GUIDE TO
UK PENSIONS

CREDENCE INTERNATIONAL

Including useful facts you
may have not known about UK pensions.

GUIDE TO PENSIONS

Presented to you by Credence International

TABLE OF CONTENTS

INTRODUCTION

Welcome to the Credence International guide to pensions and retirement. This guide will give information to help you understand more about what is, in many respects a complex and challenging financial topic.

What is a pension?

Simply speaking, a pension is the savings you make during your working life to help support you financially in later life.

History Lesson:

It is widely known that we should all save for our future and pensions come in many different forms globally. Literally all developed economies operate some form of state sponsored pension system for their citizens.

It is believed that in ancient Rome, brave centurions who had completed many battles in the honor of Rome received an income payment when they were too old to fight on the front line. This payment in today's terms would be equivalent to a state pension payment.

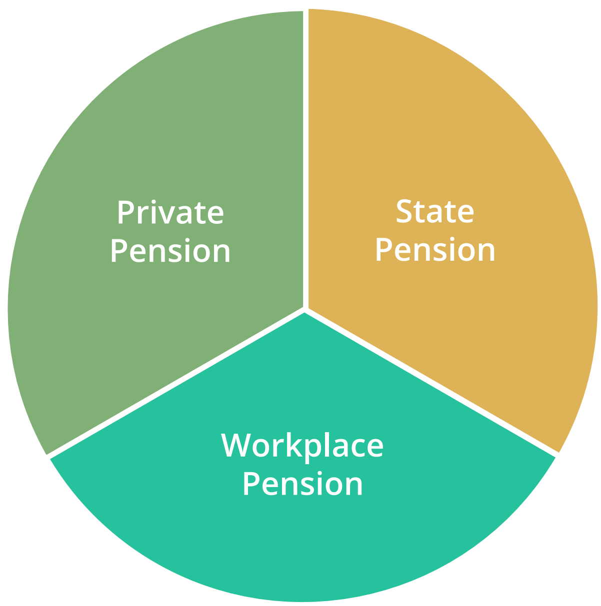
In the UK, the first recognized pension system dates back to the early 1900s although there were some workplace schemes in place for nurses and teachers to name but a few. The 'old age pension' introduced in 1908 was available to those over age 70, except the average life expectancy was only 47, so not many would live to receive the benefit.

After the Second World War, the UK state scheme was changed to a 'pay as you go' system, and has remained true to its roots ever since – not without challenges. The 1960s was era that witnessed the rise of the company pension, which many individuals started to benefit from, and continue to do so today.

Through the passage of time, in the UK, the state system has been continually adapted and changed by various governments to suit their manifesto, but the most radical change was introduced the late 1970s when it was announced that you could have a 'second' state pension that would be linked to your earnings.

Where will your pension income come from?

Generally speaking, most of us will have retirement income that will be derived from these 3 sources:



How does the UK state pension work?

You can claim basic state pension when you reach state pension age. Currently, for men this is 65. For women, state pension age started to rise under equalisation, from 60 in 2010 to 65 in November 2018.

The state pension age will rise for both men and women, until it reaches 66 in October 2020 and 67 between 2026 and 2028. After this, the state pension age will be linked to longevity, and will be reviewed every five years.

How much will I get?

To qualify for any state pension, you need to have had a minimum of 10 years of National Insurance Contributions.

You would have qualified for a full state pension after 30 years of NI contributions, however it's now 35 years.
You can make up the difference if you are short on years via the second state pension.

Changes introduced in April 2016 mean that the state pension is now 'single tier' and pays £155.65 per week, £8.092 per annum. This assumes you have fully qualified.

Contracting Out

The government used to allow individuals to 'contract out' of the second state pension scheme, which resulted in paying less National Insurance. This saving/ rebate in NI was redirected to either a workplace or private/personal pension.

As a result, it will be expected that you will receive a lower state pension compared to someone who did not contract out. On the other hand, you will have built up additional workplace or private pension benefits, which you will provide you with income in retirement.

Workplace Pensions

Since the 1960's the popularity of workplace pensions has been increasing, and are commonly known as:

- **Occupational Pension**
- **Company Pension**

The workplace pension scheme available will depend upon your company and fall into these categories:

- **Defined Benefit scheme**
- **Defined Contribution scheme**

Defined Benefit Scheme:

Defined benefit pension schemes provide retirement benefits that are based on your earnings (either in your later stages of your career, or averaged over a defined period) and the length of time that you have been a member of the scheme – not the length of service with the company.

Your company will operate an accrual rate, such as 1/80th to determine how much pension benefit you build up. So, for each year that you work with the company, you accrue 1/80th of your pensionable salary, which shall be paid to you when you reach scheme retirement age.

It should be noted that earnings used for pension purposes might not include payments you receive such as overtime, commission, bonuses or other benefits.

These types of pension schemes are costly to run and in recent years many have entered financial troubles, running large deficits.

Defined Contribution Scheme:

Defined contribution pension schemes are workplace pensions that operate in a different way compared to Defined Benefit schemes. They are sometimes called 'Money Purchase Schemes' and the key difference is that they invest the contributions made into the scheme in a range of different investments.

In this type of scheme, your pension pot is put (invested) into various types of investments, such as equities, government bonds and cash.

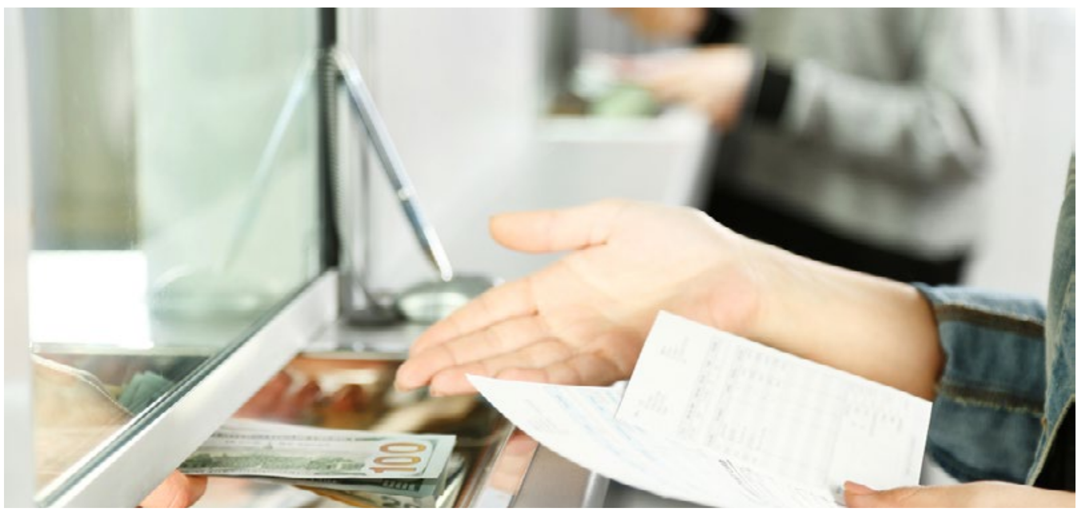
In most defined contribution pension schemes, you may be able to make decisions about how your money is invested. Some employers allow a high degree of choice, whilst others offer a limited range.
This type of pension operates like a private or personal pension and unlike the Defined Benefit scheme, the pension you receive will depend on several factors such as:

- **how much has been paid in**
- **the length of time that it has been invested**
- **how the investments have performed over this period**

Other workplace pensions that fall into this category include:

- **Stakeholder Pension**
- **Group Personal Pension**

When can I get access?



Under a workplace pension your company has set your retirement age, most likely age 65.   However, most schemes can allow early retirement but this may be subject to an actuarial reduction.

Personal Pensions

Personal pensions are essentially a Money Purchase pension plan that allows individuals flexibility to build up retirement income benefits. What makes personal pensions in the UK attractive is the opportunity to benefit from tax reliefs, whether you're employed, self-employed or not working.

A key advantage to a personal pension is that there are no restrictions on the number of different pension schemes that you can belong to, although in the UK there are limits on how much you can pay in each year across all of your pensions.

Most personal pensions are flexible and portable. If you change jobs, or stop working, you can normally continue contributing to a scheme – unless you leave the UK.

Self Invested Personal Pension

A SIPP is essentially a personal pension with some added extras. You can choose what type of investments you want to put your money into (within limits), and ultimately keep greater control of your retirement planning.

A SIPP can also be suitable for people who want to gather all of their pensions into one pot before they retire, or for those who want to keep their money invested after they retire so that they can draw down an income from it.

Since the introduction of pension freedoms, more people have been transferring to a SIPP due to the enhanced flexibility the pension offers.

Qualifying Recognised Overseas Pension Scheme (QROPS)

A QROPs is a HMRC approved overseas/international pension scheme. As HM Revenue & Customs (HMRC) recognises a QROPs as an eligible pension scheme, it can receive transfers from registered pension schemes in the UK.

They run in similar fashion to a SIPP and offer individuals the same choice of investments and benefits.

QROPs were a popular choice for expats who left the UK and did not intend on returning once retired.

How much will I get from a Personal Pension?

The amount of retirement income that you can expect will depend on the factors mentioned before, mainly how well the underlying investments have performed over the time invested.

Once you reach your retirement age, you have complete flexibility over the options that best suit your needs at the time. These options will determine what income you can receive.

Personal pensions also allow for a tax-free payment (Pension Commencement Lump SUM PCLS) up to 25% of the fund value.

The balance is what is used to provide income.

Example:

Fund value at retirement date:	£200,000
Max PCLS	£50,000
Balance to provide income	£150,000

When can I get access?

Current rules allow access from age 55, although this is likely to increase to 57 in 2028.

What happens to my pension if I die?

This is a very good question. Each type of pension operates differently when it comes to treatment after death.

State Pension

Depending on when you reached or will reach your State Pension age, when you die, some of your State Pension entitlements may pass to your widow, widower or surviving civil partner

If you die, your widowed husband, wife or civil partner may also be able to claim bereavement benefits

Workplace Pension

Depending upon the scheme that you are in, death benefits will be different. It will also depend upon whether or not you are retired. In a Defined Benefit scheme, should you die before retirement, normal protocol is for a refund of the members contributions.

Post retirement, the scheme rules will dictate what happens. Your spouse will be entitled to an income between ½ or 2/3rds of the members.

Personal Pensions

Depending upon when death occurs, benefits can be paid out to your nominated beneficiary completely tax-free. You can even leave your pension to more than one person if you wish.

If you die before age 75, benefits are paid out tax-free either as a lump sum payment or as income. After 75, there will be a tax charge at the recipient's marginal rate.

These rules allow for pension funds to be passed to family members in full.

How long will I live?

This is the million-dollar question, but one thing for certain is that we are living longer. Recent statistics issued by London Imperial College and the World Health Organisation suggests that males will live to around 82.5 years and female 85.3.

This means we need enough income to live for at least 20 years from a retirement age of 65.

What is the ideal amount of retirement income?

There is no hard and fast rule and it is all down to individual circumstances. For some this figure may be modest, whilst for others they may need significantly more.

Some aim to have 50% of their salary paid as a pension. Ideally, the more you have, the better your retirement will be.

Our view is; retirement should be the happiest time of your life. It is the biggest holiday of your life, and we want you to enjoy it.

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