

**The Financial Services Authority (FSA) is the independent watchdog set up by government to regulate financial services and protect your rights.**

We produce a range of user-friendly factsheets and booklets which are available from our website and helpline.

If, after reading this booklet, you have any general queries, our helpline will try to clarify things for you.

We can tell you if a firm is authorised and help you if you have a complaint and don't know who to contact. But as the regulator, we can't recommend firms or advisers, or tell you whether a particular investment is right for you.

**If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).**

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

**Our website, [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer), aims to help you understand financial services and get a fair deal.**

**Use the site to:**

- shop around with our Comparative Tables – including mortgages, pensions and ISAs;
- check a firm is authorised by the FSA, or is the agent of an authorised firm. If they are not authorised you will not have access to complaints procedures and compensation schemes if things go wrong;
- order any of our wide range of consumer publications;
- report any misleading financial advertising;
- see explanations of financial products in plain English;
- read recent alerts we have issued.

June 2006

## FSA guide to pensions 2

# Reviewing your pensions



Asking the Right Questions

A magnifying glass is positioned over a document with handwritten text. The text is written in a cursive, black ink. The magnifying glass is held by a hand, and the lens is focused on the words 'Asking the Right Questions'. The background of the document is a light blue color, and there are other faint, handwritten notes visible around the magnified text.

© The Financial Services Authority, June 2006. FSA ref: CRE000097bp



**The Financial Services Authority – the UK's financial watchdog**

The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights. By law, most financial services firms in the UK must be authorised by the FSA. We regulate the way many (but not all) of them do business with you.

The FSA's consumer publications aim to give you general information to help you make financial decisions. The information does not constitute financial or other professional advice; for advice about your own circumstances, you should consult a professional adviser.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone 08457 300 104 (call rates may vary).

# Contents

Introduction	3	Reviewing your plans when your circumstances change	29
Understanding the pensions you may already have	5	Complaints	33
Salary-related occupational pensions	7	Useful contacts	35
Money purchase pensions	9		
Money purchase pensions – what are the rules?	12		
How much can you pay in each year?	16		
How much income will you want?	18		
Are you on track?	19		
Reviewing your pensions – things you need to sort out	21		
Topping up your pensions	22		
How your contributions are invested	26		
Tips and how to find out more	28		

**The FSA – here to help you make more sense of your money.**

## Not yet started?

If you haven't made a start yet on planning for your retirement, first read the **FSA guide to pensions 1: Starting a pension**. It explains the basics about pensions and how they work.

## Coming up for retirement?

For more information about your choices at retirement, see the FSA Factsheet **Retiring soon – what you need to do about your pensions** and **FSA guide to pensions 3: Annuities and other retirement options**.

In May 2006 the government published a White Paper that proposes significant changes to both State and private pensions. Any changes arising from those proposals are unlikely to be made in the next few years.

Information in this booklet is based on the legal and tax position at 6 April 2006.

# Introduction

## This booklet explains how you can review your pension arrangements to see whether you're on track to get the income you want from your pension.

This booklet is for you if you already have some pension arrangements and want to know how to review your plans. It gives general information to help you ask the right questions and understand the answers.

Retirement planning is not a one-off task. Once you have started a pension or other retirement savings, you should:

- **Review your plans regularly.**

Make sure you are contributing enough to provide the retirement income you want.

- **Review your plans if your circumstances change.**

For example, if you get a new job, become self-employed, marry or get divorced.

- **Review your plans if the pension system changes.**

For example, the rules about how much you can save and the types of pension schemes you can have may change.

This booklet explains how to set about reviewing your pension plans, some of the options open to you and where to get advice. Your options may depend on how long you have to go till retirement, whether you have to provide for your husband/wife or partner, and the type of pension you already have.

If you are unsure about how different pension schemes work, see pages 7–10.

## Retirement

In this booklet, we use 'retirement' to mean the time from when you start to take the benefits from your pension.

You can currently take your pension from age 50. But the earliest age at which you can take your pension is going up to age 55 between 2006 and 2010.

Ask your pension provider when they will increase the minimum retirement age – they can do this at any time between April 2006 and April 2010.

You don't have to stop work to draw a personal or stakeholder pension.

You can draw a pension from your employer's occupational scheme and carry on working for that employer, as long as scheme rules allow this.

## What is a pension?

Pensions are long-term investments with special tax rules. In a nutshell, the government gives you tax relief on money you pay in but, in return, you cannot take your money out until you are at least 50 (going up to 55 by 2010). Once you start drawing your pension this is taxed as earned income.

# Understanding the pensions you may already have

This section explains the basic types of non-State pension schemes you may have. There are three main types:

### 1 Occupational salary-related schemes

Some employers offer these schemes, which provide pensions for their employees based on the employee's salary and pensionable service. They are sometimes called 'defined benefit' schemes.

### 2 Occupational defined contribution schemes (also known as money purchase schemes)

Some employers offer these schemes. They do not provide a pension based on your salary or pensionable service. Instead, they build up a personal fund for you that is converted into an income when you retire.

### Pensions at work

Not all the pensions offered to you in your job are 'occupational' pensions. Your employer may offer a stakeholder pension or a personal pension through a group personal pension (GPP)

arrangement. These pensions are not called 'occupational pensions' even though the employer may contribute.

### 3 Stakeholder and personal pensions

These are the most popular choice for people who arrange their pensions themselves. Financial institutions (insurance companies for example) usually run these schemes. We call them 'pension providers' in this booklet.

Your employer may also offer access to these schemes.

### 4 Other pension schemes

In addition to the above, you may have a top-up pension plan such as an AVC (Additional Voluntary Contribution) or an FSAVC (Free-Standing Additional Voluntary Contribution) or a Section 32 buy-out policy. If you started your pension plan before June 1988, you may have a retirement annuity – also known as Retirement Annuity Plans (RAPs) or Self Employed Retirement Annuities (SERAs).

# Salary-related occupational pensions

## So, which of these have you got?

Have a look at your paperwork to find out what you have.

If you are a member of your employer's scheme, you should have received a booklet describing the pension scheme when you joined. If you don't have it, you should get a copy.

Employers produce their own scheme booklet for occupational schemes.

With stakeholder and personal pensions the pension provider produces a booklet called a Key Features document.

You will usually get an annual statement giving you details of your possible pension at retirement.

## Finding your lost or forgotten pensions

If you have lost touch with any pension scheme(s) or plans you had in the past, but no longer pay into, you may be able to trace them through the free tracing service at the Pension Tracing Service (see *Useful contacts* on page 35).

## What the State provides

In addition to these pensions, if you're working, you will usually be paying National Insurance contributions (NICs). If you are, you are probably building up the right to get a basic State Pension when you reach State Pension age. You may also be building up an additional State Pension called the State Second Pension (formerly SERPS – State Earnings Related Pension Scheme). If you're self-employed, you cannot build up an additional State Pension. For more information on State Pensions see the Department for Work and Pensions' (DWP) booklet **State Pensions – your guide (PM2)** – see *Useful contacts* on page 35.

## Pension Credit

The government introduced Pension Credit to help pensioners with little or no savings at retirement. In 2006, if a person or their partner is aged 60 or over, Pension Credit guarantees an income of at least:

- £114.05 a week (single person); or
- £174.05 a week (couple).

If you have several years to go before you retire, it may not be wise to assume that Pension Credit will be available when you retire.

You can only join these schemes if your employer provides one – you cannot contribute to one privately. These schemes are also called superannuation, defined benefit or DB pensions. They are called 'salary-related' or 'defined benefit' pensions because the benefit (your pension) is worked out using your salary and pensionable service. The scheme trustees and manager, not you, usually make all the investment decisions.

## How they work

You build up a pension at retirement that depends on:

- how many years you have been a member of the pension scheme (pensionable service);
- your pensionable earnings (often averaged over the last three years before retirement);
- the proportion of those earnings which you get as pension for each year of membership (called the 'accrual rate') – the most common accrual rates are 1/60th or 1/80th of your earnings for each year of membership.

## Example

Bill belongs to an occupational pension scheme at work. It is a salary-related scheme. The 'accrual rate' is 1/60th. This means that Bill can expect a pension of 1/60th of his pre-retirement pensionable earnings for each year he belongs to the scheme.

Bill retires at 65 on a salary of £24,000 a year, having been in the pension scheme for 10 years.

His pension is:  $10 \times £24,000 \div 60 = £4,000$  a year (less if he takes any lump sum).



# Money purchase pensions

## The advantages

Salary-related occupational pension schemes are generally thought to be the best type of pensions. This is because:

- the pension is based on your length of membership and salary, so you have a fair idea of how much your pension will be (as a proportion of your earnings before retirement);
- your employer should ensure there is enough money at the time you retire to pay you the pension – but see **Is there a risk?**;
- your employer normally contributes;
- you get tax relief on your contributions;
- scheme investments grow free of income tax and capital gains tax.

This makes it easier to plan for retirement because:

- your pension benefits are linked to your salary while you are working, so they automatically increase as your pay rises;
- the pension scheme will normally increase your pension income each year in line with the RPI (Retail Prices Index) or a set percentage, whichever is the lower.

## Is there a risk?

Some salary-related occupational schemes have been in the news because the employer has become insolvent and there wasn't enough money in the employer's pension scheme to pay the pensions it had promised to its current and former employees. Some members of the scheme have lost some or all of their retirement benefits as a result.

The government set up a Pension Protection Fund in April 2005 to protect members of salary-related schemes. The fund pays some compensation to scheme members whose employers become insolvent and where the scheme does not have enough funds to pay members' benefits. For more information about the Pension Protection Fund go to the Pensions Regulator website at [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk).

These pensions are all money purchase pensions:

- Occupational defined contribution pensions.
- Group personal pensions.
- Stakeholder pensions and individual personal pensions.

## How they work

Money purchase pensions work by building up a pension fund using your contributions (and your employer's contributions if they make any), plus investment returns and tax relief. It helps to think of money purchase pensions as having two stages:

**Stage 1:** The fund is invested, usually in stocks and shares and other investments with the aim of growing the fund over the years before you retire – see page 26.

**Stage 2:** When you retire, you can take a tax-free lump sum from your fund and use the rest to secure an income – usually in the form of a lifetime annuity. This is why they are called 'money purchase' – you are swapping your fund for a regular income for the rest of your life.

The amount of pension you'll get at retirement will depend on:

- how much you pay into the fund;
- how much your employer pays in (if anything);
- how well your invested contributions perform;
- the charges taken out of your fund by your pension provider;
- how much you take out as a tax-free lump sum;
- 'annuity rates' at the time you retire; and
- the type of annuity you choose.

For more information about annuities, see the **FSA guide to pensions 3: Annuities and other retirement options**.

## The advantages

Money purchase pension funds are not complicated. They are similar to other investments but with special rules, such as:

- you get tax relief on your contributions;
- your fund grows free of income tax and capital gains tax;
- you may be able to choose the funds to invest in;
- your employer may contribute if it's a work-based pension.

For more detailed information about how money purchase pensions work see pages 12–15.

## What is a lifetime annuity?

A lifetime annuity is a regular income for the rest of your life. You usually have to buy an annuity with the fund you have built up in a money purchase pension fund after taking your tax-free lump sum. You buy the annuity from an insurance company.

**See the FSA guide to pensions 3: Annuities and other retirement options.**

## Important!

You can't treat your pension fund like a savings account. Once you put money in a pension you won't be able to get the benefits until you reach retirement – see page 4.

## Money purchase pensions – what are the rules?

All the pension schemes listed on this page are called ‘money purchase pensions’ and work as we have described on page 9.

Features	Pensions that your employer might offer Employed people only			Pensions you can take out privately Employed, self-employed and people not employed	
	Occupational defined contribution scheme	Group personal pension (GPP)	Stakeholder pension	Stakeholder pension	Personal pension
Who chooses the pension provider?	Your employer and the scheme trustees make all the arrangements.	Your employer.		You.	You.
Does my employer contribute?	Yes – you do not have to pay income tax on any employer contributions.	Possibly. You do not have to pay income tax on any employer contributions.		Not usually.	Not usually.
Does my employer deduct my contributions from my salary?	Yes.			No – you make your own arrangements for regular payments and lump sums.	
Do I get tax relief on my contributions?	Yes – your employer deducts your contributions from your salary before it is taxed.	Yes – your employer deducts your contributions from your take-home pay and sends them to the pension provider he has chosen. The pension provider claims tax relief from HM Revenue & Customs (formerly Inland Revenue) at the basic rate (22%) and adds it to your fund. If you are a higher-rate taxpayer, you will need to claim the additional rebate through your tax return.		You send your contributions to the pension provider you have chosen. The pension provider claims tax relief from HM Revenue & Customs (formerly Inland Revenue) at the basic rate (22%) and adds it to your fund. If you are a higher-rate taxpayer, you will need to claim the additional rebate through your tax return.	
Are there limits on how much I can contribute each year?	No, but contributions above the annual allowance of £215,000 in 2006/07 will be subject to tax – currently 40%. See page 16.				
Can I top up my contributions?	Yes – this depends on scheme rules and is subject to conditions above.	Yes – subject to the conditions above. The pension provider usually has conditions on how often or when you can increase your contributions.			
Do I have to make regular monthly or weekly contributions?	Usually.			No – you can contribute a lump sum when you want to.	

Features	Pensions that your employer might offer Employed people only			Pensions you can take out privately Employed, self-employed and people not employed	
	Occupational defined contribution scheme	Group personal pension (GPP)	Stakeholder pension	Stakeholder pension	Personal pension
Can I stop contributions when I want to?	This depends on the rules of the employer's scheme. If you do stop making your contributions, there is a risk that charges (see below) may outstrip growth and that any inflation may mean that your pension savings will be worth less in the future than today.	Yes – but there may be conditions on restarting them. If you do stop making contributions, there is a risk that charges (see below) may outstrip growth and that any inflation may mean that your pension savings will be worth less in the future than today.		Yes.	Yes – but there may be conditions on restarting them.
Will I have to pay any charges?	Your employer may pay some of the charges, and any other charges are deducted from the pension fund.	Charges vary between pension providers. The pension provider deducts them from your pension fund, usually monthly. Your employer may pay some of the charges.	Management charges are capped. Your pension provider deducts them from your pension fund, usually monthly. There are no initial or exit charges.	Management charges are capped. Your pension provider deducts them from your pension fund, usually monthly. There are no initial or exit charges.	Charges vary between pension providers. Your pension provider deducts them from your pension fund, usually monthly.
Do I get a choice about how contributions are invested?	Sometimes – the range of choice depends on the pension scheme.	Yes – the range of choice depends on the pension provider.			
Can I switch my investments from time to time?	Sometimes – it depends on the rules of the scheme and the choices of investment it offers.	Yes – but there are usually some restrictions.			
Can I take the pension fund with me when I leave my job?	You can transfer your employer-based pension fund to a stakeholder or personal pension, a new employer's occupational scheme or a 'buy-out contract' or leave it where it is.	Yes – you can usually arrange with the pension provider to carry on contributing.	As these pensions are your own personal arrangements you can carry on contributing, or stop contributing, whether you are employed or not.		
How much can I build up in my pension fund?	There is a lifetime allowance. You can build up funds up to £1.5mn without a tax charge (for 2006/07 tax year). Funds over and above the lifetime allowance are taxed. See page 16.				
Can I choose the company who pays my pension (annuity)?	Yes – you have what's called an 'open market option' so you can shop around for your annuity.				
Can I take a tax-free lump sum when I take my pension?	Yes – up to a quarter of all your funds, up to a quarter of the lifetime allowance.				

# How much can you pay in each year?

Since 6 April 2006 there is an annual allowance and a lifetime allowance which will cover all pension schemes.

## Annual allowance

■ You can pay in as much as you like into all registered pension schemes but there are limits on the amount of tax relief given. You can get tax relief on contributions of up to 100% of your UK earnings if you are a UK taxpayer. But any contributions (including any by your employer) above the annual allowance, which is £215,000 for 2006/07, will be subject to tax, currently 40%. The annual allowance will increase each year until 2010 when the position will be reviewed.

If you're not earning (or earn less than £3,600) but can contribute to a pension, the maximum you can contribute in each year is £2,808 (made up to £3,600 with basic rate tax relief).

■ This means that you can top up your occupational pension with AVCs, stakeholder and personal pensions up to the yearly limit with tax relief. The previous earnings restriction of £30,000 a year for occupational scheme members contributing to stakeholder pensions is abolished. So you can contribute to a stakeholder or personal pension in addition to your occupational pension.

## Lifetime allowance

There is also a lifetime allowance on the amount you can accumulate (free of tax) in all the pension funds when you come to draw your benefits.

■ In tax year 2006/07 this is £1.5m. You have to pay tax on any excess over the £1.5m allowance. This is set to rise in stages to £1.8m by 2010/11.

■ Salary-related pension scheme benefits are given a value which counts towards the £1.5m lifetime allowance.

Any amount above the lifetime allowance can be paid as pension benefits but is subject to a tax charge (currently 25% if paid as income or 55% if paid as a lump sum).

You may still have to pay tax on your income when you start to draw the pension.

If you wish, you can take a maximum of one quarter of ALL the pension funds you have built up (including AVCs and FSAVCs) as a tax-free lump sum, up to a maximum of one quarter of the lifetime allowance.

You will need to consider how the size of your pension fund will affect any future entitlement to Pension Credit.

## Did you know?

Government estimates for the UK show that life expectancy for people aged 65 in 2005 will be:

- around 84 for men; and
- around 87 for women.

You could be living on your retirement income for many years.

Source: Government Actuary's Department – cohort figures 2005

# How much income will you want?

When you first started to save for a pension, you may have considered how much income you expected to need in retirement. If you have never done this, think about it now.

Try to work out how much you would want to spend (using today's price levels). Bear in mind that you would not have work expenses, you may have paid off your mortgage, your home fuel bills could be higher and you may need to spend more on healthcare.

Alternatively, just think about the income you currently have. What proportion of it do you think you would need in retirement? Half your present income? Two-thirds?

The following table will give you some idea of what income your pension fund may produce, based on a fund of £30,000.

**This example shows annuities for a man aged 65 with a pension fund of £30,000. The joint life annuity is for 50% spouse's pension and assumes that his wife is aged 62.**

		Monthly income	
		Highest	Lowest
Single life	Level – no increase	£184	£154
	Escalating at 3% a year	£126	£106
Joint life	Level – no increase	£156	£135
	Escalating at 3% a year	£108	£90

These figures were taken from the FSA's Comparative Tables for pension annuities on 6 April 2006.

# Are you on track?

You should review your pension plans regularly to see if you are on track to get the retirement income you want. It's reasonable to do it once a year but you should also do it if your circumstances change – marriage, divorce, a change in job, or the pension or tax rules changing.

You should receive a pension statement each year from your pension provider. It shows how much you have contributed and an illustration of your possible benefits at normal retirement age. If you don't get one, ask for one so that you can see whether you're on track.

## How much State Pension might you get?

To find out how much State Pension you have built up so far and how much you might have by the time you reach State Pension age, get a State Pension forecast from the Department for Work and Pensions by completing a form BR19. See *Useful contacts* on page 35. Under current rules, the State Pension is automatically increased each year by at least inflation, so the forecast pension maintains its buying power. The forecast will show you how much you might get a week – see *Useful contacts* on page 35.

## How much might you get from salary-related occupational pension schemes?

You should get a benefit statement from the salary-related occupational pension scheme you belong to in your current job. This will show how much retirement pension you have built up so far and the amount you might build up if you carry on in the scheme until retirement. Salaries tend to increase by at least as much as inflation, and sometimes by more, so your forecast pension should maintain its buying power too.

You may also get benefit statements from any salary-related occupational pension schemes you belonged to in the past. If your old salary-related pension scheme has been wound up, your benefits would have been transferred to a 'buy-out plan', a personal pension or a stakeholder pension, so you should still receive a statement.

These figures will usually be annual amounts, so divide by 52 to see what you'll get a week.

# Reviewing your pensions – things you need to sort out

## How much might you get from money purchase pensions (defined contribution occupational pension schemes; additional voluntary contributions; personal and stakeholder pensions)?

Each year you should get a statement from each pension provider including those schemes that you no longer contribute to. It will show how much pension income you might get, based on the value of your pension fund today, taking account of future payments into your plan, how the funds might grow, future inflation and pension income from your fund when you retire (usually paid as an annuity).

This is only an illustration, not a guarantee. Nobody can be certain about future investment returns, interest or inflation.

These figures will be monthly amounts, so divide by 4 to see what you'll get a week.

You can also visit the FSA/ABI's pension calculator at [www.pensioncalculator.org.uk](http://www.pensioncalculator.org.uk) to help you work out how much retirement income you might get from the amounts you save.

If you think this won't be enough, you'll need to think about ways to increase your pension income – see page 22.

## Important questions to ask yourself

- 1 How much will my current pension(s) produce?
- 2 What do I know about investing my contributions and how do I feel about risk?
- 3 How much can I afford to pay regularly?
- 4 When do I hope to retire?
- 5 What savings, investments or other assets do I have?
- 6 Will my partner have a pension?
- 7 What am I likely to get from my State Pensions?
- 8 Will I be eligible for Pension Credit?

## Example

Ellen, 40, plans to retire at 65. She has already built up some pension but wants to save more to get an extra £290-£300 a month when she retires. If she starts contributing more now, an extra £100 a month would put her on track for this. If she puts off the extra contribution for ten years, she would need to increase her savings to £200 a month to meet her target.

Delaying ten years doubles the amount Ellen needs to save. This is not just because she has missed ten years' contributions. She has also lost ten years investment growth on her extra contributions and the return that the extra investment would have produced.

# Topping up your pensions

## Annual allowance

You can pay in as much as you like into all your registered pension schemes but there are limits on the amount of tax relief given. See page 16.

## Topping up your occupational pension

You can top up your occupational pension in a number of ways, but the most frequently used ones are as follows:

### Additional Voluntary Contributions (AVCs)

A pension top-up arrangement run by your employer, sometimes called an 'in-house' AVC. Your employer normally deducts your contributions from your pay.

- With most AVC schemes your contributions are invested to build up a fund. When you retire you use the fund to buy extra pension income. The amount you can buy depends on how much you've paid in; how well your investments grow; the level of charges; and the 'annuity rate' at which you can convert your AVC fund into pension income.

- Some occupational salary-related pension schemes offer AVCs that give you the chance to buy 'added years'. This increases the number of main-scheme membership years you are credited with, so will increase your pension.

Talk to your pension scheme administrators for more information on what your employer offers. They may be able to help you work out whether your pension savings are on target. They can also explain your options for topping up your savings and any choices about how to save, but they cannot advise on what is best for you.

### Stakeholder and personal pensions

In addition to AVCs you can also top up your pension with a stakeholder pension or personal pension.

These are separate from your occupational pension scheme and you pay your contributions direct to the pension provider in addition to your occupational scheme. Your contributions are invested to build up a fund. When you retire you use this fund to buy an annuity to provide you with pension income. This is in addition to the pension you'll get from your main scheme.

The amount you can buy depends on how much you've paid in; how well your investments grow; the level of charges; and the 'annuity rate' at which you can convert your personal pension fund into pension income.

## Topping up your personal or stakeholder pension

You can top up your personal or stakeholder pension by increasing your contributions to your current pension.

## Working beyond retirement age

You may want to boost your retirement income by working beyond retirement age. You can postpone taking your State Pension for as long as you want and get either extra State Pension or a one-off taxable lump sum. You can postpone taking a personal or stakeholder pension by agreement with your pension provider, and continue contributing to the pension. You can continue working and contributing to an occupational pension scheme if the scheme rules allow.

You stop paying NI contributions, however, once you reach State Pension age.

## Alternatives to pensions

You may want to consider other ways of building up assets that you can use to produce an income when you retire, such as investing in ISAs and property. You may also want to think about moving to a smaller property or using assets that may be left to you in a will.

## Topping up – getting advice

If you are contributing to an occupational pension scheme of either type (salary-related or defined contribution), you should first check what is possible with your scheme administrator. They can explain what's available but cannot advise on what is best for you. You don't have to take what's on offer, you could speak to a financial adviser to find out what else is available.

### Meeting an authorised financial adviser

Authorised financial advisers can offer products from:

- a single group of companies, and they can give you a list of these companies;
- a limited number of companies, and again they can give you a list; or
- the whole market.

Advisers will give you a **keyfacts**™ document explaining their services.

Check:

- what range of pensions your adviser can offer;
- how the adviser expects to be paid – either by a fee or by commission from the product provider.

After discussing your personal needs and circumstances with you, the adviser will recommend a product from the range on offer. The adviser will explain why they have suggested that product.

The FSA authorises advisers to give advice on personal and stakeholder pensions. But we don't regulate advice about employer's occupational pension schemes.

To help advisers give you proper advice about your pension options, you should always tell the adviser whether your employer offers an occupational pension that you could join or have joined.

Advisers will usually tell you to check out your employer's occupational pension as a your first priority.

### Some questions to ask an adviser

1. What sort of investment would be most suitable for me, given:
  - that I can/cannot join an occupational pension;
  - the length of time until I retire;
  - my employment status and prospects;
  - my other savings, investments and assets; and
  - how I feel about risk?
2. How much should I be saving to get the retirement income I want?
3. Is a stakeholder pension the best option for me? If not, why not?

The Key Features document (which describes the pension plan) will answer most of the following questions:

4. If I take out a particular pension now, can I switch to another later? Will there be charges for switching?
5. What are the charges for the pension you are recommending now? How much of my investment will be lost through these charges?
6. Must I pay regular contributions or can I vary my contributions?
7. What happens if I choose to make regular contributions but can't keep them up after all – say, because I'm ill or made redundant?
8. What will my dependants get when I die?
9. At what age can I start taking my pension?
10. Can I change the age I start taking my pension without penalty?

For more information on financial advice and on finding a financial adviser, see the **FSA guide to financial advice** – see *Useful contacts* on page 35.

## Topping up – without advice

### Going to a product provider

You can approach some stakeholder and personal pension providers direct, but you should be aware that their representatives can only advise you on their company's own products or one they have adopted from another company.

### Reading a brochure or an advertisement

These will include factual information, and although you can expect the facts to be accurate, you should be aware that brochures and advertisements are marketing information and not investment advice. Companies design them to show a product in its best light.

### Buying without advice

You don't have to take advice before you start a pension top-up plan. But if you don't, and the plan you choose turns out to be unsuitable, you will have fewer grounds for complaint.

# How your contributions are invested

Money purchase pensions offer you the opportunity to invest in funds such as unit-linked funds, unit trusts and investment trusts. These funds tend to invest mainly in stocks and shares, so there is some risk involved. Over medium- to long-term periods (five years or more), the return on stocks and shares has tended to be higher than that from deposit accounts or bonds, but this may not always be the case. Most professionally managed pensions are invested largely in stocks and shares.

Some pension providers offer a 'default' investment (if you don't want to make any investment decisions yourself). The default fund may be called the 'lifestyle' option. This means your money could be invested in higher-risk growth funds while you are young, and then transferred automatically to safer investments or deposits the closer you get to retirement. Check with your provider as to what the default fund invests in.

Like all investments the value of your pension investments may go down as well as up.

Some pension plans may offer bank or building society deposit accounts. Your savings usually grow only at a modest rate and their value can be reduced by inflation.

## A choice of investments

Most money purchase pensions usually offer you a choice of funds in which to invest your contributions. The choice of funds is likely to be wide-ranging with personal pensions. With money purchase occupational schemes, you're still likely to have a choice, though the range may be smaller.

The name of each fund usually describes the type of investment it holds, eg: with-profits, unit-linked, property, fixed interest. Many funds are almost identical to unit trusts. You can usually switch between funds and the first switch a year will normally be free.

The most common choices are listed below.

## Investment funds (unit-linked)

With these, you share in the performance of a fund of underlying investments. Unit-linked funds cover a wide range of investments. Some examples are:

### ■ Actively managed funds

Fund managers choose investments that they expect to perform best and switch them as market conditions change. Funds invest in a range of assets (stocks and shares, fixed-interest bonds, for example). There are also geographical sectors such as the UK, USA, Europe and Far East.

A 'managed' or 'balanced' fund usually aims to spread risks across different types of investment.

### ■ Tracker funds

The investments in a tracker fund move closely in line with a selected stock market index, such as the FTSE All-Share Index. This means the value of tracker funds will go up or down in line with the relevant market. Tracker funds usually have lower charges than actively managed funds.

### With-profits funds

Life companies offer these funds and invest your contributions in stocks, shares and gilt-edged securities etc.

Your investment grows as the company adds yearly bonuses but bonuses are not guaranteed to be paid. Bonuses reflect market performance and other factors, such as the costs the life office must meet to run its business. Once the company has added annual bonuses, they are 'locked in' and normally can't be taken away.

The company usually tries to balance performance over the long term by holding back some of the gains in good years to pay out in poor years. This is called 'smoothing' returns. The fund manager will usually add a final or terminal bonus when the policy matures at your retirement date.

**You should check if the company will deduct any money from your with-profits fund if you decide to retire earlier or later than planned.**

**Remember,  
when choosing a  
pension fund, past  
performance is not a  
guide to future  
performance.**

# Tips and how to find out more

## Don't assume that the first advertisement you spot, or salesperson you talk to, has the best deal.

- Shop around and get information about several comparable products.
- Consult different pension providers. Contact several firms and ask them for a **Key Features** document – this document describes the pension plan.
- If you are thinking of buying a stakeholder pension, the company will provide you with a decision tree – a flowchart designed by the FSA to guide you through your pension options. The decision tree is the same for all companies' stakeholder pensions, so you only need one.
- The FSA also produces a factsheet, **Stakeholder pensions and decision trees** – call the FSA Consumer Helpline for a free copy or download it from the consumer publications section of the FSA's Consumer Information website at [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer)
- You can also work through an interactive version of the decision trees in the pensions section of the FSA's Consumer Information website at [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer)
- You should always check the **charges** for any pension.
- The FSA's **Comparative Tables** can help you compare stakeholder and personal pensions charges. You can find the tables at [www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables)
- You can also get an estimate of your likely pension for various amounts of contributions from the FSA/ABI pension calculator at [www.pensioncalculator.org.uk](http://www.pensioncalculator.org.uk)

# Reviewing your plans when your circumstances change

## Partners

If you get married, enter into a civil partnership or start to live with someone, you may want your pension scheme to provide financial support for your partner if you were to die first.

Most occupational schemes offer a package of benefits that includes life insurance while you are working and a pension for a widow, a widower, a civil partner, or dependent children payable on death both before or after retirement.

Not all schemes provide a pension for an unmarried partner. You may be able to add benefits by paying additional voluntary contributions or giving up some of your own pension.

Since 1 December 2003, pension schemes providing benefits for an unmarried partner must not discriminate on the grounds of sexual orientation. This means that these must be available equally to both opposite-sex and same-sex partners.

You choose whether to add benefits for your dependants to a personal pension or stakeholder pension. Most pay out something – either as a pension and/or lump sum – if you die before retirement.

Adding life insurance or a pension for your partner on death after retirement will either cost you extra or reduce the amount of pension you get.

Ask the scheme administrator, pension provider or an authorised financial adviser to explain whether your current arrangement provides any benefits for a partner and, if not, how much extra you would need to save to provide them and stay on track for the pension you want.

An alternative way to ensure that your partner has a pension would be to encourage them to start a stakeholder pension (or personal pension) and for you to pay contributions from your own resources into the scheme for them.

## Divorce

If your marriage ends in divorce, or your civil partnership is dissolved, you can apply to the court for a financial settlement. A court must take the value of any pensions held by the couple into account when dividing the family's assets. Even if you do not use a court, you should still consider your pension position.

**In this section, we have assumed that the husband has built up a larger pension than the wife. But where the wife has built up a larger pension, the rules apply equally to protect the husband.**

**This section also applies to the dissolution of civil partnerships.**

Without the divorce, typically a wife might expect to share her husband's pension in retirement or receive a widow's pension on his death. There are several ways in which a court can take the loss of these potential benefits into account:

#### ■ **Offsetting**

The value of the husband's pension rights is offset against the value of other assets, to ensure that each spouse will get a fair share of the total assets.

#### ■ **Compensation**

The wife can receive a lump sum on divorce to ensure that the financial settlement is fair and balanced.

#### ■ **Earmarking**

The court can order that part or all of any lump sum payable on the death of the husband be paid to the former wife. Similarly, the court can order the husband to make maintenance payments direct to his former wife when pension payments become payable.

The court can also order the pension scheme to make payments of the husband's pension when it becomes payable direct to his former wife.

#### ■ **Pension sharing**

A pension sharing order can only be made by the court as part of the financial settlement. Pension sharing applies equally to men and women. If the court makes a pension sharing order, part of the 'capitalised' (cash) value of the husband's pension is shared with his former wife. She can either become a member of her ex-husband's scheme if the rules of the scheme allow, or the trustees of her former husband's pension scheme can buy pension rights in a new scheme for her. If you divorce in Scotland, there are some differences in what the courts can do.

The husband may see a cut in the pension he has built up and may need to increase his retirement savings to compensate.

The wife may gain her own pension but will probably need to top this up with additional retirement savings to provide the retirement income she wants.

Consider getting advice from an authorised financial adviser or, if very large sums are involved, an actuary, on what to do with any money after the split.

## **Changing jobs**

#### ■ **If you belonged to your former employer's occupational pension scheme**

You will no longer be able to contribute to the scheme.

If you have belonged to the scheme for between three months and two years, you can take a refund of your contributions or transfer your benefits into a new scheme.

Provided you have belonged to the scheme for at least two years, you will have the option to:

- transfer the pension benefits you have built up to a new scheme (if there is one). But first check the scheme rules and whether it is to your advantage to transfer – it may not be; or
- leave the pension rights you have built up in the scheme (called a 'preserved pension' or 'deferred pension') to be taken when you eventually retire.

In the case of a salary-related pension, a 'preserved pension' is increased to protect against inflation between your leaving your employment and retirement.

For more detailed information see the **FSA guide to the risks of salary-related occupational pension transfers**.

If it's a money purchase pension, it can be left to carry on growing, as before. Growth will depend on investment performance.

#### ■ **If you have a personal or stakeholder pension**

There is no need to stop paying your contributions or transfer your plan when you change jobs. However, if your former employer paid into the pension on your behalf, these contributions will stop.

If you decide to stop paying into a personal pension, you can leave the pension fund you have built up to carry on growing, but check whether there are extra charges for making the plan 'paid up'. You should also check the effect that annual management charges may have on your fund.

If the new employer offers an occupational pension scheme, joining it may be to your advantage. Ask the scheme administrator for details of the scheme.

If the new employer offers a group personal pension scheme or stakeholder pension, check carefully whether you will be better off joining it than keeping your present pension arrangements.

You can stop and start contributions to a stakeholder pension without incurring any extra charges. There are no charges for transferring a stakeholder pension.

**Don't stop a personal pension or transfer it without getting advice first. You may already have paid a large part of the charges due over the life of the plan and may well lose money if you stop the plan now.**

### Early retirement

Choosing to retire early is an expensive decision. Your pension will have had less time to build up and must be paid out for longer. If you do not want to retire on a low income, you need to save extra to afford early retirement.

You can currently retire at 50, but this is going up to 55 by 2010.

Retiring early from an occupational pension scheme is usually only possible if the scheme rules allow.

If you decide to retire earlier (or later) under your personal or stakeholder pension scheme, you should check with the pension provider whether they will deduct any money from your pension fund (if it's a with-profits fund) called a 'market value reduction'.

If you are made redundant, you may be offered a good pension as part of the redundancy package. Consider carefully whether you want to start taking your pension straight away or leave it to carry on building up until a later date.

If you are under age 60 and not planning to take on further work, ask your local social security office whether it would be worth your while paying voluntary National Insurance contributions towards your State Pension to ensure you get the maximum possible.

# Complaints

### Personal or stakeholder pensions

The FSA regulates the way that pension providers (usually insurance companies) are run. We also regulate the sales and advice process for pensions. This means that firms advising or selling pensions must be authorised by us. To find out whether a firm is authorised by the FSA look at the Firm Check service on our website or call the Consumer Helpline, see *Useful contacts* on page 35.

The FSA has procedures that firms must follow when dealing with complaints. First contact the adviser or pension provider who sold you the pension. If they cannot resolve the dispute, you can take it to the Financial Ombudsman Service; the firm will inform you how to do this.

### Occupational pension schemes

Your employer's occupational pension scheme must, by law, offer a formal complaints procedure, so first contact your pensions administrator at work. If it is not resolved, you can take it to the Pensions Advisory Service who will try to mediate between you and the scheme to resolve the matter. If necessary they will help you take your case to the Pensions Ombudsman.

The Pensions Regulator is the regulatory body for work-based pensions. A work-based pension scheme is any scheme that an employer makes available to employees. This includes all occupational schemes, and any stakeholder and personal pension schemes where employees have direct payment arrangements.

For more information about the Pensions Regulator, visit [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

For help with making an effective complaint, see the **FSA guide to making a complaint about financial services** – see *Useful contacts* on page 35.

## State Pensions

Complaints about the handling of State Pensions should first be taken up with your local social security office. Look in the phone book or contact your Citizens Advice Bureau for their address.

## Compensation

If a personal or stakeholder pension provider has difficulties and becomes insolvent, the Financial Services Compensation Scheme can usually step in to help. See the FSCS guide **How we handle your claim for compensation** – see *Useful contacts* on page 35.

If your employer is winding up its occupational pension scheme, it may have a new scheme into which it wants the members to move. If it doesn't intend to offer another scheme, then the trustees have to distribute the assets according to the rules. See the Pensions Advisory Service guide **Winding-up a pension scheme – a guide for scheme members** – see *Useful contacts* on page 35.

# Useful contacts

**0845 numbers will be charged at the local rate based on current charges from BT landlines. Charges for calls from mobile phones and other networks may vary.**

### To find out about State Pensions

**DWP Pensions Information Line**

Tel: 08457 31 32 33

Textphone: 0845 604 0210

(for free factsheets on pensions and form BR19)

Website: [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)

### For a forecast of your State Pension

**Pension Forecasting Team**

Tel: 0845 3000 168

Textphone: 0845 3000 169

or write to:

The Pension Service

Tyneview Park, Whitley Road

Newcastle upon Tyne

NE98 1BA

Website: [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)

### For tax enquiries

**HM Revenue & Customs Audit & Pension Scheme Services Helpline**

Tel: 0115 974 1600

Website: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

### For details of your occupational pension scheme

The pensions administrator, pensions manager or pension trustees at work.

### To trace a pension

**The Pension Tracing Service**

Whitley Road

Newcastle upon Tyne

NE98 1BA

Tel: 0845 600 2537

Textphone: 0845 300 0163

Website: [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)

### For general pension queries and leaflets

**The Pensions Advisory Service**

Tel: 0845 601 2923

Website:

[www.pensionsadvisorservice.org.uk](http://www.pensionsadvisorservice.org.uk)

### FSA consumer publications or to check a firm is authorised

**FSA Consumer Helpline**

Tel: 0845 606 1234

Minicom/Textphone: 0845 730 0104

Website: [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer)

**Disputes about the marketing or selling of personal pension plans**

**The Financial Ombudsman Service**

Tel: 0845 080 1800

Website:

[www.financialombudsman.org.uk](http://www.financialombudsman.org.uk)

**To find a financial adviser**

**IFA Promotion**

Tel: 0800 085 3250

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

For a list of three financial advisers in your local area

**To find a financial planner**

**Institute of Financial Planning**

Tel: 0117 945 2470

Website: [www.financialplanning.org.uk](http://www.financialplanning.org.uk)

**If an authorised firm is unable to pay your claim**

**The Financial Services Compensation Scheme (FSCS)**

Tel: 020 7892 7300

Website: [www.fscs.org.uk](http://www.fscs.org.uk)

Email: [enquiries@fscs.org.uk](mailto:enquiries@fscs.org.uk)

**Useful links**

FSA Comparative Tables –

[www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables)

FSA/ABI pension calculator –

[www.pensioncalculator.org.uk](http://www.pensioncalculator.org.uk)

List of stakeholder pension providers –

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

HM Revenue & Customs (formerly the Inland Revenue) for tax queries –

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

**Asking the right questions**

Other FSA publications that could help you

**June 2006**

**Pensions**

FSA guide to pensions 1: Starting a pension

FSA guide to pensions 3: Annuities and other retirement options

FSA guide to the risks of salary-related occupational pension transfers

Retiring soon – what you need to do about your pensions

The State Second Pension and contracting out

Stakeholder pensions and decision trees

**General**

FSA guide to financial advice

FSA guide to making a complaint about financial services

Challenging unfair contract terms

**This is only a selection. You can see our full list and order free copies online at [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer) – or you can call our Consumer Helpline on 0845 606 1234.**