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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.

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- 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;
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## FSA guide to pensions 1

# Starting a pension



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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.

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# Contents

Introduction	3	Reviewing your plans	32
Why should you save for retirement?	5	Complaints	33
What the State provides	6	Useful contacts	35
Which pensions can you have?	8		
The main types of pension	10		
Salary-related occupational pensions	12		
Money purchase pensions	14		
Money purchase pensions – what are the rules?	16		
How much can you pay in each year?	20		
Starting a private pension – your choices	22		
How to start your own private pension	24		
How much should you save towards a pension?	28		
How your contributions are invested	30		

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

## 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.

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 the different pensions available and aims to help you start saving for your retirement.

This booklet is for you if you haven't yet started a pension.

It explains the basics of pensions and how they work. It gives general information, to help you ask the right questions and understand the answers.

Putting money aside for retirement is one of the biggest investments most people make – it can be bigger even than buying your home. So it's important not to make a rushed decision.

There are many other ways to save for your retirement such as Individual Savings Accounts (ISAs) and property but we do not cover those options here.

For financial advice specific to your individual circumstances, you should consult an authorised financial adviser.

**If you already have some pension savings...**

...you may still find this introductory booklet a useful reminder of the basics. But you should also read the **FSA guide to pensions 2: Reviewing your pensions** – see *Useful contacts* on page 35.

Retirement planning is a long-term goal.

You will need enough income in retirement to support a comfortable lifestyle for you and your dependants.

The earlier you start saving for a pension the better. This is because the more time that your savings have to grow, the bigger your pension will be.

Don't underestimate the contribution that early savings can make to the size of your overall retirement income. If you put off starting to save by just a few years you could end up with a much smaller pension.

# Why should you save for retirement?

Everyone needs to plan for retirement. People are living longer and healthier lives, so it is even more important to think about how and when to save for retirement. Retirement can last for 20 or 30 years, maybe even longer. The basic State Pension is a start but it may not be enough to give you the standard of living you want.

So, if you want a higher income in retirement than you get from your State Pension, you need another source of income as well.

It's never too early to start saving for your retirement. You may have other financial priorities at the moment, but don't make that an excuse to put off saving – delay can cost you money.

## 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 by 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 the State provides

## Basic State Pension

If you're working, you are usually paying National Insurance contributions (NICs). This means you are building up the right to get a basic State Pension when you reach the State Pension age. This is 65 years for men and between 60 and 65 years for women, depending on when you were born.

You get a smaller basic State Pension if you haven't paid enough NICs of the right type. You may not get a State Pension at all if you've paid less than the minimum. But, in some cases, if you're not working, you may be credited with NICs. In other cases, you can choose to pay voluntary contributions. Your local social security office can tell you if you are entitled to credits.

The basic State Pension in 2006/07 is £84.25 a week (single) and £134.75 a week (couple). The government usually increases the basic State Pension each year in line with the Retail Prices Index (RPI), so it should keep up with prices in the future, but not with average earnings. You need to bear in mind that governments can change the rules for State pensions and benefits at any time.

So it may be unwise to rely on any particular type or level of benefit being available when you retire.

## 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 which reformed SERPS (State Earnings Related Pension Scheme) in 2002.

Your State Second Pension entitlement could be as much as or greater than your basic State Pension when you retire. The amount of State Second Pension you get depends on your earnings and your NICs record throughout your working life.

The State Second Pension, like SERPS, is earnings-related. But anyone earning less than a specified minimum, set by the government, will be treated as if they were earning at that minimum level and so may qualify for a State Second Pension.

Self-employed people cannot build up a pension through the State Second Pension or SERPS.

Some people who cannot work through long-term illness or disability, or carers, may get some State Second Pension. For more information see the Department for Work and Pensions' (DWP) booklets **Pensions for the self-employed** and **State Pensions for carers and parents** – see *Useful contacts* on page 35.

You can get a forecast of how much your State Pensions will be from the Pensions Service by completing form BR19 – see *Useful contacts* on page 35.

## Contracting out of the State Second 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 are contributing to your employer's occupational pension scheme, it may be a 'contracted-out' scheme – check your scheme.

If you decide to contract out:

- you give up your State Second Pension entitlement and build up a replacement for it in your own pension instead (for example, in a stakeholder or personal pension);
- HM Revenue & Customs (formerly the Inland Revenue) will pay a rebate of part of your National Insurance contributions into your stakeholder or personal pension;

- you will continue to be contracted out of the State Second Pension, unless you decide to contract back in. You can review your decision to contract back in whenever you want.

If you are contributing to your employer's occupational pension scheme and it is a contracted-out scheme, you cannot contract back in so long as you continue to be a member of that scheme.

For more information about contracting out of the State Second Pension, see the FSA factsheet **The State Second Pension and contracting out** – see *Useful contacts* on page 35.

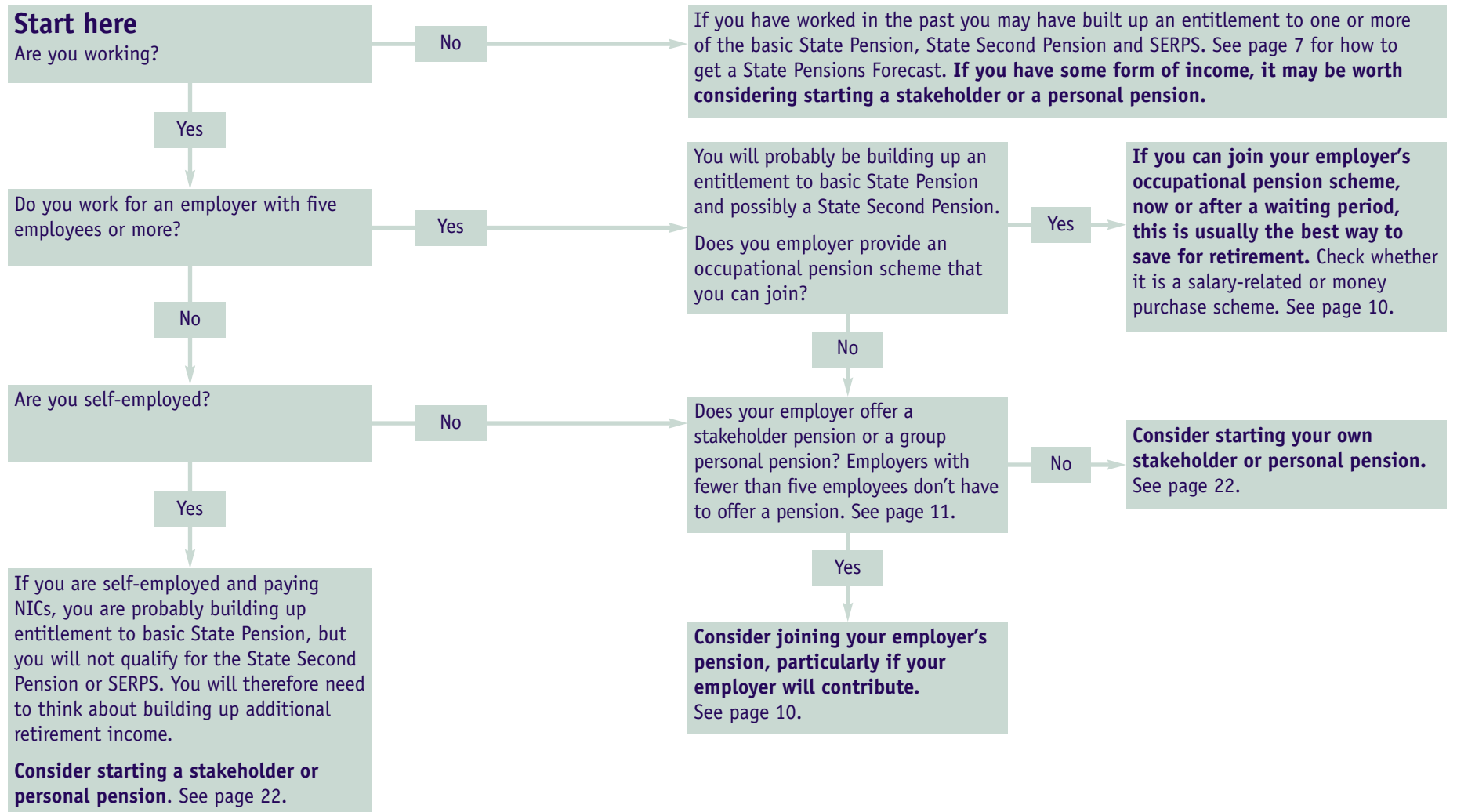
## Pension Credit

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); or
- £174.05 a week (couple).

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

# Which pensions can you have?



# The main types of pension

This section explains the basic types of non-State pension schemes that are, or may be, available to you. There are three main types.

## 1 Occupational salary-related schemes

Some employers set up these schemes to provide pensions for their employees based on the employee's salary and pensionable service. They are sometimes called 'defined benefit' schemes. The employer contributes to the scheme and there are trustees to look after scheme members' interests. See page 12 for more information.

Think carefully if you are planning not to join your employer's pension scheme. It is not usually a good idea to turn down a pension scheme to which your employer will contribute on your behalf.

## 2 Occupational defined contribution schemes (also called money purchase pensions)

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. Usually, the employer contributes to the scheme and there are trustees to look after scheme members' interests. See page 14 for more information.

Think carefully before you decide to turn down a pension scheme to which your employer will contribute on your behalf.

## 3 Stakeholder and personal pensions

These are the most popular choice for people who arrange their pensions privately. A personal fund is built up from your contributions that you convert into an income when you retire. See page 22 for more information. 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.

## Pensions at work

If you work for a business with fewer than five employees, your employer does not have to offer you membership of any pension scheme. Still check what's available though, as some small employers may offer a scheme anyway.

Although you don't have to join any pension schemes offered through your job, it's usually a good idea to join an occupational pension scheme if it's available because:

- your employer normally contributes;
- often you also get other benefits, not just a pension, such as life insurance which pays a lump sum and/or pension to your dependants if you die while still in service; a pension if you have to retire early because of ill-health; and pensions for your spouse and other dependants when you die.

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.

## Information about the pension schemes

Employers produce their own scheme booklet for occupational pension schemes. You should get a booklet describing the scheme before you join it.

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

You will also get an annual statement with all these types of pension giving you details of your possible pension at retirement.

For more information about occupational pension schemes see **Getting information about your occupational pension** from the Pensions Advisory Service – see *Useful contacts* on page 35.

# Salary-related occupational pensions

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-based 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).

## 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)

# Money purchase pensions

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 (if any) 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 30.

**Stage 2:** When you retire, you can take a tax-free lump sum from your fund and use the rest of the fund 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 16-19.

## 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 5.

## 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 14.

This table shows the main features of money purchase pensions.

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 20.				
Can I top up my contributions?	Yes – this depends on scheme rules and is subject to conditions above.	Yes – subject to 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.	

	<b>Pensions that your employer might offer</b> Employed people only			<b>Pensions you can take out privately</b> Employed, self-employed and people not employed	
<b>Features</b>	<b>Occupational defined contribution scheme</b>	<b>Group personal pension (GPP)</b>	<b>Stakeholder pension</b>	<b>Stakeholder pension</b>	<b>Personal pension</b>
Can I stop contributions when I want to?	This depends on the rules of the employer's scheme. 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 – 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 (see page 22). The pension provider deducts them from your pension fund, usually monthly. There are no initial or exit charges.	Management charges are capped (see page 22). 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, 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 the 2006/07 tax year). Funds over and above the lifetime allowance are taxed. See page 20.				
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 maximum of 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 as much as you like into all your 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. 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).

## 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 2006/07 tax year this is £1.5mn. You have to pay tax on any excess over the £1.5mn allowance. This is set to rise in stages to £1.8mn by 2010/11.
- Salary-related pension scheme benefits are given a value which counts towards the £1.5mn 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.

## 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

# Starting a private pension – your choices

If you have checked on any pension schemes offered by your employer and have decided on a private pension, you then need to shop around for a stakeholder or personal pension.

Stakeholder and personal pensions are money purchase pensions (the pension you get is not linked to your salary). However, there are some differences between them – for example a stakeholder pension has to have certain features.

## Stakeholder pensions

### Minimum standards for stakeholder pensions

Stakeholder pensions must have the following features:

#### ■ Capped charges

Stakeholder pension providers can only charge you a maximum of 1.5% of the value of your pension fund each year. This reduces to 1% of the value of your fund after ten years.

Other services, which attract an additional charge, must be optional.

In addition, pension providers are allowed to recover costs and charges they have to pay for certain other things, such as paying stamp duty and charges for buying and selling investments for your fund. These expenses are found in other pension schemes, not just stakeholder pensions.

#### ■ Low minimum payments

You must be allowed to pay in amounts as low as £20. Some schemes choose to set an even lower minimum.

#### ■ Flexible contributions

You choose when and how often you pay into the scheme, so you can make regular or occasional contributions. There are no penalties if you miss a payment.

#### ■ Penalty-free transfers

If you want to move your stakeholder fund to another provider or another pension scheme, there will normally be no charges for making the transfer. If you have invested in a with-profits fund, you should check whether your provider will make a ‘market value reduction’ if you switch.

#### ■ Simple investment choice

If you don’t want to choose how your savings are invested (see page 30) the scheme automatically puts your money into a default investment fund. Many stakeholder pensions offer a choice of several funds.

## Personal pensions

Personal pensions are similar to stakeholder pensions, but they usually offer a wider range of investment choices.

Personal pension charges may be similar to stakeholder pension charges but some personal pensions are more expensive than stakeholder pensions.

High charges deducted from your fund by the pension provider can reduce the growth of your fund. High charges do not necessarily mean high performance.

## Self-invested Personal Pensions (SIPPs)

You may read about SIPPs as another pension option. SIPPs are designed for people who want to manage their own fund by dealing with and switching their investments when they choose.

Most SIPPs allow investment in a very wide range of funds and some unregulated investments such as commercial property. They often have higher charges than stakeholder and personal pensions. For this reason, they may only be suitable for large funds and for people who are experienced with investing.

# How to start your own private pension

## Getting advice


### Going to a product provider

You can approach some pension providers direct but you should be aware that their representatives can only advise you on their company's own products or ones they have adopted from other companies.

### Meeting an authorised financial adviser

Authorised 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  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 do not 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 your first priority.

## Things to sort out before you see an adviser

1. How much can I afford to pay regularly?
2. When do I hope to retire?
3. What savings, investments or other assets do I have?
4. Will my partner have a pension?
5. What am I likely to get from State Pensions?
6. What do I know about investing my contributions and how do I feel about risk?

## 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 explaining the main features of the pension 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, can I vary my contributions or stop them altogether?
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.

## Without advice

### 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.

### Things you need to sort out

1. How much can I afford to pay regularly?
2. When do I hope to retire?
3. What other savings, investments or other assets do I have?
4. Will my partner have a pension?
5. What am I likely to get from State Pensions?
6. What do I know about investing my contributions and how do I feel about risk?

### Buying without advice

You don't have to take advice before you start a pension. But if you don't, and the pension you choose turns out to be unsuitable, you will have less ground for complaint.

## Tips and how to find out more

- 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 give you 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 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 on 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)
- The Pensions Regulator is responsible for registering stakeholder pension schemes and ensuring that they meet the conditions for stakeholder approval. For a list of stakeholder pension providers see [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)
- 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)
- Check what is available. Personal finance and consumer magazines often run surveys comparing different pensions. They may be available in your local library, or on sale in newsagents.
- You might want to talk to a **financial adviser** before you decide.

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

**Shop around and find out what else is on offer.**

# How much should you save towards a pension?

This table shows the estimated monthly pension, at today's prices, that you would get for different regular monthly contributions. The estimated pension (annuity) shown assumes that:

- you increase your contributions each year in line with inflation (which we've assumed to be 2.5% a year);
- before charges, your fund grows by 7% a year on top of your contributions;
- charges are 1.5% of the value of your fund each year for the first ten years and 1% a year afterwards.

When you retire the estimates assume that you buy an annuity that increases by 2.5% a year with a 50% spouse's annuity.

**Remember:** these estimates are not guaranteed – you could get more or less than the amounts shown. The table gives you an idea of how much you need to pay now – as a regular monthly contribution – to get the monthly income you want when you retire. In particular, the rate of growth of your fund may vary considerably and may be below 7% a year.

	What you pay per month for the first year (tax rebates will be added to this amount)							
	£20		£50		£100		£200	
Your approximate age now	Initial monthly pension if you retire at		Initial monthly pension if you retire at		Initial monthly pension if you retire at		Initial monthly pension if you retire at	
	65	60	65	60	65	60	65	60
20	£98	£67	£245	£169	£490	£339	£980	£679
25	£79	£54	£197	£135	£395	£270	£790	£540
30	£62	£42	£157	£105	£314	£210	£628	£421
35	£49	£32	£122	£80	£245	£160	£490	£320
40	£40	£23	£101	£58	£202	£117	£404	£234
45	£27	£16	£68	£40	£136	£80	£273	£161
50	£18	£9	£47	£24	£94	£49	£188	£98
55	£11	£4	£28	£11	£57	£23	£114	£46
60	£5		£13		£26		£53	

# 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 in the next column.

## 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 which 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' the returns. The fund manager will usually add a final or terminal bonus when the policy matures at your retirement date.

**Check if the company will deduct any money from your with-profits fund if you decide to retire earlier or later than planned. You should also check if the firm will deduct any money if you decide to move your investment out of the firm's with-profit fund and into another fund with the same firm or if you decide to transfer all your pension saving to another provider.**

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

# Reviewing your plans

Retirement planning is not a one-off task. Review your plans regularly to make sure you are setting aside enough and that you are saving in the best way. You should always review your plans if your circumstances change.

If you leave a job with an occupational pension scheme, you can preserve your pension by leaving it with that employer. You will need to check your options with your employer or pension scheme trustees.

Usually, there is no need to stop paying into a private pension just because you change jobs or stop work. But if your new employer runs an occupational pension scheme, this will usually be a better way to save for retirement.

## Topping up your pension

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 20.

If you contribute to an occupational pension scheme, the scheme itself may offer the option for making additional contributions with AVCs (an additional voluntary contributions scheme).

You can also top up through a private arrangement with either:

- a stakeholder pension scheme; or
- a personal pension scheme.

Get a copy of the **FSA guide to pensions 2: Reviewing your pensions** for more information.

# 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 on or selling pensions must be authorised by us. To find out whether a firm is authorised by the FSA, look on 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 tell 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 pension 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 (FSCS) may be able to help you. 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: 0845 7313 233

Textphone: 0845 604 0210

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

(for free factsheets on pensions and Form BR19)

### For a forecast of your State Pension

#### Pension Forecasting Team

Tel: 0845 3000 168

Textphone: 0845 3000 169

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

### For details of your occupational pension scheme

Talk to your pensions administrator, pensions manager or pension trustees at work.

### For general pension queries and leaflets

#### The Pensions Advisory Service

Tel: 0845 601 2923

Website:

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

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

#### FSA Consumer Helpline

Tel: 0845 606 1234

Minicom/Textphone: 08457 300 104

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

## Disputes about the marketing or selling of personal pensions

### Financial Ombudsman Service

Tel: 0845 080 1800

Website:

[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.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 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 2: Reviewing your pensions

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 Second State 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.**