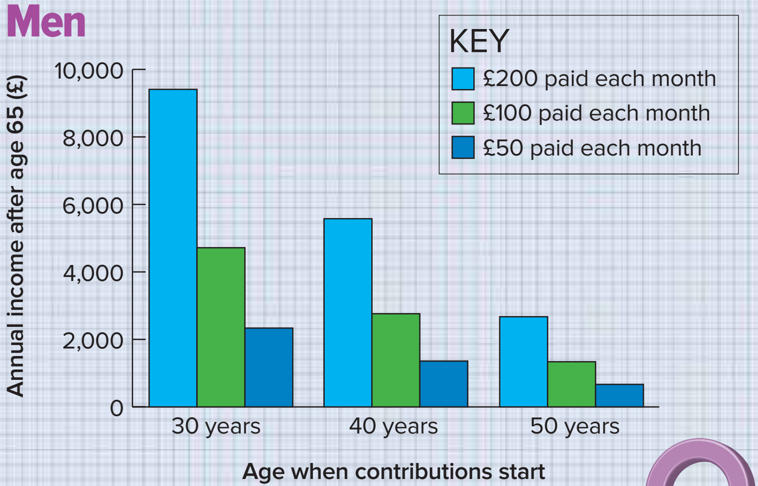
Save now, live it up later

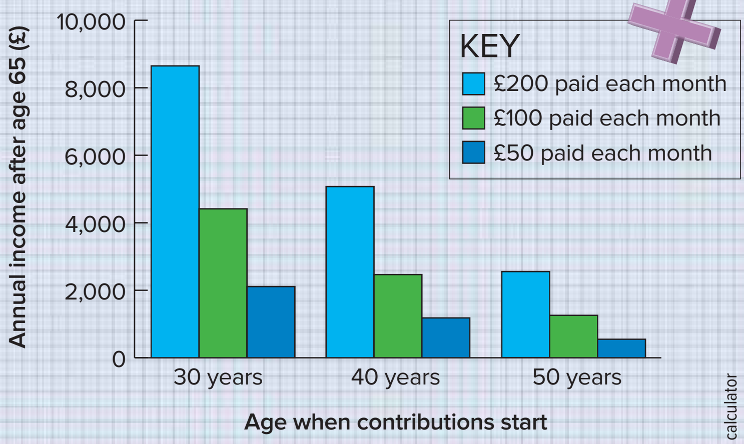
ANNUAL INCOME IN RETIREMENT

The graphs give an estimate of the pension income you may receive every year, depending on the amount invested by you each month and at what age you start. Tax relief is added to the amount paid

Men



Women



The figures assume 7 per cent a year growth and charges of 1.5 per cent for the first ten years and 1 per cent thereafter, and that premiums are index linked. Figures are shown in 'today's money' and assume inflation of 2.5 per cent a year

Source: FSA/ABI calculator

Putting off taking out a pension is asking for trouble. We reveal the Best Buy stakeholder pensions on offer

Nobody really wants to think about their old age, which is why many of us put off our retirement planning. But you should start thinking about your pension as soon as possible. Average life expectancy now means that you could spend about 20 years in retirement. Would you rather have a regular holiday or be worrying about the price of baked beans?

Unfortunately, you really can't afford to put off saving. Many people buy an annuity with the bulk of their pension fund when they retire. There are various types of annuity, but all pay an income for the rest of your life. If a 30-year-old man paid £200 a month into a pension, he could expect to retire at 65 with an annual income of about £9,410. If he waited until he was 40, his expected annual income would drop to around £5,610 (see graphs, left).

Would you rather have a regular holiday or be worrying about the price of baked beans?

State pensions

Most people will get some sort of state pension. First, there is the basic state pension. The amount you get is based on your National Insurance (NI) contributions and rises each year in line with inflation. Men can claim the basic state pension from the age of 65; women at 60. But the retirement age for women is going up in stages and will also be 65 by 2020.

At present, the full state pension is £87.30 a week for a single person, or £4,540 a year. However, if you defer taking your pension, you can boost the amount. If you reach pension age on or

PHOTOGRAPHY ROB UNDERDOWN

STAKING OUT A STAKEHOLDER

Tom McCullough *39, chartered structural/ civil engineer*
Tom wants to boost the pension he will receive from his employer by taking out a stakeholder pension. He decided to do this, rather than pay more into his employer's scheme, as he doesn't want to tie his whole pension into just one scheme.

'I'd like to spread my risk, and want to know my money is secure,' said Tom. 'But I want to get the best value I can.'

Tom emailed us recently to say he was disappointed our website doesn't provide Best Buy stakeholder pensions. We were pleased to be able to tell him that that we would be listing Best Buy stakeholder schemes in this issue.

There is little to choose between the Best Buy companies so Tom is going to get quotes from all of them, so that he can compare the charges they would make if he bought direct and if he took advice.

Tom said: 'I think I might like some help making the final decision between the Best Buys and choosing the right pension funds to invest into, so I'm probably going to consult a financial adviser.' We think this makes sense, but we've told Tom to make sure the adviser is independent and, if he can, to pay for the advice by fee rather than commission. That way he will get the lowest annual-management charge on his pension and, over time, the saving in charges will more than pay for the cost of the advice.

before 6 April 2010, you must have paid or been credited with NI contributions of 44 years for men and 39 years for women to get the full amount.

The new pensions bill, currently making its way through Parliament, plans to allow men and women retiring after 6 April 2010 to claim the full basic state pension with contributions of just 30 years. The state also provides a top-up pension for employees – called the state second pension (S2P) – that is related to earnings. Some carers and other groups are also entitled to the S2P. The maximum amount you can get is around £145 a week, but the average is often much less.

Some people are contracted out of S2P or from its predecessor, the state earnings related pension scheme (Serps) either through their employer's scheme or through an individual personal pension. For any years that you are contracted out, you don't build up entitlement to the state second pension scheme. Visit www.which.co.uk/pensions for more information on contracting out.

Pension credit

This acts as a safeguard for people over 60 who have made little or no retirement provision. It is means tested and divided into two parts. The guarantee credit ensures you have a minimum weekly income of £119.05 if you have no other pension savings. The savings credit will top up your income if you have only modest pension savings. If you can afford only very small contributions, or you are near retirement and have a modest pension, you should seek advice. You may be better off claiming the credit than making your own provision.

Even if you were in line for the full basic state pension and the absolute maximum from S2P or its successor, you'll only be looking at a livable sum but it's not going to fund that world cruise. So, if you haven't already, you should start saving in a company scheme or a personal pension.

How much you need to save

The Financial Services Authority (FSA) calculates that a 30-year-old man would need to save £23 a month to get an annual income of around £1,000 at 65. A woman would need to put aside about £25 at the same age, due to the fact that it is assumed that women will live longer. Visit www.pensioncalculator.org.uk for a personal projection.

If you talk to financial advisers, they usually recommend that you retire on an income equal to two thirds of your final salary. But you may manage on a smaller figure, depending on your circumstances.

Pensions come with a big advantage – you get tax relief of up to your top rate of tax on your contributions. You can pay all of your UK earnings into a pension, up to the annual maximum of £225,000, and for every 78p you contribute the government will make it up to £1. The announcement in the March budget of a cut in the basic rate of income tax to 20 per cent means tax relief will not be quite so generous from April 2008.

There are other advantages to a pension. You can't usually get at the money in your fund until you are 50 – and the age limit is rising to 55 in 2010. So you won't be tempted to raid your savings. Also, you can take up to 25 per cent of your fund as a tax-free lump sum when you retire.

Join the company scheme

If you are eligible to join a company pension, you should sign up. Most employers pay into a company pension on behalf of

Picking a pension can be daunting but a stakeholder scheme is a good start

their employees, so if you don't join it's effectively like giving up part of your salary.

There are broadly two types of company scheme: final salary and money purchase. Final-salary schemes pay you a pension based on your salary and the number of years you have been in the scheme. With a money-purchase plan, your contributions are invested in a range of assets, such as property and shares. So your income at retirement is based on the performance of the fund as well as on the number and size of the contributions.

Don't forget any pensions from previous employers. If you have changed jobs, the money in your pension with your previous employer is usually left in the fund until the scheme's normal retirement age. The Pension Tracing Service (0845 600 2537) holds details of more than 200,000 schemes and will put you in touch with an old pension scheme for free.

Some employers also offer stakeholder pensions and there are collective schemes for members of trades unions, or for certain professions, such as the B&CE Scheme for people who work in the building and engineering trade. Other collective schemes include the Teachers Scheme and the Police Scheme, which is available to all people who work for the police force and members of their family. Collective schemes often offer much lower charges to their members than schemes through pension providers or insurance companies, so if you are eligible to join one, it's worth checking this option out first.

Stakeholder schemes were introduced in 2001 as a cheap, flexible alternative to traditional personal pensions. There is no set-up fee and the total annual-management charge (AMC) must be no more than 1.5 per cent for the first ten years; it must then drop to a maximum of 1 per cent.

It's always best to seek impartial advice before you choose a pension

You can stop, start and vary contributions as you like without penalty. The pensions industry does not make much of a profit from these schemes, so only about 19 firms offer them (Legal & General didn't take part in the survey). It's worth looking at the charges, even with the cap in place. Some companies, such as Wesleyan Assurance, might charge the full 1.5 per cent. Others, including Friends Provident and Standard Life, charge 1 per cent or less.

You also have to check the fund choice. Most companies offer a tracker fund, which simply follows a stock-market index such as the FTSE All Share (see 'On the right track', *Which?*, April 2007, p29). But some include other investment options, sometimes run by specialist fund managers. Cautious-managed and balanced-managed funds, for example, mix shares with bonds. But a UK growth fund will invest

Stakeholder pensions

If you can't join a company scheme, are self-employed or simply want to set up your own personal pension, a stakeholder plan is a good place to start.

Contacts

Abbey
0845 765 4321
www.abbey.com

Aegon Scottish Equitable
www.aegonse.co.uk

Axa
www.axa.co.uk

Bank of Scotland
0870 901 0137
www.halifax.co.uk

CIS
0800 028 2727
www.cis.co.uk

Clerical Medical
www.clerical medical.co.uk

Forester Life
0845 799 0011
www.foresters.co.uk

Friends Provident
0800 000080
www.friends provident.com

Halifax Life
0870 901 0137
www.halifax.co.uk

HSBC
0845 745 6127
www.hsbc.co.uk

Nationwide BS
0800 302010
www.nationwide.co.uk

NFU Mutual
0800 622323
www.nfumutual.co.uk

Norwich Union
0800 056 2326
www.norwich union.com

Scottish Life
0870 606 2000
www.scottishlife.co.uk

Scottish Widows
0845 608 0371
www.scottishwidows.co.uk

Standard Life
0845 606 0191
www.standardlife direct.com

Virgin Money
0845 610 2040
www.virginmoney.com

Wesleyan Assurance
0845 351 2352
www.wesleyan.co.uk

COLLECTIVE SCHEMES

B&CE Insurance
0845 741 4142

Police Mutual
0845 882 2999
www.pmas.co.uk

TUC, Teachers
0845 070 3333
www.pru.co.uk

PHOTOGRAPHY ALAMY

Personal accounts

The government's plans for the future of pensions

The government has introduced several pension reforms over the past few years – and has proposed even more. There are plans to restore the link between earnings and the state pension, and to make it easier to claim the full state pension. In 2012, the government also plans to introduce a new scheme known as Personal Accounts. Employees who do not have access to a good company pension will be automatically enrolled. They will contribute 4 per cent of their earnings to the scheme. This will be matched by a minimum 3 per cent contribution by the employer. And you will get tax relief of 1 per cent. The scheme will be run by an independent board and the annual-management charge could be as low as 0.3 per cent.

Which? supports Personal Accounts and is campaigning for consumer needs to be at the heart of the scheme. Which? is calling for a simple, low-cost scheme with a manageable choice of funds.

STAKEHOLDER PENSIONS
FRIENDS PROVIDENT
STANDARD LIFE
SCOTTISH WIDOWS
AEGON SCOTTISH EQUITABLE
AXA
CLERICAL MEDICAL
SCOTTISH LIFE
NORWICH UNION
HSBC
BANK OF SCOTLAND
HALIFAX LIFE
NFU MUTUAL
ABBEY
NATIONWIDE BUILDING SOCIETY
VIRGIN MONEY
CIS
FORESTER LIFE
WESLEYAN ASSURANCE

a Depends on commission taken **b** If applied almost exclusively in shares. You might want to pick an ethical fund that shuns some of the so-called 'sin' stocks, such as tobacco and arms manufacturers. If you can't decide, the default option is usually a lifestyle fund, which gradually shifts out of shares into more stable investments such as bonds as you approach retirement.

Best Buys

We've chosen as our Best Buys those providers that offer the best choice of funds, availability, and charges. However, our Best Buys can show you only stakeholders we think offer good value. In order to make a final decision on provider and pension fund, we recommend you consult an independent financial adviser who can go through the options and make a recommendation based on your personal circumstances. Visit www.unbiased.co.uk or www.which.co.uk/money for help finding an adviser.

USING THE TABLE

We show details of 18 stakeholder pensions. The more stars, the better.

Fund choice

We show some of the most popular or common fund choices.

Charges

Fund size discount Whether there is a discount once the fund reaches a certain size. **Loyalty discount** Whether there is a discount after ten years.

Ratings

Fund choice For ★★★★★, providers must offer a fund in each of the investment sectors shown in the table and also in each of the following sectors: deposit; property; North American equity growth; European equity growth. They must also offer an emerging markets, a Far Eastern or a Japanese fund. **Availability** ★★★★★ means providers offer their stakeholder pensions through all available mediums, such as independent and tied advisers and direct. **Charges** ★★★★★ means providers offer the option of reducing the AMC to below 1 per cent if adviser waives commission.

Total score

This is based on:

Charges	35%
Fund choice	35%
Availability	30%

FUND CHOICE							AVAILABILITY				CHARGES			RATINGS			TOTAL SCORE
CAUTIOUS MANAGED	BOND	BALANCED MANAGED	TRACKER	UK GROWTH	ETHICAL	LIFESTYLE OPTION	DIRECT BY PHONE WITHOUT ADVICE	DIRECT ONLINE WITHOUT ADVICE	MULTI-TIED/TIED ADVISERS	IFA	ANNUAL-MANAGEMENT CHARGE (%)	FUND SIZE DISCOUNT	LOYALTY DISCOUNT	FUND CHOICE	AVAILABILITY	CHARGES	
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.7-1[a,b]	✓		★★★★★	★★★★★	★★★★★	★★★★★
✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	0.7-1[a]	✓		★★★★★	★★★★★	★★★★★	★★★★★
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.64-1[a,c]			★★★★	★★★★★	★★★★★	★★★★★
✓	✓	✓	✓	✓	✓	✓			✓	✓	0.6-1.5[a]	✓	✓	★★★★	★★★	★★★★★	★★★★
✓	✓	✓	✓	✓	✓	✓			✓	✓	0.75-1[a]			★★★★	★★★	★★★★★	★★★★
✓	✓	✓	✓	✓	✓	✓			✓	✓	0.6-1.5[a]	✓	✓	★★★★	★★★	★★★★★	★★★★
	✓	✓	✓	✓	✓	✓				✓	0.7-1[a]	✓		★★★★	★★★	★★★★★	★★★★
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1.5[a,d]	✓	✓	★★★★	★★★★★	★★★	★★★★
	✓	✓	✓	✓		✓		✓	✓		0.8-1[a]			★★★	★★	★★★★★	★★★
	✓	✓	✓	✓	✓	✓	✓	✓	✓		1.45	✓	✓	★★★★	★★	★	★★
	✓	✓	✓	✓	✓	✓	✓	✓	✓		1.45	✓	✓	★★★★	★★	★	★★
	✓	✓		✓		✓			✓		1.5	✓		★★★	★	★★★	★★
		✓		✓		✓			✓		1	✓		★★	★	★★★	★★
	✓		✓			✓			✓		1			★★	★	★★★	★★
	✓		✓				✓	✓			1			★★	★	★★★	★★
			✓	✓	✓	✓	✓	✓			1.5		✓	★★★	★	★	★
✓	✓					✓			✓		1.5		✓	★★	★	★	★
		✓				✓			✓		1.5		✓	★★	★	★	★

for online the AMC is 0.8 per cent **c** If applied for online the AMC can reduce to 0.8 per cent **d** If applied for online the AMC is 1.3 per cent