

# Introduction to pensions

► The latest copy of this guide can be found at:  
[www.simplesolutionsifa.com/pdf/introduction-to-pensions.pdf](http://www.simplesolutionsifa.com/pdf/introduction-to-pensions.pdf)



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## Pension basics:

### ▶ **What is a pension?**

*A pension is, in simple terms, a tax efficient way of saving for your retirement. When you retire the money that you have saved is used to provide a taxable income until you die.*

*You can save as much as you like into a personal pension. It won't affect your entitlement to the Basic State Pension.*

*You'll be able to get tax relief on the amount you put in, up to an annual allowance. So, for each pound you put into your pension, the government tops it up using money it would otherwise have taken from you as tax.*

*Saving for your retirement may not seem important when you're starting out. But the sooner you start saving for your retirement the more secure your future will be. The State will help but you will need to make your own plans to make sure you are comfortable when you retire in the future.*

*Your choices of pension include:*

### ▶ **Company pension schemes**

*Many employers provide access to a company pension scheme.*

*Company pension schemes vary from company to company. Your scheme is likely to be one of two general types – a 'salary related' or 'money purchase' scheme.*

#### **Salary related scheme (also known as final salary schemes)**

*In a salary related scheme the amount you get is based on your salary and the number of years you have been in the scheme.*

#### **Money purchase scheme**

*A money purchase scheme is based on how much has been paid into the scheme and how well the money has been invested.*

### ▶ **Individual Pensions**

*You can have an individual pension if your employer doesn't offer a pension scheme or you are self-employed or not working.*

#### **Individual pensions can be split into three types:**

- *Stakeholder Pensions*
- *Personal Pension Schemes*
- *Self Invested Personal Pensions (SIPP's)*

## Pension basics:

### ▶ Stakeholder Pensions

*Stakeholder Pensions must meet a number of Government requirements.*

- *A low minimum investment – as little as £20*
- *Charges capped at 1.5% of the fund each year for the first 10 years, 1% a year thereafter, and*
- *The flexibility to stop, start and change contributions without penalty.*

*Stakeholder pensions are more limited than a non-Stakeholder personal pension plan with regard to fund choices.*

### ▶ Personal Pension Schemes

*These schemes are likely to have a higher minimum contribution – often at least £100 per month – and higher annual charges than Stakeholder schemes.*

*However, they normally offer greater investment choice and flexibility.*

### ▶ Salary related scheme (also known as final salary schemes)

*In a salary related scheme the amount you get is based on your salary and the number of years you have been in the scheme.*

### ▶ SIPP's

*A Self Invested Personal Pension (SIPP) can allow you to take a much more active role in the investment of your pension pot.*

*You will have a greater choice of investment options and you could invest directly in commercial property. But you should seriously consider getting financial advice before you start up this type of plan.*

### ▶ When you retire.

*You can normally decide to take a retirement income from your pension any time between age 55 and 75, in many circumstances even if you're still working.*

*At your selected pension date, you'll have a number of options to choose from.*

*These include:*

- *Annuities (Secured Pension)*
- *Income Drawdown (Unsecured Pension USP)*
- *Phased retirement*

*You will also be able to convert a portion of your pension into a tax free lump sum. If you would like to discuss these options in more detail you should contact us.*

## Pension basics:

### ▶ State Pension

*You also need to know how much you can expect from the State. You can contact The Pension Service to find out how much state pension you've earned over the years.*

*You can:*

*Apply online at [www.direct.gov.uk/pensions](http://www.direct.gov.uk/pensions) using form BR19*

*or phone (0845 300 0168) to request form BR19.*

*If you need help completing this form please get in touch.*