

FSA Factsheet

Retiring soon – what you need to do about your pensions

This factsheet is for you if:

- you're planning to retire soon, or you want to plan ahead; and
- you're not sure what you need to do to get all the pension income you're entitled to.

It sets out:

- where your pensions may be coming from;
- how your pension fund is converted into a regular income;
- some things you need to consider when you buy a lifetime annuity;
- how to shop around to get the best annuity for you; and
- where to get more help and information.



Are you thinking of retiring soon?

You could be getting a pension from one or more of the following:

- your current or previous jobs (known as an occupational pension);
- an insurance company (if it's a Group Personal Pension or a stakeholder pension arranged by your employer; or a personal or stakeholder pension which you arranged yourself);
- the State (if you have built up National Insurance contributions).

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.

Changes to pensions

In May 2006 the government published a White Paper that proposes significant changes to both State and private pensions. Any changes arising from these proposals are unlikely to be made in the next few years. This factsheet is based on the position at 6 April 2006.

Retirement

We use 'retirement' to mean the time from when you start to take the benefits from your pension.

You can take your pension from age 50 onwards from a personal or stakeholder pension and you don't have to stop work to start drawing the pension.

You can take your pension from your employer's occupational pension scheme from age 50 and continue working for that employer only if the scheme rules allow.

The minimum age from which you can take a personal or occupational pension is going up from 50 to 55 by 2010. The precise timing may vary between pension schemes, so check with your pension provider.

What pensions have you got?

If you're working, you are usually paying National Insurance contributions (NICs). This means you're building up the right to get a basic State Pension and, if you are employed (rather than self-employed), possibly an additional State Pension.

You may also be a member of your employer's pension scheme or have started your own private pension.

See the table opposite to see where your pensions may be coming from.

Then see page 4 onwards for more detail and what you need to think about to ensure you get all the pension income you're entitled to.

For an explanation of pension terms see page 12.

Where is your pension coming from?

Pension type	Where from?	How is the pension paid?	Cash option	Retirement age
State Pension	The Pension Service will send you information or else you can contact them.	Paid by the Department for Work and Pensions into your bank account.	Yes, if you postpone taking your State Pension – see page 4.	65 for men; 60-65 for women depending on date of birth.
Personal or stakeholder pension; or Group Personal Pension	You can shop around for a lifetime annuity from any annuity provider	You can buy a lifetime annuity with your fund (or use an unsecured pension to provide the income).	You can usually take up to a quarter of your pension fund as a tax-free lump sum before buying an annuity. This will reduce the amount you have to buy an annuity with.	<p>Retirement age may be 50 or over. It depends on the pension scheme you are contributing to.</p> <p>The earliest age at which you can draw pension benefits is going up to 55 between April 2006 and April 2010. Check with your pension provider.</p> <p>There may be special rules for retiring due to ill health.</p>
Occupational salary-related scheme	Pension scheme administrators and trustees through your personnel department.	The trustees or the scheme administrator will pay your pension directly to you.	You can usually take part of your pension fund as a tax-free lump sum.	
Occupational defined contribution ('money purchase') scheme	Pension scheme administrators and trustees through your personnel department.	The trustees or the scheme administrator can buy a lifetime annuity for you or you can shop around yourself	You can usually take part of your pension fund as a tax-free lump sum before buying an annuity. This will reduce the amount you have to buy an annuity with.	
AVCs (Additional Voluntary Contributions)	Pension scheme administrators through your personnel department.			
FSAVCs (Free-Standing Additional Voluntary Contributions)	You can shop around for a lifetime annuity from any annuity provider.	You can buy a lifetime annuity with your fund.		

State pensions

Basic pension

The Pension Service (part of the Department for Work and Pensions) will write to you about four months before you reach State Pension age, inviting you to claim your State Pension.

Men get their State Pension at 65. Women get theirs at age 60, increasing to age 65 by 2010. But you can put off claiming your State Pension at these ages if you wish. If you postpone your State Pension you have the option of either:

- getting extra State Pension of around 10% for each full year that you put off claiming it; or
- a one-off taxable lump sum based on the State Pension you have given up, plus interest at 2% above the Bank of England base rate.

Additional State Pension

Since 1978, if you are (or have been) in employment you may also be building up an additional State Pension. This is called the State Second Pension, formerly SERPS.

Self-employed people cannot build up an additional State Pension.

If you are an employee, you are automatically included in the State Second Pension unless you decide to leave it (called 'contracting-out').

If you have contracted-out of the additional State Pension

If you have contracted out of the additional State Pension you must use that part of your pension fund to buy a 'protected rights annuity'. Your pension provider will tell you if protected rights applies to you and what it means in your circumstances.

With a protected rights pension you:

- can draw your protected rights pension at the same time as your occupational or personal pension, provided you are over 50 years old, going up to 55 by 2010. (Check that your pension scheme rules allow you to draw your pension at age 50.);
- can convert up to one quarter of your protected rights fund into a tax-free lump sum. Any money you take as a lump sum will reduce the amount you have available to buy your annuity;
- will have to buy a joint life annuity paying a 50% spouse's pension if you are married or have a civil partner;
- can choose between taking a level or escalating annuity – see page 5.

Pension Credit

The government introduced Pension Credit to help pensioners with little or no savings at retirement.

In 2006/07, if you are single and aged 60 or over, Pension Credit guarantees an income of at least £114.05 a week.

In 2006/07, if you are married, or have a partner, and either of you are aged 60 or over, Pension Credit guarantees an income of at least £174.05 a week.

You may still be able to get Pension Credit if your weekly income is more than these amounts if, for example, you or your partner:

- are severely disabled;
- look after a person who is severely disabled; or
- have certain housing costs – for example mortgage interest payments.

For a free booklet on Pension Credit – see *Useful contacts* on page 14.

Occupational salary-related pension

If you will be getting a pension from an occupational salary-related pension scheme (sometimes called ‘final salary’, ‘superannuation’ or ‘defined benefits’ schemes), your pension scheme administrators will pay your pension direct to you once you reach the retirement age set out in the scheme rules.

Occupational money purchase pension

If you will be getting a pension from an occupational defined contribution scheme (a ‘money purchase’ scheme), your scheme administrator may buy a lifetime annuity for you or you may be able to buy it yourself. See the Pensions Regulator factsheet ‘**Your retirement choices – money purchase benefits in occupational pension schemes**’ – see *Useful contacts* on page 14.

Private pensions

If you started your own personal or stakeholder pension or if you have a Group Personal Pension or stakeholder pension through your employer, you can buy a lifetime annuity with your fund after taking any lump sum. We explain annuities briefly here, for more information see the **FSA guide to pensions 3: Annuities and other retirement options** – see page 14.

What is a lifetime annuity?

A lifetime annuity converts your pension fund into pension income – the income you will be paid for the rest of your life. You buy an annuity with your pension fund from an insurance company and your pension income from your annuity is taxable.

You can buy an annuity if you have one of the following types of pension –

- personal pension;
- stakeholder pension;
- most Additional Voluntary Contributions (AVCs);

- Free-Standing Additional Voluntary Contributions (FSAVCs);
- retirement annuity contract;
- Section 32 policy.

What types of lifetime annuity are there?

There are different types of lifetime annuity to suit your needs and circumstances. The basic types are –

- **single-life** – an annuity just for you if you don’t have a spouse or partner, or if they don’t rely on you for income (for example they have their own pension arrangement);
- **joint-life** – an annuity that will pay out to your spouse or partner after your death (normally at a reduced rate), if you have a spouse or partner who relies on you for income.

You can also choose whether you want your single or joint-life annuity to be –

- **a level annuity** – this pays out the same pension income throughout your life. You will get more money to start with than you would from an escalating annuity, but it will not increase in line with inflation;
- **an escalating annuity** – there are two main choices:
 - **fixed-rate** – your income increases each year by a fixed rate (for example 3%); or
 - **RPI-linked** – your income goes up or down in line with inflation.

An escalating annuity will normally start at a lower rate than a level annuity and gradually build up.

You can also add some options to your lifetime annuity such as:

A guarantee period

You can also ‘**guarantee**’ your annuity for a specific number of years. This means it will continue to pay the income for the rest of the guarantee period (5 or 10 years) even if you die

before the time period is up. The income is usually paid to your partner, or to your estate if it is a single life annuity.

Annuity protection lump sum death benefit

This is a way of ensuring that if you die before the age of 75, your annuity doesn't die with you. A lump sum equivalent to the pension fund you used to buy the annuity, minus the income you've already been paid, will be paid to your estate or beneficiaries. There will be a tax charge, and may also be an inheritance tax charge.

Enhanced and impaired life option

You may also be able to benefit from an **enhanced annuity** or an **impaired life annuity**, which pays a higher income, depending on your state of health or lifestyle.

How is a lifetime annuity worked out?

These are the most important factors that affect the income you will get from your annuity:

- The amount of money in your pension fund when you retire.
- The amount of tax-free lump sum you decide to take – this will reduce what you have left in your fund to buy an annuity with.
- The annuity rate offered by the life insurance company – annuity rates vary from company to company.
- The type of annuity you decide to buy – joint or single life, level or escalating, with or without a guarantee.
- Your age.
- Your sex – annuities for women cost more, as they are expected to live longer than men.
- Your health or lifestyle – some companies will pay higher annuities to people who are overweight, have high cholesterol, are smokers, or are in poor health. Your occupation or where you live might also affect your annuity.

You may be able to get a higher annuity if your health is poor, if you are a smoker, are overweight or have followed certain occupations – so shop around!

To help you consider what sort of lifetime annuity might be best for you, see page 8 and the Next Steps checklist on page 9.

Once your annuity is being paid you can only switch annuity providers if you can find a provider willing to take it on. You cannot change the type of annuity if you do switch providers.

How can you shop around for the best deal?

Your pension provider should give you an estimate of the value of your fund at least six weeks before you plan to retire. They should also tell you how much income the lifetime annuity they offer would give you. This will help you shop around and compare the income offered by other insurance companies.

Your pension provider might deduct charges from your fund if you decide to buy your annuity from another provider – check this. You need an estimate of the value of your fund which takes account of any charges so you can use your 'open market option' to shop around.

You can then ask other insurance companies to give you a personalised quote, after giving them all the details they need. But remember to compare like with like and look at annuity quotes based on your circumstances.

Lifetime annuity quotes are usually fixed for a limited number of days, between 7 and 28 days. The company will tell you if you have the right to change your mind and cancel the contract, and if so, how to cancel.

Not all companies will deal with you direct so it may be advisable to consult a ‘whole of market adviser’. These advisers should be able to look at all the annuity rates on offer. Some advisers specialise in annuities and it may be worthwhile going to one that does.

The insurance company usually pays commission to the adviser so getting advice should not affect the amount you pay for the annuity. But ask if you have to pay the adviser any added charges.

You can check on ‘open market option’ annuities by going to the FSA’s Comparative Tables on the Internet at: www.fsa.gov.uk/tables

Some people have found they have been able to increase their income by as much as a third by shopping around for their annuity.

Where can you buy an annuity from?

Your pension provider will usually offer you a lifetime annuity, but you can shop around to see what rates or arrangements other insurance companies offer – this is called the ‘open market option’. But you may find it difficult to shop around if you have a small pension fund, say below £5,000.

Check whether you will lose any benefits (for example, an option to buy a lifetime annuity at a guaranteed rate) if you don’t take up your pension provider’s offer.

What other options are there?

If you don’t want a type of annuity mentioned earlier or if you decide to delay buying a lifetime annuity, there are a few other options you might consider.

Some are only likely to be suitable if you have a large pension fund, and other assets or sources of income, and are comfortable taking some risk with your fund. For more detailed information on these options see the **FSA guide to pensions 3: Annuities and other retirement options**.

After taking a tax-free lump sum, you may have the following options:

■ **Investment-linked lifetime annuity**

This type of annuity relies on stock-market performance and involves some risk that your income could go down as well as up.

■ **‘Phased retirement’**

This is where you split your pension fund (or funds, if you have more than one) into two, three, four or more slices with which you can buy annuities at different ages.

■ **Unsecured pension using income withdrawal or short-term annuities**

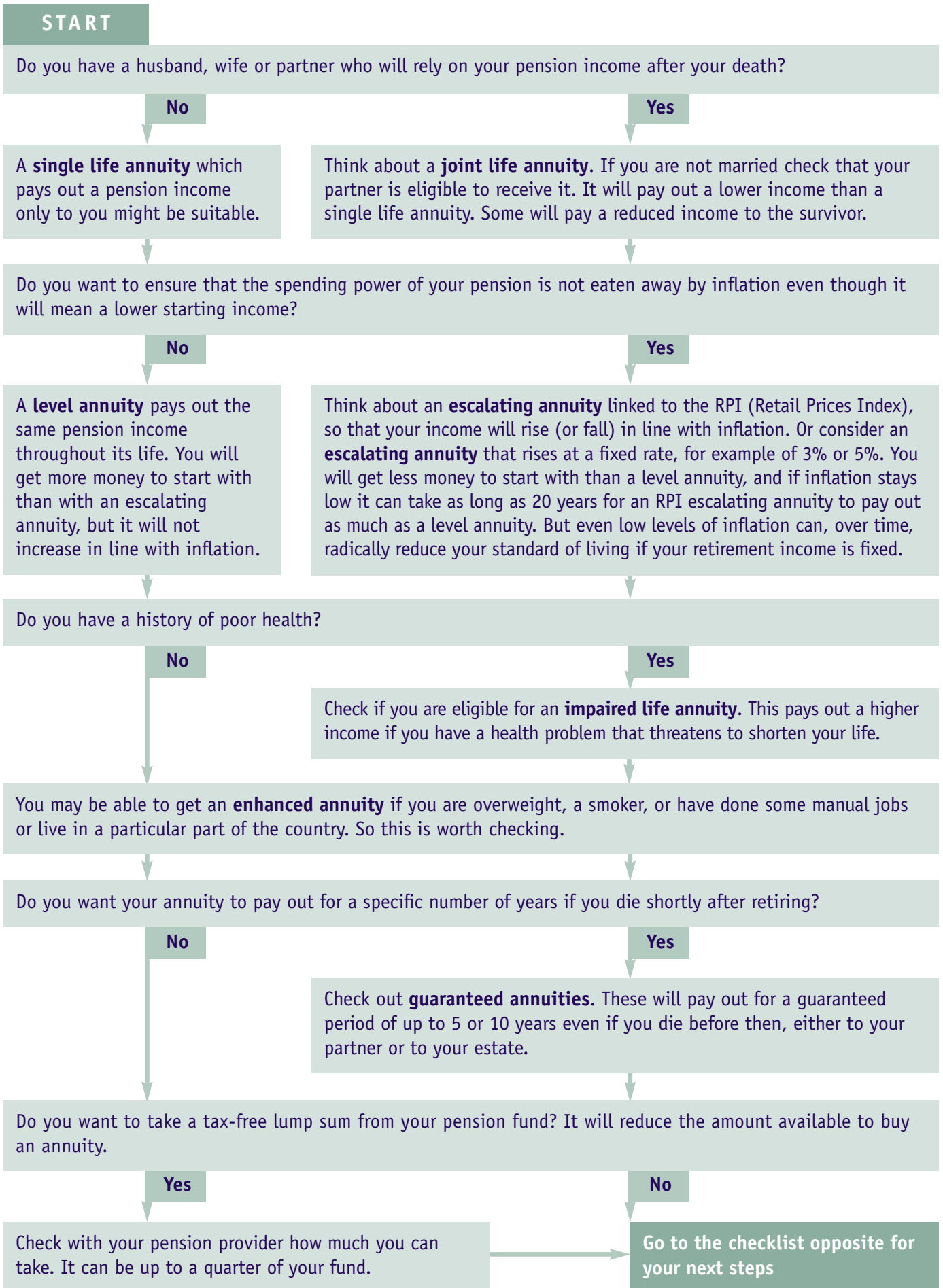
This is a way to draw an income from your pension fund while leaving it invested.

An unsecured pension will stop at age 75. By that time, you must secure an income from your pension funds, which generally means buying a lifetime annuity. A variant to this is an alternatively secured pension, which works in a similar way to an unsecured pension but has slightly different rules.

However, the government has indicated that alternatively secured pensions are only intended for a small group of people who have a principled religious objection to buying an annuity. You should take this into account when making a decision on how to secure your pension. Also, inheritance tax may apply to any leftover funds on your death.

You would probably need to have a large pension fund to take advantage of these more complex options. You should get professional financial advice – see *Useful contacts* on page 14.

Use this chart to help you decide what sort of lifetime annuity would best suit you.



Some other things you might consider

■ Not buying an annuity or drawing an income when you stop work

You don't have to buy an annuity or draw an income from your fund when you stop working. You could postpone buying a lifetime annuity to a later date if it suits you.

You can continue paying into your pension fund (but not if it's an occupational pension scheme).

If you do postpone buying a lifetime annuity you might get a higher annuity later because you are older and your fund will have been invested for longer. But lifetime annuity rates change and the value of your fund can go down as well as up – a higher annuity can't be guaranteed by postponing.

■ With-profits funds

If your pension fund is invested in a with-profits fund you need to be very careful about changing your retirement date. With-profits funds usually pay out at set dates in the life of the policy. If you change your original retirement date, the company managing your fund may reduce your fund by making a 'market value reduction'. Check this if you have a with-profits fund.

■ More than one personal pension fund?

If you have more than one personal pension fund, you may be able to get a higher lifetime annuity if you combine them, by transferring all or some to a single stakeholder or personal pension and then buying one annuity. It depends on the types of pension you have and you may wish to get professional financial advice.

On the other hand, if you do not need the income immediately, you could buy a lifetime annuity with one pension fund and leave the other(s) till later.

■ Your pension funds are small

If the total of all your pension funds is less than £15,000, you can take all your pensions as a cash lump sum rather than taking an income. To take this option you must be between 60 and 75 and must convert all your pension funds to cash within a 12-month period. One quarter of the lump sum is tax-free and the rest is taxed as income.

■ Working beyond retirement age

You might 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 usually postpone taking a personal or stakeholder pension, in consultation with your pension provider, and continue contributing to the pension. You can continue working and contributing to an occupational pension scheme only if the scheme rules allow.

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

Occupational defined contribution ('money purchase') pension schemes

The rules for occupational defined contribution schemes are different to those for personal and stakeholder pensions. If you belong to this type of scheme, ask the Pensions Regulator for their factsheet 'Your retirement choices – money purchase benefits in occupational pension schemes' – see *Useful contacts* on page 14.

- The trustee of your occupational defined contribution scheme may buy your annuity for you – but you will have the right to shop around for your annuity.
- You may be able to transfer your fund to a stakeholder or personal pension if you think this would increase your choice of annuity (check your scheme rules).
- You can continue working for the employer who pays your pension once you draw your pension as long as the scheme rules allow.
- If you have AVCs or FSAVCs you can take approximately a quarter of your fund as tax-free cash.

Time to take stock – your checklist

■ Your pension schemes

1. Go through the list of pensions on page 3. Write down all the possible pension plans you may have, including old pension plans that you stopped paying into.
2. If you have lost touch with old pension plans, contact the Pension Tracing Service who can help you trace them – see *Useful contacts* on page 14.
3. Contact the pension providers to find out:
 - what your fund(s) are worth; and
 - if occupational schemes, what type of scheme they are (salary-related or money purchase); and
 - whether you will have to buy a lifetime annuity or if the scheme pays you an income direct.
4. Decide whether to take a tax-free lump sum, if you are able to do this, and check how this will affect the pension or annuity you will get.
5. Check whether you can combine all your money purchase funds to buy one lifetime annuity.

■ Your retirement income

6. Check that a partner will be provided for either through your pensions or their own.
7. If you are buying a lifetime annuity, decide whether to build in yearly increases.
8. Shop around for the best annuity. Use the FSA's Comparative Tables at www.fsa.gov.uk/tables
9. Claim your State Pension. Usually the Pension Service will write to you just before your State Pension age inviting you to make a claim. If you don't hear from them, contact your local social security office.

■ Income tax

10. All income from pensions and annuities is normally taxable. You may pay less tax once you retire because most people aged 65 and over are eligible for a higher personal allowance. Check with your tax office.

■ Insurance policies

11. Do you have any insurance policies due to mature? The Unclaimed Assets Register can help you trace forgotten policies – see *Useful contacts* on page 14.

■ Extra income or cash from your home

12. If you own your home, you may be able to boost your income or get extra cash by using an 'equity release' or similar scheme – but beware of the risks. See the FSA Factsheet *Raising money from your home*.

Did you know?

Government estimates for the UK shows 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

Some pension terms explained

Alternatively secured pension	It works in a similar way to an unsecured pension but has slightly different rules. However, the government has indicated that alternatively secured pensions are only intended for a small group of people who have a principled religious objection to buying an annuity.
Annuity	An annuity converts money from your pension fund into pension income, which is taxed. There are different types to suit your circumstances – see the FSA guide to pensions 3: Annuities and other retirement options .
AVCs – Additional Voluntary Contributions	A pension top-up for an occupational pension. You pay contributions into a scheme run by your employer to boost your main pension.
FSAVCs – Free-Standing Additional Voluntary Contributions	A pension top-up policy, also for an occupational pension, but is separate from your employer’s pension scheme and is run by a financial services firm.
Group personal pension	A type of personal pension employers arrange with a pension provider for their employees, possibly with special arrangements, but it is not classified as ‘occupational’. See ‘money purchase pension’.
Money purchase pension	Some occupational pensions and all personal, group personal, stakeholder, FSAVCs and some AVCs are money purchase pensions. Your contributions are invested in, for example, the stock market and the size of your fund depends on how well your investments do.
Occupational pension	Only available through employers and run by pension scheme trustees. There are two types – salary-related and money purchase.
Open market option	You do not have to buy a lifetime annuity from your pension provider, you can shop around to find a better deal – this is called the ‘open-market option’.
Personal pension	A pension policy you take out yourself from an insurance company or financial institution into which you pay contributions. See ‘money purchase pension’.
Salary-related pension scheme (‘final salary’ or ‘defined benefit’)	A type of occupational pension. The amount of pension you get is worked out on your salary at or near retirement, or when you left, and your pensionable service.
Stakeholder pension	A type of personal pension that has to meet minimum standards set down in law. You can take one out yourself or it may be available through your employer, but is not classified as ‘occupational’. See ‘money purchase pension’.
State Pension	The Pension Service (part of the Department for Work and Pensions) will pay your basic State Pension based on your National Insurance contributions. An additional State Pension based on your earnings may also be available.
Tax-free lump sum	The Inland Revenue limits how much you can take as a tax-free lump sum from your personal or stakeholder pension fund – currently a quarter (25%) of your fund. For occupational pensions it depends on the rules of the scheme.
Unsecured pension	A method where you draw an income direct from your pension fund while leaving it invested.

Useful FSA publications

- **FSA guide to pensions 3: Annuities and other retirement options**
- **FSA guide to financial advice**
- **Raising money from your home**
- **Paying for long-term care**

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 obtain free FSA publications

FSA Consumer Helpline
Tel: 0845 606 1234
Minicom/textphone: 0845 730 0104
Website – www.fsa.gov.uk/consumer
Comparative Tables – www.fsa.gov.uk/tables

State Pension

For general information and leaflets about State and other pensions

DWP Pensions Info-line: 0845 7 31 32 33
Website – www.thepensionservice.gov.uk

Leaflets include:

GL23 Social security benefit rates
RM2 Approaching retirement
NP46 A guide to state pensions
SPD1 Your State Pension Choice – Pension now or extra pension later

Pension Credit – for a free booklet

Freephone: 0800 99 1234
Textphone: 0800 169 0133
Website –
www.thepensionservice.gov.uk/pensioncredit

State Pension forecasts

National Pensions Forecasting and Teleclaims Centre
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA
Tel: 0845 300 0168; Textphone: 0845 300 0169
Website – www.thepensionservice.gov.uk

Arranging to pay voluntary National Insurance contributions and your tax situation

Contact your local tax office (see ‘HM Revenue & Customs’ in phone book).
Website – www.hmrc.gov.uk

See leaflet:
CA08 National Insurance voluntary contributions

Occupational pension schemes

Pensions administrator at work or at your employer’s head office.

Personal and stakeholder pensions

Look for contact details on plan statements and other literature.

Pension enquiries

The Pensions Advisory Service
Tel: 0845 601 2923
Website – www.pensionsadvisoryservice.org.uk
An independent organisation providing help with consumers’ pension and annuity queries.

The Pensions Regulator
Tel: 0870 606 3636
Website: www.thepensionsregulator.gov.uk

Factsheet: Your retirement choices – money purchase benefits in occupational pension schemes

To trace old pensions

Pension Tracing Service
Tel: 0845 600 2537 Textphone: 0845 300 0169
Website – www.thepensionservice.gov.uk

To trace life policies, shares and other financial assets

The Unclaimed Assets Register
Garden Floor
Bain House
16 Connaught Place
London W2 2ES
Website – www.uar.co.uk

To find a financial adviser

IFA Promotion
Tel: 0800 085 3250
Website – www.unbiased.co.uk

Personal Finance Society
Tel: 020 8530 0852
Website – www.thepfs.org

To find a financial planner

Institute of Financial Planning
Tel: 0117 945 2470
Website – www.financialplanning.org.uk
Has a national register of fee-based financial planners.

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 factsheet, 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 product or investment is right for you.

If you would like this factsheet 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).

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

Our website, 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 that we have issued.**