A pension that works for you

A company pension scheme will make your finances look a lot healthier when you retire. We explain the essentials

If you're employed, you probably know how much you earn and how many days' holiday you get. But could you say what your company pension will pay you, or how it works?

A company pension is one of the best ways to provide for retirement, even if you don't intend to stay with the company until you retire. Also, not joining a pension scheme that your employer puts money into is like turning down extra pay. Despite this, some 17 million employed people (around two thirds of the workforce) aren't currently paying into a scheme. Hardly surprising, then, that recent research shows only 55% of men and 46% of women save enough for their retirement.

What pension do you have?

There are four main types of pension (see further on for details). The pension your employer offers may be 'contributory' (you and your employer pay into it), or 'non-contributory', which means only your employer does. If the scheme offered is a group stakeholder pension scheme, your employer doesn't have to contribute, so you alone may be putting money in.

Final-salary schemes

These are also known as defined-benefit schemes. They are the Rolls Royce of pension schemes because the amount you receive when you retire is guaranteed.

How much you get is worked out from how many years you're in the scheme and your salary when you leave it or retire.

You build up a pension at a certain rate – 1/60th is quite common. This means that for each year you have been a member of the scheme, you receive 1/60th of your final salary. So if you had been a member of a scheme for 10 years and your final salary was £30,000, you would receive a pension of £5,000 a year (10/60ths of £30,000).

Around two thirds of employed people don't currently pay into a scheme

Final-salary schemes are costly for the employer to run and, as a consequence, are disappearing fast. Only 1.3 million workers in the private sector belong to a final-salary scheme that is still open to new employees.

More people in the public sector (for example teachers, police, NHS and local government workers) are currently paying into a final-salary scheme – but this is still only 5.2 million out of 25 million employed people in the UK.

If you are lucky enough to work for the dwindling number of employers that offer a final-salary scheme, join it. The average employer contribution to a private sector open final-salary scheme in 2007 was equivalent to 15% of each member's salary a year – a lot of extra pay you're turning down if you don't sign up.

Career-average schemes

These are a type of defined-benefit scheme. The pension you receive will be based on an average of your earnings in the time you're a member of the scheme.

Money-purchase schemes

These are also known as defined-contribution schemes. The money paid in by you and your employer is invested and builds up a fund that buys you an income when you retire. Most schemes offer you a choice of investment funds.

The amount you'll get depends on how much was invested into the scheme, the charges deducted, how well the investment performed, and the rates available for converting your pension fund into an

HOW MUCH DO YOU NEED TO SAVE?

Here's a guide to how much to save a month to retire on an income of £10,000 a year

A man or woman aged 30 who starts to save for a pension would have to put away between 7% and 8% of a £30,000 salary. That's a lot to afford on your own – all the more reason to join a company pension if your employer is willing to contribute to it. The figures in the table vary for men and women because, statistically, women live longer on average.

AGE YOU START SAVING	MEN	WOMEN
30	£182	£197
40	£325	£353
50	£692	£751

All amounts take account of inflation and assume investments grow 3.5% a year more than inflation and charges. The table assumes your monthly contributions increase with earnings and are made before basic rate tax relief is added. At 65, your fund is converted into an annuity covering you (not your partner) that increases in line with price inflation.

PHOTOGRAPHY JUPITER IMAGES, SUPERSTOCK, GETTY IMAGES, ROBIN BECKHAM

SHOULD I LET THEM BUY OUT MY PENSION?

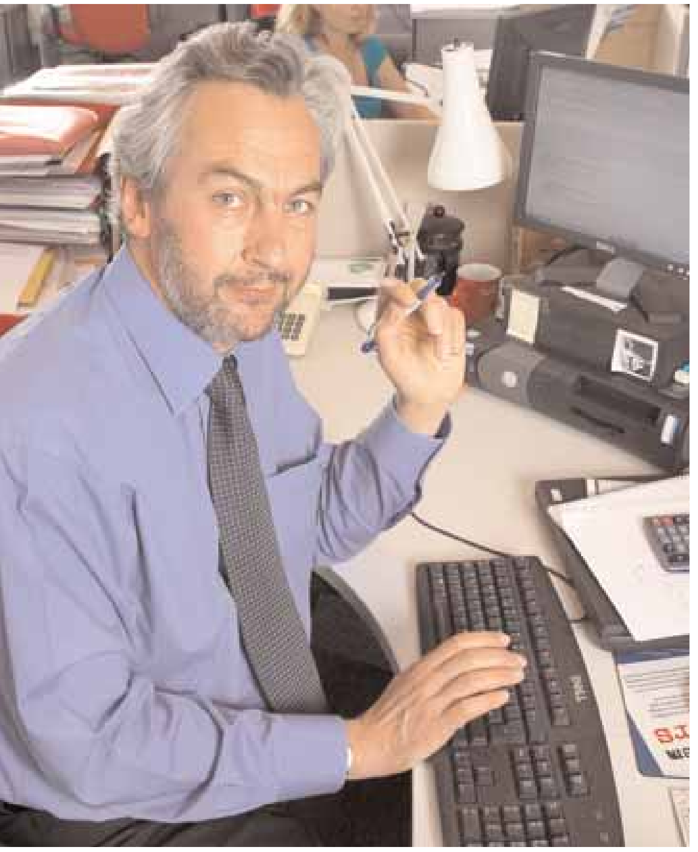
Ian Robinson *51, Which? researcher*

Ian worked for Express Newspapers for 12 years and, during that time, was a member of its final-salary scheme. He built up entitlement to a pension of £5,269 a year which he can take from his 65th birthday. Alternatively, if Ian wanted to transfer his benefits to another scheme, he is entitled to a transfer value of £75,679.

Express, like many firms with final-salary schemes, recently offered to buy Ian out. It offered to increase the transfer value to £90,093 and to give him a one-off taxable sum of £3,412 to transfer out of the scheme. This might seem generous but, had he taken it, Ian would have given up a guaranteed £5,269 a year for life. His wife Gill is entitled to half this pension if Ian dies before her. To buy an equivalent pension would cost more than £100,000 today, let alone what it might cost in 14 years when Ian retires. So the £90,000 transfer value would have to work hard between now and Ian's retirement to get near that. Ian felt the risk was too high and declined the offer.

Such offers have become more common as companies with final-salary schemes seek to reduce their liabilities. The government is planning to ban the use of cash inducements to tempt people to opt out of pension schemes, though this will not come into force until 2012.

If you receive a buyout offer, remember the company is likely to be making such an offer because it and the scheme will benefit. Think carefully before giving up guaranteed pension benefits. Take independent financial advice from a suitably qualified adviser.



income at the time you retire (known as the annuity rate).

As an example, a pension fund of £10,000 would currently buy a 65-year-old man an income of £456 a year that rises with inflation. A 65-year-old woman would be able to buy £420 a year with the same amount. The amount paid in varies, but the average employer contribution in 2007 to open schemes was 6.4% of salary.

Group personal/ stakeholder schemes

These are also money-purchase schemes. With these, your employer simply offers access to a personal or stakeholder plan, which you own, and can take with you if you get a new job.

Your employer chooses the scheme provider and deducts contributions you make from your salary and pays them to the provider, along with any employer contributions.

If your employer offers a group personal pension scheme, it must contribute at least 3% on your behalf.

If your employer offers a group stakeholder pension scheme, it doesn't currently have to pay into it.

All eligible employees will be enrolled into their employers' pension scheme

PERSONAL ACCOUNTS

A new type of pension scheme and what it involves

The government is introducing radical reform of the UK pension system to combat the huge problem of people not saving enough for their retirement.

From 2012, all eligible employees will automatically be enrolled into their employer's pension scheme or, if the employer doesn't have a scheme, into a new type of pension called a personal account. However, you will be able to opt out if you wish.

Personal accounts will have simple-to-understand investment choices and low charges. Employers will have to pay in at least 3% of each employee's salary. Employees will pay 4% on earnings within certain limits. These are the ones used for National Insurance contributions, currently £5,460 to £40,040. Tax relief will add about another 1%, so around 8% will be paid into the personal account for each employee.

Personal accounts will be money-purchase schemes, so how much you receive depends on how much is paid in and how well the investment performs. We campaigned to get legislation introducing personal accounts through Parliament. Read more about our campaign at www.which.co.uk/personalaccounts.

YOUR QUESTIONS ANSWERED

We look at some of the most common concerns over company pensions

Q What should I do if I have a number of pensions with different employers?

A Having lots of pensions is fine if you keep track of them and tell the scheme administrator when you move home. Past schemes may offer better benefits than your current scheme, may have lower charges or have better investment potential, so keeping everything under one roof isn't always best.

However, it may be a good idea to bring all your money purchase pension pots together at retirement, if this gives a better annuity rate.

Q How can I find out about old pensions that I've lost track of?

A Contact the Pensions Tracing Service, part of the Department for Work and Pensions. You can do this over the phone, online or by post. Call 0845 600 2537 or go online to www.thepension service.gov.uk. You'll need the name of your old employer or pension scheme. The service is free. Telephone traces will be activated immediately, web traces will start within two to three days on average.

Q What happens if the company that I work for goes bust?

A The assets of a pension scheme are protected by law if a company goes bust. The aim is to secure pension scheme members' benefits, either by transferring them to another scheme, or buying an annuity for the member. If

there are not enough assets in the scheme to pay all the promised benefits, the Pension Protection Fund (PPF) steps in. The PPF guarantees to pay all benefits for retired members and up to 90% of benefits for members who haven't yet retired. The level of compensation is subject to an overall cap recalculated each year. Between April 2008 and March 2009 the cap at the age of 65 is set at £30,856.35, or £27,770.72 for those receiving 90% compensation.

Q What happens if I leave my job before I retire?

A If you belong to either a final-salary or money-purchase company scheme (not a group personal or stakeholder plan) you can either choose to leave the pension benefits you have built up where they are until you retire, or you can take them with you by transferring them to your new scheme, if you have one.

However, not all company schemes will accept transfers from other schemes. Also watch out for any transfer penalties and take independent financial advice before making a decision. Tell the adviser you want to talk about a possible pension transfer and ask if they have the necessary qualifications.

If you have been a member of the scheme for under two years, most schemes allow you to have a refund of the contributions you paid in, but not those paid in by your

employer. Tax will be deducted from any refund.

With group personal or stakeholder schemes, you own the plan and can continue paying into it if you wish.

Checklist

How to ensure you have enough retirement income

- **How much will you need?** Add up essential outgoings (food, bills, etc) but exclude things such as a mortgage which you will no longer pay. Reckon that the children will (hopefully) have flown the nest, but you might spend more on hobbies; and your gas and electricity bills will increase as you'll be home more.
- **Your state pension** Visit www.the pensionservice.gov.uk/state-pension/forecast to get an idea of how much state pension you're likely to receive. This is also available by post and telephone.
- **Join a scheme** If your employer pays into a pension on your behalf, join it. Otherwise you're turning down extra pay.
- **Tracing pensions** If you've lost track of old schemes, contact the Pensions Tracing Service.
- **Different pensions** There's nothing wrong with having lots of pensions, but don't forget them. Take advice before transferring company scheme benefits.
- **For more information** Visit www.unbiased.co.uk to find a specialist pension adviser. For more information on company pensions, contact the Pensions Advisory Service at www.pensionsadvisoryservice.org.uk or 0845 601 2923.