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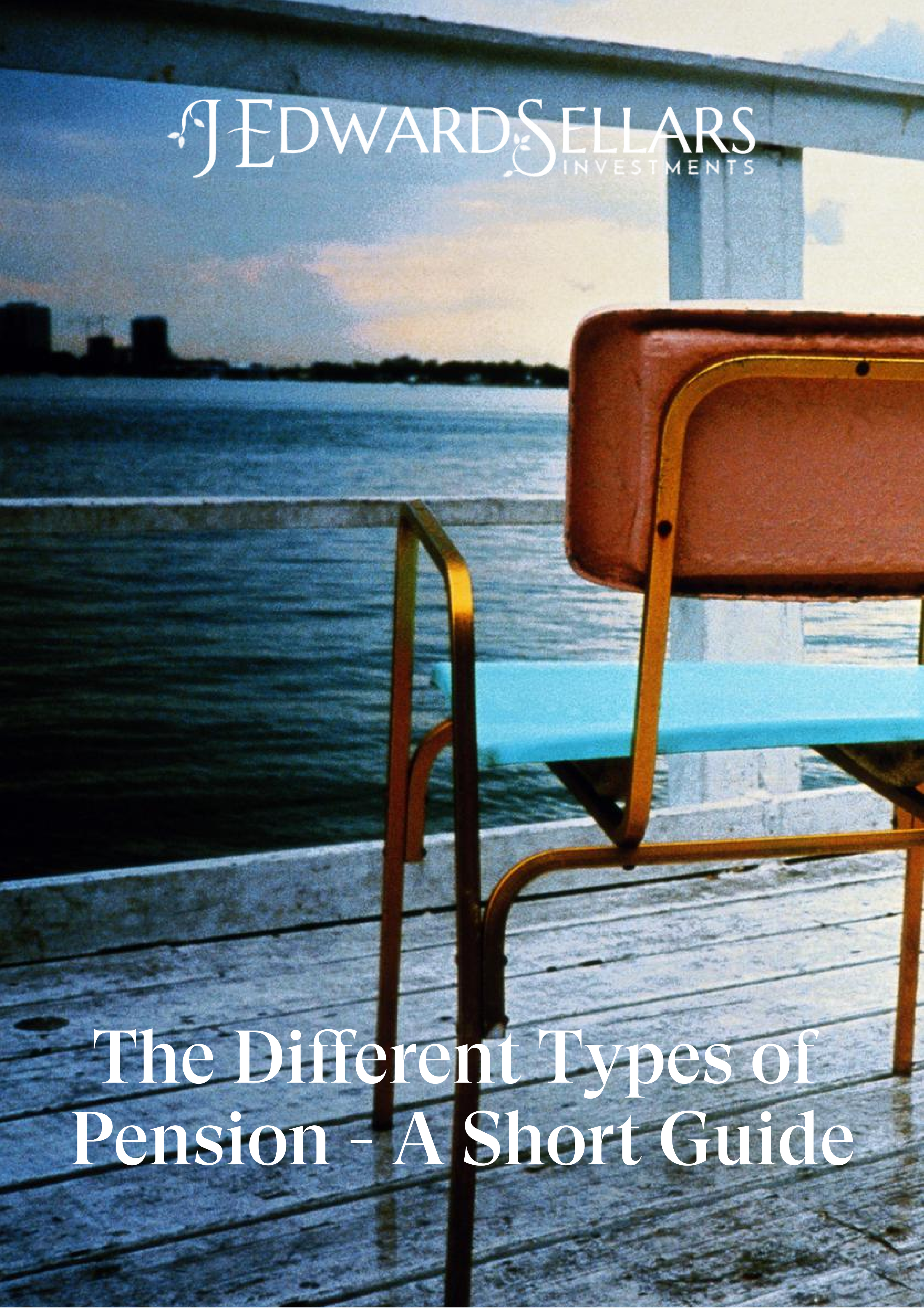
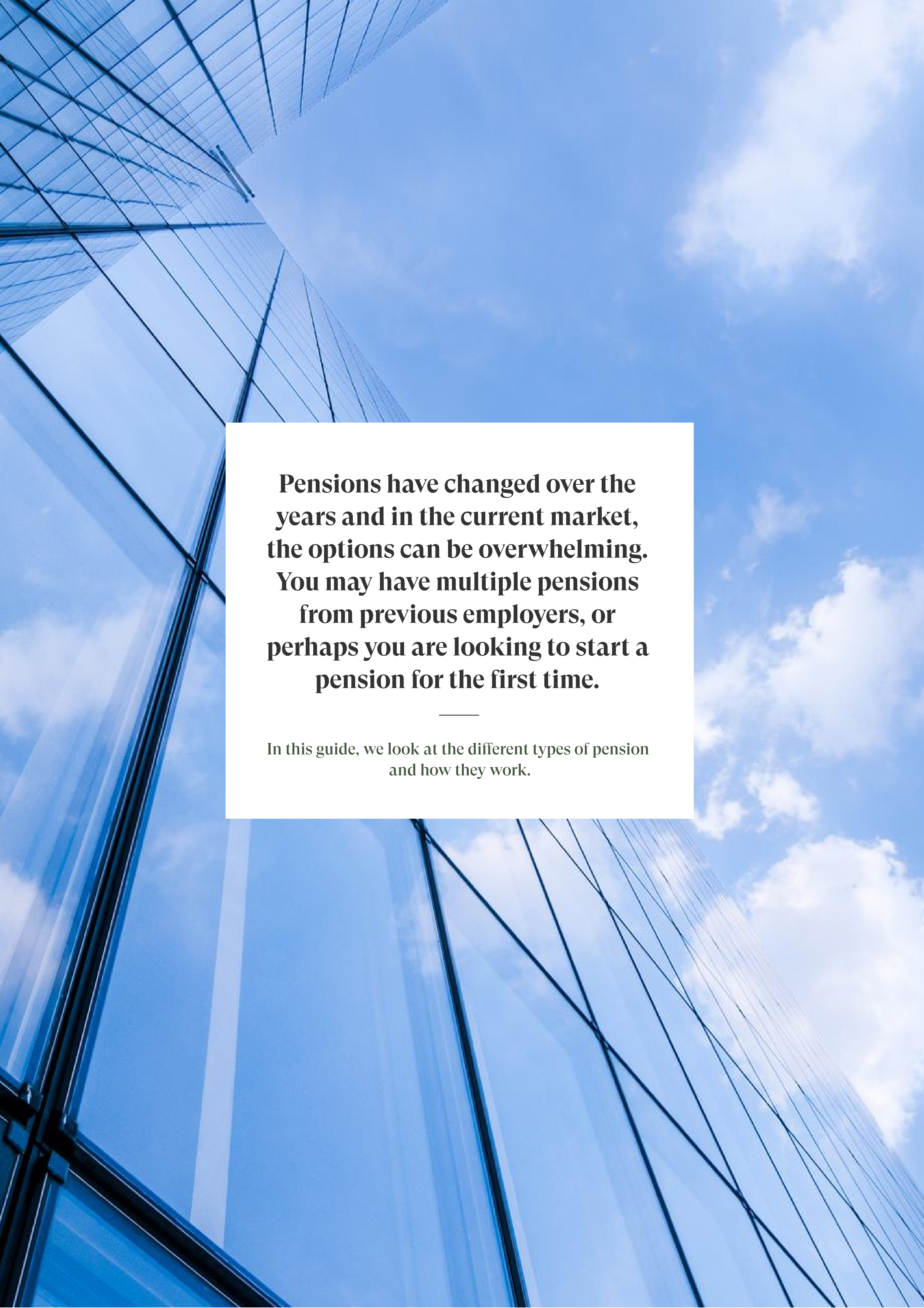


The Different Types of Pension - A Short Guide



Pensions have changed over the years and in the current market, the options can be overwhelming. You may have multiple pensions from previous employers, or perhaps you are looking to start a pension for the first time.

In this guide, we look at the different types of pension and how they work.

MONEY PURCHASE PENSIONS

A money purchase pension allows to you build up a pot for retirement. Your eventual pension will depend on:

- The amount you have contributed
- The amount your employer has contributed (if applicable)
- The investment growth received
- The way in which you take your retirement benefits

Your pension works like any other investment account, although with added tax benefits:

- Personal contributions receive tax relief of 20% - for every £80 you contribute, £100 is added to your pension.
- Higher and additional rate taxpayers can claim further relief from HMRC.
- While your pension funds are invested, no income tax or capital gains tax applies.
- At retirement, you can withdraw 25% of your fund as a tax-free lump sum.
- The remaining 75% can be used to provide a pension income, which will be taxed at your marginal rate.

If your pension loses money, your retirement income could be affected. However, if the pension or the fund was mis-sold to you, or if there was any fraud involved, your pension is protected by the Financial Services Compensation Scheme.

There are several different types of money purchase pension, which are explained below.

ISTAKEHOLDER PENSION

Stakeholder pensions were introduced in 2001. The goal was to encourage more people to save for their retirement, particularly those on lower earnings. Stakeholders work as follows:

- The minimum contribution is £20.
- Contributions can be made on a regular basis or as a one-off. You can stop and start your contributions as required.
- Stakeholder pensions usually offer a small range of funds
- Charges are capped at 1.5% for the first ten years and 1% per year thereafter. This was competitive when Stakeholders were introduced, but many Personal Pensions, which offer a wider choice of investments, can be even cheaper depending on the investment selected.

PERSONAL PENSION

Personal pension is a wide definition. It can include plans offered by insurance companies or platforms. The fund choice can range from a handful to several thousand.

Charges also vary. Some insured pensions simply charge the cost of the fund. This is normally higher than if you bought the equivalent fund on a platform, as the life company's charges are bundled together with the fund charges. This can make your total charges easier to understand, but it is not always clear how much you are paying for each component.

Platforms charge separately for each element of their service. This will include the platform fee, which is often discounted when your fund value reaches a certain level. Pension wrapper costs and trading charges may also apply.

But platforms offer a huge selection of funds, usually at a very competitive cost. By opting for a platform-based personal pension, and a range of passive funds, the total charges can rival a Stakeholder.

However, if you need a bit more choice or prefer an active management style, the fund choices can accommodate that. You will just pay a bit more in charges.

> By making sure that contingencies are covered we can move on to more exciting things, safe in the knowledge that our families have a secure future even if the unthinkable happens.

SELF-INVESTED PERSONAL PENSION (SIPP)

A SIPP allows you to invest in an even wider selection of investments. This can include:

- Funds from different managers
- Shares
- Property
- Private company shares and commercial lending

In recent years, the lines between personal pension and SIPP have blurred. A platform based personal pension can allow you to invest in funds and shares, and could meet your needs just as well as a SIPP.

A full SIPP usually charges a fixed annual fee, and could be for you if you want to invest in commercial property or private equity. But this is likely to suit a minority of investors.

Some companies offer a hybrid option, with different levels, ranging from insured personal pension to full SIPP. You only pay for the elements you use and can 'unlock' different levels depending on your requirements.

WORKPLACE PENSION

Since 2012, all businesses are required to offer a pension to their employees. The requirements are:

- All eligible jobholders must be automatically enrolled. They can opt out if they choose, but will be re-enrolled every three years.
- Employees and employers need to contribute a proportion of earnings. The total minimum contribution is 8% of pensionable earnings.
- Due to the low minimum level of contributions, and considerable administration involved, a number of companies have set up schemes specifically for the workplace market. These usually have fairly limited fund choice, including a default investment option.
- If you move employers, you can transfer your workplace pension to your new scheme.

You can find out more about workplace pensions here.

OCCUPATIONAL MONEY PURCHASE PENSION

An occupational money purchase pension works in a similar way to a personal pension. There are often added benefits, for example:

- Life cover
- Low charges, as they are subsidised by the employer
- Guarantees

Schemes are normally managed by a third party administrator rather than a platform or insurance company. Fund choice is often limited, and in some cases the funds are unique to the scheme or the employer.

Money purchase pensions can be moved between different providers, and even into different types of pension, for example from a Stakeholder to a SIPP. It's important to review your existing contract to make sure that you are not losing any valuable guarantees.

OCCUPATIONAL DEFINED BENEFITS PENSION

Defined benefit pensions are rarely offered these days, unless you are employed by the public sector. They differ from money purchase pensions, as your retirement income will depend on:

- The years you have worked for your employer
- Your salary (either at the point of retirement, or averaged throughout your career)

You will need to contribute to your defined benefit pension, but ultimate responsibility for covering the cost falls on your employer.

The underlying assets of the scheme are invested in the same way as a money purchase pension. The difference is that if the investments lose money, the employer needs to make up the difference.

If the scheme fails and the employer can't cover the cost, pensions are covered (up to certain limits) by the Pension Protection Fund.

Please don't hesitate to contact a member of the team to find out more about the different pension options.

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