

## The costly hole in Graham's pension scheme



“ I'm a physics teacher and my partner, Jackie is a nursery school teacher. We have decided we want to start our own family, so I started looking at how our finances stacked up. That's when I realised that my pension scheme has an expensive black hole as far as Jackie is concerned, because we aren't married.

I was worried about what would happen if I were to die? I'd want Jackie and any children we have to be OK. We have insurance to pay off the mortgage, so she would have a roof over her head. But Jackie works part-time and only earns about £5,000 a year. If we had children, she might not work at all for a while. She wouldn't have enough money on her own to run a home let alone bring up a family.

At the moment we rely mainly on my salary. It's not a fortune, but enough to cover the bills and enjoy ourselves a bit. If I died, Jackie would need to replace some of what I bring in. I thought my pension scheme at work had that covered. Well, it does and it doesn't.

On the face of it, the scheme is really good. If I died, it pays out a lump sum of three times my salary – which would be £90,000. Jackie would get the lump sum –

I've filled out a form at work to make sure of that.

The scheme also pays pensions to dependants. But, up to 2006, only a widow – or widower for that matter – would get the pension. From 1 January 2007, that changed so now unmarried partners can get the pension too, but – and it's a big 'but' – only my service from 1 January 2007 onwards counts towards Jackie's pension and I need at least two years service from then on before she'd get anything at all, so it will be years before she would get anything like enough to live on.

I can buy her extra pension based on my 10 years before 1 January 2007, but that will cost – for example, I could pay £900 a year for the next eight years or a lump sum of about £7,000 (less after tax relief).

So there's the dilemma – do I shell out this money which I can't really afford or do we take a gamble that everything will be OK for us? ”

*Graham, Devon*

“When you get down to the detail, it could be years before an unmarried partner will get a reasonable pension”

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## Did you know?

Typically pension schemes will pay a pension to your unmarried partner, as long as you meet particular conditions – for example, you may need to nominate you partner, they may need to be partly or wholly financially dependent on you, you may need to have been together for at least two years, and the pension might be based only on your service from a set date. Check the rules for your scheme.



## Introduction

On average nearly a third of adult life is spent in retirement. Funding such a long period is expensive.

You may be tempted to put off starting to save – especially if you are paying off student debts, trying to buy a home, or raising a family. But the later you leave it, the harder it is to build up enough to pay for a reasonable retirement (see table).

Don't expect too much from the state. The basic state pension is less than a fifth of the national average earnings. To enjoy a comfortable retirement, you need to build up your own savings too.

There are two main ways of doing this:

- **An occupational pension scheme.** These are offered through your work. A big advantage is that your employer usually has to pay into the scheme on your behalf. As well as a pension upon retirement, occupational schemes usually give you a package of benefits. These include a pension if you have to retire early because of ill health and financial support for your dependants if you die before or after retirement. Not all schemes will pay benefits to an unmarried partner – you need to check.

### ARE YOU MARRIED?



- **Personal pensions (including stakeholder schemes).** These are typically run by insurance companies. You either sort out a scheme for yourself or you may have access to a scheme through your workplace (called a group personal pension scheme). Your employer does not have to pay anything into the scheme but might agree to do so. With personal pensions, a lump sum is normally payable if you die before you retire but it is usually up to you to decide what other benefits, if any, you want to add to the package. Unmarried partners can receive the lump sum and any other benefits.

You don't have to save through a pension scheme but there are tax advantages. You get tax relief on your contributions, your savings build up largely tax free, and you can take part of your savings at retirement as a tax-free lump sum instead of taxable pension.

From 2012, a new national pension scheme is due to start. Unless your employer offers a scheme that is at least as good, you will be automatically enrolled into the national scheme and have your own personal account (similar to a personal pension). Your employer and you will both have to contribute – you'll have to pay in 4 per cent of your pay and your employer 3 per cent. A further 1 per cent will come from tax relief. You will be able to opt out if you want to, but then you'll lose the benefit of your employer's contribution.

You might be relying on your partner to build up the family's retirement pot. But it's sensible to protect yourself in case you split up in the future. The best way to do this is to build up some of the family's savings in your name. If you can't afford to save, ask your partner to pay into a personal pension for you (see page 7).

## Did you know?

Nearly 9 million workers in the UK are neither saving for a pension nor have a partner who is saving for retirement. Presumably they are relying on the state. In 2006/7, the average state pension for recently retired pensioners was £103 a week for single pensioners and £157 for couples.

*Pension Commission,  
First report, 2004;  
Department for Work and Pensions,  
Pensioners Income Series*



## How much you might need to save to provide £100 a week from age 65<sup>1</sup>

If you start saving at this age:	You'd need to save this much each month:	
	Men	Women <sup>2</sup>
30	£140	£153
40	£214	£234
50	£468	£510

- 1 All amounts in today's money. Assumes 5% a year investment growth during the last 10 years before retirement and 7% a year growth before then, 1% a year charges, 2.5% a year inflation and that your contributions increase in line with earnings. When considering long-term investment, it is more suitable to use general assumptions like these than to assume present short-run conditions will continue to apply.
- 2 Women need to save more because they tend to live longer than men. This means women's pensions are on average paid out for longer and so cost more.



- WHAT ABOUT MY PENSION CONTRIBUTIONS?

## Who gets any death benefits?

Most occupational schemes and personal pensions are set up so that the scheme decides who should get any lump sum and dependants' pensions if you die. That way, payments can go direct to your survivors instead of being paid to your estate where they might be taxed and would be held up until probate had been granted.

Make sure you fill in a form from the scheme nominating the person you choose to receive the death benefits and, if circumstances change, remember to alter the nomination. The scheme will normally do as you asked but can override your wishes if anyone else comes forward and proves they were financially dependent on you.

# State pensions

## How they work

### Basic pension

Anyone who has paid (or been credited with) enough National Insurance contributions over their working life gets the state basic pension. The rules are changing so that, if you will reach state pension age on or after 6 April 2010, you need to have paid National Insurance contributions for 30 years to get a full pension (it used to be 44 years).

### National Insurance Credits

To help you carry on building up the state basic pension, you might be credited with contributions if you are in any of the following situations:

- caring for a child
- unable to work because of sickness or disability
- getting certain benefits
- in the years you reach 16, 17 and 18, if still in education and born after 5 April 1957
- on a course of approved training
- doing jury service
- serving a prison sentence for a conviction which is subsequently quashed
- you are a man aged 60 to 65 and not working (for example, because you have taken early retirement). This is to prevent you being discriminated against in comparison with women who currently reach state pension age (and so stop paying contributions) earlier than men. From 6 April 2010, these credits are being phased out in line with the increase in women's state pension age from 60 to 65 (see the 'State pension age' table).

### State additional pension

In 2002 the State Second Pension (S2P) replaced the State Earnings Related Pension (SERPS). Only employees could get SERPS, but carers and some people with a disability can also get the S2P. You are not building up additional pension if you are

- self-employed,
- an employee on low earnings (less than £95 a week in 2009–10), or
- contracted out of S2P.

### What does 'contracted out' mean?

You are 'contracted out' if you are building up a pension in an occupational pension scheme or personal pension instead of the state additional pension.

### How much?

In 2009–10 the full basic pension for a single person is £95.25 a week. Married couples (and from 2010 same-sex couples who are registered civil partners) can claim extra. Unmarried couples can not.

The amount of additional state pension you have built up used to depend on your eligible earnings over your working life since 1978. From 6 April 2009 onwards, it builds up at a flat-rate instead, which is the same for everyone. When you reach state pension age, you are likely to get a combination of the old earnings-related pension and the new flat-rate pension, so the total will vary from person to person.

### When are they paid?

You cannot start receiving your state pension until you reach state pension age. This age is gradually being increased, depending on when you were born – see *the table below*.

### State pension age

Your date of birth	Pension age
Before 6 April 1950	60 (women); 65 (men)
6 April 1950 to 5 April 1955	Between 60 and 65 (women); 65 (men)
6 April 1955 to 5 April 1959	65
6 April 1959 to 5 April 1960	Between 65 and 66
6 April 1960 to 5 April 1968	66
6 April 1968 to 5 April 1969	Between 66 and 67
6 April 1969 to 5 April 1977	67
6 April 1977 to 5 April 1978	Between 67 and 68
6 April 1978 onwards	68

## Protection for your family

A married person (and, from 6 April 2010 a same-sex civil partner) can claim state bereavement benefits or receive state pensions based on their spouse's (or civil partner's) National Insurance record. There is no similar protection for unmarried partners.

If you divorce you can still use your former husband or wife's National Insurance record, but you lose this right if you remarry or move in with someone as if you were married. Unmarried partners who separate cannot use their former partner's National Insurance record in this way.

## Pension credit

Pension credit is a state benefit for pensioners on low incomes. It ensures they have at least a minimum amount to live on, and rewards people who have made their own modest savings for retirement. If you live with your partner, whether you are married, registered, or living together, your entitlement depends on your joint income.



## What should you do?

- Request state pension forecasts (see page 8) to check how much state pension you each might get.
- If you have gaps in your National Insurance record (for example, because you took time out to study or travel), check whether paying voluntary Class 3 contributions would earn you extra basic pension but bear in mind that most people will need only 30 years of contributions to get the full pension.

# Occupational schemes and personal pensions

## How they work

Some occupational schemes are 'salary-related'. This means you are promised a pension based on your pay and how long you've been in the scheme.

Most other occupational schemes, all personal pensions, and the new national scheme due to start in 2012 are 'money purchase schemes'. This means you build up your own fund of savings and convert it to a pension at retirement, normally by buying an annuity.

## What is an annuity?

It is an investment where you permanently give up a lump sum and in return get an income usually payable for the rest of your life.

## How much?

### Salary-related scheme

Typically, a salary-related scheme might give you 1/60th or 1/80th of your pay for each year you have been in the scheme. For example, if your pay is £30,000 and you have 20 years' membership, you might get  $1/60\text{th} \times £30,000 \times 20 = £10,000$  pension a year.

### Money purchase scheme

In a money purchase scheme, how much pension you get depends on:

- the amount paid in
- how well the invested contributions grow
- what charges the pension company has made, and
- the annuity rate at which you convert the fund into pension.

### Tax-free cash

With most schemes, you can swap part of your pension for a tax-free lump sum.

## When are they paid?

In most cases you cannot start receiving your pension before you are 50 (this changes to 55 from 6 April 2010), and you must take your pension before you are 75. The earlier you start, the lower your yearly pension will be.

## Protection for your family

Most schemes provide some sort of lump sum pay out if you die before you retire.

If you die before, or often after, retirement most occupational schemes pay pensions to your survivors, but only if they were financially dependent on you, or interdependent (for example, you shared the main household bills). Over the last few years the rules have changed so that most public sector schemes now also pay survivor pensions to your unmarried partner, provided you have nominated them and various conditions are met (see page 1).

If you belong to a public sector scheme, check carefully whether the introduction of pensions for unmarried partners has been backdated and how far. You may be able to buy extra protection for your partner (see page 1).

Occupational schemes are not allowed to discriminate on sexual orientation – so if the scheme will pay a pension to an unmarried opposite-sex partner, it must also pay to a same-sex partner. Schemes have to treat registered civil partners in the same way as married couples.

With most money purchase occupational schemes and plans, at retirement you choose whether to buy a single-life annuity (where the income stops when you die) or a joint-life-last-survivor annuity which would provide a pension for a surviving partner.

**Robert** reaches age 65 with a personal pension fund of £70,000. He opts for a single life annuity because it offers the highest income: £4,980 a year. With state pensions, he and his unmarried partner Pam have a joint income of nearly £14,900 a year. Unfortunately Robert dies three years later and his pension dies with him. Pam is left with just her state pension which is topped up by pension credit to about £6,800 a year. If Robert had bought a joint life annuity, their joint income would have been less at around £14,200 a year but after Robert's death Pam would have had around £8,500 a year to live on including income from the annuity and some pension credit.

### A pension for your partner<sup>1</sup>

If you buy this sort of annuity:	You might get this much pension a year: <sup>2</sup>	And if you died your partner would get:
Single-life	£2,088	£0
Joint-life-last-survivor, one-third reduction on death	£1,812	£1,208
Joint-life-last-survivor, no reduction on death	£1,704	£1,704

1 Level annuity (where the income stays the same each year), based on a man aged 65 and women aged 60 at retirement with a £30,000 pension fund and the man dying first.

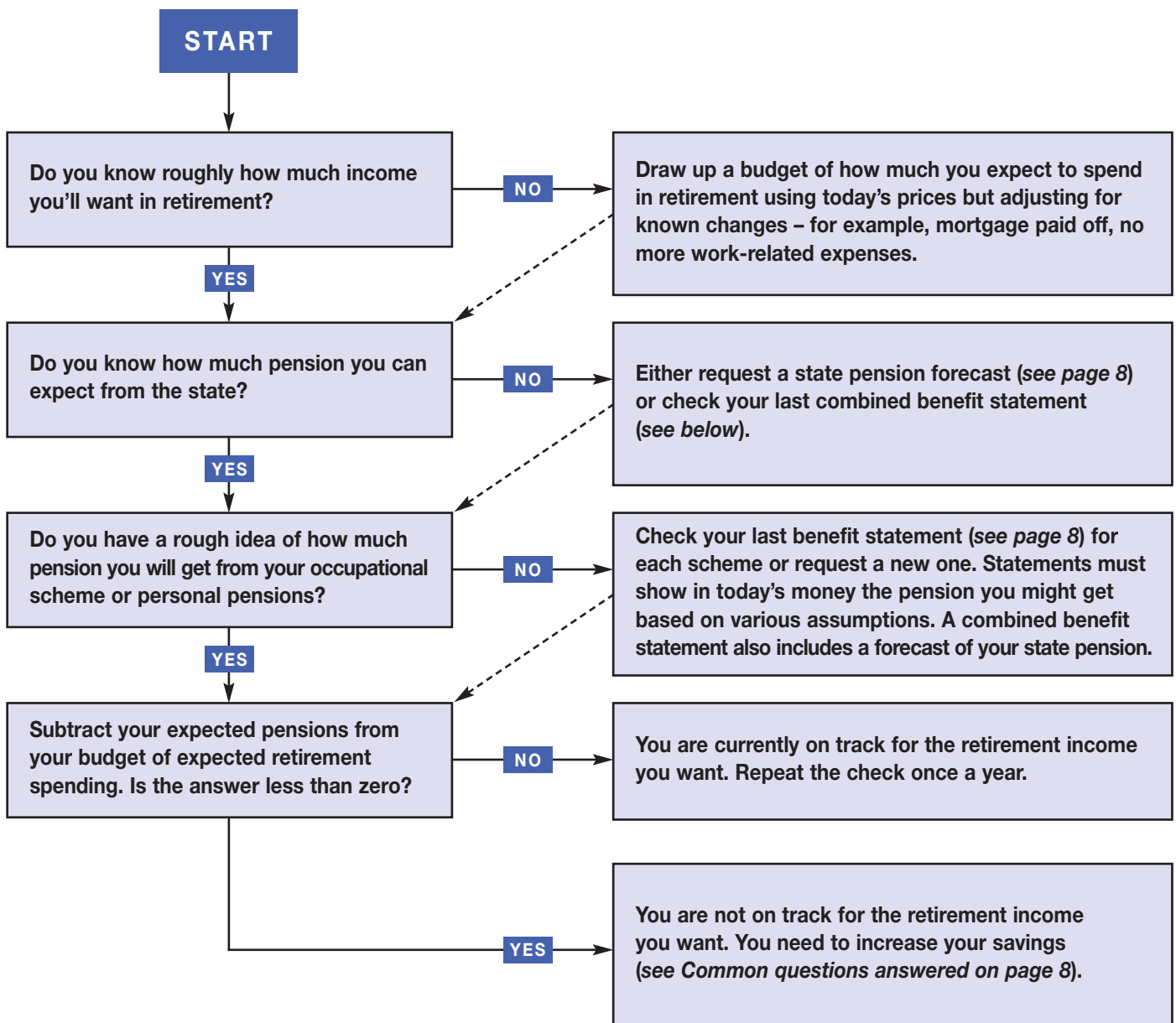
2 Based on rates from Financial Services Authority, March 2009.



### What's a stakeholder pension scheme?

It's a personal pension which meets certain conditions such as low charges and flexible payments.

## What should you do?



### Did you know?

Whether or not they belong to an occupational scheme, most people can pay up to £3,600 a year into personal pension plans (including stakeholder schemes). You don't have to be earning and anyone can pay in on behalf of anyone else. For example, a parent could start a scheme for a child and one partner could pay into a scheme for the other.

## Common questions answered

### **Q** How much should I be saving for retirement?

**A** It depends on how much retirement income you want, when you plan to retire, your sex and your age now. The table on page 3 gives an indication if you aim to retire at 65. It's impossible to know how your pension savings will grow in future, so the indications are based on assumptions that may turn out to be too optimistic or too pessimistic. Because of this, it is important to review your pension savings regularly and be prepared to adjust the amount you save to stay on track.

### **Q** My benefit statement shows my pension in 'today's money'. What does that mean?

**A** Over time the value of money falls because prices rise. If you have £1 and baked beans cost 25p a tin, you can buy four tins. If in a year's time the price of baked beans has doubled to 50p, you can buy only two tins. The buying power of your money has halved, so the value of £1 tomorrow is only 50p in today's money. Your benefit statement makes an adjustment for possible future price rises to give you an idea of the value of your expected pension in terms of what it could buy today.

### **Q** I was previously married. Can my ex-wife claim the death benefits from my occupational pension scheme if I were to die?

**A** It depends. Your divorce settlement may already have compensated your ex-wife for the loss of any claim to your pension scheme benefits. If not, a claim from her might succeed if she could show that she was still financially dependent on you – for example, because she relied on your maintenance payments.

If you are separated but not divorced, your ex would be your legal widow and it is quite possible that the scheme would recognise a claim from her as valid.

## Helpful addresses, leaflets and websites

### Free government guidance about pensions

**The Pension Service General Enquiries: 0845 606 0265**  
**[www.pensionguide.gov.uk](http://www.pensionguide.gov.uk)**

PTB1 *Pensions: the basics. A guide from the government*  
PM2 *State pensions – Your guide*  
PM6 *Pensions for women – Your guide*  
PM7 *Contracted-out pensions – Your guide*

### To check your state pension age

**[www.thepensionservice.gov.uk/state-pension/age-calculator.asp](http://www.thepensionservice.gov.uk/state-pension/age-calculator.asp)**

### To get a state pension forecast

**Future Pension Centre**  
Tyneview, Whitely Road, Newcastle upon Tyne NE98 1BA  
**Tel: 0845 3000 168**  
**[www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)**

### To find out about National Insurance contributions

**Your local tax office**  
See phone book under 'HM Revenue & Customs'  
**[www.hmrc.gov.uk/individual/tmanational-insurance.shtml](http://www.hmrc.gov.uk/individual/tmanational-insurance.shtml)**

### To find out about your occupational scheme or get a benefit statement

**Pension scheme administrator**  
See scheme literature or notice board at work for contact details. Alternatively, contact your Human Resources department.

### To work out how much you might need to save for retirement

**Age Concern MoneyTrail**  
**[www.ageconcern.org.uk/moneytrail](http://www.ageconcern.org.uk/moneytrail)**

### To check annuity rates

**Financial Services Authority compare products**  
**[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)**

### Book

#### **The pension handbook**

*Jonquil Lowe*

Available from bookshops and *Which? Books*  
**[www.which.co.uk](http://www.which.co.uk)**

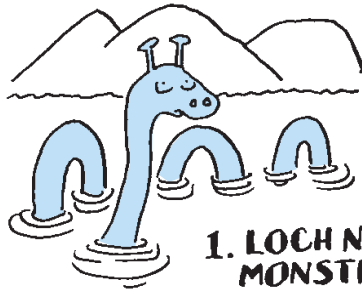


## Jargon buster

The jargon	What it means
<b>Annuity</b>	An investment where you pay a lump sum in return for a regular income, usually payable for the rest of your life.
<b>Money-purchase scheme pension</b>	A scheme in which you build up a fund which you convert into a pension when you retire. You usually do this by buying an annuity.
<b>Occupational pension</b>	One type of pension scheme offered through your work. Your employer usually has to pay into the scheme on your behalf.
<b>Personal pension</b>	A pension scheme typically offered by insurance companies. Your employer (if you have one) doesn't have to pay anything into the scheme but may agree to do so.
<b>Private sector pensions</b>	Occupational pensions offered by a private company to its employees.
<b>Public sector pensions</b>	Occupational pensions offered by a public sector organisation to its employees. This group includes, for example, people employed by state schools, the NHS, the Police, and Local councils.
<b>Salary related pension</b>	An occupational pension scheme that promises to pay you a pension based on your salary and how long you have been in the scheme.
<b>State basic pension</b>	The basic pension paid by the government, based upon the amount of National Insurance contributions you have made (or been credited with). <i>See page 4 for details.</i>
<b>State Second Pension (S2P)</b>	The state additional pension. <i>See page 4 for details.</i>



## THREE THINGS THAT DON'T EXIST.



1. LOCH NESS  
MONSTER



2. CATS' NINE  
LIVES



3. COMMON LAW  
MARRIAGE

**This leaflet is one of a series produced by [advicenow.org.uk](http://advicenow.org.uk)'s LivingTogether campaign.**

The LivingTogether campaign aims to increase awareness and understanding of the legal issues around living together. We explain exactly what rights couples living together *really* have, and show you practical ways you can protect yourself and your partner.

We provide information and practical material to help you ensure your partner will inherit from you if you die; understand your housing rights and show you how to protect them with a Living Together agreement, explaining financial implications and what you can do to minimise them, and how to ensure your partner is treated as your next of kin in an emergency.

**For more information about your rights when you are living with your partner see [www.advicenow.org.uk/livingtogether](http://www.advicenow.org.uk/livingtogether)**

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The LivingTogether campaign is led by Advice Services Alliance in partnership with One Plus One ([www.oneplusone.org.uk](http://www.oneplusone.org.uk)) and is funded by the Department for Constitutional Affairs.

Advice Services Alliance (ASA), the co-ordinating body for UK advice services. ASA members include AdviceUK, Age Concern England, Citizens Advice, DIAL UK, Law Centres Federation, Shelter and Youth Access. ASA works with its membership and government to develop policy on delivery of legal and advice services; champions the development of high quality information, advice and legal services; and provides supporting services to advice networks.

The LivingTogether Campaign applies to England and Wales only.  
The law in Scotland and Northern Ireland is significantly different.

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