Fact sheet:
Pension provision

April 2022

In its simplest form, a pension is an income that you receive when you retire, from the pension pot that you saved into during your working life. To encourage us to save enough for our retirement, the government provides tax relief on contributions and incentives on the way the eventual fund is taxed.

Basic State Pension

The value of the Basic State Pension is fairly low, and not everybody qualifies for a full entitlement. You have to have made a minimum level of National Insurance contributions to receive benefits.

You can obtain a State Pension forecast to see what you're entitled to by submitting a BR19 form to the Department for Work & Pensions. Alternatively, it can be checked online at www.gov.uk. If it looks like you're not going to get a full State Pension, you can top up your National Insurance contributions to make up for lost time.

However, most people can't rely solely on the Basic State Pension, as it's unlikely to provide all the retirement income you'll need. The full State Pension entitlement is currently £185.15 per week (£9, 627.80 per year).

Occupational pensions

There are two main types of occupational pension scheme: defined benefit (sometimes known as final salary) and defined contribution (also known as money purchase).

Defined benefit schemes

Defined benefit company pensions pay you a retirement income based on your final salary (or an average of your salary for the last few years of your employment) and period of scheme membership.

Typically, the benefits will involve a lump sum and an income for life. There are often a number of useful add-ons, such as a pension for your spouse, if you die before them.

The lump sum and income are generally expressed as a fraction of your final salary per year of service.

Defined benefit schemes are generally attractive because employers take the risk of the investments in the fund not growing as much as expected.

They have to decide how much to invest and where to put it. They also have to monitor the progress of the investments and make sure the scheme has sufficient assets to meet its liabilities to all categories of scheme members.

Because all of the risk associated with providing pension benefits to the scheme member lies mostly with the employer and those benefits are becoming expensive to fund, they are becoming less and less common. Many employers are closing defined benefit schemes to new members.

Defined contribution schemes

The effect of a defined contribution occupational scheme is similar to having a personal pension into which your employer makes contributions.

Your benefits depend on what is put into the pension fund and how the investments perform. At retirement you can currently receive up to 25 per cent of the fund as a tax-free lump sum, while the remainder may be used to provide a taxable income.

Unlike defined benefit schemes you have much more responsibility for your pension. You have to:

- decide how much to contribute;
- decide which investment strategy to access; and
- monitor the progress of the underlying investments and consider increasing your contributions, if necessary.

Workplace pensions

As a result of the provisions of the Pensions Act 2008, your employer may be subject to the automatic enrolment duty so must automatically enrol anyone who is aged between 22 and State Pension Age and earning at least £10,000 per year into a qualifying workplace pension scheme.

Contributions must be a minimum of 8 per cent of earnings, of which 3 per cent must come from your employer.

Small Self Administered Scheme (SSAS)

A SSAS is very similar to a Self Invested Personal Pension (discussed below), particularly in regard to permitted investments, however it is a company scheme where the members are usually all company directors/key staff. A SSAS allows members/employers greater flexibility and control over the scheme's assets.

Contributions paid to a SSAS are subject to the same rules as other pension schemes.

A key difference is a SSAS can loan monies to the sponsoring employer, subject to certain conditions set by HMRC.

Individual pensions

The arrangements discussed below give self-employed people, those who opt out of their employer's workplace pension, and those with no earnings, the ability to accumulate pension savings. Essentially, they are defined contribution schemes into which the holder pays single or regular contributions. These payments then go into an investment fund, run by an investment or insurance company.

Stakeholder pensions

These schemes were introduced by the UK government in 2001 as simple, low cost and flexible pensions but they only offer a limited fund choice. Pension managers can only charge fees of up to 1 per cent of your pension fund per year, or 1.5 per cent for the first 10 years for schemes which started after April 2005, and there can be no up-front charges. Typically, when you choose to retire the only option available via a stakeholder plan is to purchase a lifetime annuity with your accumulated fund after payment of any available tax-free cash.

Personal pensions

A personal pension typically offers you a wider investment choice but may still have limits on the retirement income options available when you decide to retire.

Self Invested Personal Pension (SIPP)

This type of personal pension allows you to select the investments yourself. Since their introduction, SIPPs have enabled many people to take much more control over their retirement plans.

SIPPs are subject to the same rules as personal pensions. They have the same limits on tax relief for contributions, the same 25 per cent restriction on the tax-free lump sum on retirement, and the same rules on how you can take your money once you've retired.

The permitted range of investments is larger than for the other arrangements outlined and can include:

- commercial property and land;
- UK quoted shares, stocks, gilts and debentures;
- stocks and shares quoted on a recognised overseas stock exchange;
- futures and options quoted on a recognised stock exchange;
- OEICs, unit and investment trusts;
- hedge funds;
- insurance company funds;
- bank and building society deposits; and
- shareholdings in the sponsoring employer, although restrictions apply.

In addition to this, SIPPs allow you to use the full range of retirement income options allowed within current legislation.

Non-earners and minors

You don't have to earn an income to contribute to the individual pensions discussed. Most people are able to contribute up to £2,880 net per year to these types of pension, even if they have no earnings of their own. This is particularly useful for people going through career breaks. Contributions can also be made on behalf of non-working partners or even children.

Pension rules can be complex, so it is sensible to seek advice from a qualified adviser.

Contact us

If you would like further information on any of the above services or how we can help you, please do not hesitate to contact your Lucas Fettes Financial Planning planner, call us on **01603 706 820** or email **info@lffp.co.uk**.

www.lffinancialplanning.co.uk

The contents of this fact sheet do not constitute financial advice. This has been prepared based on our current understanding of UK Law, Taxation and HMRC practice, all of which could be subject to change in future.

Lucas Fettes Financial Planning® is a registered trading name of Lucas Fettes & Partners (Financial Services) Limited, who are independent financial advisers authorised and regulated by the Financial Conduct Authority. Financial Conduct Authority regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services. LFFP08. 04/22.