certain number of years qualifies for all or part of the basic State Pension when they reach State Pension age. Currently, the full basic State Pension is £115.95 a week. Some people will also qualify for Additional State Pension based on their earnings from employment. Self-employed people qualify for basic State Pension but not for Additional State Pension.

To find out how much you can expect to receive, get a State Pension statement on the GOV.UK website at **gov.uk/state-pension-statement**

State Pension age is changing. The age at which you can retire will depend on when you were born and, for retirement dates before December 2018, whether you are a man or a woman.

Check when you'll reach State Pension age at **gov.uk/calculate-state-pension**

See page 13.

Over the next few years, all employers must by law offer a workplace pension scheme. The biggest employers started enrolling workers first, followed by medium-sized ones. Smaller employers are set to follow between now and 2018. Find out more:
Search for 'Automatic enrolment' on
moneyadviceservice.org.uk

All personal pensions (including stakeholder pensions) and most workplace pensions are 'defined contribution pension schemes' – where the amount in your pension pot at retirement depends on how much is paid in, what charges you pay and how your investments perform.

If you don't understand any of the pension terms used check our *Jargon buster* on pages 30 and 31.

What is a stakeholder pension?

A stakeholder pension is a type of personal pension – it's not a State Pension. The money paid in is invested to build up your own pension pot. By law, stakeholder pensions must be flexible, have capped charges and the minimum amount you can pay in is set at a low level.

With a stakeholder pension you can pay in regular amounts and make additional lump-sum payments whenever you like.

Stakeholder pensions are good for people who don't have access to a workplace scheme, for example if you are self-employed or not in paid employment.

Some employers may offer group stakeholder schemes as their workplace schemes. Whatever type your workplace scheme is, you are likely to be better off joining that rather than taking out a stakeholder pension yourself. That's because your employer may also pay into it and the charges may be lower.

Stakeholder pensions must meet standards set by the government – see page 5. You get tax relief up to certain limits on what you pay in, even if you are a non-taxpayer – see page 8.

How a stakeholder pension works

The money you pay in is invested to build up your own pension pot. The amount in your pot 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 your pot.

A stakeholder pension will usually offer you a range of funds to invest your money in, with differing levels of investment risk and therefore differing potential for investment growth (or loss).

Remember

Charges taken out of your pension pot year after year can have a big impact on your pension – be sure to shop around.

Minimum standards

Stakeholder pensions must meet minimum standards set by the government, which are designed to make sure people taking out these schemes get a fair deal. These include:

- capped charges
- low minimum contributions
- flexibility
- charge-free transfers, and
- a 'default' investment fund where your money will be invested if you don't want to choose one yourself.

Default funds include lifestyling (see page 7) – this is where your pension savings are moved to less risky investments as you approach retirement to guard against sudden falls in the value of your pot just before you retire.

The minimum standards above set the rules for how stakeholder pensions work. But they do not mean that your money is protected because pensions may invest in the stock market where the value of your investments can go up and down.

Over the next few pages you can read what each of these standards means in practice.

Capped charges

Stakeholder pension providers can make management charges of no more than 1.5% of the value of your pension pot each year for the first 10 years, and of no more than 1% after that. So if your pot is worth £240 in the first year, the maximum you will pay in management charges is £3.60.

However, there are two exceptions to this rule:

- If you started your stakeholder pension before 6 April 2005, the maximum you can be charged is 1%.
- Since April 2015, the maximum charge allowed for a default fund in a stakeholder pension used for automatic enrolment is just 0.75%

Not all stakeholder providers will charge the maximum so it's always worth checking the charge before buying or switching.

Low minimum contributions

You can pay in as little as £20 - or less if the provider allows. However, if you want a comfortable retirement you'll have to pay in more.

Find out how much you need to save by using our **Pension calculator** at **moneyadviceservice.org.uk/pensioncalculator**

Flexibility

You can pay in regularly or occasionally and if you need to change the amount or to stop paying in and restart later, you can do so without any charge.

If you're employed and your employer offers a stakeholder pension, they can take your payments direct from your salary and pay them into your pension pot for you (this applies to any type of workplace pension).

If you move jobs you may be able to transfer your stakeholder pension to your new employer's workplace pension. If you become self-employed you can continue paying into it.

Annual statement

Your stakeholder pension provider must give you regular information about your pension pot. This includes an annual statement – called a Statutory Money Purchase Illustration – to let you know how much has been paid in, how your pot is performing and a forecast of how much your pension could be worth at retirement. You should receive an updated illustration each year.

- Check your annual statement to make sure you are saving enough for your retirement.

Charge-free transfers

You can switch to another pension at any time if you want to, without having to pay any charges for the transfer from your existing stakeholder pension.

- Check the set up and annual charges for any new pension arrangements before you switch.

Choosing investments

The performance of your stakeholder pension depends on the type of fund you choose and how those investments perform. If you don't want to choose, your money will be automatically invested in a fund that meets the needs of most people like you.

If you want more choice about how your money is invested, look at stakeholder pensions that have a wide range of funds.

- Use The Pensions Advisory Service investment choices planner to help decide how to invest your contributions. Find out more:

  Search for 'Online planner' on **pensionsadvisoryservice.org.uk**

Key point

- Remember that your pension pot may be invested in the stock market, which can fall as well as rise, and you may not get back what you have invested.

Default funds and lifestyling

If you don't want to choose an investment fund yourself you will be placed into the 'default' fund. Some default funds provide what is called 'lifestyling'. This means that at least five years before your chosen retirement date (or the date your pension provider has set as your retirement date) your pension savings will start to be moved into less risky investments. This helps to guard against large falls in the value of your pot as retirement approaches.

However, lifestyling may not necessarily be right for you and you can choose to turn it off, and either leave your investments where they are or choose other funds yourself.

You can change your chosen retirement date at any time.

Who can have a stakeholder pension?

You can pay into a stakeholder pension whether you are employed, self-employed, a fixed-contract worker, a carer or not working.

They suit a wide range of people and may be worth considering if:

- you are self-employed
- you don't have any other pension provision apart from the State Pension
- you're an employee and do not currently have access to a workplace pension scheme
- you have an irregular income or are taking time off work, say, to bring up children or care for others.

Bear in mind that even if you are not in paid employment you can pay into a stakeholder pension. You can even save into a pension scheme for your children or grandchildren.

Stakeholder pensions can also be used to top up a workplace pension. But if your employer offers an additional voluntary contribution (AVC) scheme, this may be better value than taking out a separate stakeholder pension, especially if they will match what you choose to pay in.

If you're self-employed

If you are self-employed you are also eligible to join NEST – a national workplace pension scheme designed to help employers manage their pension responsibilities. It has low charges and is simple to administer. The minimum you can pay in is £10 each time and the maximum for the tax year 2015-16 is £4,700 (including tax relief).

Find out about NEST pensions for the self-employed at **nestpensions.org.uk**

Key point

It's never too early to start paying into a pension. The sooner you start the larger your pension pot is likely to be – giving you a more secure retirement.

Tax relief

Most people resident in the UK who contribute to a stakeholder (or other) pension get tax relief on their contributions – even if they don't usually pay Income Tax.

For every 80p you pay into your pension, you end up with £1 in your pension pot because HM Revenue & Customs (HMRC) adds an extra 20p of basic-rate tax relief. For example, if you pay in £40 a month, tax relief will increase your contribution to £50. If you pay higher-rate or additional-rate tax you can claim back the difference from HMRC.

There is a limit on the total amount paid into all pension schemes for an individual each tax year that qualifies for this relief. Currently the limit is the greater of:

- £3,600 or
- 100% of your UK earnings, but must not exceed your annual allowance.

The limit includes the amount added in tax relief. For example, if you earned less than £3,600 a year, the maximum you could pay in would be £2,880 a year (£240 a month). The pension provider would then claim basic-rate tax relief of £720 (£60 a month) from HMRC and add this to your pot. That means £3,600 (£300 a month) would go into your pot in total.

Because the tax relief is claimed by the provider and automatically added to your pot, everyone gets it – so you'll get tax relief even if you have no form of paid employment or don't pay Income Tax because your earnings are low.

Higher-rate taxpayers

The tax relief described is given at the basic rate of Income Tax, 20% in 2015-16. If you pay Income Tax at the higher rate of 40% you can claim the difference of 20% through your tax return or by telephoning or writing to HMRC.

If you're an additional-rate taxpayer (45%) you'll have to claim the difference of 25% through your tax return.

Using the example above of paying in £40 a month, this would equate to claiming back an extra £10 in tax relief if you pay higher-rate tax or £12.50 if you pay tax at the additional rate.

The annual allowance

The annual allowance caps the amount of tax relief you can get on pension contributions. The standard annual allowance is set at the lower of 100% of your earnings or £40,000 for the tax year 2015-16. However, you can carry forward unused allowance from the previous three years. This annual allowance applies in total to all the pension schemes you have (apart from the State Pension).

However, since April 2015, once you start taking money from your defined contribution pension savings, a lower annual allowance of £10,000 may be triggered in some situations. This lower limit applies to contributions you make to any defined contribution pension.

If you also have a defined benefit pension, you keep the overall £40,000 limit but with a £10,000 limit applying to your defined contribution pensions.

If you go over the annual allowance, the value of your contributions that exceed it is added to your income for the tax year and Income Tax is charged in the normal way. In this case you must complete a self-assessment tax return and you normally then pay the tax direct to HMRC. But you may be able to arrange for the tax to come out of your pension pot.

The lifetime allowance

There is also a maximum pension pot value (excluding the State Pension) that will benefit from tax relief. This is known as the lifetime allowance and is currently £1.25m (2015-16 tax year).

You can build up pension savings of more than the lifetime allowance but you will pay a tax charge on the excess when you take your pension.

If you have gone over the lifetime allowance, the pension provider will deduct tax from the excess (on top of normal Income Tax) at the following rates when you start to draw from your pension scheme:

- 25% if it's paid as income
- 55% if it's paid as a lump sum.

Taking your pension

You do not need to retire to start drawing money from your stakeholder pension. For example, you can access money in your pension while you carry on working part-time.

You can currently access your pension pot:

- at any time from age 55. This is rising to 57 in 2028 and from then on will always be 10 years below the State Pension age, or
- before age 55 if you are in poor health or have a protected retirement age.

Under new rules introduced from April 2015, once you are 55 you have more choice and flexibility than ever before over how and when you can take money from your pension pot.

You can:

- leave your pension pot untouched – and take it later
- use it to buy a guaranteed income for life – called a lifetime annuity. The income is taxable but you can choose to take up to 25% of your pot as a one-off tax-free lump sum at the outset
- use it to provide a flexible retirement income – called 'flexi-access drawdown' or 'income drawdown'. Take 25% of your pension pot (or of the amount you allocate for drawdown) as a tax-free lump sum, then use the rest to provide a regular taxable income
- take small cash sums – the first 25% of each cash withdrawal from your pot will be tax-free. The rest will be taxed. This option doesn't allow you to take 25% of your pension pot tax-free up front
- take your whole pot as cash – the first 25% will be tax-free and the rest is taxable
- mix your options – choose any combination of the above, using different parts of your pot or separate pots

Not all pension schemes and providers will offer every option.

Before making any decisions, make sure you take up the free guidance to which you are entitled through the government service, Pension Wise. It will help you understand what you can do with your pension pot money.

After taking guidance, we recommend you shop around - don't just settle for your own pension scheme or provider's products - and get financial advice if you need it.

Find out more about the options available in our guide *Your Pension - it's time to choose* or at **moneyadviceservice.org.uk/en/retirement-income-options**

Key things to think about

There are several things to consider before choosing a stakeholder pension. We set out some of them here. If you need more help, get professional financial advice. See *Useful contacts* on page 32.

What to do when considering a stakeholder pension

To make sure a stakeholder pension is right for you it makes sense first to:

1. Work out what pension you need to live on when you retire.
2. Work out how much income you may get from your existing pensions and other sources.
3. Consider your financial priorities.
4. Work out your budget.
5. Weigh up your pension options and get advice if necessary.
6. If a stakeholder pension is right for you, choose a provider.

Read the next few pages for help with each of these steps.

1. Work out what pension you need to live on when you retire

First of all, think about the standard of living you want to enjoy when you retire.

You may find the following table helpful as a starting point. It gives target income amounts based on different salary ranges. So a person with a salary of £20,000 may need £14,000 a year to live on in retirement.

These suggestions are based on research into people's income needs by the Department of Work and Pensions.

Salary range (per year)	Percentage of salary needed in retirement
Up to £12,199	80%
£12,200-£22,399	70%
£22,400-£31,999	67%
£32,000-£51,299	60%
£51,300+	50%

2. Work out how much income you may get from your existing pensions and other sources

Think about whether you will have enough money to live on when you retire from your:

- State Pensions
- any workplace pensions
- any other existing pensions
- any other sources of income or benefits.

Basic State Pension

The 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.

The government reviews the amount of the basic State Pension every year – for the tax year 2015-16 it is £115.95 a week.

Key point

Most people over-estimate how much the State Pension will provide and would find it difficult to manage on it with no other income.

Additional State Pension

Additional State Pension is payable when you reach State Pension age, on top of the basic State Pension. The amount you receive depends on your earnings while you were in employment and the National Insurance contributions you paid.

Since April 2001, you may qualify for Additional State 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 Additional State Pension.

You may have periods during your working life when you have been contracted out of the Additional State Pension. In this case, you won't receive Additional State Pension for the years you were contracted out but will instead have built up some pension in a workplace pension or in another type of private pension such as a personal or stakeholder pension for those years.

Nowadays, only members of workplace defined benefit schemes (see *Jargon buster* on page 30) can be contracted out and this will stop when the new State Pension is introduced in 2016.

A new State Pension

The government is replacing the basic State Pension and Additional State Pension with a new, simpler State Pension for people who reach State Pension age from 6 April 2016 onwards.

This will be payable at the same flat rate for everyone who has built up 35 'qualifying years' of National Insurance contributions (the current requirement for people retiring before 6 April 2016 is 30 years). If you've less than 35 years you'll receive a lower State Pension based on the number of qualifying years you have.

If you have built up Additional State Pension for working years prior to April 2016, you will still receive this when you retire. But for any years you work after April 2016, you won't accrue any further Additional State Pension.

State Pension age

The earliest age at which you can claim your State Pension is also changing. Retirement ages for men and women are being equalised and the age is then slowly being increased for everyone.

State Pension age is currently 65 for men and between 62 and 65 for women, depending on when you were born. The State Pension age for men and women is increasing and will reach 66 by 2020 and 67 between 2026 and 2028. The State Pension age is reviewed every five years with further increases linked to changes in the average length of time people are living.

For information on the basic State Pension and what age you can claim it, go to **gov.uk/state-pension**

To get an estimate of your State Pension visit **gov.uk/state-pension-statement**

Find out how much your other pensions will pay

Current and previous workplace pension schemes

If you are a member of a workplace scheme or have been a member of one in the past, you should get regular statements setting out what your benefits may be when you retire.

If you can't find these statements, check with your current or previous employer or, for a personal or stakeholder pension, with the pension plan provider (usually an insurance company).

Existing personal or stakeholder pensions

If you are already contributing to your own personal or stakeholder pension, find out what retirement income it might provide.

Look at the most recent benefit statements you have been sent. If you can't find any statements, contact your pension plan provider.

To track down personal or workplace pensions, contact the Pension Tracing Service at **gov.uk/find-lost-pension**

Other income or benefits

You may have non-pension savings that you are setting aside for retirement, for example, in an ISA (Individual Savings Account). Be wary of relying on these savings to provide retirement income if there is any risk that you might spend them before you retire.

Under current rules, pensioners on a low income can claim income-related benefits such as Pension Credit to top up a low income, Housing Benefit to help with rent, and help with their Council Tax. When the new State Pension is introduced from 2016, it will be set at a level that matches the minimum amount pensioners are deemed to need to live on. This means that in future fewer retired people are likely to be able to claim some or all of these state benefits.

Add up your expected income

Once you have got figures for all your pensions and any other income you expect to have when you retire, add them up to see whether you will have enough money to live on in retirement. If it isn't enough then move on to steps 3 and 4 to think about your options for making up the difference.

3. Consider your financial priorities

Working out how much you can afford to save towards a pension is an important decision. Most people save every month. Although stakeholder pensions offer the flexibility to allow you to stop and start payments, like all pensions, saving into them should be a long-term commitment. So it is better to commit to an affordable sum that you can stick to over the long term.

With a stakeholder pension, you can pay in as little as £20 (or less if the provider allows). But even a regular monthly contribution of £20 over several years is not likely to give you a large pension when you retire. The earlier you can start saving and the more you can save, the more secure your retirement is likely to be.

Use our **Pension calculator** to find out how the size of your pension pot may vary depending on the amount you choose to pay in - see **moneyadviceservice.org.uk/pensioncalculator**

Key point

Joining your workplace scheme is often the best way to save for your retirement – especially as your employer contributes. All employers will have to offer and contribute into a pension scheme for most of their workers. The process started with the largest employers in October 2012. By 2018 even small employers will have to enrol you automatically in a workplace pension if you are eligible to join it. This is known as automatic enrolment.

Find out more: Search for 'Automatic enrolment' on **moneyadviceservice.org.uk**

Think about your financial needs now and what should take priority. For example, you may have debt problems that need to be sorted before thinking about a pension. But if your employer will contribute to your pension, saving for retirement should normally be a top priority, along with life insurance for you and your family and building up some emergency cash savings.

We can help you work out your financial priorities with our online **Money Health Check.**

Use our **Money Health Check** on **moneyadviceservice.org.uk/healthcheck**

4. Work out your budget

You may have other financial commitments that will affect what you can afford to pay in to a pension.

Before you take out a pension consider your existing mortgage repayments or rent, life insurance, credit cards and all other bills and expenses. Do your sums to make sure you can afford it and see where you could cut your spending to make pension savings affordable.

Key point

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.

5. Weigh up your pension options and get advice if necessary

Whether a stakeholder pension is best for you will depend on your circumstances. Below is a quick overview of possible options based on different circumstances - but to get a clearer view on your pension options we've got some decision trees.

- If you're self-employed on page 21.
- If you're an employee on pages 22-25.
- If you're not working page 26.

These are to help you get an idea of the options open to you. If you need further help, consult a financial adviser.

Check your pension situation

If you are already a member of a workplace pension scheme, it may make sense to pay extra money into that pension to top it up rather than start a separate stakeholder pension or other personal pension.

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

If your employer hasn't yet automatically enrolled you in a workplace pension scheme find out when they will. In most cases your employer will make regular contributions for you and it will be a good idea to join this scheme.

If you work for a small firm that does not yet have a workplace pension scheme and you have money you want to put into a pension now, you may want to consider a stakeholder pension or putting your money into an ISA until your workplace scheme is up and running.

If you are already contributing to your own personal or stakeholder pension, it may make sense to increase your contributions to that scheme rather than start a new stakeholder pension, especially if your existing scheme has lower charges.

If you are self-employed, you can set up a stakeholder (or non-stakeholder) pension. You can also join the NEST scheme. See page 21.

Get more information at **nestpensions.org.uk**

If you are not employed and haven't already got a pension, a stakeholder pension might be a good idea. Have a look at the options on page 26.

If you need help – if you are not sure about what to do then get some advice. See *Useful contacts* on page 32.

6. Choose a provider

When stakeholder pensions were first introduced, they were intended to offer a low-cost way of saving for retirement. Since then, the charges for other personal pensions have come down so it is no longer the case that a stakeholder pension is necessarily the best option and it makes sense to check out both.

You can buy a stakeholder or personal pension by contacting a financial adviser or by going direct to the firms that provide pensions. They are offered by a range of companies including insurance and investment companies. However, if you buy direct without taking advice the choice is yours alone and you can't later complain if the product you buy turns out to be unsuitable.

If in doubt about the type of pension that's right for you, always consult a financial adviser who will recommend a product to you and take responsibility for that recommendation.

If you are thinking of switching from your existing stakeholder pension or personal pension to a new one, contact your current provider or

Key point

The earlier you start saving for retirement, the more time there is for your pension pot to grow to something worthwhile.

financial adviser to find out how the annual charges of your existing pension compare with a new pension plan. Also, find out what other features your existing pension has, for example, the choice of funds you can invest in. And check whether there would be any charges for switching. You should get professional financial advice before switching to a new pension.

All firms that provide advice on stakeholder pensions and other types of pension schemes or personal pensions are regulated by the Financial Conduct Authority (FCA), the UK's financial services regulator.

Insurance companies that provide stakeholder and personal pensions are regulated by the FCA and by the Prudential Regulatory Authority (PRA).

All stakeholder pensions must meet minimum standards set by the government – see page 5 – which The Pensions Regulator monitors and it can take action if the standards aren't met.

To check the full list of registered stakeholder pension scheme providers visit **thepensionsregulator.gov.uk**

Getting professional advice

Pensions can be complicated so it can pay to seek professional advice. Financial advisers can be classified as 'independent' or 'restricted'.

Independent advisers can advise on any product and can choose products and providers from across the whole market.

Restricted advisers may be restricted in the type of products they advise on or on the providers they can choose from.

However, don't get too hung up by labels. Just make sure the adviser you consult can recommend a product from any provider in the market and is giving you regulated advice, which means recommending a product that is suitable for your needs.

Key points

- 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 non-stakeholder personal pensions have lower charges than stakeholder pensions. Stakeholder pensions have a charge cap so the charges cannot go above a set amount. Other pension schemes do not have this cap.

Regulated financial advisers must tell you how much their services cost and agree with you how much you will pay.

Always ask your adviser how much they are charging you for their advice both now and in the future.

Some firms that sell products just provide help and information without giving you actual advice and if you buy through this route you can't later complain if the product turns out to be unsuitable. These firms should also set out any charges and how they are paid.

To find an adviser near you – see *Useful contacts* on page 32.

If you change your mind after you sign up for a pension

When you have signed up to a stakeholder pension or other personal pension, the right to cancel the contract lasts for 30 days. After this you can only get access to your money once you reach the age of 55.

Complaints

If you have a complaint about the advice you received when you bought your pension, you should first contact the firm you dealt with. It has a set complaints procedure to follow.

If you're not satisfied with its response, you can take your complaint to the Financial Ombudsman Service. The firm should give you the details of this free service – see *Useful contacts* on page 33.

Compensation

If a UK financial services 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* on page 33.

Key point

A financial adviser will be able to give you advice tailored to your particular circumstances and help you choose a provider.

Pension calculator

Start saving into a pension as early as you can: the sooner you start, the larger your pension pot is likely to be.

To help you work out how much retirement income you may receive from saving into a pension use our **Pension calculator** on
moneyadviceservice.org.uk/pensioncalculator

the Money Advice Service

Is a stakeholder pension right for you?

The decision trees on the next few pages 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.

There are separate decision trees for employees, the self-employed and those who are 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 current 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 professional financial advice, or if you are not sure what is right for you, then you should seek help from a financial adviser. You will usually have to pay for this – see page 32.

Stakeholder pensions have advantages for many people but they may not be the right choice for everyone. Please read *Key things to think about* on page 11 before using the decision trees.

For general information about pensions, search for 'Pensions' on the Money Advice Service website.

After the decision trees you'll find further information about what to do next.

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. Consult a financial adviser if you need more help.

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

Yes ☐
If yes, tick

No ☐
If no, tick

You may wish to consider joining the National Employment Savings Trust (NEST). Alternatively, you could start a stakeholder pension or other personal pension.
Seek advice from a financial adviser (see *Useful contacts* page 32).

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 joining the National Employment Savings Trust (NEST). Alternatively, you may be able to restart payments to your existing plan. Seek advice from a financial adviser (see *Useful contacts* page 32).

You may wish to consider making increased contributions to your existing plan.

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

Alternatively, see *Next steps* on page 29.

You have completed the tree

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. Consult a financial adviser if you need more help.

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 workplace pension scheme with your current employer?

Yes ☐ If yes, tick

No ☐ If no, tick

If your employer pays into the scheme for you, it is likely to be a good idea to stay in this scheme.

You may wish to consider paying in extra if this is allowed. This will be particularly worthwhile if your employer offers to match the extra that you pay in. In that case, your extra contributions are likely to be better value than a separate stakeholder pension or other personal pension.

You have completed the tree

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

Yes ☐
If yes, tick

No ☐
If no, tick

Do you have a stakeholder or other personal pension you are not currently paying into?

Yes ☐
If yes, tick

No ☐
If no, tick

If there is a workplace pension where you work, check it out – it is often the best way to save for retirement, especially if your employer pays into it for you. By 2018, all employers will have to enrol most workers into a workplace pension and pay towards it.

Otherwise you may wish to consider increasing contributions to your existing scheme.

If you would like to review your pension arrangement, contact a financial adviser or your pension provider. Alternatively, see *Next steps* on page 29.

Go to **Employed – tree 2**

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. Consult a financial adviser if you need more help.

No current pensions

Does your current employer offer a workplace pension scheme?

Yes ☐ If yes, tick

No ☐ If no, tick

Can you join this workplace 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.

Does your employer normally pay contributions to the scheme?
Ask your employer if you are not sure.

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? *Ask your employer if you are not sure.*

If you can join the workplace pension 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 tree

Before you continue using the decision trees, check whether your employer will soon be offering a workplace scheme that you can join and when this will be.

In the period until this workplace scheme starts, or if you definitely will not be able to join, you may want to consider a stakeholder pension or other personal pension.

Seek advice from a financial adviser

See *Useful contacts* page 32

Yes ☐ If yes, tick

No ☐ If no, tick

Seek advice from a financial adviser

See *Useful contacts* page 32

Are these other benefits important to you?

Yes ☐ If yes, tick

No ☐ If no, tick

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

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. Consult a financial adviser if you need more help.

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

Yes ☐ If yes, tick

No ☐ If no, tick → You can save for your retirement by contributing to a stakeholder pension or other personal pension. → Seek advice from a financial adviser

See *Useful contacts* page 32

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

Yes ☐ If yes, tick

No ☐ If no, tick → You can save for your retirement by contributing to a stakeholder pension or other personal pension. → Seek advice from a financial adviser

See *Useful contacts* page 32

You may wish to consider making increased contributions to your existing plan.

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

Alternatively, see *Next steps* on page 29.

You have completed the tree

Money Health Check

Our **Money Health Check** can help you work out your financial priorities in less than five minutes.

1. Answer some straightforward questions.
2. Get a personal action plan.
3. Get help with your money and set long-term goals.

Visit **moneyadviceservice.org.uk/healthcheck**

the Money Advice Service

How much should you save into a pension?

This is an important decision
Most people save every month. It is better if you can keep up your monthly payments. And it's even better if you can increase these in line with or by more than the rate of inflation each year. Work out your budget and see what you can afford. The more you can afford to pay in now the bigger your pension pot will be when you come to retirement, giving you more options.

You can get an idea of the pension pot your contributions will provide by using the **Pension calculator** at **moneyadviceservice.org.uk/pensioncalculator**

Next steps

Having looked through the decision trees, take these next steps.

Step 1

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

Step 2

If you decide that a stakeholder pension is right for you, you can either:

- go direct to the firms that sell them, compare their products and make your own decision about which one to choose. If the pension turns out to be unsuitable for you, you won't be able to make a complaint
- use a financial adviser. Contact at least three regulated financial advisers and ask them what they would charge to recommend and help you set up a stakeholder pension scheme. Make sure the adviser can recommend products and providers from the whole of the market and that they will give you 'regulated financial advice' and not just information

Check that the financial adviser you choose to deal with is on the FCA register at **fca.org.uk/register**

Check the scheme is included on the register of stakeholder pension providers on The Pensions Regulator's website **thepensionsregulator.gov.uk**

To find a regulated financial adviser near you to help you choose a particular stakeholder pension provider – see *Useful contacts* on page 32.

Jargon buster

Automatic enrolment
Employers have to automatically enrol eligible workers into a workplace pension scheme. This started for large employers in October 2012 and medium-sized employers followed. Smaller employers are set to enrol workers between now and 2018.

AVCs – Additional Voluntary Contributions
A pension top-up policy for a workplace pension. You pay contributions into a scheme run by your employer.

Basic State Pension
A state pension based on your National Insurance contribution record.

Contracting out
The facility to leave the State Second Pension (previously SERPS) and build up benefits in a personal or stakeholder pension. This option was removed for many schemes from 6 April 2012 and will cease for salary-related schemes from 6 April 2016.

Defined benefit pension scheme
Another name for a salary-related pension scheme, where the amount of pension you get is worked out using your salary and the length of your pensionable service.

Defined contribution pension scheme
A pension where your contributions are invested in, for example, a fund that invests in or tracks the stock market. The size of your pension pot depends on how much is invested, charges and how well the investments do. Defined contribution pension schemes include some workplace pensions and all personal pensions, group personal pensions, stakeholder pensions and some AVC schemes.

Group personal or stakeholder pension
A personal or stakeholder scheme offered as a workplace scheme by some employers.

Money purchase pension
Another name for a defined contribution pension scheme.

National Insurance contributions (NICs)
You pay these if you are employed or self-employed to build up your entitlement to certain state benefits, including the State Pension. You may also pay NICs voluntarily to fill gaps in your record. You stop paying NICs at State Pension age.

Personal pension
A type of defined contribution pension scheme from a financial services company into which you and/or your employer make contributions.

Protected rights pension

The part of your pension pot that you built up in place of the State Second Pension (previously SERPS) while contracted out through a defined contribution pension scheme. Protected rights pensions have now been abolished and are treated in the same way as any other defined contribution pension.

Retirement income

The money you have to live on in retirement. This can come from a variety of sources including your State Pension, personal and workplace pensions, non-pension savings, benefits and salary from any ongoing work. See our guide *Your pension – it's time to choose* and **moneyadviceservice.org.uk/en/retirement-income-options** for further information.

Salary-related pension scheme

A type of defined benefit scheme, where the amount of pension you get is worked out using your salary and the length of your pensionable service. See *defined benefit pension scheme*.

SERPS

State Earnings Related Pension Scheme – an additional State Pension for employees, based on earnings and your National Insurance contribution record. Now replaced by the State Second Pension – also known as Additional State Pension.

State Second Pension (S2P)

Also known as Additional State Pension and paid on top of your basic State Pension. It replaced SERPS. Self-employed people cannot build up a State Second Pension. S2P is being abolished in April 2016 when the new State Pension comes in.

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 in today's money.

Today's money

The amount of money you would get if you were receiving the pension now.

Tax-free cash lump sum

An amount of cash set by HMRC which you can take at retirement free of tax.

Individual pension schemes may have different rules on how much you can take but it is usually up to a quarter (25%) of your pension pot.

Tax year

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

Useful contacts

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online, over the phone and face-to-face.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life-changing events such as starting a family or losing your job.

For advice and to access our tools and planners visit
moneyadviceservice.org.uk

Or call our Money Advice Line on
0800 138 7777*

Typetalk
1800 1 0300 500 5000

Finding a financial adviser

Retirement adviser directory

All of the advisers listed are verified as being approved by the FCA to offer regulated retirement income advice.

Use our online Retirement adviser directory at **moneyadviceservice.org.uk/directory** to find an adviser.

Financial Conduct Authority (FCA)

To check the FCA Register or to report misleading financial adverts or other promotions.

Consumer helpline: 0800 111 6768
Typetalk: 1800 1 0800 111 6768
fca.org.uk/register

Pension information and advice

For details of your workplace pension scheme talk to your pensions administrator, pensions manager or pension trustees at work.

Pension Wise

Free, impartial guidance – backed by government.

0300 330 1001
pensionwise.gov.uk

The Pensions Advisory Service

For free, independent information and guidance on all pension matters and help with resolving a pension complaint or dispute.

0300 123 1047
pensionsadvisoryservice.org.uk

GOV.UK

For information about planning and saving for retirement, including State Pensions and how to find a lost pension.

State Pension statements and enquiries
0345 300 0168
gov.uk/state-pension-statement

The Pension Tracing Service
0845 600 2537
gov.uk/find-lost-pension

Complaints and compensation

Financial Ombudsman Service

0800 023 4567 or 0300 123 9123
financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

0800 678 1100 or 020 7741 4100
fscs.org.uk

The Pensions Ombudsman

020 7630 2200
pensions-ombudsman.org.uk

Use this page to record your notes

the Money Advice Service

Stakeholder pensions and decision trees is one of the guides available from the Money Advice Service. To see our full range of guides and request copies visit **moneyadviceservice.org.uk**

Money Advice Line **0800 138 7777***
Typetalk **1800 1 0300 500 5000**

If you would like this guide in Braille, large print or audio format please contact us on the above numbers.

*Calls cost the same as a normal call, if your calls are free, it's included. To help us maintain and improve our service, we may record or monitor calls.

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