Barchester Briefing

Stakeholder Pensions

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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 first was first introduced it was thought that Stakeholder Pensions would be targeted at individuals that earn between £9,000 and £18,000 per year. However as they have been developed is has become clear that they are equally suitable for people who earn more than £18,000 a Stakeholder Pension. 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 and receiving income. The amount you can contribute to a stakeholder pension depends on your age and income, but regardless of these factors you will be allowed to save at least £3,600 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, whether you are employed or self-employed, and your age. The limits on contributions are shown in the table below.

The maximum income that can be considered for pension planning is capped at £97,200 per annum in the tax year 20002/3. The Government reviews this 'earnings cap' annually.

Your maximum contributions to a Stakeholder Pension		
Contributions up to £3,600 per annum may be made without reference to your age or earnings.		
Age on the 6th April	Percentage of Net Relevant Earnings	Maximum Contribution for the Tax Year 2002 / 3
Ages up to 36	17.5%	£17,010
36 - 45	20%	£19,440
46 - 50	25%	£24,300
51 - 55	30%	£29,160
56 - 60	35%	£34,020
61-74	40%	£38,880

Although the contribution percentages are based upon your age at the beginning of the Tax Year, the earnings on which contributions are based do not necessarily have to be those received in that year.

Under rules introduced in April 2001 contributions made to Stakeholder Pensions that exceed £3,600 may be justified by reference to earnings received at any time within the previous 5 years. This means if your earnings were higher 3 years ago, you can calculate your Stakeholder Pension contribution on those previous earnings.

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. The old rules would allow a payment into a pension plan (either a Personal Pension or Retirement Annuity Plan), in respect of any of the previous six tax years. These rules have now been replaced by new rules that allow Stakeholder or Personal Pension contributions to be based on any earnings received within the last 5 years.

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 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 pay 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 pay contributions to another pension as well as my Stakeholder pension

This is an area of confusion for many people. Although it is normally possible for you to make contributions to two different types of pension arrangement at the same time there are contributions limits and special rules that you need to take into account.

If your existing pension is either a Personal Pension (or Retirement Annuity) you will be allowed to continue making payments to this plan alongside your Stakeholder Pension so long as the total contributions do not exceed the limits shown in the table below.

(Please note: if you are just making contributions to a Retirement Annuity Plan then separate limits apply. If you require details of these limits please contact us or perhaps your pension company)

Your maximum contributions
to a Stakeholder Pension
Contributions up to £3,600 per annum may be made
without reference to age or earnings.

Age on the 6h April	Percentage of Net Relevant Earnings	Maximum Contribution for the Tax Year 2002 / 3
Ages up to 36	17.5%	£17,010
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The situation is not quite so clear-cut if you are a member of a company pension scheme. Whether or not you can contribute to a Stakeholder Pension depends on your own personal circumstances. This guide outlines the rules applicable to 'Concurrent' membership of a company pension scheme and a Stakeholder Pension. After reading these rules if you need assistance to understand your situation 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 a have as many Personal Pension or Stakeholder Pension plans as you like, so long as 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?

Assuming that you are in good health, you can take your benefits at any time from age 50 onwards. This applies whether you are male or female. You do not need to stop working to be able to draw benefits from your Stakeholder Plan.
There are some occupations that have special retirement ages that are lower than age 50. Examples of such lower ages are Professional Footballers, Police Officers and some members of the Armed 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 take my benefits?

The value of your Stakeholder Pension fund is normally returned to your next of kin if your die before you draw your pension. It is likely that the payment will be free of any Inheritance Tax. 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 benefits, contributions and maximum charges. However the amount that they charge 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 our assistance just click on the button marked ‘Make contact now’ shown on the right.

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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