RICHMOND HOUSE
CORPORATE SERVICES

Pensions – Frequently Asked Questions

Will I get a State Pension?

Yes. You get a State Pension based on your National Insurance contribution record. If you achieve the maximum of 35 years, you will receive the maximum available which, for 2018/19, is £164.35 per week. This amount is increased in line with inflation each year.

You may receive more than £164.35 per week if you have also been in the State Pension system before April 2016.

You can get an estimate of your State Pension by going to https://www.gov.uk/check-state-pension and following the instructions.

Your State Pension will be paid in addition to any private pension benefits.

Do I pay tax on my pension?

Yes, you do. Contributions to your pension have been made without any deduction of tax, so the Government tax you on your pension when it comes into payment.

To calculate the tax, all your pensions, including the State pension, are added together. If your total pension income is above £11,850 but below £46,350 you will pay tax at 20%. Above £46,350 you will pay tax at 40% and you will pay 45% tax on income of £150,001 and above.

You do not pay National Insurance on pension payments.

What happens to my pension when I die?

Assuming you still have money in your pension plan when you die (if you have bought an annuity, the money is not held in a pension) how it is treated depends on your age at death.

If you were under 75, the full amount will be paid out tax free to your beneficiaries. If you were 75 or over, the full amount will still be paid out, but your beneficiaries may have to pay Income Tax on it. Whether it will be taxable or not will depend on your beneficiaries tax position and how they choose to take the funds from your pension.

Can I transfer other pensions into my workplace pension?

Yes, you can. However, just because you can transfer pensions in doesn't mean it is always the right thing to do.

You cannot transfer in a "safeguarded benefit" of £30,000 or more without taking advice. A "safeguarded benefit" is one that contains underlying guarantees and may be a transfer from a Final Salary Pension Scheme (also known as a Defined Benefits Pension scheme) or a private pension with a Guaranteed Minimum Pension (GMP) element or benefits from Guaranteed Annuity Rates.

Other types of pension can be transferred without advice, but we would suggest you consider taking advice particularly on any transfer over £10,000.

If you do not take advice and make a transfer yourself, you may not have available to you legal protections if it subsequently transpires the transfer caused you a financial loss.

How much should I put into my pension?

There are many surveys on this subject, all of which have a slightly different basis of what is meant by an "acceptable pension". That said, one of the most authoritative is done by Scottish Widows and suggests that to achieve a figure most people would regard as acceptable requires a total contribution rate of 12% combined from employer and employee for every year of an employee's working life. Therefore, if you have not contributed the full 12% in your early years, you will need to pay considerably more later on.

For many people what they can afford to put into their pension is going to be dictated by their overall finances. If 12% (or more) is not achievable, then you should pay in what is an affordable amount each month. An affordable amount is what you can pay which is not going to put an unnecessary strain on your other commitments. If you have a spare £100 at the end of the month, you may wish to put an extra £30 into your pension. If you have a spare £200, you may wish to put an extra £80 into your pension.

Pensions are savings accounts. They may have certain rules about when you can take your money out but their fundamental aim is to produce the largest fund for use in retirement and the biggest factor in this will be how much is paid in.

When can I take money out of my pension?

This is known as the Minimum Pension Age and is currently 55. However, it will be increasing to 57 in 2028 and the Government intend to link it to life expectancy in future. this means if we are, as a population, living longer then the Minimum Pension Age will increase.

While it is possible to take money from your pension and carry on working, it is sensible to consider your pension as salary replacement. That is to say, it will be your income when your income from work stops.

Taking money out of your pension early is only likely to have a detrimental effect on your future income.

How will my pension money be paid to me?

When the Government changed the rules in 2015, the number of options available to people with private pensions increased markedly. That said, not all the options available will be suitable to everybody.

You can take up to 25% of your total fund as a tax free lump sum and use it how you want. The remainder of the fund can then be used to pay you an income (this is taxable – see above). This income can be paid directly from the fund or you can buy an annuity which gives you a guaranteed income for life, irrespective of how long you may live.

The right option for you will depend on many factors – the size of your pension fund; your income need in retirement; your State Pension and any other pension benefits you may have; your family situation; your health; what other assets you have etc.

Getting the best outcome is vital to an enjoyable and stress free retirement. You are strongly recommended to take advice on your retirement options to establish which one is right for you.