Contacting us

There are lots of ways you can contact us.

Pensions Helpline **0300 123 1047**
(Monday- Friday 9:00am- 5:00pm)

Web chat live
www.pensionsadvisoryservice.org.uk

Online enquiry form
www.pensionsadvisoryservice.org.uk/online-enquiry

Write to us The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

@TPASnews

/pensionsadvisoryservice

We regret that we are unable to accept visitors at our office. Please note that this guide is for information only. The Pensions Advisory Service cannot be held responsible in law for any opinion expressed, nor should any such opinion be regarded as grounds for legal action.

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INVESTORS IN PEOPLE

Small business owners

All the things to think about when saving into a pension

The PENSIONS Advisory Service

About The Pensions Advisory Service

Pensions can change people's lives. Most of us would like to be able to choose to stop work one day and choose how we live when we do. A good pension is a good way to achieve that. Our vision is a future where people are empowered to make the most of their pensions.

The Pensions Advisory Service (TPAS) is here to give people professional, independent and impartial help with their pensions – for free.

We are here to:

- give you independent information and guidance on pension matters
- mediate and resolve problems you may have with your pension

We will always try our hardest to help you with your pension query.

Our service is about you and your needs. We will talk to you about the things that are important to you, helping you to navigate through all the options that may be relevant to your personal circumstances.

At the Pensions Advisory Service, we understand pensions, and are passionate about making them accessible to you. We' will always listen and offer you different ways to use our service.

The National Association of Pension Funds (NAPF) has produced a series of free guides, under the title 'New rules for pension saving made simple'. Aimed at employers, the six guides explain your duties. You can find them here: www.napf.co.uk under the section Policy and Research. Search for Automatic Enrolment.

NEST (the National Employment Savings Trust) is a nationwide scheme that meets the requirements of automatic enrolment. You may find its website useful. Visit www.nestpensions.org.uk.

Salary sacrifice

You may decide to offer salary sacrifice to your employees as a way to lessen the impact of their pension contributions on their take-home pay.

Salary sacrifice is not an effective way of saving for some people. If you offer a salary sacrifice arrangement, your employees do not have to take part in it, even if your workplace scheme uses it.

How it works?

Your employees give up part of their salary. You pay the amount that they give up into their pension pot, and they receive a lower salary.

For example, if an employee earns £30,000 a year, they might decide that they want to give up £1,000 of their salary. Their new salary is £29,000. You pay £1,000 into their pension pot, and also pay your own contribution.

Because your employee receives a lower salary, both you and your employee pay lower national insurance contributions (NICs). You may decide to pay all or part of your NIC saving to your employee's pension pot as well, but you don't have to do this.

For more information please visit the HM Revenue and Customs website:

www.hmrc.gov.uk/specialist/salary_sacrifice.htm

Providing pensions for your workers

Workplace pensions law has changed. Every employer has new legal duties to help their workers in the UK save for retirement. You must automatically enrol certain workers into a qualifying workplace pension scheme and make contributions towards it.

All employers will have to provide their workers with a workplace pension scheme over the next few years, and pay a minimum contribution into the scheme. This is called 'automatic enrolment' and is a legal requirement.

You have to start to do this at a date (called a staging date) given to you by The Pensions Regulator. When your staging date is will depend on how many people you have on your payroll.

If you don't already offer your workers a workplace pension scheme, you must set one up before your staging date, so that you are ready for automatic enrolment at your staging date.

If you already offer your workers a workplace pension scheme, you need to check if you can use it for automatic enrolment.

If you offer access to a stakeholder pension scheme, you must continue to run this scheme for those workers already in it, if they want you to. You no longer have to offer it to other workers.

Where to find help

The Pensions Regulator is in charge of enforcing automatic enrolment. Visit www.thepensionsregulator.gov.uk for details and guidance about:

- your duties under automatic enrolment;
- your staging date;
- which of your workers you must automatically enrol;
- how much you must contribute for these workers; and
- how to communicate automatic enrolment to your workers.

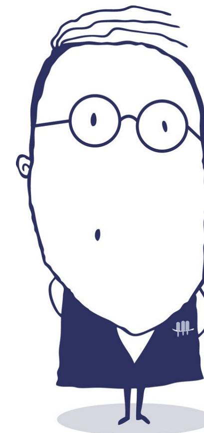
Small business owners

As the owner of a small business, your personal and business finances are likely to sit hand in hand. When the business is doing well, you deserve to treat yourself. When things are harder, the effects can be immediate, and felt very close to home.

With your focus on the day-to-day and plans for the future of the business, it can be difficult to spend time planning for retirement. And if you really love your work, the thought of giving it up might be the last thing on your mind.

But pension contributions are a tax efficient, cost-effective way of saving, with a wide range of options available for the small business owner.

You'll find some details in this leaflet, and we'd also advise you to see your accountant, or an independent financial adviser, to fully understand your range of options.



"we'd always advise that you start saving what you can, as soon as you can"

Why should I save?

If you're self-employed you'll be entitled to the basic state pension—currently set at £113.10 a week (2014/15). To qualify for that, you'll have paid 30 years of national insurance contributions. There are proposals to increase this to 35 years from April 2016.

If you've been employed by someone else, you could be entitled to some additional state pension but that depends on length of employment and your salary at the time.

On its own, the basic State Pension is unlikely to provide you with anything like your current standard of living. So it's crucial that you plan how to get the rest of the retirement income you'll require. Current estimates show that more than half of self-employed men and more than 2 in 3 self-employed women aren't saving for a pension.

But what if you don't win the lottery, sell your company for a fortune or the property market doesn't offer the sort of return you want for your home? If you start small now, your pension pot will get bigger over time – and before you know it, you'll be able to give up work and put the 'live' into 'living'.

Pensions are a tax-efficient way of saving for your future. Our website has information explaining this.

www.pensionsadvisoryservice.org.uk

Changes in your circumstances

We can tell you the things you need to think about if your circumstances change, for example if you get divorced or fall ill. Here are some other examples:

Moving previous pension pots to a new scheme

If you were previously employed, and paid into a company pension scheme for a minimum period, you have the right to transfer your pension into your new arrangement (subject to approval by the pension scheme). Before moving your pension, find out:

- what benefits your former employer's scheme will provide for you
- what you get out of transferring those benefits to your new scheme.

What if I need to stop payments?

Don't stop paying without getting advice in case you end up losing money. Different pension plans have different rules, so talk to your pension provider, and ask them to explain clearly what your options are.

Bankruptcy

What happens to your pension if you are made bankrupt may depend on:

- when you were made bankrupt;
- whether you are getting your pension or not; and
- the type of pension you have

The law around bankruptcy is subject to change, so you should

In either case, you can decide to take some of your pension pot as a cash lump sum. You can generally take up to 25% of the value of your pot as a cash lump sum.

Our website has more information on the different types of annuities, and on income drawdown. We also have spotlight factsheets available on our publications page, which you might find useful.

3. Shopping around for a pension

When you open your pot and you want to buy an income you don't have to buy your annuity from your existing provider. You have the option to shop around, to try to get the highest income you can. This option is known as the open market option (OMO).

It is important that you do take time to shop around. Each pension provider will offer a different deal in exchange for your pot, and this can make quite a difference to your income. Also some insurance companies may only accept pots that have more than a certain amount of money saved in them.

Some pension providers specialise in providing annuities for people that have health issues or a lifestyle that means their life expectancy is lower than the normal life expectancy for someone of their age, for example sufferers of high blood pressure or heavy smokers. Others take where you live into consideration.

Although you should always shop around, you don't have to switch.

Whether you do or not should depend on whether you can find a better deal. You should also take into account any penalties your existing provider may charge you to move your pot to another pension provider.

How much should you save?

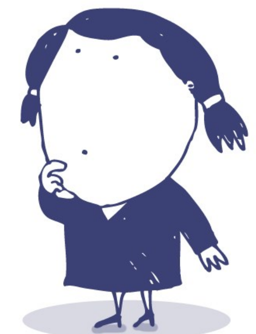
Ask yourself, 'how much will I need so I can feel secure when I retire?'

Industry experts suggest that a half to two-thirds of your current income might be enough to meet your needs when you retire.

We'd recommend you sit down and work out your likely outgoings.

- **What will your regular bills be?** (utility bills, phone, any mortgage payments/rent, insurances, loans, food, travel, petrol, TV licence, prescription charges for example)
- **What else will you do during the week?** (see friends/ family, spending money for entertainment)
- **What occasional expenses do you incur?** (clothing, holidays, special occasions)
- **And what else might happen?** (house /car repairs, emergency medical bills, relatives asking for help)

Thinking about the future can be tricky, so discuss plans with a friend or family to help you get a realistic picture of what you might need. You'll now have a figure which will indicate the level of pension you need.



Choosing a pension

This section explains the different pension schemes that may be available to you. You are not restricted to paying into only one pension scheme at a time. You can pay into several at the same time if you want to do so, and can pay as much as you like into your pension pots.

Contributing to a pension allows you to get some tax relief. The maximum contribution you can receive tax relief on each year is limited to the lower of:

- 100% of your earnings; and
- the annual allowance.

You can pay more to your pension pot, but you will not get tax relief on contributions above these limits.

Personal pensions

A personal pension plan is a pension you set up yourself, to get a retirement income. It is a type of defined contribution scheme. You can buy one from insurance companies, high street banks, investment organisations and some supermarkets and high street shops.

You can have a personal pension and use it to save for your retirement, even if you are already saving for a retirement income elsewhere.

The amount of pension you will be able to take from your personal pension depends on the following:

- the amount of money you pay into your pot;
- the charges taken to pay for the cost of investing and administering your pot;

1. Deciding when to open your pot

Usually you need to be 55 before you can open your pot and use the money in it to give yourself an income.

However, there are times when you can open your pot before age 55.

- If sickness is stopping you from working and your scheme allows you to take an ill-health pension.
- If you have the right under your scheme to take your pension at an age before 55. This is known as a protected pension age.

You need to think about whether the amount you would get from your pensions would be enough for you to give up work. You do not have to open all your pension pots at the same time. You can also open one or more pension pots while continuing to work.

If you need to work out what is the right choice for you, ask your pension providers to send you a quotation showing what level of pension you might get if you opened your pot now. You can then use the figures to see if you will have enough to stop working, or to scale down the amount of work you do.

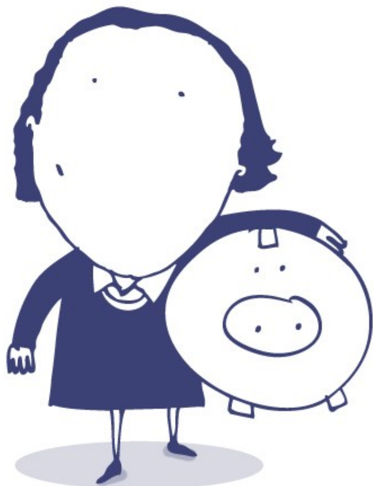
2. Decide what sort of pension is right for you

Once you have decided that you would like to retire, you need to think about how you would like to get a retirement income.

You have the following choices.

- You can buy a retirement income (called an annuity) from an insurance company. The amount will depend on the annuity rates in force at the time. An annuity rate is the price offered by the insurance company to change your pot into retirement income.
- You can take an income directly from your pension pot. This is known as income drawdown.

“taking your pension can lead to a maze of options– we can help navigate you through”



What will you get when you retire?

When you open your pension pot you can choose to take some of the money in the pot as a cash lump sum.

If you choose to take some of your pot as a cash lump sum, the income you can then get from your pot will be less.

You don’t have to pay tax on the cash lump sum, as long as you do not take more than a quarter (25%) of your benefits or pot as cash. (The proportion may be higher if you have a protected lump sum.)

You use the remainder of your pot to buy an income. You can either buy an annuity or enter into a drawdown arrangement. These options are explained later on.

- how much your savings grow, based on your chosen investments; and
- how you choose to use the money when you retire.

How much you have to pay and why will vary from provider to provider. You may face additional charges at some or all of the following points:

- setting up the plan
- annually for administration
- if you change your investments
- if you invest in property
- setting up your annuity
- if you choose income drawdown.

You may also face bank charges and possibly, have to pay a fee if you seek financial advice on your investments.

“no question is too big or too small”

Stakeholder pension schemes

A stakeholder pension is a pension you set up yourself, to get a retirement income. It is a type of defined contribution scheme. You can buy one from insurance companies, high street banks, investment organisations and some supermarkets and high street shops.

A stakeholder pension works in the same way as a personal pension. You build up your pension pot in the same way and your options when you take the money from your pot are the same. However, stakeholder pensions have to meet minimum standards set by the Government. These include:

- a limit to the charges you have to pay; and
- no charges for altering or stopping your contributions, or transferring your funds.

Also, your provider must:

- accept your contributions if they are more than £20
- accept any transfers you want to make from your other pensions.

"there are lots of things your provider must do – if you're not sure about something, just ask"

During the lifetime of your pension

Take an interest in your pension savings. Every year, you should get a statement from your pension provider. Check to see whether your contributions have been correctly received, and that your pension pot is invested as you intended. If you think that something has gone wrong, contact your provider straight away as mistakes are easier to sort out the earlier they are found.

Use your statements to monitor how your pension pot is growing, and whether your pension savings are on track. Keep your statements safely as it is very useful to have your own records if there are any difficulties later on.

Remember to tell your pension provider if you move house so that you do not lose track of your savings. It is also a good idea to tell your provider of any changes in your marital status.

What happens when you retire?

When you are thinking about opening your pension pot and using the money to provide yourself with an income, you need to:

- 1. decide when you want to open your pot;
- 2. decide what sort of pension is right for you; and
- 3. shop around to get the best deal.