

Client Name: Lighthouse Financial Advice

Date:

Personal Pension Plan & Stakeholder Fact Sheet

A **Personal Pension Plan (PPP)** is designed to build up a fund that is used to produce an income at any time after age 55. Contributions may be arranged on a regular basis or as one-off payments and can be made by an employer, if applicable. Whilst a retirement age is selected at outset, the fund can be used to provide an income at any time after age 55. Usually, up to 25% of the fund is available as tax-free cash when the benefits are taken.

The growth in the plan is free of most taxes. Contributions are made net of basic rate tax (from 6 April 2001 this includes the self employed): higher rate and additional rate taxpayers will receive further relief through their tax assessment.

Stakeholder Pensions (SHPs) became available on 6 April 2001 and are low-cost pensions that offer the same features as detailed under PPP above. For a pension plan to be classified as an SHP it must meet standards laid down by the government. These standards include: -

- **Charges** - The maximum annual charge that a provider can impose is 1.5% p.a. in the 1st ten years and 1% thereafter. There are no initial charges or exit penalties and any extra charges must be by agreement. The 1.5% figure does not include the cost of advice.
- **Flexibility** - The minimum amount that can be invested, either regularly or occasionally, into an SHP is £20 and there is no penalty for stopping and starting payments whenever you wish. An employee, whose employer offers an SHP, can arrange for contributions to be deducted direct from pay. You can take your stakeholder pension with you when you change jobs or you can switch to another stakeholder pension at any time, if you want to, without having to pay any charges for the transfer.
- **Information** – An SHP provider must provide regular information to an investor, including an annual statement detailing the amount paid in, the value of the fund and a pension forecast.

The following information relates to both PPPs and SHPs

Contributions

To claim tax relief, an individual can contribute up to 100% of their earnings, subject to a maximum of £50,000 per annum. An individual can claim tax relief at their highest marginal rate, but any contribution above the annual allowance is subject to a tax charge of 40% for the member. From 2011/12, carry forward rules were reintroduced for unused allowances in the previous 3 years.

Contributions may now also be made by any member of an occupational pension scheme, provided the payments don't exceed the annual allowance above.

Contributions can be arranged for children, non-earners or low earners, up to a maximum of £3600 per annum gross.

All contributions are made net of basic rate tax, including contributions for the self-employed and non-taxpayers (eg, children). Higher rate tax relief is obtained through tax returns. A £3600 gross investment equates to a net contribution of £2880, with the pension provider claiming tax-relief from the Inland Revenue. As basic rate tax relief is given automatically, the Inland Revenue requires pension providers to undertake a check every 5 years where contributions exceed £3,600 gross in a tax year.

Self invested option (relates solely to PPPs)

Experienced investors requiring greater control over a wider range of investments can invest into a Self-Invested Personal Pension (SIPP).

The following information relates to SHPs

Investment

All SHP schemes will have to specify a default fund for investment, so members are not forced to pick their funds themselves.

SHPs may offer investment into an Individual Pension Account (IPA), which can invest in pooled funds, such as unit trusts. This will give access to investment management houses, rather than just life offices.

Scheme status

SHPs must be run by trustees or by an authorised stakeholder manager, whose responsibility it will be to make sure that the scheme meets the various legal requirements.

Employers & Employees

An employer must provide access to an SHP scheme unless: -

- The employer has fewer than 5 employees.
- The employer offers an Occupational Pension Scheme that is open to all employees within 1 year of employment.
- The employer contributes at least 3% of basic pay into a Group Personal Pension Plan or PPP for all 'relevant employees' (provided that there are no transfer penalties). For new employees this agreement to contribute must be contained in their contract of employment.
- The employee's income is below the 'Lower Earnings Limit'.

The employer is under no obligation to contribute to an SHP although it must meet a number of legislative requirements. It must: -

- Choose a scheme from the stakeholder register.
- Consult with its employees (or their representatives).
- Provide information about the scheme to its employees.
- Allow representatives of the scheme 'reasonable access' to its employees.

An employee may request pension contributions to be deducted direct from his/her pay by the employer.

Optional features which may be available, possibly at additional cost:

Unlike Personal Pensions, most SHPs will not offer life cover or waiver of premium as part of the plan and, if these benefits are required, they will need to be arranged separately.

Life cover means that, on death, a pre-determined sum assured will be paid out. All or part of the pension plan fund value may be paid in addition to the life cover which usually continues until the selected retirement age or the purchase of an annuity, if earlier. Life cover arranged in this way may be written in Trust.

Waiver of Premium means that the pension provider, usually at extra cost, will pay the premiums if the plan holder is unable to work for medical reasons. There will be a "waiting period" between being certified as unfit to work by the doctor and the waiver being activated. This period is usually six months. Waiver can be written on 'Own' occupation – the clause will operate if the assured is unable to undertake his or her own job – or 'Any' occupation – the clause will operate only if the assured is unable to undertake any type of job whatsoever. The premiums will be paid until the earlier of the individual being pronounced medically fit and his/her selected retirement age. There may be a maximum age after which the waiver will not apply.

Indexation is an option whereby the contributions will automatically increase each year by a fixed percentage or in line with the increase in either the Retail Price Index or the National Average Earnings Index.

Premium holiday allows, within defined criteria, contributions to be missed.

Other points to remember

- The Key Features Document and illustration you have been given describe in full the features of your particular plan.
- Personal Pension Plans may be written in Trust or subject to a nominated beneficiaries arrangement.
- The value of bonuses attaching to a with-profit fund can be reduced if the benefits are taken before the selected retirement age.
- The value of pension fund units can fall as well as rise.
- There is no guarantee of the maturity value of the plan or the amount of pension at retirement.
- Past performance is no guarantee of future performance.
- There may be penalties applied if the pension fund is utilised before the selected retirement date.
- Deferring the taking of benefits after the selected retirement age may, in the event of death before an annuity is purchased, incur a tax charge.
- The premiums quoted for waiver and any additional life cover (if applicable) assume acceptance on standard health terms.
- Medical underwriting (if appropriate) is carried out using, in the first instance, information supplied on the application form.
- Information has been given on the basis of our understanding of the current tax rules. These may change in the future.
- Before deciding whether to invest into a pension, consideration needs to be given to potential state benefits, eg: -
 - Your projected basic state retirement pension
 - Your additional state pension (currently S2P)
 - The Guarantee Credit and Savings Credit (formerly Pension Credit)
- The industry regulator, the Financial Services Authority, considers that SHPs, because of the minimum standards built into them, are likely to suit more customers than would traditional personal pensions.
- In the event that you are offered a traditional personal pension instead of an SHP you will receive an explanation as to the reason(s) why that pension is at least as suitable as an SHP.