Contact Details

We can be contacted at:

The Pensions Advisory Service
11 Belgrave Road
London SW1V 1RB

Helpline 0845 601 2923
General Office 020 7630 2250
Fax 020 7592 7000

For enquiries, please use our online enquiries form:

http://www.pensionsadvisoryservice.org.uk/online-enquiry

www.pensionsadvisoryservice.org.uk

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THE PENSIONS ADVISORY SERVICE

Pension saving for the self employed

About the Pensions Advisory Service

The Pensions Advisory Service has been providing help and guidance to members of the public on pension matters since 1983, either by telephone or written advice. We also help people who have a pension complaint or dispute.

Our service is free and sustained by a nationwide network of volunteer advisers, who are supported by technical and administrative staff based in our London office.

Further information about pensions

We also publish the following information leaflets:

- Pensions and leaving work
- Transferring your pension
- Getting information about your workplace pension
- Tracing your pension
- Mistakes & overpayments
- Pension saving for small business owners
- TPAS & the Pensions Ombudsman
- Saving into a pension—planning for your future
- Women & pensions
- Resolving disputes
- About Us
- Retiring early due to ill health?
- What happens when a pension scheme winds up
- Your pension scheme is winding up
- Pensions: when a relationship breaks down

This leaflet is available in large print, Braille and Welsh.

Please note that this is a guide for information only. The Pensions Advisory Service cannot be held responsible in law for any opinion expressed, nor should any such opinion be regarded as grounds for legal action.

advisers. Our advisers are experienced pensions professionals who give their time to us for free. They will use their experience and expertise to consider your complaint and try to resolve it. If they do not think this is possible, they will recommend what further action you might take.

There are lots of ways you can contact us:

By visiting our website where pensions are explained in plain English:

www.pensionsadvisoryservice.org.uk

By post or web-based enquiry form

The Pensions Advisory Service, 11 Belgrave Road, London, SW1V 1RB (we're sorry, our offices aren't equipped to receive personal visitors).

www.pensionsadvisoryservice.org.uk/online-enquiry

Ring us on 0845 601 2923.

We operate a national helpline, answered by pension professionals who are able to provide information and guidance on any aspect of occupational, personal, stakeholder and state pensions. We're here to help members of the public, but not those acting in a professional capacity.

We're available to speak to you from Monday to Friday from 9am to 5pm. If you need to call outside these hours, please leave a message and we will call you back.

Pension saving for the self-employed

No-one wants a future where they have to choose between paying the bills and buying someone a birthday present.

You work hard for a living and you deserve peace of mind when you retire. **That's why planning for your retirement is one of the most important business decisions you can make today.**

With your focus on the day-to-day and plans for the future of your enterprise, it can be difficult to spend time planning for retirement. And if you really love your work, the thought of giving up might be the last thing on your mind.

At The Pensions Advisory Service, we deal with hundreds of enquiries a year from people who wished they'd planned earlier, so they can kick back and enjoy the finer things in later life. That's why we'd advise you to start saving what you can, as soon as you can. Pension contributions are a tax efficient, cost-effective way of saving, with a wide range of options available for the self-employed.

You'll find some details in this leaflet, and we'd also advise you to see your accountant, or an independent financial adviser, to fully understand your range of options.

We have produced this booklet to tell you more about pensions and to help you decide:

- whether you need to act
- what you should consider
- what your options are, and
- what you should do next.

Why should I save?

If you're self-employed you'll be entitled to the basic state pension - currently set at £113.10 a week (2014/15). To qualify for that, you'll have paid 30 years of national insurance contributions. There are proposals to increase this to 35 years from April 2016.

If you've been employed by someone else, you could be entitled to some additional state pension but that depends on length of employment and your salary at the time.

On its own, the basic state pension is unlikely to provide you with anything like your current standard of living. So it's crucial that you plan how to get the rest of the retirement income you'll require.

Current estimates show that more than half of self-employed men and more than 2 in 3 self-employed women aren't saving for a pension.

But what if you don't win the lottery, sell your company for a fortune or the property market doesn't offer the sort of return you want for your home? If you start small now, your pension pot will get bigger over time – and before you know it, you'll be able to give up work and put the 'live' into 'living'. Pensions are a tax-efficient way of saving for your future. Our website has information explaining this.

scheme.

What if I need to stop payments?

Don't stop paying without getting advice in case you end up losing money. Different pension plans have different rules, so talk to your pension provider, and ask them to explain clearly what your options are.

Bankruptcy

What happens to your pension if you are made bankrupt may depend on:

- when you were made bankrupt;
- whether you are getting your pension or not; and
- the type of pension you have

The law around bankruptcy is subject to change, so you should always take advice.

For more information, visit https://www.gov.uk/bankruptcy/your-assets and look under pensions and bankruptcy.

If things go wrong

Occasionally things can go wrong and you have to complain to your scheme or provider. If you find that your complaint is not being dealt with you can ask us to help you.

Before we can help, you must have already tried, in writing, to get your complaint resolved. We will need copies of that correspondence and any other relevant documents. After considering the information you send us, we might need to contact your scheme or provider.

Most complaints we investigate are handled by our volunteer amount of money saved in them.

Some pension providers specialise in providing annuities for people that have health issues or a lifestyle that mean their life expectancy is lower than the normal life expectancy for someone of their age, for example sufferers of high blood pressure or heavy smokers. Others take where you live into consideration.

Although you should always shop around, you don't have to switch. Whether you do or not should depend on whether you can find a better deal. You should also take into account any penalties your existing provider may charge you to move your pot to another pension provider.

Our website has more information on opening your pension pot. You can find it here: http://www.pensionsadvisoryservice.org.uk/taking-payments-from-your-pension-pot .

Changes in your circumstances

We can tell you the things you need to think about if your circumstances change, for example if you get divorced or fall ill. Here are some other examples:

Moving previous pension pots to a new scheme

If you were previously employed, and paid into a company pension scheme for a minimum period, you have the right to transfer your pension into your new arrangement (subject to approval by the pension scheme).

Before moving your pension, find out:

- what benefits your former employer's scheme will provide for you
- what you get out of transferring those benefits to your new

How much should you save?

Ask yourself, 'how much will I need so I can feel secure when I retire?'

Industry experts suggest that a half to two-thirds of your current income might be enough to meet your needs when you retire.

We'd recommend you sit down and work out your likely outgoings.

- What will your regular bills be? (utility bills, phone, any mortgage payments/rent, insurances, loans, food, travel, petrol, TV licence, prescription charges for example)
- What else will you do during the week? (see friends/family, spending money for entertainment)
- What occasional expenses do you incur? (clothing, holidays, special occasions)
- And what else might happen? (house /car repairs, emergency medical bills, relatives asking for help)

Thinking about the future can be tricky, so discuss plans with a friend or family to help you get a realistic picture of what you might need. You'll now have a figure which will indicate the level of pension you need.

Choosing a pension

This section explains the different pension schemes that may be available to you. You are not restricted to paying into only one pension scheme at a time. You can pay into several at the same time if you want to do so, and can pay as much as you like into your pension pots.

Contributing to a pension allows you to get some tax relief. The maximum contribution you can receive tax relief on each year is limited to the lower of:

- 100% of your earnings; and
- the annual allowance.

You can pay more to your pension pot, but you will not get tax relief on contributions above these limits.

Read more about tax relief on our website here: http://www.pensionsadvisoryservice.org.uk/tax .

Personal pensions

A personal pension plan is a pension you set up yourself, to get a retirement income. It is a type of defined contribution scheme. You can buy one from insurance companies, high street banks, investment organisations and some supermarkets and high street shops.

You can have a personal pension and use it to save for your retirement, even if you are already saving for a retirement income elsewhere.

The amount of pension you will be able to take from your personal pension depends on the following:

2. Decide what sort of pension is right for you

Once you have decided that you would like to retire, you need to think about how you would like to get a retirement income.

You have the following choices.

- You can buy a retirement income (called an annuity) from an insurance company. The amount will depend on the annuity rates in force at the time. An annuity rate is the price offered by the insurance company to change your pot into retirement income.
- You can take an income directly from your pension pot. This is known as income drawdown.

In either case, you can decide to take some of your pension pot as a cash lump sum. You can generally take up to 25% of the value of your pot as a cash lump sum.

Our website has more information on the different types of annuities, and on income drawdown. We also have Spotlight factsheets available on our Publications page, which you can find here: http://www.pensionsadvisoryservice.org.uk/publications.aspx .

3. Shopping around for a pension

When you open your pot, and you want to buy an income you don't have to buy your annuity from your existing provider. You have the option to shop around, to try to get the highest income you can. This option is known as the open market option (OMO).

It is important that you do take time to shop around. Each pension provider will offer a different deal in exchange for your pot, and this can make quite a difference to your income. Also some insurance companies may only accept pots that have more than a certain

If you choose to take some of your pot as a cash lump sum, the income you can then get from your pot will be less.

You do not have to pay tax on the cash lump sum, as long as you do not take more than a quarter (25%) of your benefits or pot as cash. (The proportion may be higher if you have a protected lump sum.)

You use the remainder of your pot to buy an income. You can either buy an annuity or enter into a drawdown arrangement. These options are explained later on.

1. Deciding when to open your pot

Usually you need to be 55 before you can open your pot and use the money in it to give yourself an income.

However, there are times when you can open your pot before age 55.

- If sickness is stopping you from working and your scheme allows you to take an ill-health pension.
- If you have the right under your scheme to take your pension at an age before 55. This is known as a protected pension age.

You need to think about whether the amount you would get from your pensions would be enough for you to give up work. You do not have to open all your pension pots at the same time. You can also open one or more pension pots while continuing to work.

If you need to work out what is the right choice for you, ask your pension providers to send you a quotation showing what level of pension you might get if you opened your pot now. You can then use the figures to see if you will have enough to stop working, or to scale down the amount of work you do.

- the amount of money you pay into your pot;
- the charges taken to pay for the cost of investing and administering your pot;
- how much your savings grow, based on your chosen investments; and
- how you choose to use the money when you retire.

Self-invested personal pensions

A self-invested personal pension is a type of personal pension. Like a personal pension, you set it up yourself, to get a retirement income.

The main difference is that you have a wider choice of how you invest your pension pot if you use a self-invested personal pension. You can decide your own investment strategy, or can appoint a fund manager or stockbroker to manage your investments.

You can start a self-invested pension from scratch, or you can transfer funds from another pension scheme. You don't need a substantial fund to invest in your self-invested pension plan, but the larger the fund the greater the range of investment opportunities you are likely to have.

You will have to pay some charges. There can be additional charges for self-invested personal pensions because of the specialist investments.

How much you have to pay and why will vary from provider to provider. You may face additional charges at some or all of the following points:

- setting up the plan
- annually for administration
- if you change your investments
- if you invest in property
- setting up your annuity
- if you choose income drawdown.

You may also face bank charges and, possibly, have to pay a fee if you seek financial advice on your investments.

Stakeholder pension schemes

A stakeholder pension is a pension you set up yourself, to get a retirement income. It is a type of defined contribution scheme. You can buy one from insurance companies, high street banks, investment organisations and some supermarkets and high street shops.

A stakeholder pension works in the same way as a personal pension. You build up your pension pot in the same way and your options when you take the money from your pot are the same.

However, stakeholder pensions have to meet minimum standards set by the Government. These include:

- a limit to the charges you have to pay; and
- no charges for altering or stopping your contributions, or transferring your funds.

Also, your provider must:

- accept your contributions if they are more than £20

- accept any transfers you want to make from your other pensions.

During the lifetime of your pension

Take an interest in your pension savings. Every year, you should get a statement from your pension provider. Check to see whether your contributions have been correctly received, and that your pension pot is invested as you intended. If you think that something has gone wrong, contact your provider straight away as mistakes are easier to sort out the earlier they are found.

Use your statements to monitor how your pension pot is growing, and whether your pension savings are on track. Keep your statements safely as it is very useful to have your own records if there are any difficulties later on.

Remember to tell your pension provider if you move house so that you do not lose track of your savings. It is also a good idea to tell your provider of any changes in your marital status.

What happens when you retire?

When you are thinking about opening your pension pot and using the money to provide yourself with an income, you need to:

1. decide when you want to open your pot;
2. decide what sort of pension is right for you; and
3. shop around to get the best deal.

What will you get when you retire?

When you open your pension pot you can choose to take some of the money in the pot as a cash lump sum.