SCOTTISH PENSIONS OPTIONS GUIDE

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Setting up a new pension

Life for many of us has become an ever-busier pursuit. In a recent study, psychologist Richard Wiseman reported that the overall pace of life has increased by 10% worldwide since the mid 90's, with some places experiencing an alleged increase of 30%. Growing day to day commitments can leave us feeling time-crunched, stressed, and overwhelmed. It is no surprise then that finding the right time to plan for your retirement can be tricky. Nevertheless – with many people routinely enjoying a retirement that is likely to last more than 30 years – your pension is an important part of your life that you should be thinking seriously about now. With that said, where is the best place to begin?

Useful fact: A recent poll undertaken by LV Insurance found that those aged 45-54 have an average pension pot worth £71,342, whilst a survey by Which? suggested that a pension pot of £210,000 would provide a couple with a very comfortable retirement.

Broadly speaking there are three main categories of pension that you should be aware of: the workplace pension, the personal pension, and the basic state pension. Of these options the basic state pension will require the least amount of forward planning as you can become a recipient of it once you reach the eligible age. As of April 2016 your basic state pension will be applicable to men who were born on or after April 6th 1951 and women who were born on or after April 6th 1953. The amount you will be entitled to receive is £164.35 per week as of the 2018/2019 tax year, and to claim this you must contribute to your national insurance for a minimum of ten years. By the time you are 68, statistically speaking, you will probably be accessing these funds. So, what about your other two options? Unlike the basic state pension, these require a little more forethought to ensure you are receiving the best potential return for your retirement.

Use our free pension guide to find a suitable provider

The Workplace Pension

If you are currently working, or have recently taken on new employment, then you should be expecting a gentle nudge from your employer to enrol you into the workplace pension; by Scottish common law your organisation must offer you a workplace pension scheme. If you are yet to have this conversation and want to find out more, then your HR department would be a good place to start. Whilst your company should take the initiative to get you setup, taking it upon yourself to progress the situation is a worthwhile pursuit. The sooner you are enrolled, the sooner you can check it off of your to do list and begin to accrue the relevant benefits. It is worth bearing in mind, however, that there are some cases where your employer does not have to enrol you into a pension scheme. Such situations where one may be exempt from a workplace pension are:

- If you have subscribed to unpaid employment such as volunteer work
- If you are aged 21 or should you exceed the state pension age
- If you're not a naturalised and regular UK resident
- If you Gross less than £10,000 per annum
- If you have voluntarily or otherwise had your employment terminated

Top Tip: If you are a prospective employee or are currently looking for a career move, it is well worth considering the available pension options when weighing up any offers or packages. With the complex options available, a competitive pension scheme with a healthy contribution can really add up over time and put you in great stead for your retirement.

Once enrolled on the workplace pension scheme, the amount you receive varies depending upon the type of schemes available within your organisation. As it stands, until April 2019 the minimum contribution to the workplace pensions is 2% from your employer and 3% from the employee. This will then change to a minimum contribution of 3% from the employee and 5% from the employee. This pot is typically contributed toward further by the government in the form of tax relief. In simple terms: if you pay income tax whilst paying into your workplace pension, you will receive a government contribution.

Top tip: Something to keep an eye open for is the offer of contribution matching from your employer. Exceeding the minimum contribution set by Scottish common law, some employers will agree a higher percentage with you which they will match and put toward your pension. Check with your HR department if this is available to you as it can be a great tool to build your retirement fund.

The Personal Pension

The last option to consider is perhaps the most autonomous. Unlike the workplace pension where your employer is responsible for enrolling you, the personal pension is a plan you arrange for yourself. In many ways it gives you the most freedom as you can browse the market for schemes that are appealing to you, choosing what level of input you want to have in regard to your contribution.

So, who can set up a personal pension? Anyone can set up a personal pension. You might be wondering at this stage: Is a third scheme really necessary given that you may be eligible for both the workplace pension and the basic state pension? The answer depends on the lifestyle you want to have during your retirement. If you only require a few creature comforts and have been working for most of your life, then between your workplace pension and your state pension you might be fine. If you have grown accustomed to a particularly lavish lifestyle then you might be thankful for the extra contribution from a personal pension so that you can continue such a way of life into your retirement. If you have not been in the position to have a workplace pension and will be relying mainly on your state pension, then a personal pension plan is almost certainly something you need to consider.

When looking at the type of personal schemes available you should consider these primary options:

- **Defined contribution schemes:** The core principle here is that you make consistent contributions to exponentially grow your savings pot. These contributions are securely invested into stocks and shares on your behalf and the pension provider comprehensively manages this process on your behalf.
- **Stakeholder pension schemes (SHPs):** This particular scheme falls under the sub-category of the above scheme. By contrast, however, SHP's typically have a low minimum individual contribution, and unlike the consistent deposits in the standard defined contribution plans you can stop or start your payments whenever you like, with the maximum charge set by the pension provider at 1.5%.
- **Self-invested personal pensions (SIPPs):** These are entirely autonomous pension schemes which have greater risks attached, but naturally, greater rewards. You essentially build your own plan and choose where to invest your money, managing the bulk of the process yourself. However, they come with more pitfalls; it is advised that unless you have a good deal of experience in investment, that you explore the other two options.

Top Tip: A recent report published by Scottish Widows suggests that at least 45% of the general public between the ages of 30 and 45 are not saving enough money for a comfortable retirement.

Whichever personal scheme you choose to explore, you'll be pleased to learn that in Scotland any interest earned on your personal pension plan is free. This allows the potential to see a substantial return on your pension pot, especially when coupled with the fact that you are also entitled to recoup tax on your pension contributions up to the value of £40,000.

A free, impartial pension resource to help you make the right choices

USE OUR RETIREMENT PLANNER TOOL

Pension Drawdown

Considering the purpose of your pension plan is to ultimately create the biggest possible pot for your transition into retirement, you should be looking at all the available options designed to help maximise your return. However, there are times when you may need to access larger sums of money from your overall pot during your retirement. The pension drawdown is an excellent method to access larger sums of money whilst keeping the remainder of your savings with their relevant investors. There are some criteria that must be met however before you can explore this route: you must be aged 55 or over whilst simultaneously having subscribed to the defined contribution pension method. Once you are eligible, there are two types on pension drawdown and each yield different benefits.

Something to bear in mind: When you drawdown from your pension to access your funds at a given time, the remainder of your savings will remain with their relevant investors. As the nature of the stock market is unpredictable and fluctuant, there is a very real risk that your remaining fund may fall in value. However, not too dissimilar from Einstein's Theory of Relativity: every action has an opposite and equal reaction. As such, there is also a real chance that your fund can increase in value should the economic climate experience a buoyant period.

Capped Drawdown:

Essentially with capped drawdown a pre-determined limit is placed on the amount of pension that is available for withdrawal each year. This cap is assessed against the individuals age, the gross value of the fund, and lastly by the Government Actuaries Department Rates. Perhaps the main advantage of the capped drawdown is that, as a recipient, you retain your full annual allowance and can contribute up to a substantial £40,000 exempt from tax. In conjunction with this, you should remember that the maximum income you could receive is 150% of the amount you would have received every successive year if you had purchased annually.

Flexible Access Drawdown:

In contrast to the capped drawdown the flexible drawdown boasts having no set limit to the amount that can be drawn as income from your overall pot each year. From this, you are granted the ability to withdraw up to 25% of your pot as a tax-free lump sum. However, with larger withdrawals their will be larger tax penalties. You then allocate the remainder of your pension pot into funds that grant you the ability to withdraw an income – subject to tax – at a time that is most convenient to you. A common option with the flexible drawdown is to take your 25% tax free lump sum in one go, and then gradually distribute the rest over the course of your retirement.

Useful fact: Pension Drawdown is an important concept particularly for those seeking to fund their retirement from their life savings. Building an assets allocation strategy in this way is designed to adequately fund the entirety of your retirement. It can leave you in a better position to offer remaining sums of money and estate to your family or spouse.

Whilst the flexible drawdown may seem a desirable option, it isn't without its share of risk. With the freedom given to the individual in relation to their withdraw options, there is a chance you could take too much out over an unsuitable length of time and actually run out of money. It also requires you to pay closer attention to the performance of your investments; if your investments take a turn for the worse and you don't adjust the way your income is regulated then you will also run the risk of spending all your pot.

Top Tip: Whether you decide to choose a capped drawdown plan or a flexi drawdown plan, it is strongly recommended that you seek counsel from a reputable financial planner. Both options come with their share of risk and reward, weighing up the pros and cons alone can be a daunting task. Even if you have experience with investments and managing stocks and bonds, you should seek a second opinion; a well-planned (and financially secured) pension plan plays a crucial role in the years running up to and during your retirement.

Pension Transfer

There are certain situations, both in and out of your control, where transferring your pension may be very beneficial. Opting out of a pension plan will most commonly be seen in the workplace, but your personal pension plans can come into play too. Should you leave your employment, for example, you will have to decide whether or not you continue to make contributions into that scheme. If you do continue to pay into that whilst simultaneously joining your new employer's scheme and maintaining your own personal pension, then it may be beneficial to transfer the various plans and unify them under one single provider. Regardless of whether you decide to join your new employer's scheme and have all your affairs in one place or simply leave the pension scheme altogether, then don't panic: the benefits which you have accrued over time are still yours and have not diminished in value in any way.

So, what happens to your now seemingly transient pension contributions? Well, the majority of schemes will have clauses written into them that, when activated, enable the individual to transfer their pot into either a new workplace pension, a personal pensions plan, or a self-invested personal plan. There is no time scale in which you have to do this within either; you can typically transfer your pension pot up to a year before the time you intend to retire, although naturally the sooner you arrange a suitable transfer, the better.

Useful Fact: Dependent upon the terms of your current pension plan provider, there are times when it is actually possible to transfer to a new pension after you have already started to withdraw your saved retirement benefits. You should check with your current provider to see if this benefit is available to you, or alternatively if you are still looking for a pension plan, check with your financial provider to see which schemes offer this incentive.

In most cases when you are transferring to a new workplace pension scheme, your employer to-be may offer you additional year's membership of the scheme in exchange for the perceived transfer value. Doing so would increase the pension that you accrue in the scheme, but you must notify your pension provider or your incumbent HR department in writing that you are expressing an interest to transfer.

Useful tip: There are times when it may not be in your best interest to transfer you pension. Such an example would be if you are enrolled into a company defined benefit pension. These schemes not only provide a guaranteed income for you to enjoy during the span of your retirement, but they often boast useful benefits that affect your spouse and wider family once you die. Moreover, if you are at the stage where you are nearing retirement then transferring your pension will leave you at the whims of potential short-term investment issues. If you were to transfer from your secured plan and your new plans investments experienced a sudden dip, then you are left with less time to recover from the economic downturn, if you are to recover at all.

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