



Stakeholder Pensions

This Guide is supplied for general information only. You should seek specific advice for your individual circumstances before acting on any suggestions made.

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What is a Stakeholder Pension?

Stakeholder Pensions are a form of Personal Pension where certain conditions, laid down by the Government, must apply. These conditions relate to the maximum amount that the Pension Company may charge for the product, the minimum level of contribution they must accept and the abolition of a fixed frequency for your contributions.

When the idea was first introduced it was thought that Stakeholder Pensions would be targeted at individuals earning between £9,000 and £18,000 per year. However as they have evolved it has become clear that they are equally suitable for people who earn more than £18,000. Under new rules introduced at the same time as Stakeholder Pensions you will be allowed to make a contribution to a Stakeholder Pension even though you are not working or receiving any income.

The amount you can contribute to a stakeholder pension depends on your income, but regardless of these factors you will be allowed to save at least £3,600 gross a year (£300 per month) towards your retirement.

How much can I contribute?

Although there are limits on contributions to Stakeholder and Personal Pensions these limits are very generous. You will be allowed to contribute up to £3,600 per year (£300 per month) without any reference to your income or your age.

If you wish to pay more than £3,600 this may be allowed but this does depend upon the amount of your earnings.

The maximum that can be paid into a Pension Plan, including Stakeholder Plans, is capped at 100% of your salary, or £215 000 per annum in the tax year 2006/07. The Government reviews this cap annually.

The Government has simplified the tax rules for pensions from April 2006. From now on, you will be able to contribute as much of your taxable earnings to your pension as you want - up to a maximum limit set at £215,000 for tax year 2006/07 - and still benefit from tax relief.

There will also be an overall "lifetime allowance" on the total amount of money you can save in your pension and still benefit from tax relief. This is set at £1.5 million for tax year 2006/07 and also includes the value of old pensions from previous jobs.

If I don't pay the maximum amounts can I pay the balance later?

This is no longer allowed. Before the 5th April 2001 there were rules that would allow you to 'carry forward' any scope for pension contributions that you had not fully used in any tax year.

Do I get Tax Relief on my Pension Contributions?

The Government allows Income Tax relief on most pension contributions. In the case of Stakeholder Pensions any contributions you make are entitled to immediate Income Tax relief at a rate of 22%.

For example, if you contribute £78 each month then the Pension Company will be allowed to reclaim from the Government £22 of tax relief on your behalf. This tax relief is added to your plan alongside the payments you, and if appropriate, your employer elect to make. This means the actual amount invested in your Stakeholder Pension plan would be £100 per month.

Do I qualify for extra tax relief if I pay Higher Rate Income Tax?

Yes, at present the Inland Revenue will allow Higher Rate Tax payers who make pension contributions to claim up to 40% tax relief. As only 22% is granted at source you must claim the balance from the Inland Revenue. Your Pension Company or Tax Office will provide you with the required form to claim this extra tax relief.

Can my employer make contributions on my behalf?

Employers may pay money into your Stakeholder pension plan alongside any contributions that you make yourself. The normal contribution limits continue to apply. This means that if the total contributions exceed £3,600 per tax year the amount actually paid must be justified by reference to your age and earnings.

There is no obligation on any employer to contribute to a Stakeholder Pension plan. However, many chose to do so as part of the overall benefits package they provide for their staff.

I want to make contributions to another Pension as well as my Stakeholder Pension

This is an area of confusion for many people. As part of the changes made in April 2006, it is now possible for you to make contributions to two different types of pension arrangement at the same time, within the limits given above.

If you need assistance to understand your situation in the light of the new rules, please contact us.

What is 'concurrent' membership?

Concurrent membership is making payments to a Stakeholder Pension at the same time that you are a member of your employer's 'company' pension scheme.

Whilst you are allowed to have as many Personal Pension or Stakeholder Pension plans as you like, the total contributions you make do not exceed the normal contribution limits. The situation is very different if you are a member of an occupational pension scheme (Company Pension scheme) and wish to make payments to a Stakeholder Pension as well.

Concurrent membership of a normal occupational pension scheme and a Stakeholder Pension plan is only allowed as long as:

Your earnings are not more than £30,000 for the tax year

Or you are not a Controlling Director of the company.

If you are an employed person then you can pay up to 15% of your earnings as pension contribution to the occupational pensions scheme whilst paying up to £3,600 into your Stakeholder Pension.

When can benefits be taken from a Stakeholder Pension?

Under normal circumstances which assume that you are in good health, you can take your benefits at any time from age 50 to 75. However with effect from 2010 the minimum age will increase to 55. This applies whether you are male or female. You do not need to stop working or reach state retirement age to be able to draw benefits from your Stakeholder Plan.

If your health is poor and you are classified as unable to work, then you may be able to draw benefits before age 50 increasing to 55 from 2010 (please note: there are strict rules regarding ill health early retirement. If you believe you could qualify for such early retirement you should seek advice from your pension provider).

There are some occupations where the Inland Revenue have agreed special retirement ages. These lower ages allow members of that profession to draw benefits earlier than age 50 increasing to 55 from 2010 regardless of their state of health. Examples of such lower ages are Professional Footballers, Deep Sea Divers and members of the Reserve Forces.

You must draw your Stakeholder Pension benefits on or before your 75th Birthday.

Must I take my Stakeholder benefits as a pension?

At the time you choose to draw your benefits you can choose to take up to one quarter of the value of the pension fund as a lump sum. Currently these lump sum payments are tax-free.

The balance of the fund has to be taken as a pension, although that does not necessarily mean you must immediately buy an annuity. For further details of your options at retirement you may wish to talk to an adviser. You can contact us by clicking on the button marked 'Make contact now' shown on the right.

What if I die before I draw my benefits?

The value of your Stakeholder Pension fund is normally returned to your next of kin if you die before you draw your pension. It is likely that the payment will be free of any Inheritance Tax. However, this can not be guaranteed. You can give an indication of those people you would prefer actually received the benefit were you to die, either by placing your Stakeholder Pension plan in Trust or alternatively by completing a 'Nomination' form.

Which Stakeholder Pension will be best for me?

Stakeholder Pension plans offered by the many different Pension Companies all have to apply the same rules about contributions, benefit structures and maximum charges. However the amount that they charge, within the maximum charge of 1.5% per annum and the choice of investment funds available is a matter for each of them to decide upon.

It is important to have an understanding of risk when selecting your investment funds. With so many different schemes to choose from, we suggest that you seek advice before deciding the best pension for you. If you need assistance then you can contact us.

What do I need to think about when selecting a Stakeholder Pension?

Check if your employer is setting up a stakeholder pension and, if so, which Pension Company is responsible for running that arrangement. It may be that this scheme might be suitable for your needs.

If you already have a personal pension or are part of an occupational pension scheme, check how much you or your employer will be allowed to contribute to a new Stakeholder pension plan.

It is likely that you will wish to know how your contributions are to be invested, All Stakeholder Pension Plans offer a default investment fund but many offer a choice of funds where your money can be invested. If your Pension Company does offer an investment choice you should check that there are no extra charges for investing in a fund that is not the default investment fund.

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