A Guide to Retirement Planning

Developing strategies to accumulate wealth in order for you to enjoy your retirement years

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A Guide to Retirement Planning

Welcome to 'A Guide to Retirement Planning'. Saving for your retirement is one of the most important financial plans you can make. This guide explains how we can work with you to develop strategies to accumulate wealth in order for you to enjoy your retirement years by reviewing your retirement plans regularly to make sure you're setting aside enough and you're saving in the most appropriate way.

Your ability to enjoy a long and fulfilling retirement will depend partly upon how well you accumulate assets now. We can work with you to develop a strategy to help you build up the funds you'll need to enjoy your retirement years to the full.

Our guide explains how to take control of your existing retirement savings and make full use of the generous tax allowances. You can also discover how to tailor a retirement planning strategy to your specific needs and maximise your post-tax income in retirement.

You should always review and adapt your retirement plans if your circumstances change and check how much pension you'll receive on retirement. Now is the time to take action and talk to us if you think you may have a shortfall and won't have enough to live on. And if you've built up little or no pension you may want to consider starting a personal pension as well as looking into any options for saving for a pension through your employer.

TO FULLY UNDERSTAND YOUR PENSION OPTIONS AND FOR ADVICE TAILORED SPECIFICALLY TO YOUR RETIREMENT PLANNING NEEDS, PLEASE CONTACT US FOR FURTHER INFORMATION.

Content of the articles featured in this 'A Guide to Retirement Planning' is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. The pension and tax rules are subject to change by the government. Tax reliefs and state benefits referred to are those currently applying. Their value depends on your individual circumstances. The performance of the investment funds will have an impact on the amount of income you receive. If the investments perform poorly, the level of income may not be sustainable.

To obtain further information, please contact us.

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> "The basic State Pension is a government-administered pension. It is based on the number of qualifying years gained through National Insurance Contributions (NICs) you've paid, are treated as having paid or have been credited with throughout your working life."

The basic State Pension

Building up enough 'qualifying years'

The basic State Pension is a government-administered pension. It is based on the number of qualifying years gained through National Insurance Contributions (NICs) you've paid, are treated as having paid or have been credited with throughout your working life.

If entitled, you can receive the basic State Pension when you reach State Pension age. This is 65 for men born on or before 5 April 1959 and 60 for women born on or before 5 April 1950. The State Pension age for women born on or after 6 April 1950 but before 6 April 1955 is rising from 60 to 65 between 2010 and 2020. The State Pension age for women born on or after 6 April 1955 but before 6 April 1959 is 65. State Pension age will increase for both men and women from age 65 to 68 between 2024 and 2046.

You qualify by building up enough 'qualifying years' before State Pension age. A qualifying year is a tax year where you have sufficient income to pay NICs, or are treated as having paid or being credited with NICs.

If you haven't paid enough NICs because you've been looking after children or caring for someone long-term, you may be eligible for Home Responsibilities Protection. If you reach State Pension age before 6 April 2010, Home Responsibilities Protection can reduce the number of qualifying years you need to qualify for the basic State Pension.

If you reach State Pension age on or after 6 April 2010, Home Responsibilities Protection is being replaced with National Insurance credits. Years of Home Responsibilities Protection built up before 6 April 2010 will count as qualifying years of National Insurance credits.

If you've been receiving certain benefits, such as Carer's Allowance, Jobseeker's Allowance, Incapacity Benefit or Employment and Support Allowance – 'contribution' based (if you have paid enough NICs), you'll have automatically received National Insurance credits for the weeks when you've been claiming.

If you reach State Pension age on or after 6 April 2010 and don't qualify for the full basic State Pension, but have some qualifying years, you will get one thirtieth of the full amount for each qualifying year.

If you are or have been married or in a civil partnership you may be entitled to some basic State Pension through the National Insurance record of either:

- your spouse or civil partner
- your former or late spouse or civil partner

If you're aged 60 or over and living in Great Britain, Pension Credit could top up your weekly income to a guaranteed minimum amount. From 2010, the age from which you can get Pension Credit will gradually increase.

You don't have to claim your State Pension as soon as you reach State Pension age. If you wish, you can put off claiming it and get a higher weekly amount or the option of a one-off taxable lump sum payment instead.

If you are thinking about deferring your State Pension you need to consider how the changes to State Pensions from 6 April 2010 may affect your decision.

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> "A widow, widower or surviving civil partner can only inherit a maximum of 50 per cent of their spouse's or civil partner's State Second Pension."

The additional State Pension

Important changes on the horizon

The additional State Pension, or State Second Pension, is paid in addition to the basic State Pension. Your entitlement to the additional State Pension (whether from SERPS - State Earnings-Related Pension Scheme, or from the State Second Pension) is calculated when you claim the basic State Pension.

Until April 2002, the additional State Pension for employees was called the State Earnings-Related Pension Scheme (SERPS). The amount of SERPS pension you received was based on a combination of the amount of your National Insurance Contributions, and how much you earned.

In April 2002, SERPS was reformed and the additional State Pension is now known as the State Second Pension. It gives a more generous additional State Pension to low and moderate earners, and certain carers and people with a long-term illness or disability. By around 2030 or shortly afterwards the State Second Pension will become a simple, flat-rate weekly top-up to the basic State Pension.

Any SERPS entitlement you have is protected, so if you built up an entitlement to the additional State Pension before April 2002 you will keep it, whether or not you've already reached State Pension age.

A widow, widower or surviving civil partner can only inherit a maximum of 50 per cent of their spouse's or civil partner's State Second Pension.

If you contributed to SERPS the maximum percentage of your SERPS pension that your widow, widower or surviving civil partner could inherit is on a sliding scale depending on when you were born and the age at which you retired.

The percentages range from 50 per cent for men born on or after 6 October 1945 or women born on or after 6 July 1950, up to 100 per cent for men born on or before 5 October 1937 or women born on or before 5 October 1942.

If you are a carer, on low earnings or have long-term disabilities you can now benefit from an improved additional State Pension.

If you don't work or if you earn less than the annual National Insurance lower earnings limit, you can still build up an entitlement if you:

- look after a child aged six or less, and you are the person who claims and gets Child Benefit
- take care of someone who is ill or disabled, and you qualify for Home Responsibilities Protection
- are entitled to Carer's Allowance (even where you don't get this because you get a benefit that pays more)

There are important changes from 6 April 2010 that might affect you:

- if you care for children (up to the age of 12) then you will build up entitlement to State Second Pension
- if you are a foster carer then you will build up entitlement to State Second Pension
- if you spend at least 20 hours a week caring for one or more disabled people then you will build up entitlement to State Second Pension

You might also be able to gain a qualifying year for State Second Pension by combining:

- your NICs from earnings in part of a tax year
- credits for other parts of the same year

When you contract out you choose to pay a reduced amount of NICs because you have joined an occupational pension scheme. As a result, you will not normally be entitled to the full State Second Pension because your additional pension will come from your employer's scheme. But you will normally be entitled to a reduced additional State Pension.

If you have a stakeholder pension or a personal pension you can still contract out if you wish, but instead of you paying a reduced NIC, HM Revenue & Customs will pay an annual rebate of contributions direct into your personal pension. If you choose not to contract out you will not receive this rebate, but you will still build up entitlement to the State Second Pension.

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Changes to the State Pension age

A gradual increase over two years every decade

State Pension age is the earliest age at which you can claim your State Pension. It is currently 65 for men and 60 for women. However, the State Pension age is changing and will increase between 2010 and 2046.

Currently, the State Pension age is 65 for men born before 6 April 1959. For women born on or before 5 April 1950, State Pension age is 60.

The State Pension age for women born on or after 6 April 1950 will increase gradually to 65 between 2010 and 2020.

From 6 April 2020 the State Pension age will be 65 for both men and women.
Between 2024 and 2046 the State Pension age will increase for both men and women.

> “Currently, the State Pension age is 65 for men born before 6 April 1959. For women born on or before 5 April 1950, State Pension age is 60.”

This increase will be gradual, happening over two years every decade. The changes will mean that:

- State Pension age for men and women will increase from 65 to 66 between April 2024 and April 2026
- State Pension age for men and women will increase from 66 to 67 between April 2034 and April 2036
- State Pension age for men and women will increase from 67 to 68 between April 2044 and April 2046

The age you can claim your State Pension will be determined by when you were born. When you reach State Pension age, you can still work if you want to.

You can:

- stop working and get your State Pension
- carry on working and get your State Pension as well
- carry on working and put off claiming your State Pension

If you put off claiming your State Pension, you may receive extra State Pension when you do claim it. If you go on working after State Pension age, you don’t have to carry on paying National Insurance Contributions.

You can now choose to put off claiming your State Pension for as long as you want. When you do claim you can choose to get either extra State Pension for the rest of your life, or receive a one-off, taxable lump-sum payment (which will be equivalent to the State Pension you put off claiming plus interest) as well as your regular weekly State Pension.

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Extra State Pension

Putting off your claim for at least five weeks

By choosing to put off claiming your State Pension you can receive an extra State Pension. You must put off your claim for at least five weeks. For every five weeks you put off claiming you can earn an increase to your State Pension of one per cent. Extra State Pension is paid on top of your normal weekly State Pension. It continues for as long as you are getting State Pension. Extra State Pension is increased each April in line with increases to your State Pension.

If you defer your pension and choose extra State Pension, it will be treated like any other income when working out other benefits you may be receiving.

If you have put off claiming your State Pension and there are days where you get other benefits, then these days will not count towards any extra State Pension.

Your extra State Pension is counted as income for tax purposes in the same way as your State Pension.

If you die while you are still putting off your State Pension, your widow, widower or surviving civil partner may be entitled to extra State Pension when they claim their own State Pension.

Your widow, widower or surviving civil partner may receive extra State Pension added to their own State Pension after your death. This could happen if you had already claimed your State Pension and chosen extra State Pension before your death.

Until April 2010, widowers and surviving civil partners have to be of State Pension age or over to be entitled to extra State Pension.

The amount of extra State Pension payable to a widow, widower or surviving civil partner will be based on:

- all of the deceased's basic State Pension
- between 50 and 100 per cent of any additional State Pension (depending on the date the deceased reached, or would have reached State Pension age)

If you are a woman who is widowed while you are still under State Pension age, you will not be able to get extra State Pension based on your late husband's contributions if you remarry before you reach State Pension age. Similar rules will apply to widowers and survivng civil partners from April 2010.

If you put off claiming your State Pension, you can choose to claim a lump sum payment instead of extra State Pension.

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The Over 80 Pension

Little or no State Pension

The Over 80 Pension is a State Pension for people aged 80 or over who have little or no State Pension. Unlike other State Pensions, it's not based on National Insurance Contributions.

You can claim if all the following apply to you:

- you are aged 80 or over
- you don't get basic State Pension, or your basic State Pension is less than £57.05 a week
- you live in England, Scotland or Wales, and have done so for 10 years or more in any continuous period of 20 years which included the day before your 80th birthday or any day after it

The Over 80 Pension, as with all pensions, counts as taxable income, so it may affect other income-related benefits you're getting. You must include the Over 80 Pension as income if you're claiming other benefits.

Occupational pensions

Joining your employer's scheme

Occupational pension schemes vary from company to company. Your scheme is likely to be one of two general types, final-salary related or defined contribution scheme.

FINAL-SALARY RELATED SCHEMES

Final-salary related schemes are also known as defined benefit schemes. With these, the amount you receive on retirement depends on your salary when you leave the company or retire, and the length of time you have been a member of the scheme.

It is usually paid at the rate of one-sixtieth of final-salary multiplied by the number of years of scheme membership (the accrual rate). So someone who is a scheme member for 40 years would retire on two-thirds of final salary.

Your pension will depend on your final earnings and not on stock market conditions over your working life. But these schemes are becoming rarer, and many companies are changing their plans from final-salary related to defined contribution schemes.

When you leave a company you normally have the choice of leaving the money where it is to claim on retirement or transferring it to a new company's occupational scheme or to a personal pension plan. And if you leave a firm within two years of joining its pension you can have your own contributions, minus tax relief, returned to you, if the scheme's rules allow.

DEFINED CONTRIBUTION SCHEMES

Defined contribution schemes are also known as money purchase schemes. With these you know what you are contributing towards your pension, but what you receive when you retire depends on the performance of your pension fund(s) over the years, and on economic conditions when you actually retire.

On retirement, the money would normally be used to purchase an annuity (a regular income for life) which pays an income until you die. You do not have to accept the annuity offered by the company running your scheme. You have the right to choose the open market option, in other words, you can shop around for the best annuity rates.

JOINING AN OCCUPATIONAL PENSION SCHEME

Your employer is required to offer you the chance to join a pension scheme. If you work part time and your employer has an occupational pension scheme, you will usually be allowed to join it.

Before you join an occupational pension scheme, you should check:

- how much you will have to pay
- what contribution your employer is going to make

You receive 'tax relief' on the money you pay into your pension scheme. This means you pay less tax because your employer takes the pension contributions from your pay before deducting tax (but not National Insurance Contributions).

Occupational pension schemes usually require you to make a regular contribution based on a percentage of your salary. You may also be able to increase your benefits by making Additional Voluntary Contributions (AVCs).

Money Purchase AVC - One of the ways you can do this is by paying into an Additional Voluntary Contribution (AVC) arrangement run by your scheme trustees. The majority of these are money purchase, which means that your contributions are invested, usually with an insurance company, to build up a fund. An AVC arrangement run through your employer's pension scheme is known as an 'in-house' AVC scheme. The employer normally bears the cost of administration of this scheme and so costs tend to be lower than topping up pensions through other means.

Added Years - If your scheme allows you to buy added

“Savings above the annual allowance and a separate ‘lifetime allowance’ will be subject to tax charges. These allowances will be restricted if you become unemployed and wish to continue to pay into your pension scheme.”

years, this will enable you to increase the number of years of service you have in your main scheme. The extra service will increase both the amount of pension that you will receive and your tax-free cash allowance, irrespective of when you started contributing. How much you pay as voluntary contributions will be worked out by your main scheme. The cost will depend on how many years you want to buy and certain factors like your age and salary for pension purposes.

Free Standing AVC (FSAVC) - It may be possible for you to pay into a FSAVC arrangement. This is similar to a money purchase AVC but is provided by external providers. Since 6 April 2006, it has no longer been compulsory for occupational pension scheme trustees to offer an AVC facility to its members.

If you joined your occupational pension scheme during or after 1989 you were restricted on how much you could put into the scheme. However, following changes to pension rules in April 2006, you can now save as much as you like into any number and type of pensions. You are able to do this at any age. You also receive tax relief on contributions of up to 100 per cent of your earnings (salary and other income) each year, subject to an upper ‘annual allowance’.

Savings above the annual allowance and a separate ‘lifetime allowance’ will be subject to tax charges. These allowances will be restricted if you become unemployed and wish to continue to pay into your pension scheme.

Having an occupational pension does not affect your Additional State Pension entitlements. But you will lose some or all of your additional State Pension if your company pension scheme is contracted out.

Your pension scheme administrator can provide you with an estimate of:

- how much you will receive when you retire
- the value of any survivor’s benefits that may become payable
- how much you will receive if you have to retire early due to ill health

Up until April 2006 you could not draw your pension from an occupational scheme and continue to work for the same employer. Following the 6 April 2006 changes, you are now able to do this, providing your particular scheme allows you to. Also, if you leave your employer, it’s important to find out what your occupational pension scheme options are.

All employers with five or more employees have to offer access to a pension scheme. If your employer doesn’t offer a pension, as there are lots of pension providers for you to choose from, you should seek professional financial advice so that you can make an informed decision about what pension option is right for you.

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Transferring your pension

Much will depend upon your individual circumstances and objectives

Pension transfers can be complicated and you should always seek professional financial advice before going ahead. If you're thinking about transferring your pension(s) into a new personal pension plan or Self-Invested Personal Pension (SIPP), remember; whether a transfer is suitable or not will very much depend upon your individual circumstances and objectives.

There are a number of different reasons why you may wish to consider transferring your pension(s), whether this is the result of a change of employment, poor investment performance, high charges and issues over the security of the pension scheme, or a need to improve flexibility.

You might well have several different types of pension including a final-salary related scheme(s), which pays a pension based on your salary when you leave your job and on years of service. Your past employer might try to encourage you to move your occupational pension away by boosting your fund with an 'enhanced' transfer value and even a cash lump sum. However, this still may not compensate for the benefits you are giving up, and you may need an exceptionally high rate of investment return on the funds you are given to match what you would receive if you remained in the final-salary related scheme.

Alternatively, you may have a defined contribution (money purchase) occupational scheme or a personal pension. These pensions rely on contributions and investment growth to build up a fund.

If appropriate to your particular situation, it may make sense to bring these pensions under one roof to benefit from lower charges, make fund monitoring easier and aim to improve fund performance. But remember that transferring your pension will not necessarily guarantee greater benefits in retirement.

You will need to consider that your pension(s) might have or had other valuable benefits that you could lose when transferring out, such as death benefits or a Guaranteed Annuity Rate (GAR) option. A GAR is where the insurance company guarantees to pay your pension at a particular rate, which may be much higher than the rates available in the market when you retire.

In addition, some pensions may also apply a penalty on transferring out. These can be significant depending on the size of your fund, so it is important to check if one applies in your case.

It is important that the investments chosen are also appropriate for the level of risk you are prepared to take. Obtaining professional financial advice will mean that you are fully able to understand the risks and potential benefits of the different funds and investments and can make an informed decision about the level of risk you are prepared to take.

TRANSFERRING YOUR PENSION OVERSEAS

This ability to transfer a pension from the UK to another country formed part of pension reform known as A-Day, introduced on 6 April 2006. Under these changes people no longer resident in the UK, but who have UK pensions, are now allowed to transfer their pensions across to a Qualifying Recognised Overseas Pension Scheme (QROPS), provided they meet certain conditions.

Transferring your pension overseas into a QROPS, which has been approved by H M Revenue & Customs (HMRC) to accept a pension transfer from a UK pension scheme, is an important decision which may give you extra benefits.

It is extremely important that you understand all aspects of any QROPS pension transfer which is why you should seek professional financial advice to evaluate your personal situation and to understand the process in full.

With reference to HMRC rules, a transfer into an offshore pension scheme qualifies as a benefit crystallisation event. This means that your UK pension is given a valuation against your lifetime allowance. The allowance currently set is 1.75 million for 2009/10 and 1.8 million for 2010/11.

The possibility of transferring a UK pension into a QROPS can be extremely beneficial to expatriates living abroad in Europe and the rest of the world and a QROPS pension transfer can also be of great interest for someone who has not yet left the UK but is in the process of planning to do so.

QROPS pension schemes are not just for UK nationals either, people of different nationalities who have accumulated a pension fund through working in the UK can also transfer their pension into a QROPS.

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Personal pension plans through your employer

Options available when an occupational pension is not provided

Your employer is required to offer you the chance to join a pension scheme. If an occupational pension is not provided then this would normally be a stakeholder or alternative personal pension.

Your employer must offer you access to a stakeholder pension, so long as both the following apply:

- you earn more than the National Insurance lower earnings limit
- there are five or more employees where you work

Your employer does not have to offer you access to a stakeholder pension if one of the following apply:

- you are able to join an occupational pension scheme
- you are able to join an alternative personal pension scheme where your employer pays in an amount equal to at least 3 per cent of your pay

Your employer must allow you to pay into your stakeholder pension directly from your wages through the company's pay system. Many employers are prepared to pay into your stakeholder pension and to pay the cost of the stakeholder pension provider's administration charges. However, they are not required by law to do so.

If you leave your employer, or transfer your money out of the stakeholder pension scheme to another scheme, you don't lose the money your employer has already paid in. The requirement for employers to provide access to stakeholder pensions are regulated by the Pensions Regulator.

If your employer offers you an alternative personal pension instead of a stakeholder pension, its terms must meet minimum standards set by the government. Your employer is obliged to contribute the equivalent of at least 3 per cent of your salary if they are offering it as an alternative to a stakeholder pension. But they don't have to pay the administration costs of your pension scheme.

Your employer may arrange for a pension provider to set up a personal pension arrangement through the workplace. A personal pension (including a stakeholder pension) arranged in this way is called a 'Group Personal Pension Plan' (GPPP).

Although they are sometimes referred to as company pensions, they are not run by employers and should not be confused with occupational pensions. A GPPP is a type of personal pension where your employer chooses the financial provider on your behalf.

Some advantages of contributing to a GPPP arranged by your employer:

- your employer will normally contribute to your pension and if the GPPP is offered as an alternative to a stakeholder pension your employer must contribute an amount equal to at least 3 per cent of your basic salary
- if your employer has contributed to your pension and you leave your employment you do not lose the money they have contributed
- your employer will normally deduct your contributions from your pay and send them to your pension provider
- a GPPP is negotiated with the pension provider on behalf of a group of people and your employer may be able to negotiate better terms than you would get individually, for instance, they may negotiate reduced administration costs
- you will usually be able to continue making contributions to your pension if you change employers

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Types of pensions

Deciding on your options

There are three types of non-State pensions. Some are offered by employers and some you can start yourself. They are:

- occupational final-salary related schemes – offered by some employers;
- occupational defined contribution schemes (also called money purchase pensions) – offered by some employers; and
- stakeholder pensions and personal pensions – offered by some employers, or you can start one yourself. You may also be offered a group personal pension at work. These are also money purchase pensions.

If you work for a business employing fewer than five employees, your employer does not have to offer you access to a pension scheme. The government is planning changes that will mean all employers will have to offer and contribute to a pension in future.

Employers who haven't offered a pension in the past may set up their own scheme, or may pay pension contributions into a new central scheme that is being set up. This is expected from 2012.

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

- your employer normally contributes; and
- often you also receive other benefits, such as life insurance which pays a lump sum and/or pension to your dependants if you die while still in service, also;
- 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 pensions offered by employers are occupational pensions. Your employer may offer a stakeholder pension or a personal pension through a group personal pension arrangement. These pensions are not called occupational pensions even though the employer may contribute.

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"Employers who haven't offered a pension in the past may set up their own scheme, or may pay pension contributions into a new central scheme that is being set up. This is expected from 2012."

Salary Sacrifice

Waiving all or part of your salary in return for a preferential sum

In the context of retirement planning, salary sacrifice (sometimes known as 'salary waiver') is a contractual agreement to waive all or part of your salary in return for your employer contributing a preferential (equivalent) sum into your pension plan.

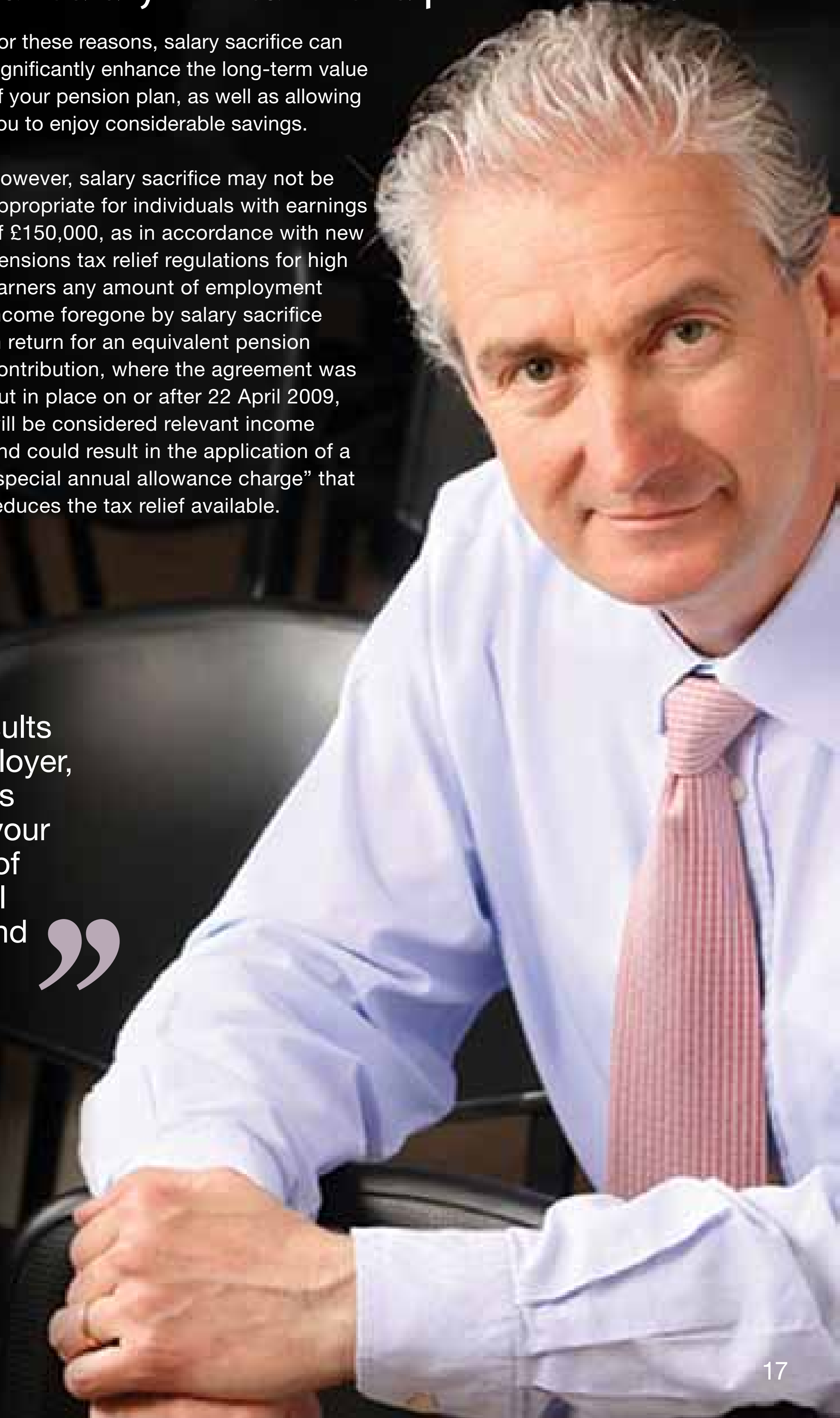
For a salary sacrifice to be effective, it must be 'given up' before it's subjected to tax or National Insurance Contributions (NICs). This allows you to save the entire amount of your sacrificed income in your pension plan free of tax and NICs.

Salary sacrifice also results in savings for your employer, as they don't have to pay NICs on your sacrificed income. If your employer passes some or all of these savings on to you, you'll benefit from even larger tax and NICs-free at no extra cost.

For these reasons, salary sacrifice can significantly enhance the long-term value of your pension plan, as well as allowing you to enjoy considerable savings.

However, salary sacrifice may not be appropriate for individuals with earnings of £150,000, as in accordance with new pensions tax relief regulations for high earners any amount of employment income foregone by salary sacrifice in return for an equivalent pension contribution, where the agreement was put in place on or after 22 April 2009, will be considered relevant income and could result in the application of a "special annual allowance charge" that reduces the tax relief available.

"Salary sacrifice also results in savings for your employer, as they don't have to pay NICs on your sacrificed income. If your employer passes some or all of these savings on to you, you'll benefit from even larger tax and NICs-free at no extra cost."



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Annuities explained

Shopping around for the annuity that best suits your needs

An annuity is a regular income paid in exchange for a lump sum, usually the result of years of investing in an approved, tax-free pension scheme.

There are different types. The vast majority of annuities are conventional and pay a risk-free income that is guaranteed for life. The amount you receive will depend on your age, whether you are male or female, the size of your pension fund and, in some circumstances, the state of your health.

Your pension company may want you to choose its annuity offering, but the law says you don't have to. Everyone has the right to use the 'open market option', to shop around and choose the annuity that best suits their needs. There can often be a significant difference between the highest and lowest annuity rates available.

Some insurance companies will pay a higher income if you have certain medical conditions. These specialist insurers use this to your advantage and will pay you a higher income because they calculate that, on average, your income should be paid out for a shorter period of time.

Some older pension policies have special guarantees that mean they will pay a much higher rate than is usual. Guaranteed Annuity Rates (GARs) could result in an income twice or even three times as high as policies without a GAR.

A conventional annuity is a contract whereby the insurance company agrees to pay you a guaranteed income either for a specific period or for the rest of your life in return for a capital sum. The capital is non-returnable and hence the income paid is relatively high.

Income paid is based on your age, i.e. the mortality factor and interest rates on long term gilts and income is paid annually, half yearly, quarterly or monthly.

Annuities can be on one life or two. If they are on two lives the annuity will normally continue until the death of the second life. And if the annuitant dies early, some or all, of the capital is lost. Capital protected annuities return the balance of the capital on early death.

Payments from pension annuities are taxed as income. Purchased life annuities have a capital and interest element, the capital element is tax-free, the interest element is taxable.

TYPES OF ANNUITY

Types of annuity include the following:

IMMEDIATE ANNUITY

The purchase price is paid to the insurance company and the income starts immediately and is paid for the lifetime of the annuitant.

GUARANTEED ANNUITY

Income is paid for the annuitant's life, but in the event of early death within a guaranteed period, say five or 10 years, the income is paid for the balance of the guaranteed period to the beneficiaries.

COMPULSORY PURCHASE

Also known as open market option annuities, these are bought with the proceeds of pension funds. A fund from an occupational scheme or buy-out (S32) policy will buy a compulsory purchase annuity. A fund from a retirement annuity or personal pension will buy an open market option annuity, an opportunity to move the fund to a provider offering higher annuity rates.

DEFERRED ANNUITIES

A single payment or regular payments are made to an insurance company, but payment of the income does not start for some months or years.

TEMPORARY ANNUITY

A lump sum payment is made to the insurance company, and income starts immediately, but it is only for a limited period, say five years. Payments finish at the end of the fixed period or on earlier death.

LEVEL ANNUITY

The income is level at all times and does not keep pace with inflation.

INCREASING OR ESCALATING ANNUITY

The annuitant selects a rate of increase and the income will rise each year by the chosen percentage.

Some life offices now offer an annuity where the performance is linked to some extent to either a unit linked or with profits fund to give exposure to equities and hopefully increase returns.

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Stakeholder pensions

Meeting government standards

Stakeholder pensions are a type of personal pension. They have to meet certain government standards to ensure they're flexible and have a limit on annual management charges. The minimum payments are also low and you can stop and re-start payments whenever you wish.

Stakeholder pensions work in much the same way as other money purchase pensions. You pay money into your pension to build your pension fund. The managers of the stakeholder pension scheme invest the pension fund on your behalf.

The value of your pension fund will be based on how much you have contributed and how well the fund's investments have performed. You can also stop payments for a while if you need to without it costing you anything.

When you retire, you use the fund you've built up to buy an annuity (a regular income payable for life) from a life insurance company of your choice. Most people choose to wait until they are 60 or 65 until drawing on their stakeholder pension. However, if you wish you can draw on these benefits while still working.

By law stakeholder pensions must meet a number of minimum standards to make sure they offer value for money, flexibility and security. The standards include:

LIMIT ON ANNUAL MANAGEMENT CHARGES

- managers can charge fees of up to one and a half per cent of your pension fund each year for the first 10 years you hold the product, and thereafter up to one per cent

FLEXIBILITY

- you can switch to a different pension provider without the provider you leave charging you
- you can start contributions from as little as £20, and pay weekly, monthly or at less regular intervals
- you can stop, re-start or change your payments whenever you want – there are no penalty fees

SECURITY

- the scheme must be run by trustees or by an authorised stakeholder manager, whose responsibility will be to make sure that the scheme meets the various legal requirements

You can now save as much as you like into any number and type of pensions, including stakeholder pensions.

You receive tax relief on contributions of up to 100 per cent of your earnings each year, subject to an 'annual allowance' (£245,000 for the 2009/10 tax year and £255,000 for the 2010/11 tax year). Savings above the annual allowance will be subject to a tax charge.

If you don't pay tax, you can still receive tax relief on your (or someone else's) contributions up to a certain limit.

Under changes announced in the 2009 Budget, from April 2011 the amount of tax relief will reduce if your income is £150,000 or more. Restrictions were introduced from 22 April 2009 to stop people making large additional pension contributions and receiving full tax relief ahead of April 2011.

Pension rules from 6 April 2006

The biggest change in pension legislation in a lifetime

The introduction of Pension Simplification legislation on 6 April 2006 (A-Day) brought about the biggest change in pension legislation in a lifetime with the following aims:

- to reduce the complexity of pensions
- to offer simpler and more flexible retirement arrangements
- to encourage saving for the future

Since 6 April 2006, simpler rules have been applied to both personal and occupational schemes. The rules allow most people to pay more into their pension schemes and on more flexible terms than before.

You can now save as much as you want into any pension scheme. The rules for claiming tax relief on your pension contributions are also more flexible, though tax charges will apply if you go above certain allowances.

You can now contribute as much as you like into any number of pension schemes (personal and/or occupational) each year. There is no upper limit to the total amount of pension saving you can build up.

Each year you will receive tax relief on your pension contributions of up to 100 per cent of your UK earnings (salary and other earned income). This is subject to an 'annual allowance' above which tax will be charged. However, under changes announced in the 2009 Budget restrictions were introduced from 22 April 2009 for people earning £150,000 or more.

The annual allowance for the tax year starting 6 April 2009 is £245,000 and from 6 April 2010 it will increase to £255,000. Yearly pension savings above this allowance are taxable at 40 per cent, whether made by you and/or your employer. If the annual allowance is exceeded you need to declare the extra pension savings and pay the annual allowance charge through Self-Assessment. The annual allowance charge will not apply in the year you take all your benefits.

The lifetime allowance for the tax year starting 6 April 2009 is £1.75 million and for the tax year starting 6 April 2010 increases to £1.8 million. The value of any pension savings above this allowance will be subject to a lifetime allowance charge. This applies in addition to the usual Income Tax due on pension payments. If you take benefits above your lifetime allowance as a pension, the lifetime allowance charge on the excess amount will be 25 per cent. If you take benefits above your lifetime allowance as a lump sum, the lifetime allowance charge on the excess amount will be 55 per cent.

The 2006 rules introduced a lifetime allowance test. This means that the total value of the benefits built up in your pension fund/s by you and/or your employer will be tested. This includes investment growth. The test will take place when you start drawing your benefits or when you reach age 75. In this case, tax would be payable as if you were drawing an income from the pension. You must become entitled to a lump sum before you reach age 75.

MORE WAYS OF TAKING YOUR PENSION INCOME

There are now four choices:

- take a scheme pension - a secured pension for life paid out of the scheme assets or purchased from an insurance company
- buy an annuity (an investment that provides a regular income for life)
- draw an income directly from your pension fund, as an 'unsecured pension' before age 75
- draw an income directly from your pension fund, as an 'alternatively secured pension' from age 75

All types of pension schemes are now allowed to pay a tax-free lump sum of up to 25 per cent of the overall value of your benefits. This is provided there is provision in the scheme rules, to an overall maximum of 25 per cent of the lifetime allowance. You are not entitled to a tax-free lump sum once you reach age 75.

If you're a member of an occupational pension scheme, you no longer have to leave your job to draw your lump sum and a pension. You may also be able to draw all or some of your lump sum and pension while still working full or part-time for the same employer, depending on your pension scheme's rules.

From 6 April 2010, the minimum age at which you'll be able to take your company or personal pension increases from 50 to 55.

However, you may still be able to take your pension before age 55 in certain circumstances, for example if you are unable to work due to ill-health.

Between 2010 and 2020 the minimum age at which women will be able to get their State Pension will gradually rise from 60 to 65.

State Pension age will also increase for both men and women from age 65 to 68 between 2024 and 2046.

> "From 6 April 2010, the minimum age at which you'll be able to take your company or personal pension increases from 50 to 55."

Tax advantages of personal pensions

Encouraging you to save towards your retirement

Pensions are long-term investments designed to help ensure that you have enough income in retirement. The government encourages you to save towards your retirement by offering 'tax relief' on your contributions.

For each pound you contribute to your scheme, the pension provider currently claims tax back from the government at the basic rate of 20 per cent. In practice, this means that for every £80 you pay into your pension, you end up with £100 in your pension pot.

If you're on the higher tax rate of 40 per cent, you can receive 40 per cent tax relief on your contributions. This relief is only available up to the amount of your income that is taxable at 40 per cent. But the way that the money is given back to you is different:

- the first 20 per cent is claimed back from HM Revenue & Customs by your pension scheme in the same way as for a basic rate taxpayer

- it's then up to you to claim back the other 20 per cent when you fill in your annual tax return or by claiming by telephone or letter to your Tax Office

You can save as much as you like into any number of pensions and receive tax relief on contributions of up to 100 per cent of your earnings each year, provided you paid the contribution before age 75 and subject to an annual allowance.

For the tax year 2009/10 this is £245,000 and for the tax year 2010/11 it will increase to £255,000. (Savings above the annual allowance and a separate lifetime allowance will be subject to tax charges).

Under changes announced in the 2009 Budget, from 6 April 2011 the amount of tax relief will reduce if your income is £150,000 or more. Restrictions were introduced from 22 April 2009 to stop people making large additional pension contributions and receiving full tax relief ahead of 6 April 2011. The restrictions apply to you if all of the following apply:

- your total pension savings are more than £20,000
- you change the amount of
- your normal regular pension savings
- your income is £150,000 or more

There are more tax advantages to having a pension scheme. Your pension fund will invest the money you save (including the tax relief amount) in your pension and your pension fund growth may be free of tax.

Any rise in the value of the scheme's assets between what you put in and what they're worth at the end is called capital gains and is tax-free. When you come to take benefits you may be able to draw out up to a quarter of the value of your stakeholder or personal pension fund as a tax-free lump sum.

You can put money into someone else's personal pension, like your husband, wife, civil partner, child or grandchild's. They'll receive tax relief added to it at the basic rate, but this won't affect your own tax bill. If they've got no income, you can currently pay in up to £2,880 a year (which becomes £3,600 with tax relief).

Unsecured Pension Plan

Taking an income each year from your retirement savings

Unsecured Pension Plan (formerly Income Drawdown) is the name given to the facility to continue to keep your retirement savings invested and take an income each year rather than buying an annuity. This facility can only be continued to age 75, at which time an annuity has to be bought or the money transferred into an Alternatively Secured Pension.

The income that can be taken from an Unsecured Pension arrangement can be varied each year between a minimum and a maximum. The minimum is £0 and the maximum is 120 per cent of a pension calculated according to tables produced by the Government Actuaries Department (GAD). These tables are based on the amount your fund would buy as an annuity based on your life only and with no allowance for any future increase. The maximum amount needs to be recalculated every 5 years.

Taking a tax-free lump sum is a once only event. If you enter into an Unsecured Pension arrangement, you can take your tax-free lump sum at the start or wait until you come to buy your annuity. You cannot take a tax-free lump sum more than once.

The maximum lump sum you can take is 25 per cent of the fund at the time. Taking a lump sum is not possible after age 75. So, if you move from an Unsecured Pension into an Alternatively Secured Pension at 75, without having taken a lump sum, it will then be too late.

An Unsecured Pension pays you an income while leaving the remainder of your pension fund invested for potential further growth, and:

- allows you to take control of how and when you receive your retirement income, so you can retire fully or semi-retire
- you can choose from a range of investment funds, but remember the performance of the fund(s) will affect the income you receive

An Unsecured Pension is an alternative to an annuity. If appropriate, it may provide flexibility with your retirement income options by paying you an income while leaving the remainder of your pension fund invested for further growth potential. It is a way of taking an income from the money you've built up in your pension fund.

While you're making withdrawals from your pension fund, the remainder of your fund continues to be invested, giving it the potential for growth, free of UK Income and Capital Gains Tax. However, the value of the fund can go down as well as up and is not guaranteed.

You can choose to take income from your pension fund from age 50 (this will change to age 55 from 6 April 2010). Most personal or stakeholder pensions allow you to take a tax-free cash lump sum, normally up to a maximum of 25 per cent of the fund value, so, the first step is to decide how much tax-free cash you want to take, if any. Then, the rest of your pension fund can be invested in an Unsecured Pension and this is then used to provide you with a regular income.

The government sets a maximum limit of how much you can take as income in any 12-month period from an Unsecured Pension. However, there's no set minimum, which means you could actually delay taking an income if you want to and simply take your tax-free cash lump sum. The amount of yearly income you take must be reviewed at least every five years.

From age 75, an Unsecured Pension is subject to different governmentlimits and become known as Alternatively Secured Pensions. But you will still be able to receive a regular income while the rest of your fund remains invested. There is a minimum amount you have to take as income from an Alternatively Secured Pension.

If you haven't already taken your tax-free cash lump sum, this option will no longer be available to you from age 75.

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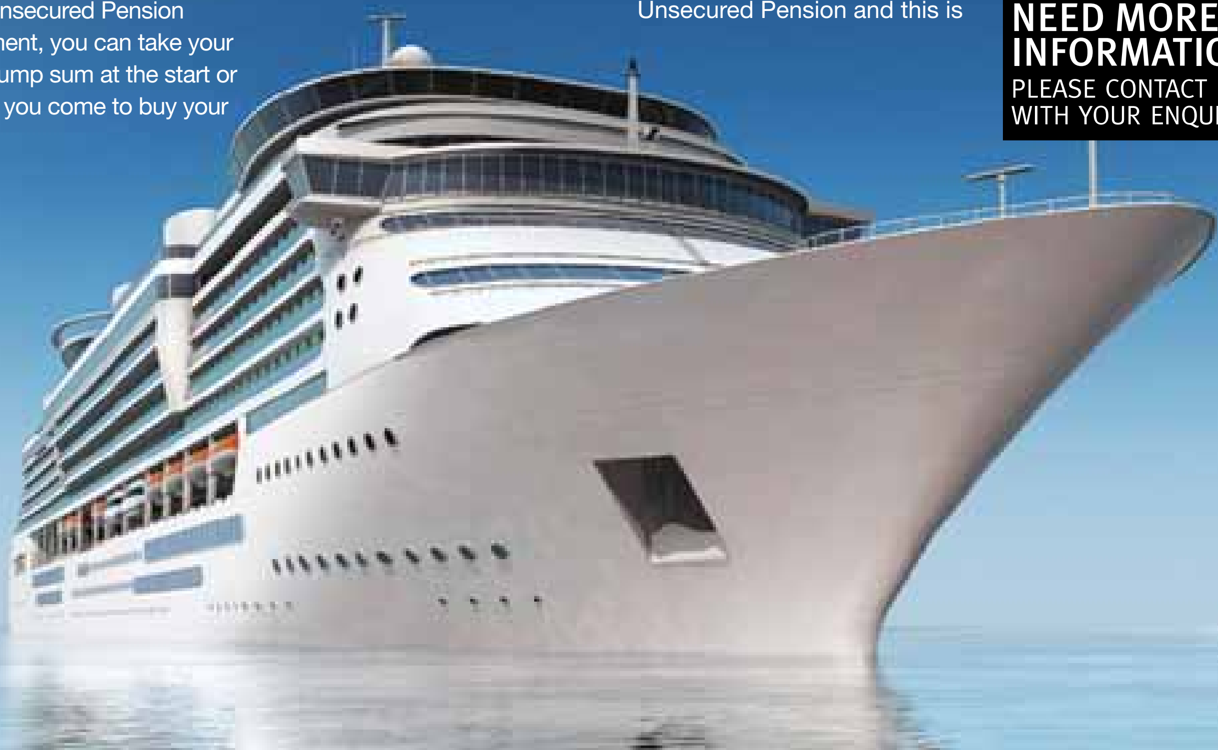

Self-Invested Personal Pension Scheme

Taking control of your pension planning

A Self-Invested Personal Pension Scheme (SIPP) provides you with the option of choosing when, where and how you invest the assets of your pension fund. Any contributions that you make to a SIPP will receive tax relief of between 20 per cent and 40 per cent depending on what the current tax rates are and what personal tax band you are in.

SIPPs have been around since 1989, but after the introduction of Pension Simplification legislation on 6 April 2006, SIPPs have become more accessible.

With a SIPP you are free to invest in:

- Cash and Deposit accounts (in any currency providing they are with a UK deposit taker)
- Insurances company funds
- UK Gilts
- UK Shares (including shares listed on the Alternative Investment Market)
- US and European Shares (stocks and shares quoted on a Recognised Stock Exchange)
- Unquoted shares
- Bonds
- Permanent Interest Bearing Shares
- Commercial property
- Ground rents in respect of commercial property
- Unit trusts
- Open ended investment companies (OEIC)
- Investment trusts
- Traded endowment policies
- Warrants
- Futures and Options

Once invested in your pension the funds will grow free of UK Capital Gains Tax and Income Tax (tax deducted from dividends cannot be reclaimed).

The most important thing to remember is that the range of available investments depends largely on the choice of SIPP provider, which means obtaining professional financial advice is important before taking any action. Ultimately it is down to the trustees of your pension plan to agree whether they are happy to accept your investment choices into the SIPP. The trustees are responsible and liable for ensuring that the investment choices fall within their remit.

There are significant tax benefits. The government contributes 20 per cent of every gross contribution you pay; meaning a £1,000 investment in your SIPP costs you just £800. If you're a higher rate tax payer, the tax benefits could be even greater.

When you wish to withdraw the funds from your SIPP, between the ages of 55 and 75 (50 and 75 before 6 April 2010), you can normally take up to 25 per cent of your fund as a tax-free lump sum. The remainder is then used to provide you with a taxable income.

If you die before you begin taking the benefits from your pension the funds will normally be passed to your spouse or other elected beneficiary free of Inheritance Tax. Other tax charges may apply depending on the circumstances.

A SIPP can also be used to invest and develop commercial property, such as offices, industrial units or shops. Your pension fund does not even have to be large enough to buy a property outright as you may be able to borrow up to 50 per cent of the fund's net value.

There are also tax advantages of buying your own business premises within a SIPP. The rent paid into your SIPP is free of tax because it is a tax deductible expense. There will be no Capital Gains Tax to pay on the property when it is sold within the pension fund and if you die before age 75 and before you start drawing your pension, your beneficiaries can receive the proceeds of the sale of the property free of Inheritance Tax.

A-Z of retirement planning

Understanding the jargon

ACCRUAL RATE
The factor used to calculate benefits in a defined benefit scheme. For example, a scheme with an accrual rate of 1/60th, will provide 1/60th of pensionable salary for each year of pensionable service.

ACTUARY
The individual appointed by the trustees of an occupational pension scheme to carry out valuations and advise on funding matters.

A-DAY
6 April 2006 - the effective date of Pension's Simplification, when HMRC introduced a single tax regime for all UK pension schemes.

ADDED YEARS
A provision of some defined benefit scheme for building extra pensionable service in return for additional contributions.

ADDITIONAL PENSION
The earnings related part of the state pension, paid in addition to the basic state pension.

ADDITIONAL VOLUNTARY CONTRIBUTION (AVC)
A facility provided by occupational pension schemes for members to boost retirement savings.

ALTERNATIVELY SECURED PENSION (ASP)
Allows a pension scheme member to defer purchasing an annuity at age 75. A defined level of income can be drawn on the invested funds until the member decides to purchase an annuity or dies.

ANNUAL ALLOWANCE (AA)
The maximum pension input (earned in a defined benefit scheme and contributions paid into a defined contribution scheme) a pension scheme member is allowed each year without giving rise to a tax charge.

ANNUITY
A policy that provides an income in retirement.

BASIC STATE PENSION
The benefit provided at state pension age to those with a sufficient National Insurance Contribution record.

CASH EQUIVALENT TRANSFER VALUE (CETV)
The amount offered to a member of an occupational pension scheme who wants to transfer to another pension scheme.

CLOSED SCHEME
An occupational pension scheme where the membership is no longer open to new employees.

CONCURRENCY
The principle allowing someone to pay into more than one pension scheme at the same time.

CONTRACTED OUT DEDUCTION (COD)
The deduction applied to a person's SERPS entitlement for the period they were contracted out between 1978 and 1997.

CONTRACTING OUT
The facility to opt out of the state additional pension and build up benefits in a pension scheme.

CRYSTALLISATION EVENT
An event where pension benefits become payable i.e. annuity purchase, death, starting an unsecured pension etc, and at which time a test against the lifetime allowance is carried out.

DEFERRED PENSION
The benefit awarded to a defined benefit scheme member who has left service early.

DEFINED BENEFIT (DB) SCHEME
An occupational pension scheme that provides benefits based on accrual rate, pensionable service and pensionable salary.

DEFINED CONTRIBUTION (DC) SCHEME
A scheme that provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions paid by both the employee and the employer.

EARLY RETIREMENT
The payment of retirement benefits from a pension scheme before a member's normal retirement date.

EARMARKING
Provides a spouse with a share of a pension scheme member's pension rights on divorce. Spouse's share is paid when the member draws their benefits.

EMPLOYER ACCESS
Employers with 5 or more staff but with no pension arrangement in place must designate a stakeholder pension scheme and offer access to qualifying employees.

EMPLOYER FUNDED RETIREMENT BENEFIT SCHEME (EFRBS)
Previously known as FURBS and UURBS. These are unapproved schemes with no tax reliefs, that an employer funds to provide a member with a lump sum and/or income.

ENHANCED PROTECTION
If a member is worried their pension rights exceed, or may exceed, the lifetime allowance, they can safeguard them against a tax charge.

EXECUTIVE PENSION SCHEME (EPP)
An occupational pension scheme for selected directors and senior staff.

EXPRESSION OF WISH
Notification by a member to their pension scheme of how they wish their lump sum death benefits to be paid.

FINAL SALARY SCHEME
An occupational pension scheme that provides benefits based on accrual rate, pensionable service and pensionable salary.

FREE STANDING ADDITIONAL VOLUNTARY CONTRIBUTION (FSAVC)
A facility provided by insurance companies for members to boost their occupational pension scheme savings.

FUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (FURBS)
Now known as an EFRBS. These are unapproved schemes with no tax reliefs that an employer funds to

provide a member with a lump sum and/or income.

GROUP PERSONAL PENSION PLAN (GPP)
A collection of personal pension plans provided by an employer to its staff.

GUARANTEED MINIMUM PENSION (GMP)
The benefit built up in a defined benefit scheme as a result of being contracted out of the state additional pension.

HYBRID SCHEME
An occupational pension scheme that calculates retirement benefits as some combination of two alternatives, defined benefit scheme or defined contribution scheme.

ILL HEALTH EARLY RETIREMENT
If an occupational pension scheme member is unable to work as a result of a medical condition, they may be entitled to draw retirement benefits early (sometimes enhanced) at any age (no later than 75).

IMPAIRED LIFE ANNUITY
A member of a defined contribution scheme may be able to claim an immediate annuity on enhanced terms if they are suffering from poor health, such as high blood pressure, diabetes, heart condition, kidney failure, certain types of cancer, multiple sclerosis and chronic asthma.

INCOME DRAWDOWN
Also known as an unsecured pension. Allows a pension scheme member to continue to invest a fund whilst drawing a limited income. Available to under 75s only.

INCOME WITHDRAWAL
Also known as an unsecured pension. Allows a pension scheme member to continue to invest a fund whilst drawing a limited income. Available to under 75s only.

LIFESTYLING
An investment strategy on defined contribution schemes where a member's investments are switched automatically as they get older to more secure holdings, such as cash.

LIFETIME ALLOWANCE (LA)
The maximum value of fund a pension scheme member can accumulate without incurring a tax charge.

LUMP SUM
The tax-free lump sum paid to a member of a pension scheme when their benefits come into payment.

MARKET VALUE REDUCTION (MVR)
An adjustment made to the value of a With Profit fund to reflect the difference between the market and actuarial values of the fund.

MONEY PURCHASE SCHEME
A scheme that provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions paid by both the employee and the employer.

NATIONAL INSURANCE CONTRIBUTION (NIC)
Payments deducted from pay or declared through self assessment, used by the DWP to fund the state pension and other state benefits.

NORMAL RETIREMENT AGE (NRA)
The contractual age that retirement benefits are paid from an occupational pension scheme.

NORMAL RETIREMENT DATE (NRD)
The date that an occupational pension scheme member reaches normal retirement age.

OCCUPATIONAL PENSION SCHEME
A scheme set up by an employer to provide retirement and/or death benefits to employees.

OFFSETTING
A member's pension rights are offset against other assets as part of a divorce settlement.

OPEN MARKET OPTION (OMO)
A provision of defined contribution schemes allowing members to transfer funds at retirement to draw an immediate annuity with another provider.

PAID UP
The status given to a personal pension plan when a member chooses to cease contributing.

PENSION COMMENCEMENT LUMP SUM (PCLS)
The tax-free lump sum paid to a member of a pension scheme when their benefits come into payment.

PENSION EARMARKING
Provides a spouse with a share of a pension scheme member's pension rights on divorce. Spouse's share is paid when the member draws benefits.

PENSION GUARANTEE
Incorporated into a pension once put into payment. It ensures that pension instalments for a specified period are paid, even if the member dies before the period expires.

PENSION OFFSETTING
A member's pension rights are offset against other assets as part of a divorce settlement.

PENSION PROTECTION FUND (PPF)
An independent, levy funded body that compensates members of occupational pension schemes who have lost pension benefits as a result of an employer's insolvency.

PENSION SHARING
Provides a spouse with a share of a pension scheme members retirement benefits on divorce. Spouse is given a credit to put towards their own retirement benefits.

PENSIONABLE SALARY
Earnings used to calculate retirement benefits in a defined benefit scheme.

PENSIONABLE SERVICE
Length of qualifying time in a defined benefit scheme used to calculate retirement benefits.

PENSIONS CREDIT
A means-tested benefit that boosts a pensioner's state pension to ensure they have a minimum level of income.

PENSIONS SIMPLIFICATION
The name given to the changes introduced by HMRC on A-Day. One single tax regime was introduced to replace the previous eight.

PERSONAL ACCOUNTS
A new low cost pension scheme being introduced in April 2012. Employers will be able to automatically enroll their employees into this arrangement.

PERSONAL PENSION PLAN (PPP)
A type of defined contribution scheme. Provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions.

PRESERVED PENSION
The benefit awarded to a defined benefit scheme member who has left service early.

PROTECTED RIGHTS (PR)
The fund built up in a defined contribution scheme from

rebates paid as a result of being contracted out of the state additional pension.

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEME (QROPS)
An overseas pension scheme that meets HMRC rules that allow overseas transfers.

QUALIFYING YEAR
A year in which an individual has paid, or is is treated as having paid, National Insurance contributions.

RETAIL PRICE INDEX (RPI)
Used by pension schemes to calculate pension increases. It is the average measure of change in the prices of goods and services bought in the UK.

RETIREMENT ANNUITY CONTRACT (RAC)
The predecessor of the personal pension plan. Available before April 1988 to the self-employed and those in employment who did not have access to an occupational pension scheme.

REVALUATION
The increase, normally in line with inflation, of a deferred pension between the date the member leaves service and their NRA.

SALARY SACRIFICE
An arrangement between an employer and an employee where the employee forgoes part of their pay for a corresponding employer contribution to the pension scheme.

SECTION 32 PLAN
An insurance policy designed to accept transfers from defined benefit schemes.

SELF-INVESTED PENSION PLAN (SIPP)
A type of personal pension plan that gives an individual more investment control.

SHORT TERM ANNUITY
A temporary annuity hat runs for no longer than 5 years. Allows an individual to draw an income whilst deferring purchasing a full annuity. Available between 50 and 75.

SMALL SELF-ADMINISTERED SCHEME (SSAS)
An occupational pension scheme, usually for small businesses, that gives members more investment control.

STAKEHOLDER PENSION SCHEME
A type of personal pension plan, offering a low-cost and flexible alternative and which must comply with requirements laid down in legislation.

STATE ADDITIONAL PENSION
The earnings related part of the state pension, paid in addition to the basic state pension.

STATE EARNINGS RELATED PENSION SCHEME (SERPS)
Alternate name given to the state additional pension between April 1978 and April 2002.

STATE PENSION
Administered and paid by The Pension Service, this benefit is made up of the basic state pension and the state additional pension.

STATE PENSION AGE (SPA)
The earliest age that the state pension can be taken.

STATE PENSION DATE (SPD)
The earliest date that the state pension can be paid.

STATE PENSION DEFERRAL
On reaching state pension age, a pensioner can defer taking their state pension in exchange for a higher pension or lump sum in the future.

STATE PENSION FORECAST
An illustration provided by The Pension Service giving an estimate of what state pension an individual may receive at state pension age.

STATE SECOND PENSION (S2P)
Alternate name given to the state additional pension since April 2002.

STATEMENT OF FUNDING PRINCIPLES
A statement in which the trustees of a defined benefit scheme set out how the statutory funding objective will be met.

STATUTORY FUNDING OBJECTIVE
The trustees of a defined benefit scheme must ensure that the scheme's liabilities are covered by appropriate and sufficient assets.

STATUTORY MONEY PURCHASE ILLUSTRATION (SMPI)
Annual statements issued to defined contribution scheme members, giving forecasts of benefits now and at retirement (in today's terms).

TAX RELIEF
Incentive given to those contributing to pension schemes. The government pays 20 per cent (non-earners and basic rate tax payers) or 40 per cent (higher rate tax payers) of a member's gross contribution.

TAX-APPROVED SCHEME
A pension scheme that has been approved to operate by HMRC.

TRANSITIONAL PROTECTION
Comes in two forms – primary and enhanced. Allows an individual to protect accrued pension rights that may exceed the lifetime allowance, thereby avoid a tax charge on the excess.

UNFUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (UURBS)
Now known as an EFRBS. These are unapproved schemes with no tax relief's that an employer funds to provide a member with a lump sum and/or income.

UNSECURED PENSION
Also known as income drawdown or income withdrawal. Allows a pension scheme member to continue to invest a fund whilst drawing a limited income. Available to under 75s only.

WINDING UP
The process of terminating an occupational pension scheme, usually by transferring member's benefits to individual arrangements.

WINDING UP PRIORITY ORDER
The order in which members' benefits are distributed on the winding up of a defined benefit scheme with an insolvent employer and a funding shortfall.

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