## WHICH PENSION SAVINGS PLAN IS RIGHT FOR ME?

Since the implementation of the new "simplified" pensions regime in 2006, pension options have changed quite a bit. The following is a summary of the main pensions options available to most individuals. These are the ***savings*** options, when you want to take your pension benefits you need to consider the whole raft of different options available to you for ***drawing*** your pension. We have separate notes on this if you are interested.

Within these notes we will cover:



### 1. DEFINED BENEFIT AND COMPANY SPONSORED PENSIONS

#### 1.1 Final Salary (FS) Pension Schemes (Employees Only)

If you are lucky enough to be eligible to join a final salary pension scheme then grab it with both hands! Only the largest companies (and government) can afford to offer these arrangements and we believe they will have died out completely within the next 5 to 10 years.

These schemes provide a FULL pension promise to the member.

## 1.2 Shared Risk Schemes

Also known as defined ambition schemes. These are a new pensions concept post 2015 but as these have only just been introduced we have not had any experience of these schemes to date.

Shared risk schemes provide some pension promise so risk is shared between member and employer.

## 1.3 Money Purchase (MP) Pension (Employees Only)

A money purchase pension is one where your ultimate pension fund depends upon how much you and your employer contribute, how well the investments grow and what annuity rate is available when you decide to draw your pension. The plan can be a “personal pension” or a “company pension”. Under the simplified pensions regime the two are (for most) the same.

Here the issue is how much is your employer contributing? If your employer is generous then you are normally well advised to join their pension scheme and to benefit from their contribution over and above your own savings.

### 1.3.1 Stakeholder Or Workplace Pensions

These are the new “pensions for all”. Certainly they will offer low cost pension savings, therefore, if you have no other scheme on offer as an employee you should join your workplace pension. Make sure you take your pots when you move jobs and keep an eye on the fund choice and performance etc. The workplace pensions regime will initially rise to a contribution level of 3% employer and 4% net for employees, with a band of earnings roughly equivalent to the lower earnings level (LEL) and the higher earnings level (HEL). There will be tax relief of about 1%, making the total contribution 8% of these band earnings.

Most employer’s pensions provide you with the ability to transfer your savings to another scheme after you leave the firm, although some older schemes may penalise you for taking this choice.

Money purchase pensions provide no pension promise to the member.

## 2. STAKEHOLDER PENSIONS

These are money purchase pension plans which can be bought by employees or the self-employed where there is a charge cap of 1.5% for first 10 years and then 1% each year after that for the management of the plan.

The fund choices at the low cost tend to be restricted and you have to pay more if you want greater flexibility or variety.

## 3. SELF INVESTED PERSONAL PENSION SCHEMES (SIPPs)

A true SIPP offers you the ability to own commercial property and to borrow to purchase same. Unless you want to do this choose the platform pension.

## 4. SMALL SELF ADMINISTERED SCHEME (SSAS) (DIRECTORS) (MP/FS)

Again, unless you want to lend money to your company or share your pension pool and / or to purchase commercial property then you are better using a platform pension.

## 5. A PLATFORM PENSION

Where you are contributing reasonable sums towards retirement (or you have over £100,000 of investments) then you are probably best off to choose a platform pension such as our Transact system (see the demonstration on our website). Here you pay a nominal fixed charge for your pensions wrapper then you have access to all the available collective investments as well as stocks and shares. There is no reason to hold more than one wrapper as long as the funds available are as wide as you need.

Platform pensions are more expensive than stakeholder plans (probably fund costs plus say .5%) but the flexibility and immense choice means that growth can be optimised and fund switches are usually available at little or no cost.

## 6. ALTERNATIVE NON PENSION SAVINGS

Why do you have to save for your retirement using a pension plan? Agreed, it is tax efficient to put money into a pension plan, but you do get clobbered for tax on most of the proceeds and your money is tied up until age 55. If you are young and want flexibility you can look at Individual Savings Account (ISA) plans and if you are adventurous consider ideas such as let property or direct investments within or without the pensions environment.

The most important decisions regarding retirement planning are probably how much to save and when you can afford to retire. We hope these brief notes may give you some food for thought as to which vehicle is your best route to achieving the funds necessary for the longest holiday you will ever have.

Please note that whilst every effort is made to ensure that the information contained within this explanation is correct, these notes are by necessity brief and of a generalised nature. Clients should seek specific personalised advice prior to undertaking any arrangement. These notes are named 09.2020 Which Pension Plan Is Right For Me and was last updated in September 2020. Whilst we have done our best to ensure facts are current to this date laws and options are changing constantly so always check before action.

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