understanding your retirement savings.

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what is a pension?

A pension is a long-term savings plan which you build up over your working life to provide you with an income when you choose to reduce your working hours or stop working altogether. Pensions offer a tax-efficient way to save for your retirement.

There are a few different ways to build up a pension. The State Pension is run by the Government, workplace pension schemes are set up through your employer and other pensions can be set up by individuals.

All information in this booklet relates to the 2023/24 tax year only and should not be used for reference beyond that.

The State Pension

The State Pension is an income paid by the government to people when they reach State Pension age. Its aim is to provide individuals with a regular, basic level of income to support them through old age.

Unlike workplace or individual pensions, the State Pension is based on your National Insurance record. You can find out further information on the State Pension in the State Pension section.

The State Pension is unlikely to provide you with enough income for a comfortable retirement, so most individuals have a workplace pension and/or an individual pension to boost their retirement income.

Workplace pensions

Workplace pensions, also known as occupational or company pensions are provided by your employer. You and your employer may contribute into the pension scheme, these contributions will normally be based on a percentage of your earnings. The Government provides you with Income Tax relief on your contributions. The major benefit of a workplace pension is that your employer pays into it – helping you save towards your retirement.

There are different types of workplace pensions, but they generally fall into two main categories:

- Defined benefit pension schemes
- Defined contribution pensions schemes

Individual pensions

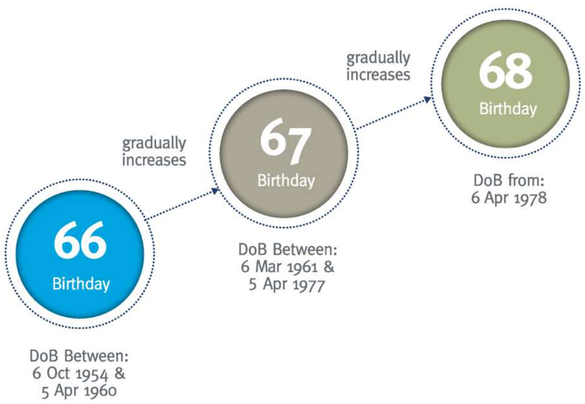
Most people have the option to set up their own individual pension or personal pension. You pay pension contributions into the scheme and the Government provides you with tax relief. You may do this because you're self-employed, you may be looking to increase your retirement savings independently of your workplace scheme or you do not work and therefore don't have access to a workplace scheme. Individual pensions are generally defined contribution schemes.

the state pension.

The State Pension changed on 6 April 2016. Women born on or after 6 April 1953 and men born on or after 6 April 1951 will receive the new State Pension. This section will focus on the new State Pension. If you were born before these dates you will qualify for the State Pension based on the old system and you can find out more information on it by visiting: www.gov.uk/state-pension

When can I receive the new State Pension?

The earliest you can receive the State Pension is your State Pension age. Depending on your date of birth, it will be between 66 and 68, however it may change in the future. You can find out your current State Pension age by visiting: www.gov.uk/state-pension-age



The Government intends to bring forward the State Pension Age transition from 67 to 68 affecting those born between 6th April 1970 and 5th April 1978. If adopted those affected will reach State Pension Age between their 67th & 68th birthdays.

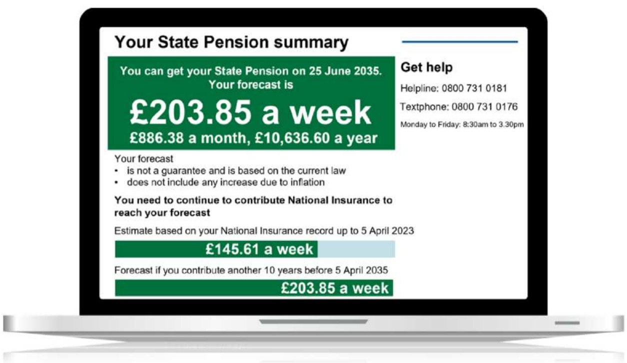
How do I check my new State Pension and NI record?

A State Pension forecast will tell you how much you might get and when you will reach State Pension age. It will also give you:

- Access to your NI record
- Confirmation of the number or qualifying years you have
- Details of any contracting out deduction

You can access your State Pension forecast online by visiting: https://www.gov.uk/check-state-pension

If you have gaps in your NI record, your forecast should provide details of how you could make them up.



How much is the State Pension?

For the current tax year the new State Pension maximum amount is £203.85 a week, which is the equivalent of £10,636.60 a year.

The amount of pension you receive is based on National Insurance (NI) contributions you have paid and any National Insurance credits you have received during your working life.

To be paid the full new State Pension, you must have paid or been credited with 35 years of NI contributions or credits. To receive any new State Pension, you must have paid or been credited with at least 10 years NI contributions or credits. If you have between 10 and 34 years of NI contributions or credits, you will receive a proportion of the maximum amount.

If you were a member of a contracted out individual or workplace pension scheme (such as a public sector pension) before April 2016, a deduction is made to your new State Pension. This is the case because whilst you were a member of a contracted out pension, some of your NI contributions were paid into your private pension instead of the additional State Pension. You can find out more about contracting out by visiting: www.gov.uk/new-state-pension/youve-been-in-a-workplace-personal-or-stakeholder-pension

How do you claim the new State Pension?

You have to claim the State Pension – you won't receive it automatically. You should receive a letter four months before your State Pension age informing you of how to claim the pension. If you do not receive this letter within three months of your State Pension age, call the State Pension claim line on: **0800 731 7898.**

What happens if I defer taking the new State Pension?

You can defer claiming your new State Pension and it will be paid at an increased rate, provided you defer taking it for at least nine weeks. The new State Pension is increased by one percent for every nine weeks you defer it or about 5.8 percent for a year. The increased amount is paid on top of your new State Pension when you choose to claim it, you cannot take the extra amount as a lump sum.

tax relief on contributions to workplace and individual pensions.

One of the main benefits of saving into a private pension is that your contributions receive tax relief. This simply means the money you would have paid in income tax goes into your pension rather than to the government. You receive tax relief on your pension contributions at the highest rate of income tax that you pay.

Tax relief rates in England, Wales & Northern Ireland

Band	Taxable Income	Tax Relief
Basic Rate	£12,571 - £50,270	20%
Higher Rate	£50,271 - £125,140	40%
Additional Rate	Over £125,140	45%

Tax relief rates in Scotland

Band	Taxable Income	Tax Relief
Starter Rate	£12,571 - £14,732	19%
Basic Rate	£14,733 - £25,688	20%
Intermediate Rate	£25,689 - £43,662	21%
Higher Rate	£43,663 - £125,140	42%
Top Rate	Over £125,140	47%

Please note the tables show the current income tax relief rates you receive in each band if you have a standard Personal Allowance of £12,570. You do not get a Personal Allowance if you earn over £125,000.

The cost of a £100 pension contribution in England, Wales & Northern Ireland

Band	Cost to you	Tax Relief
Basic Rate Taxpayer	£80	£20
Higher Rate Taxpayer	£60	£40
Additional Rate Taxpayer	£55	£45

The cost of a £100 pension contribution in Scotland

Band	Cost to you	Tax Relief
Starter Rate Taxpayer	£80	£20
Basic Rate Taxpayer	£80	£20
Intermediate Rate Taxpayer	£79	£21
Higher Rate Taxpayer	£58	£42
Top Rate Taxpayer	£53	£47

If you earn £25,000 a year, you are a basic rate taxpayer. If you contribute £100 into your pension from your salary it would only cost you £80, the Government adds £20 tax relief. The £20 tax relief is what the Government would have taken in income tax.

- **Basic Rate Taxpayer earning £25,000pa**
- **Individual Contribution = £100**
- **Tax Saving = 20% or £20**
- **Personal Cost = £80**

Tax Relief

Cost to the individual

Claiming tax relief

There are two main ways that tax relief may be claimed, and it depends on the type of pension scheme you are contributing to.

'Net Pay' method

This is used by most workplace pension schemes, and you will not need to take any extra steps to claim full tax relief.

Your employer will deduct the full value of your pension contribution from your pay before tax has been taken. You will only pay tax on your earnings minus your pension contributions.

Relief at source method

This is used by most individual pension schemes and some workplace schemes. Depending on what tax you pay, you may have to claim some tax relief from the tax office.

With this method you pay 80% of the pension contribution to the pension scheme. The pension scheme will then claim 20% basic rate tax relief from HM Revenue and Customs. Once it is received the pension scheme will automatically add this to your account. Under this method if you pay more than basic rate tax you will need to claim the additional tax relief through your self-assessment tax return or direct from the tax office. Further information on claiming back tax relief can be found by visiting: **www.gov.uk/tax-on-your-private-pension/pension-tax-relief**

How much tax relief can I claim?

You will normally be able to receive tax relief on pension contributions of up to 100% of your earnings or the annual allowance (which is £60,000 for most people), whichever is lower. You also need to be under the age of 75 to receive tax relief.

Pension contributions for non-taxpayers

You can contribute into a pension and receive tax relief even if you have no earnings. The maximum contribution you can pay in is £2,880 a year. The Government would then add 20% tax relief to your pension, bringing the total pension contribution to £3,600.

Salary sacrifice - sometimes called salary exchange or SMART (save more and reduce tax) pensions

If you contribute to a workplace pension, your employer may offer you the opportunity to make pension contributions via salary sacrifice. Despite its name, which sounds like you are giving something up, you are actually going to gain from using this way of saving into a pension. Salary sacrifice is a way of saving you National Insurance contributions and is in addition to Income Tax relief.

You swap some of your salary for an increased employer pension contribution. As you are effectively earning a lower salary, both you and your employer pay lower National Insurance contributions.

Limits to pension savings

You can contribute as much as you like into your pension, but there are annual and lifetime limits on how much tax relief you can receive.

- Annual Allowance – this limits the total amount that can be paid into your pension scheme(s) each year and still receive tax relief. It is set at £60,000 for the current tax year however it may be lower if you flexibly access your pension benefits or have a very high income.
- Lifetime allowance (LTA)
  This was a limit on the total value of your pension schemes that could be taken without triggering a tax charge. From April 2023, the lifetime allowance charge will no longer apply
    - The limit on tax-free cash
      The maximum tax-free cash is limited to 25% of the pension value, subject to a total cap of £268,275 (which is set to be frozen)
    - Those individuals who already have a protected right to take higher tax-free cash will continue to be able to do so

You can find out more information on the annual allowance by visiting: www.gov.uk/tax-on-your-private-pension

types of pension scheme.

There are two main types of pension schemes, defined contribution schemes and defined benefits schemes. Over your working life you are likely to have more than one pension. An important part of retirement planning is understanding what type of pension schemes you have and what sort of retirement benefits they may provide.

Defined contribution schemes

With a defined contribution scheme (also known as a DC or money purchase scheme) you build up a pot of money that you can use to provide an income in retirement. Almost all individual pensions and an increasing majority of private sector workplace pensions are defined contribution schemes.

Saving

You and if it is a workplace pension, your employer contributes to the scheme.

Employers normally must contribute to workplace pension schemes and in a lot of cases offer 'matching' or better contribution rates if you also commit to paying in a little more. If you are a member of a workplace defined contribution scheme, it may be worth looking at your scheme's contribution rates and see if you are making the most of your employer's contributions.

Clearly the more you save into your pension the better, but you should also be conscious of the limits HM Revenue & Customs put on pension savings such as the annual and lifetime allowance.

Tip! If you are new to pension saving there is a very rough rule of thumb for how much you should start to contribute for a comfortable retirement: take your age and halve it, then put this percentage of your earnings into your pension each year.

Investment

The pension contributions are invested with the aim of growing the pot of money over the years before you retire. Remember that the value of investments can go up or down.

You will normally have a range of investments to choose from, options vary from scheme to scheme. You will need to look at your scheme documentation to see what options are available.

Remember:

- Invest for the long-term
- Diversify your investments to spread your risk
- Make sure the charges are competitive
- Review your investment choice on a regular basis

Choosing investments can be daunting, especially when you have a lot of money to invest. If you are unsure about what investments to choose, you could contact a regulated financial adviser for investment advice. A list of regulated financial advice firms can be found here: **https://register.fca.org.uk**

Accessing your pension pot

You can access your pension pot once you have reached minimum pension age. This is currently age 55 but will increase to age 57 in 2028. You do not have to start taking money from your pension pot at any particular age, you can simply leave it invested.

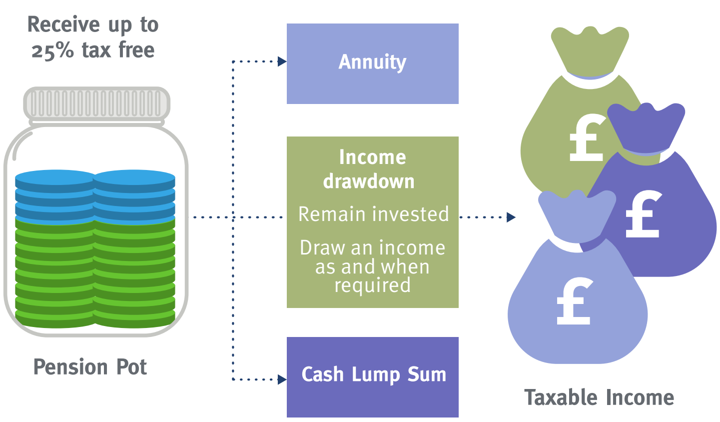
The size of your pension pot when you decide to take benefits will depend on:

- How much you and your employer (if applicable) have paid into your pension pot
- How well the investments have performed
- What charges have been made by the pension provider

There are several ways to take benefits from your pension pot, these include:

- An annuity
- Income drawdown
- A cash lump sum

Remember you do not have to choose one option. You may find it beneficial to select a variety of income options.



Annuity

You can take up to a quarter of your pot as tax-free cash and then purchase an annuity with the remainder. An annuity provides you with a guaranteed or secure income for the rest of your life. The income level you receive will be determined by a number of factors including your health, lifestyle and what options you add onto the annuity. These options include:

- **Escalation** – the rate of increase of income payments each year to counter the effects of inflation
- **Guaranteed period** – this guarantees that income payments will be made for a minimum period of time, even if you die soon after purchasing the annuity
- **Joint life** – provides a continuing income for your nominated surviving dependant

What are the advantages of annuities?

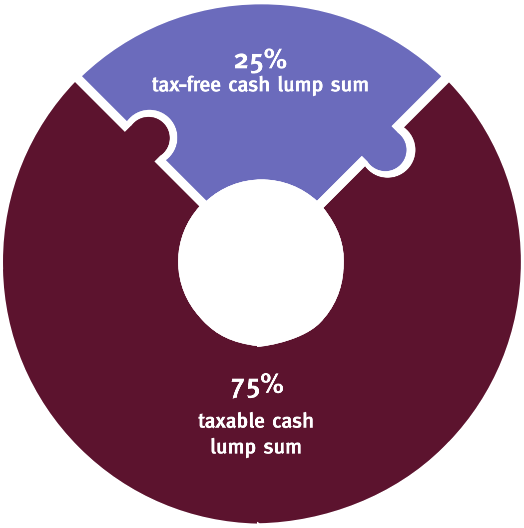
+ They provide a secure guaranteed income for the rest of your life
+ They can provide an income that can increase to keep track with inflation
+ Your retirement income is not based on stock market returns
+ You suffer from poor health and you will benefit from higher annuity rates
+ You want to provide a guaranteed retirement income for a dependant

What are the disadvantages of annuities?

- It is a one-off decision – you can't change your mind
- Once in place income is not flexible – you're stuck with rigid payments
- It may not be the best option if you have a short life expectancy
- You want to continue to benefit from stock market returns

Taking your whole pension pot as a lump sum

You have the option to take your whole pension pot as a lump sum. A quarter of the pot will be paid as tax-free cash and the remainder will be subject to income tax. These cash lump sums are also known as UFPLS or Uncrystallised Fund Pension Lump Sums.



Taking your pension pot all in one go is risky, especially if you have no other retirement income. You should also be aware that taking a large lump sum may push you into a higher tax band which could lead to a large tax bill as the example below shows.

Case Study

- DC Pension pot of £100,00
- Chooses to draw the entire DC pension pot as one lump sum
- Has no other sources of income in the current tax year

Tax-Free Cash Lump Sum	The first 25% of the pot £25,000	Zero Tax
Personal Allowance	The next £12,570	Zero Tax
20% Basic Rate	The next £37,700	£7,540 Tax
40% Higher Rate	The next £24,730	£9,892 Tax

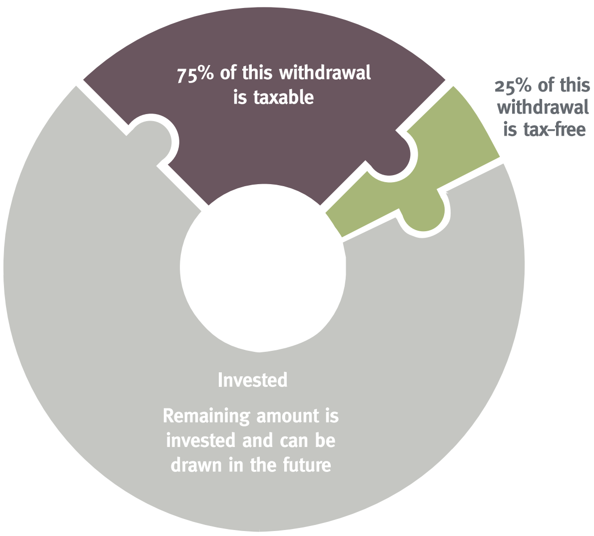
Total tax charge of £17,432

It may be more tax efficient to take smaller lump sums over several years.

Taking lump sums as and when you need them

Instead of taking all of your pension pot in one go, you have the option withdraw cash lump sums over a number of years.

Each lump sum will consist of 25% tax-free cash and 75% would be subject to income tax. The remainder of your pension fund would remain invested until you choose to draw it in the future. Since your pension pot remains invested, there is a risk that your fund may fall in value, however, if the investments grow, your pension pot increases in value.



What are the advantages of taking cash lump sums?

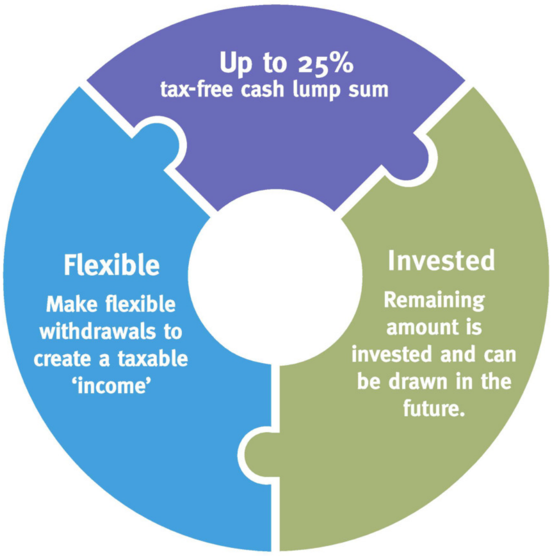
+ If you take multiple cash lump sums you can spread your tax-free cash over a period of time
+ You have the freedom to take as much as you like as and when the need arises

What are the disadvantages of taking cash lump sums?

- You could run out of money early in your retirement – you are responsible for making sure your pension lasts as long as you need it to
- If you withdraw too much too soon you may not have sufficient income later in your retirement
- You will not receive a regular guaranteed income
- You may need to transfer your pension to a new provider who allows this option
- Check what charges may apply and whether there are withdrawal limits
- If you do not take your pension pot in one go it will still be invested and subject to investment risk
- Large withdrawals could result in large tax bills

Income Drawdown

You can take 25% or a quarter of your pension pot as tax-free cash up front and keep the rest invested. You can choose how much and when you draw a taxable income. You could withdraw regular monthly amounts, one-off income payments or withdraw it all in one go. Remember investments can fall as well as rise in value, therefore your retirement income will not be secure.



What are the advantages of income drawdown?

+ The flexibility of withdrawing as much or as little income as needed
+ Benefit from any investment growth – however, this is not guaranteed
+ You can use the drawdown pot to purchase an annuity at a later date
+ Pass on remaining funds to a beneficiary

What are the disadvantages of income drawdown?

- There are no guarantees on the level of income you will be able to take in the future
- Potentially high tax bills if large income payments are withdrawn
- Risk of depleting your savings too soon
- Exposure to investment risk
- You may need to transfer your pension to a new provider who allows this option
- Check what charges may apply

Picking the right options

It is important that you understand the key features of the retirement income options you are taking. Remember, you do not have to select one retirement income option; you can pick and choose multiple options at different times.

- Money Helper have a Retirement Income Options tool to help find out more information on DC retirement income options: **www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise/pension-pot-options**

- Pension Wise is a free government backed service to help people aged 50 and above understand their DC retirement income options. It is an impartial service available online, on the phone and face to face: **www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise**

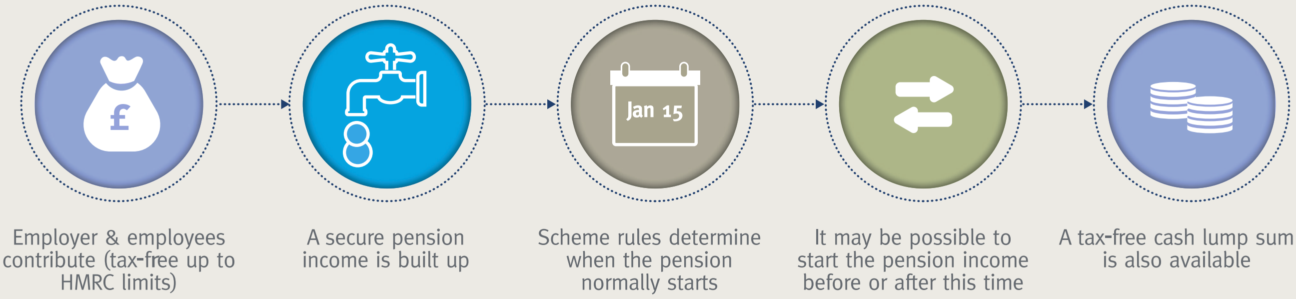
These services will help you understand your choices; however, they will not recommend which option or combination of options is best for you. This will depend on your personal circumstances, including:

- The size of your pension pot(s) and whether you have any secure income from a defined benefit pension scheme
- The value of any non-pension savings and investments
- Your age and health at retirement
- Your attitude to risk
- Whether you have any financial dependants and if they have any pensions or savings
- Are your circumstances likely to change in the future?

Selecting which options are best for you is challenging, there are lots of factors to consider. It is recommended that you speak to a regulated financial adviser who will provide you with the most suitable course of action for your circumstances and help you find the best value products. A list of regulated financial advice firms can be found here:
https://register.fca.org.uk

Defined benefit schemes

Defined benefit (DB) schemes promise to pay you a retirement income for life based on your salary. The amount you will receive is guaranteed and will normally increase each year. In addition, they can provide a pension to your spouse, civil partner, or a dependant when you die. This is normally paid as a percentage of your pension income at the date of your death. Defined benefit pension schemes are workplace pensions, so you may have one if you have worked in the public sector or for a private company.

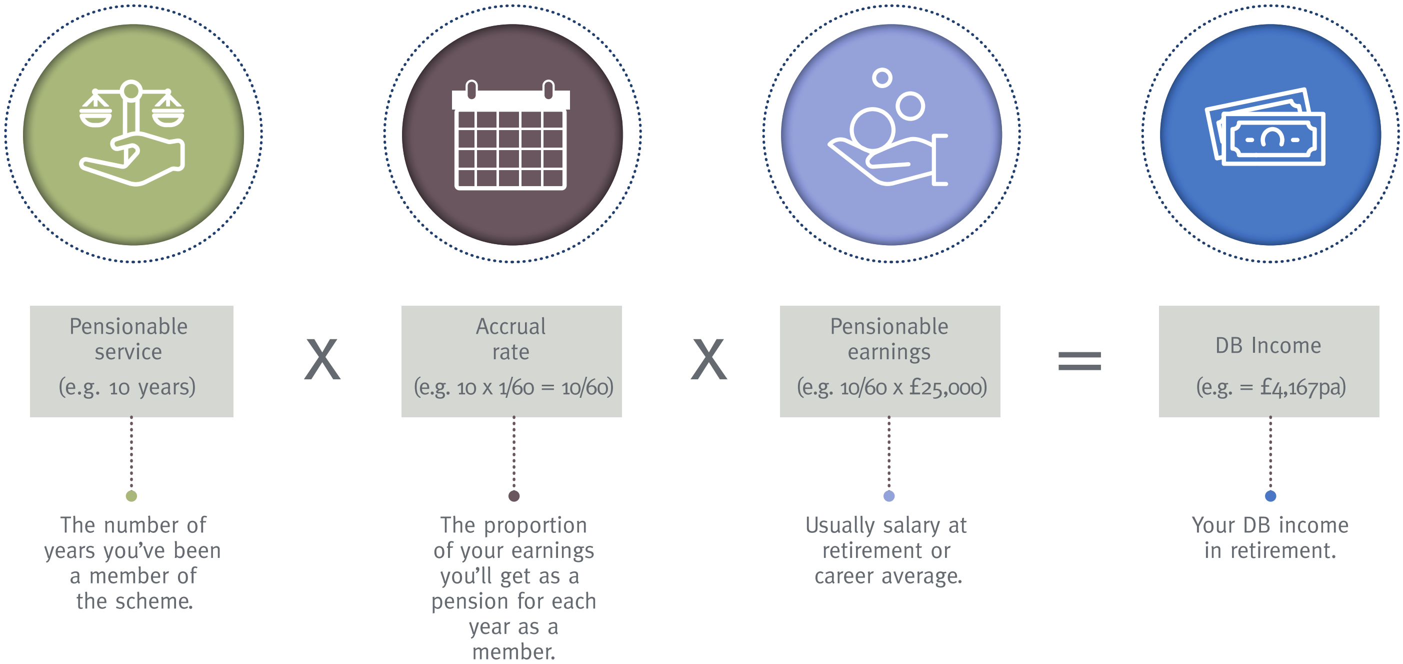


Building up benefits

If you contribute to a defined benefit scheme, your contributions, in addition to your employer's contributions plus tax relief are invested by the scheme. However, the income you receive when you retire is guaranteed and you should know in advance how it builds up, hence why this type of scheme is called 'defined benefit'.

There are several factors that determine how your secure pension income builds up:

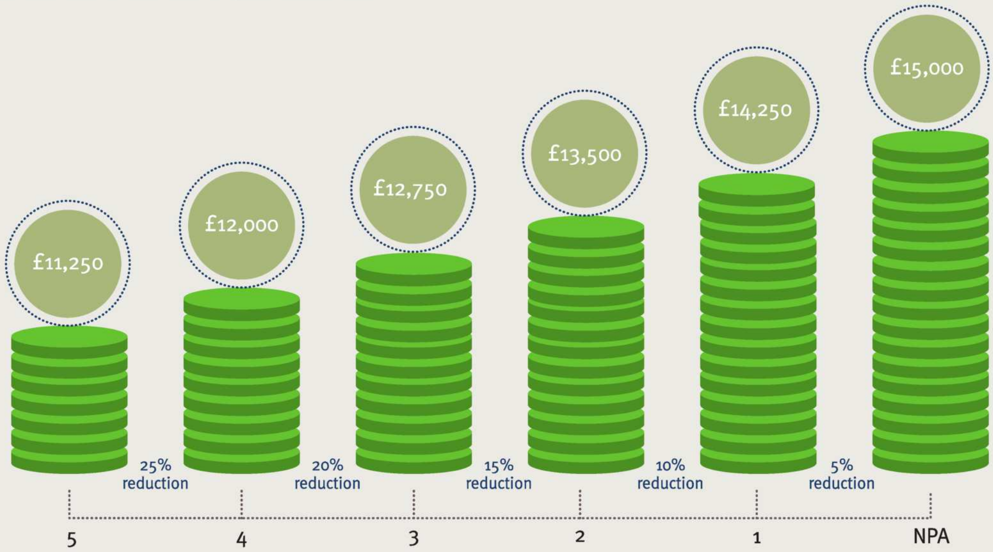
- **Pensionable service** – the number of years you have been an active member of the scheme
- **Accrual rate** – this is normally displayed as a fraction or a percentage (for example 1/80 or 1.25%) and is the proportion of your earnings you will receive as pension for each year you're an active member of the scheme
- **Pensionable earnings** – this could be your earnings at retirement if it is a final salary scheme or an average of your earnings across your career if it is a career average scheme



Please remember that your scheme rules determine how your defined benefit pension benefits build up. If you are a member of a defined benefit pension this should be explained in the scheme guide.

When can you retire?

Defined benefit schemes usually have a 'normal pension age (NPA)' or 'normal retirement age (NRA)', this is the age at which you can take your pension benefits. Often, it is age 60, 65 or your State Pension age, but you will need to check the scheme rules to find out what it is for your scheme.



5% has been used for illustration purposes only, the rate applicable to you will be set by the scheme.

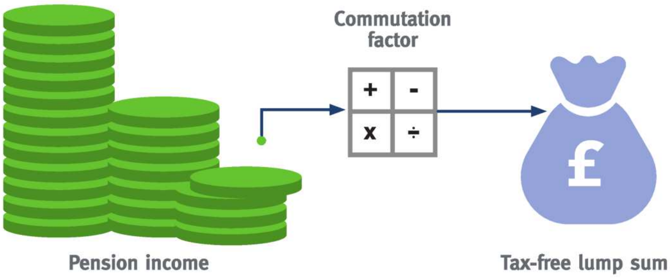
You may be allowed to take early retirement before the NPA, however can reduce the pension you get. **Your pension will normally be reduced if you choose to receive it before your Normal Pension Age (NPA).** You may be able to take your pension at a later date or when you're still working, but this will depend on your scheme.

Taking tax-free cash at retirement

Depending on your scheme rules, you may be able to exchange or commute some of your annual pension for tax-free cash at retirement. The 'commutation factor' or exchange rate is determined by the scheme and confirms how much tax-free cash you get from giving up £1 of annual pension income.

A common commutation factor is 12, so you would receive £12 tax-free cash for every £1 of annual pension you give up.

You may be able to receive a tax-free lump sum in exchange for a lower pension income.



When you come to retire, defined benefit schemes usually give you the following options:

- Take the maximum tax-free cash and fully reduced pension

or

- Take the maximum pension and the minimum tax-free cash (which may be zero)

or

- Take a specific amount of tax-free cash and scheme administrator will calculate the reduced pension

Taking tax-free cash from a defined benefit scheme is a one-off decision and if you are unsure you may want to receive advice from a regulated financial adviser. A list of regulated financial advice firms can be found here: **https://register.fca.org.uk**

pension transfers.

During your working life your retirement income needs are likely to change, especially as you approach retirement. You can normally transfer your pension benefits to a new scheme; however, this may be restricted for defined benefit scheme members who are within one year of retirement.

You may wish to transfer a pension to a new scheme if:

- Your existing pension scheme does not offer the retirement option you want
- You change employer
- You want to increase your investment options
- You want to pay less in fees and charges
- You want to combine your pension pots to make them easier to manage

If you are a member of an unfunded public sector pension scheme, you cannot transfer your pension. Examples of unfunded public sector pension schemes include the NHS Pension Scheme, the Civil Service Pension Scheme and the Teachers' Pension Scheme. The Local Government Pension Scheme is a funded scheme and can be transferred.

If you are considering a pension transfer there are several questions you need to ask yourself, these may include:

- Does the new scheme provide the retirement income options you want to access?
- Are there any costs relating to the transfer?
- Will the new scheme be cheaper or more expensive than your existing scheme?
- Are you losing any guarantees if you transfer your pension? This could be a secure income if you are transferring from a defined benefit scheme to a defined contribution scheme or an advantageous Guaranteed Annuity Rate

Whether a pension transfer is suitable or not depends on your individual circumstances and your retirement plans. What is right for one person, may not be right for the next. Your pension may be your largest financial asset and unless you are absolutely sure about the decision, you should consider taking regulated financial advice. An adviser will explain the risks and benefits of a transfer, provide you with a recommendation of whether you should proceed with a transfer or not and help you find the best value new pension provider. A list of regulated financial advice firms can be found here: **https://register.fca.org.uk**

Transferring from a defined benefit scheme to a defined contribution scheme

In most cases, transferring out of a defined benefit scheme could damage your wealth and make you financially worse off, even if you are given an incentive to leave.

If you are looking to transfer a defined benefit pension to a defined contribution scheme and the transfer value is £30,000 or above, you are required by law to take advice from a regulated financial adviser who has specialist knowledge in this area. A transfer is usually irreversible, and the financial adviser takes liability for the advice they provide you. For this reason, the Financial Conduct Authority require adviser firms to start from the position that a transfer will not be suitable.

There will be a cost to the advice, so before you proceed you should consider the benefits and risks of making a transfer from a defined benefit scheme to a defined contribution scheme.

Flexible income tailored to your circumstance	Benefit	Risk	No guaranteed income
Access to entire fund as a lump sum	Benefit	Risk	This lump sum may need to last your entire retirement.
Use the money for estate planning	Benefit	Risk	No guaranteed spousal pension without an annuity
Potentially lower tax bill with careful tax planning	Benefit	Risk	Ongoing decision-making and careful tax planning needed
Benefit from a rising stock market	Benefit	Risk	Lose out if the stock market falls
Choose how to invest and receive your pension	Benefit	Risk	You will need to continually review your pension

Pension scams

Be aware of pension transfer scams. If you are contacted by a firm that claims you can access your funds before age 55 or the firm promises you high or guaranteed investment returns if you transfer it to a new scheme, your pension may be at risk.

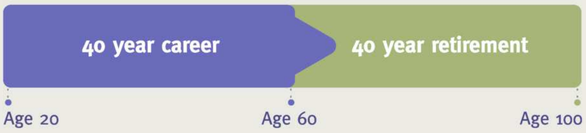
A summary of how to avoid being scammed can be found below. You can find out further information on the Financial Conduct Authority's ScamSmart website: **www.fca.org.uk/scamsmart**

retirement planning.

Retirement planning is important throughout your working life, the earlier you plan for your retirement, the more time you have to improve your potential retirement income.

How long does retirement last?

Some people's retirement may be as long as their working life



According to the Office of National Statistics 2022:

- A 65 year old man has a 50% chance of living until age 86 and a 25% chance of living to 92
- A 65 year old woman has a 50% chance of living until age 88 and a 25% chance of living to 94

One of the difficult parts of retirement planning is that most of us do not know how long we are going to live. You do not want to use up your pension savings too quickly, leaving you with a shortfall later on.

Are your pension savings on track?

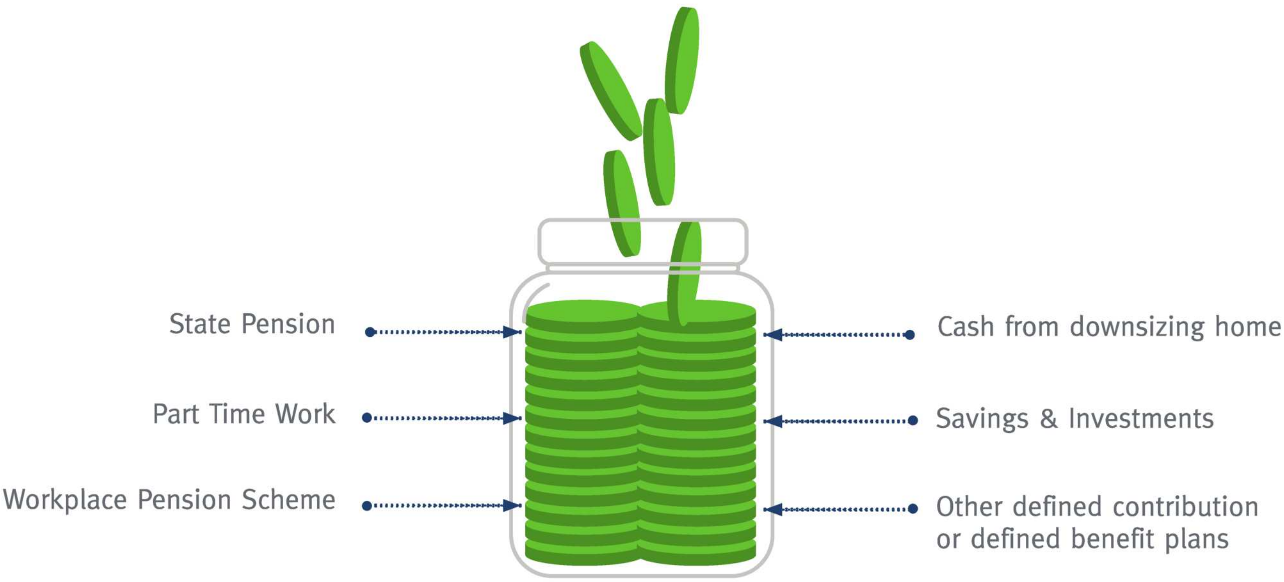
It is good to get an idea of how much your pension income is likely to be. However, it can be difficult to know how much retirement income you are building up and whether you are on track to have sufficient income to support the lifestyle that you would like in retirement.

Money Helper have a Pensions Calculator that can help you estimate the income you will get in retirement. The calculator builds in income from the State Pension as well as defined benefit and defined contribution schemes. It will help to see if your pension savings are likely to provide you with an income that supports your desired retirement lifestyle and if not, it will suggest ways of improving the situation.

You can visit the Money Helper's Pension Calculator by clicking on the following link: **www.moneyhelper.org.uk/en/pensions-and-retirement/pensions-basics/pension-calculator**

Where is your retirement income coming from?

Pensions are usually the main source of your retirement income, but you may have other sources of income. These may include other savings and investments, income from property and part time work. Make sure you include all sources of income in your retirement plans.



Retirement income

Remember, do not assume you will receive the maximum State Pension. A State Pension forecast will help you gauge how much you are on course to receive from the Government. You can access your State Pension forecast online by visiting: **https://www.gov.uk/check-state-pension**

If you have lost any old pension, the government's Pension Tracing Service can help you find them – for more information visit: **www.gov.uk/find-pension-contact-details**

Make a retirement budget

Having an idea of your retirement spending will help you plan towards a successful retirement. You are likely to have less income in retirement than when you worked, but some costs will change too, for example you may have paid off your mortgage.

Money Helper have a budgeting tool to help you plan your expenditure in retirement:
www.moneyhelper.org.uk/en/everyday-money/budgeting/budget-planner

Remember, your spending habits are likely to change throughout your old age. Also bear in mind, prices tend to rise over time, this is called inflation. Your income also needs to increase to maintain your standard of living.

Where to go for further information and help?

Regulated financial advice

Getting regulated advice at an early stage rather than going it alone can help you make the right choices at retirement and can prevent costly mistakes being made.

The Financial Conduct Authority (FCA) provides some helpful tips and pointers when seeking financial advice: **www.fca.org.uk/consumers/finding-adviser**

Further information

Pension Wise - information about your defined contribution pension options:
www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise

Money Helper - information about general financial planning topics:
www.moneyhelper.org.uk

GOV.UK - information on the new State Pension:
www.gov.uk/new-state-pension

FCA - information on how to avoid pension and investment scams:
www.fca.org.uk/scamsmart

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Accrual rate
The rate at which your defined benefit pension builds up, based on your pensionable earnings. Accrual rates are often shown as a fraction (for example 1/60 or 1/80) or a percentage (for example 1.25% or 1.66%).

Active member
An active member is someone who is currently paying contributions into the pension scheme. These contributions can be from the member, the employer, a third party or any combination of these.

Annual Allowance
The total amount that can be paid into a defined contribution pension scheme each year before a tax charge is applied. The current limit is £60,000 each tax year. This may be reduced if your annual earnings exceed £200,000 or if you have already started to access your pension savings. For members of defined benefit schemes, a formula is used to calculate the value of any increase in benefits each year.

Annuity
An insurance product that enables you to use your pension savings at retirement to guarantee an income for the rest of your life. These products can offer a number of additional features, including an income to a dependant on your death.

Career Average Scheme or CARE
This is a type of defined benefit pension where a proportion of your pensionable earnings are banked every year and revalued. Career average schemes are often referred to as Career Average Revalued Earnings schemes or a CARE scheme.

Cash Lump Sum
Also known as Uncrystallised Fund Pension Lump Sum (UFPLS), this defined contribution retirement option lets you take a one off or a series of cash lump sum payments. Each payment will consist of 25% tax-free cash with the remainder being subject to income tax.

Commutation
Allows a member of a defined benefit (DB) pension scheme to exchange part of their annual pension for a cash lump sum on retirement. The DB scheme will use a commutation factor to calculate how much of a cash lump sum you'll receive. For example, if the commutation factor is 12, giving up £1,000 annual pension will give to a lump sum worth £12,000.

Contracted Out (National Insurance Contributions)
Members of a pension scheme who were 'Contracted Out' paid lower National Insurance contributions and, in return, didn't earn the Additional State Pension. It is no longer possible to be 'Contracted Out' however; members with historic periods of 'Contracting Out' may receive a lower State Pension as a result.

Deferred Member
A member of a pension scheme who has stopped building up benefits in the scheme but whose pension savings are held securely for them to access in the future. Employees of a company who end their employment usually become deferred members of the employer's pension scheme.

Defined Benefit Pension Scheme
A type of pension scheme that provides members with a guaranteed income for life at an agreed retirement age. Most UK private sector employers no longer offer these types of pension scheme.

Defined Contribution Pension Scheme
A type of pension where contributions are made by you (the member) and possibly by your employer. These contributions are invested, and you can choose how you would like to receive your savings at retirement (subject to scheme rules). As the money held in this type of pension is invested there is no guarantee of how much the pension will be worth at retirement. This has become the most common type of pension offered by UK private sector employers.

Dependant
A person who is normally financially dependent on you, such as a spouse, civil partner, partner or child. Pension schemes and annuity providers use their own definition of dependant's, so you will need to check the scheme's exact definition of the term dependant.

Drawdown
See 'income drawdown'.

Escalation
Escalation is the way an annuity income increases each year. An annuity income could remain the same for life (a level annuity) or increase by a fixed rate each year (escalation) or increase by a measure of inflation (inflation linked).

Final Salary Scheme
See 'defined benefit pension scheme'.

Financial Conduct Authority (FCA)
The FCA is the regulator of financial services firms including financial advisers.

Flexi-Access Drawdown
See 'income drawdown'.

Guaranteed Period
A guaranteed period on your pension income ensures it will be paid for a set amount of time. If you die during an annuity's guaranteed period, the pension income will continue to be paid for the remainder of the guaranteed period.

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Income Drawdown
A flexible way to access your defined contribution pension. You can normally take up to 25% of your pension pot as tax-free cash and keep the rest invested. You can then choose when and how much taxable income you wish to withdraw.

Income Tax Rates
There are different amounts of Income Tax depending on how much income you receive. Pension income is added to other income you might have, and it is taxed according to the tax band it falls in. Income can cross several bands, if this is the case you may pay tax at several different rates.

Individual Pension
An individual pension, is a pension set up by yourself rather than your employer.

Inflation
The rising cost of goods and services over time. Where the cost of the things you buy increases, the amount you can buy with your savings reduces.

Joint Life Annuity
An annuity that continues to pay an income to a surviving spouse, civil partner or dependant in the event that you die first.

Lifetime Allowance (LTA)
This was a limit on the total value of your pension schemes that could be taken without triggering a tax charge. From April 2023, the lifetime allowance charge will no longer apply

The limit on tax-free cash

- The maximum tax-free cash is limited to 25% of the pension value, subject to a total cap of £268,275 (which is set to be frozen)
- Those individuals who already have a protected right to take higher tax-free cash will continue to be able to do so

Minimum Pension Age
The lowest age you can normally access your pension. The minimum pension age is currently age 55 but is due to increase to age 57 in 2028. If you joined a pension scheme before 6 April 2006 your minimum pension age may be 50, provided you meet certain conditions.

Money Purchase Pension
See ‘defined contribution pension scheme’

Occupational Pension
See ‘workplace pension’

Pension Pot
You save money into a pension pot if you are a member of a defined contribution scheme. Your pension pot will usually be invested with the intention for it to grow in a tax efficient environment.

Pension Transfer
Transferring your pension savings from one provider or pension account to another.

Pension Wise
Free and impartial government guidance about your defined contribution pension options which is available from age 50.

Pensionable Earnings
Pensionable earnings are the earnings on which you pay contributions.

Pensionable Service
The period of time you have been an active member of the scheme. For defined contribution schemes, this is the service on which pension contributions are paid. For defined benefit schemes this is the service that forms part of your pension calculation.

Regulated Financial Adviser
Advisers who are authorised by the Financial Conduct Authority (FCA) to give you advice and recommended suitable pension and investment products.

Salary Sacrifice
A way of making contributions into your workplace pension scheme. This is where you ‘sacrifice’ part of your salary in return for your employer making your pension contributions on your behalf. By using Salary Sacrifice, the contributions paid into your pension scheme are normally free from Income Tax and National Insurance. However, there are certain rules that limit the amount you can contribute before incurring a tax charge.

State Pension
A regular pension income paid by the UK government when you reach State Pension age. The amount you receive will normally be based on your National Insurance record.

State Pension Age
The earliest age you can receive the State Pension. You can check your State Pension age by visiting:
www.gov.uk/state-pension-age

Tax-Free Cash
Also known as Pension Commencement Lump Sum (PCLS). When you retire you can usually withdraw up to 25% of your pension as a tax-free lump sum, subject to certain restrictions set by HMRC.

Tax Relief (on contributions)
This refers to the special tax treatment that applies to contributions made to a personal pension arrangement.

Uncrystallised Funds Pension Lump Sum (UFPLS)
See ‘cash lump sum’.

Workplace Pension
A pension provided by your employer. Usually both you and your employer will contribute into the pension scheme. The pension scheme could be a defined contribution or defined benefit scheme.

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