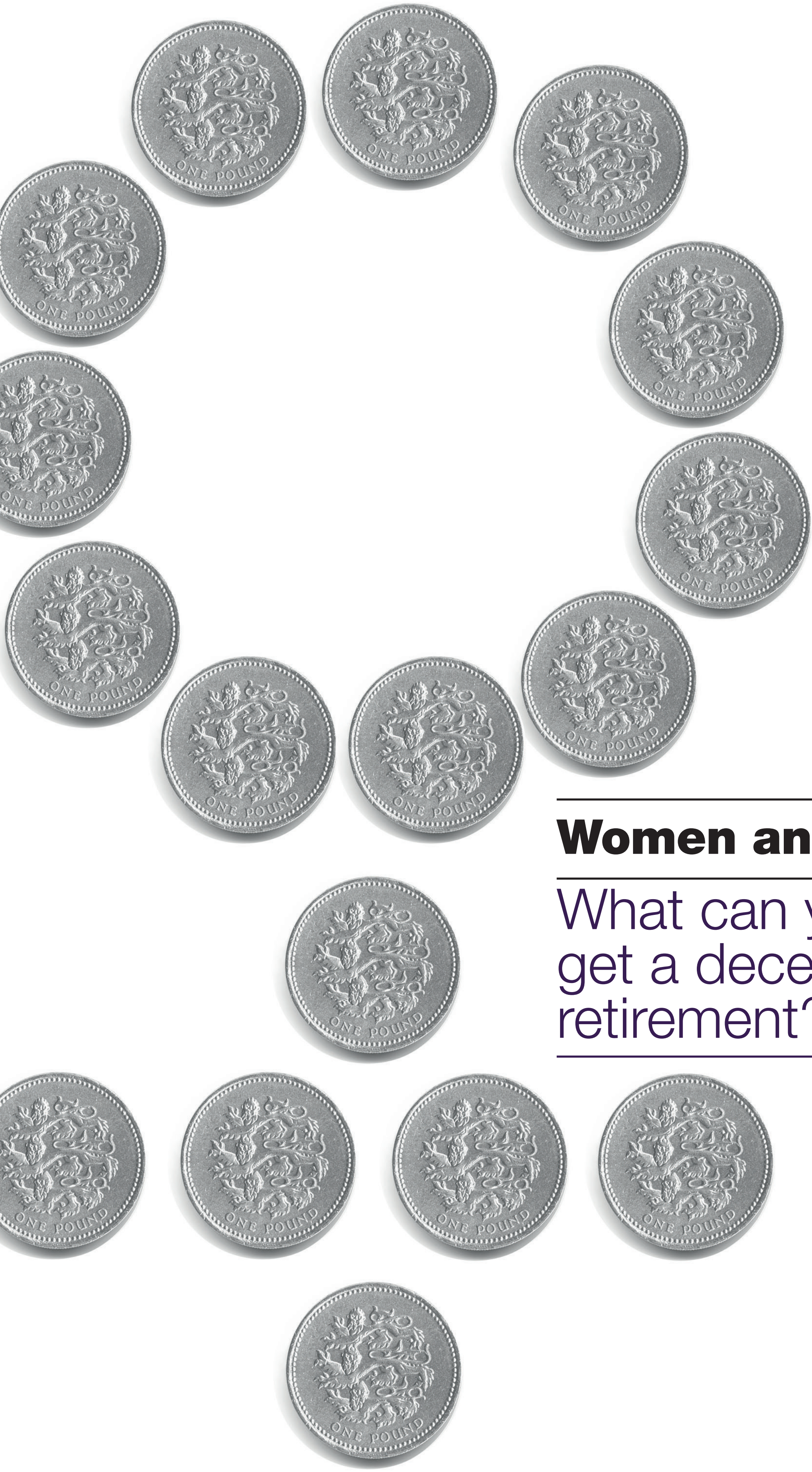
UNISON BRIEFING



Women and pensions

What can you do to get a decent income in retirement?

UNISON
the public service union

Women Against State Pension Age Inequality (WASPI)

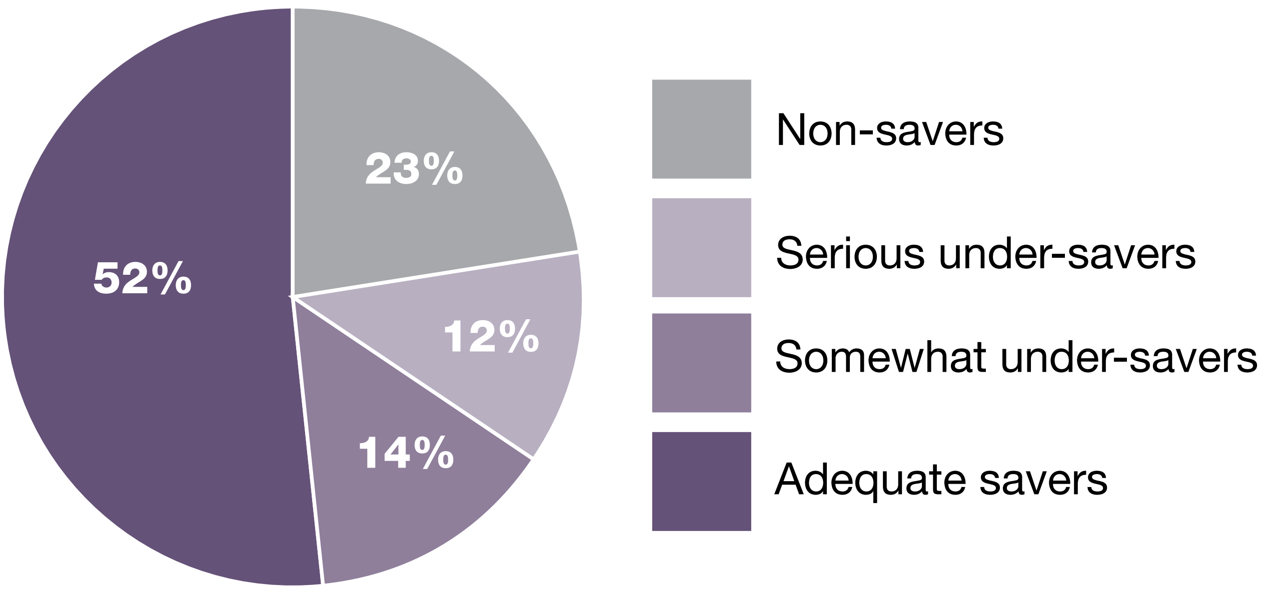
UNISON is campaigning with WASPI to fight against the unfair increases in state pension age for women born on or after 6 April 1951 who face a significant increase in their state pension age without being adequately informed.

Keep an eye out for our campaign and please support us with this! You can keep up to date by checking our website at unison.org.uk.

UNISON is committed to trying to improve the pension rights of women who for a number of reasons typically save less for retirement than men. When around 75% of our members are women, this is clearly a big issue for us!

Research shows that only 52% of women are adequately saving for retirement in comparison to 60% of men.[1] Furthermore the average net income of female pensioners per week is approximately 85% of male counterparts. Yet women account for approximately 61% of pensioners above state pension age and despite a slight reduction since 1994/1995 over two-thirds of pensioners living in poverty are women.[2]

Fig 1. Do women save enough?



[1] Scottish Widows "Are women saving enough for their future" 2016

[2] Older women in the workplace – Equal Pay and pensions: Women's inequality in retirement

Which is the best way to save for retirement?

1. If you can join your workplace pension scheme

If you are in paid employment earning enough to pay income tax, then your employer should provide you with immediate access to a workplace pension scheme. These usually take two forms, defined benefit and defined contribution.

A defined benefit scheme is one where your pension is based on how many years you've paid into the scheme and the salary you've earned. Your employer carries a lot of the risk in these schemes.

In contrast there is no certainty of income in a defined contribution scheme and what you get depends entirely on how much is paid into it and the investment performance of the fund or funds that you choose to invest in. All investment and longevity risk is therefore effectively transferred to you.

A workplace pension scheme will mean in addition to the contributions you make (which will receive tax relief) you will also receive an employer contribution. The tax relief is at your 'marginal' rate of income tax, so if you are a 20% tax payer, every £100 of pension contribution effectively costs you £80 (higher rate tax payers paying 40% tax do even better, with contribution costs equivalent to £60). Pension saving is therefore very tax efficient.

UNISON wants every employer to contribute at least 10% to workplace pension schemes. This contribution level would give an individual a realistic chance of achieving a decent retirement income in retirement, if they have paid into the pension over a number of years. The current statutory minimum contribution levels however are only that the employer pays 1% of earnings between £112 a week and £827 a week rising to 3% from April 2019. This is clearly insufficient and UNISON is campaigning for improvement.

Many employers pay significantly more than this, particularly providers of defined benefit pension schemes, which also tend to give better retirement benefits.

The average employer contribution rates in the Local Government and NHS Pension Schemes for example are 13% and 14.3% respectively. For private sector defined benefit schemes the average employer contribution is 16.2%[3] although many of these schemes are disappearing on the grounds of affordability.

If you don't join your employer's pension scheme you are effectively taking a pay cut, even if your employer offers a contribution of significantly less than 10%. An employer sponsored pension scheme is the best way to save money for your retirement.

2. Under 40 and no access to a workplace pension scheme? Consider a Lifetime Individual Savings Account (LISA)

From 6 April 2017 the government plans to allow individuals under 40 to set up a LISA, which aims to increase savings and help those wanting to buy a home. Those who set up a LISA will receive a bonus of 25% on every £1 they contribute each year. Those who contribute the maximum amount of £4,000 would receive an additional £1,000 from the government making a total of £5,000 for the year.

LISA savings can be withdrawn at any time but you will lose the bonus and suffer a 5% charge if you access before 60, unless the withdrawal is specifically to buy a first property. After 60 tax is no longer payable, either on the amount received or the initial contributions made.

UNISON believes that a LISA could be a good product for younger people who don't have access to a workplace pension scheme. There is a clear incentive to save and used in the right way a member could build up a sizable pension pot for their retirement.

But LISAs are not comparable in value to a decent workplace pension scheme as they don't provide the same guaranteed yearly retirement income for the rest of your life that a pension scheme would. Furthermore, many pension schemes offer other benefits like death in service benefits and ill-health early retirement protection. These benefits are not easily replicated within a LISA.

[3] Occupational Pension Schemes Survey UK 2015

3. Over 40 and no access to a workplace pension scheme? Start a pension or an ISA

If you don't have access to a workplace pension scheme and are 40 or over at the 6th April 2017 then you'll need to save for yourself to achieve some degree of financial independence in retirement. The most conventional options available are:

a. A personal or stakeholder pension scheme or a savings account such as an Individual Savings Account (ISA).

b. Property investment. This can be very risky and there is no certainty that at retirement age you will be able to liquidate assets to generate the retirement income needed.

c. A personal or stakeholder pension scheme. This is a pension where you pay money into a fund which goes up or down depending upon the underlying investment returns. You get full tax relief at your marginal rate of income tax on all your pension contributions and can draw the funds at any point from age 55. On retirement a personal or stakeholder pension give a number of options:

    - Draw 25% of the fund value as a tax-free cash sum and use the rest to purchase a pension for life (known as an annuity).
    - Withdraw the whole lot as a lump sum. Note however that significant amounts would be lost in tax under this option. You can claim 25% of your fund value tax-free but the remaining 75% would be subject to tax at your marginal rate of income tax.
    - Use your fund like a bank account, making withdrawals whenever you want. Again, 25% of each withdrawal would be tax-free, but the rest would be taxed.
    - Claiming 25% of the fund value as a tax-free cash sum, leaving the rest of the money invested, drawing down an income every so often when you need it (although this could be taxed).

An ISA is similar to a personal or stakeholder pension as it enables you to generate savings to fund your retirement. You do not get tax relief at source like you do via a pension contribution, but you benefit at retirement as all of the income withdrawn is not subject to income tax. You are however restricted as there is a contribution limit of £15,240. Again, the value of your ISA could go up or down depending on the fund(s) that you chose to invest in.

4. Maximise your state pension income

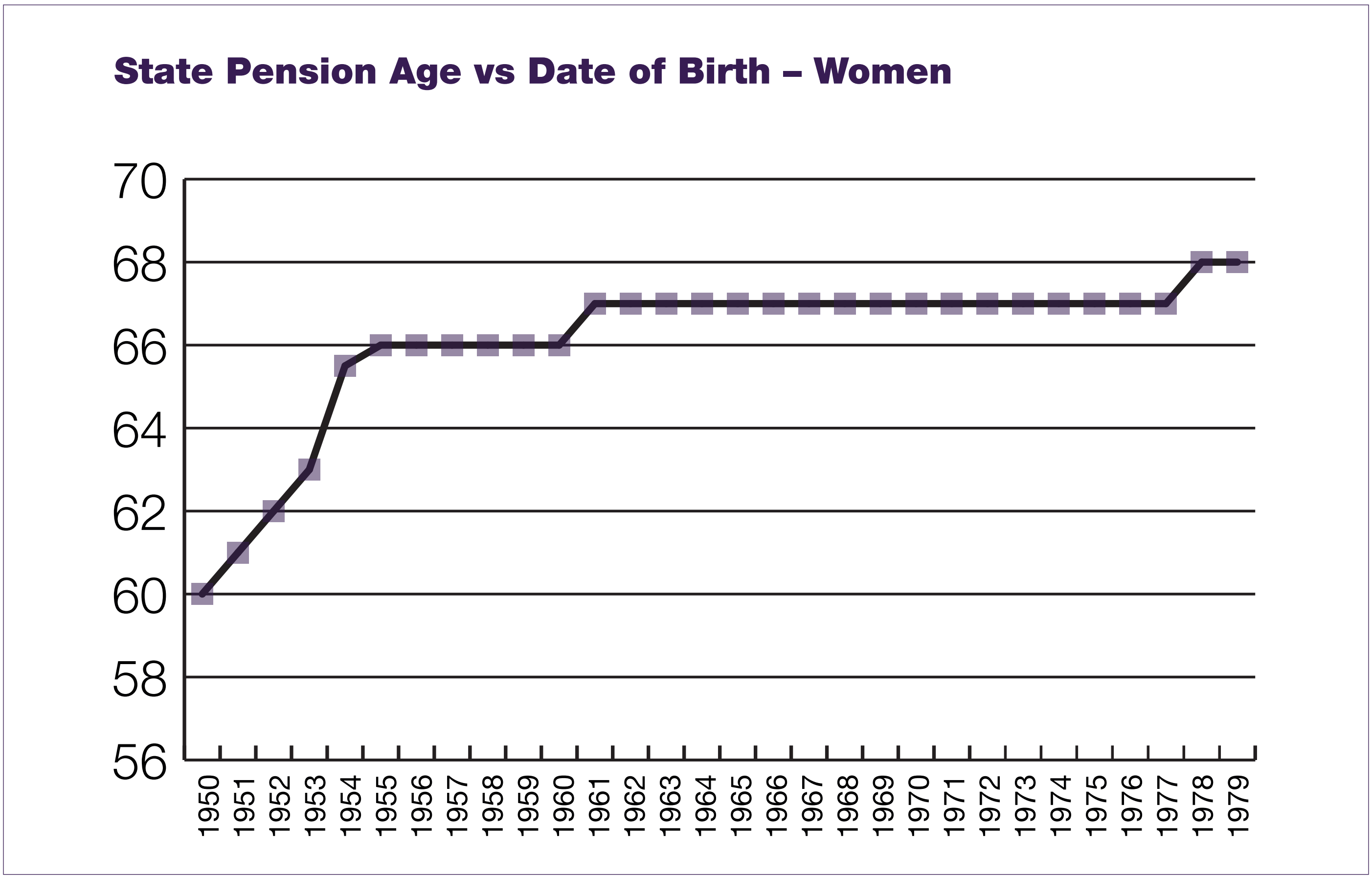
If you have paid sufficient National Insurance contributions, then once you've reached state pension age, you become eligible to receive a state pension. Currently this is £155.65 a week, which rises each year in line with the greater of: 2.5%, average earnings or price inflation (known as the triple lock).

You will need to have paid National Insurance contributions for 35 years to qualify for the full State Pension (although exceptions apply). The state pension age is currently 65 for a man and broadly 63 for a woman, but this age is rising steadily so by November 2018 the state pension age will be equalised at 65 for both men and women. State pension ages will then gradually rise to 66 by 2020, 67 by 2028 and 68 by 2046.

You can check your state pension age online by using the State Pension Age Calculator at gov.uk/state-pension-age.

Note: it's not possible to access your state pension before your state pension age.

State Pension Age Inequality



If you are shortly to reach your state pension age and have been a member of a contracted out pension scheme (for example, the Local Government and NHS Pension Schemes) it is possible that your state pension entitlement may be smaller than the new state pension amount. This is because you paid fewer national insurance contributions in the past during the time that you have been a member of a contracted out pension scheme.

You should request a State Pension Statement immediately to check your entitlement and to see what you can do to boost your entitlement. You can apply for a Statement online at gov.uk/check-state-pension or by calling the Future Pension Centre Helpline on 0345 3000 168.

5. How much should you contribute to a pension to achieve a decent retirement?

This depends upon your typically weekly expenditure, any particular retirement plans you have, plus any debt that you have to pay at retirement. Public service (and most defined benefit) pension schemes typically provide a pension income of around two thirds of your pre-retirement income over a full working life.

6. You should regularly check your Annual Benefit Statement

Your pension scheme is legally obliged to provide you with a pension statement every year. This must show the pension you have earned so far, plus in some cases, the potential pension you may receive on your retirement, if you carry on contributing at the same level up to your retirement age. Most schemes send out annual statements to members, while others provide access on-line. For instance the NHS Pension Scheme provides members with access to their statement online at totalrewardstatements.nhs.uk.

It is very important that you check your statements at least annually to try to ensure that you are on track to generate the income you need in retirement!

The Money Advice Service's Pensions Calculator is also helpful in forecasting potential income in retirement: moneyadviceservice.org.uk/en/tools/pension-calculator.

7. Your pension is also a form of life assurance

In the sad event of death it is possible for a lump sum and/or a survivor pension to be paid out to qualifying dependants. Many schemes pay a lump sum equivalent to a multiple of salary when death occurs whilst members are still contributing to the scheme. This is usually called a Death-in-Service lump sum. A pension can also be paid to a husband/wife/civil partner/nominated co-habiting partner and a child under 23 in the event of death. Pension schemes vary so it's vital you check your scheme's rules.

It is also vital you complete a form to nominate who you want any monies to be paid to in the event of your death. Some schemes won't require this if you are married or in a civil partnership

UNISON has long campaigned for equality of survivors' pensions. We have had some success although unequal application between widows and widowers still exist.

8. Have you contributed to a pension before and forgotten all about it?

Many people have contributed to a pension scheme and then lost track of it. If you are such a person, don't despair as you may be able to trace this through the Pension Tracing Service:

Pension Tracing Service, The Pension Service 9, Mail Handling Site A, Wolverhampton WV98 1LU. Telephone: 0345 6002 537 www.gov.uk/find-pension-contact-details

9. Where can I go for help?

Your first port of call is your local UNISON branch pensions champion who should be able to assist or point you in the right direction. UNISON's National Pensions Unit for members can also look to provide assistance on formal referral from your local UNISON branch. **Contact: Alan Fox, national pensions officer, UNISON, a.fox@unison.co.uk**

The Pensions Advisory Service (TPAS) also provide free and independent pensions advice and complaint resolution services for members of the public. You can contact them online at pensionsadvisoryservice.org.uk/contacting-us or by calling 0300 123 1047.

If you require independent financial advice, want someone to review your circumstances and make a specific recommendation for you then UNISON members can benefit from a free initial 30 minute consultation with Lighthouse Financial Advisors. Contact Lighthouse Financial Advisers at lighthousegroup.plc.uk/affinity/unison/ or call 08000 85 85 90.

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