STAKEHOLDER PENSION DECISION TREES (AMENDMENT NO 2) INSTRUMENT 2007

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 138 (General rule-making power); and
(2) section 156 (General supplementary powers).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 6 May 2007.

Amendments to the Handbook

D. The Conduct of Business sourcebook (COB) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Stakeholder Pension Decision Trees (Amendment No 2) Instrument 2007.

By order of the Board
26 April 2007

Annex

Amendments to the Conduct of Business sourcebook (COB)

In this Annex, underlining indicates new text and striking through indicates deleted text.

COB 6 Annex 1R — Decision trees for stakeholder pension schemes (as required in COB 6.5.8R): text, content and format (R)

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Estimated pensions in the Pension Table

The Pension Table later on will give you a fair idea of the pension income you could get, depending on your age and contributions. **But please remember that the figures in the table are only estimates and are not guaranteed. You may get less, or you may get more.**

The pension figures are also shown before income tax. When you receive your pension during retirement you may be taxed on it.

The estimated pensions are based on the stakeholder pension charge limit of 1.5% for the first 10 years (if the stakeholder pension scheme has kept to the original 1% charge limit on the fund, then the estimated pension figures in the Pensions Table will be higher). There's more about charges under “Further information” on page [insert page number].

Following the 2007 Budget it is expected that from April 2008 the basic rate tax level will be reduced from 22% to 20%. Where relevant we have referred to this change in the Pension Table.

The figures in the table are calculated on the basis of the following assumptions:

Before you retire

Your monthly contributions increase in line
with inflation………………………………………..2.5% a year.
Before charges, your fund grows by……………7% a year.
Charges deducted from your fund………………1.5% of fund a year for 10 years,
……………………………………………………then reducing to 1%.
Tax rebates on contributions…………………….rebate of basic level tax at 20% (the
……………………………………………………expected rate from
……………………………………………………April 2008).

When you retire

Your entire fund is used to buy an annuity, and
you do not take any tax-free lump sum.
Annuity rates assume that the investment
return after retirement is…………………………~~0.6~~ 0.8% a year in excess of inflation.
Your pension increases in line with inflation.
Your spouse will receive half your pension on your death.

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This information is intended to help you make your own choice about your pension arrangements. It does not give you financial or professional advice and you should not regard it as doing so. You should get help if you require advice.

Pension Table

How much should I save towards a pension?

THIS IS AN IMPORTANT DECISION

Most people save every month. It is better if you can keep up your monthly contributions.

The following table shows the **estimated monthly pension,** at today's prices, that you would get for different **regular monthly contributions**. The contribution shown is assumed to **increase each year in line with inflation**. The government will also add tax rebates to increase the actual amounts paid into your stakeholder pension (although all tax breaks are subject to change). The estimated pension figures include this tax rebate, calculated using the tax rate that is expected to come into force in April 2008 (i.e. 20% basic rate tax). They also assume that your pension will increase in line with inflation.

Remember: these estimates are not guaranteed – you could get more or less than the amounts shown. A stakeholder pension would be on top of any State pensions you are entitled to.

The table gives you an idea of how much you need to pay now – as a regular monthly contribution – to receive the monthly pension you want when you retire. First look down the left-hand column to find the age closest to your age now. Then look across to find the monthly contribution you want to pay and the age at which you want to retire.

Your approximate age now	**What you pay per month for the first year** (tax rebates will be added to this amount)							
	£20		**£50**		**£100**		**£200**	
	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60	Initial monthly pension if you retire at 65	Initial monthly pension if you retire at 60
20	**£98**	**£~~67~~ 68**	**£245**	**£~~169~~ 171**	**£~~490~~ 491**	**£~~339~~ 342**	**£~~980~~ 983**	**£~~679~~ 684**
25	**£79**	**£54**	**£~~197~~ 198**	**£135**	**£~~395~~ 396**	**£~~270~~ 271**	**£~~790~~ 792**	**£~~540~~ 543**
30	**£~~62~~ 63**	**£42**	**£157**	**£~~105~~ 106**	**£~~314~~ 315**	**£~~210~~ 212**	**£~~628~~ 630**	**£~~421~~ 424**
35	**£49**	**£32**	**£122**	**£80**	**£245**	**£~~160~~ 161**	**£~~490~~ 491**	**£~~320~~ 322**
40	**£~~40~~ 37**	**£23**	**£~~101~~ 93**	**£58**	**£~~202~~ 187**	**£117**	**£~~404~~ 374**	**£~~234~~ 235**
45	**£27**	**£16**	**£68**	**£40**	**£~~136~~ 137**	**£80**	**£~~273~~ 274**	**£161**
50	**£18**	**£9**	**£47**	**£24**	**£94**	**£49**	**£188**	**£98**
55	**£11**	**£4**	**£28**	**£11**	**£57**	**£23**	**£~~114~~ 115**	**£46**
60	**£5**		**£13**		**£~~26~~ 27**		**£~~53~~ 54**	

Have you found the level of monthly pension that you need in the table and can you afford the monthly contribution?

If yes, tick

Yes, I've found the pension I need and can afford the monthly contribution

Consider starting a stakeholder pension or restart making contributions to a stakeholder pension.
If you are employed, check if your employer offers workplace access to a particular stakeholder pension and if he offers a contribution to it.
If in doubt seek help from an expert adviser.
See "Where do I go from here?" on the next page.

You have completed the trees

If no, tick

No, I can't find the pension I need or I can't afford the contribution

For details of where to get further help, see "Where do I go from here?" on the next page.

[Insert current tax year]

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Tax relief

Everybody who contributes to a stakeholder pension will get tax relief on their contributions.

Under present tax arrangements, for each £1 you pay into your stakeholder pension fund, HM Revenue and Customs will pay an extra 28p into your fund, even if you don't normally pay income tax.

Example

> ***If you pay in £50 a month, income tax relief will increase your contribution to £64.10.***

<u>Following the 2007 Budget it is expected that from April 2008 the basic rate tax level will be reduced from 22% to 20%. This means that for each £1 you pay into your stakeholder pension fund after April 2008, HM Revenue and Customs will pay an extra 25p into your fund, even if you don't normally pay income tax.</u>

<u>***Example***</u>

> <u>***If you pay in £50 a month, income tax relief will increase your contribution to £62.50.***</u>

The Government has simplified the tax rules for pensions since April 2006. Under the new tax rules, you can pay as much as you like into a stakeholder pension, **but there are limits on the amount of tax relief given.** You will receive tax relief on yearly contributions made by and for you in any year up to:

- £2,808 <u>in 2007, this is expected to change to £2,880 for tax years from April 2008</u>; or
- 100% of your UK earnings;

whichever is more.

Most people can contribute up to £3,600 to a stakeholder pension in any tax year, including basic-rate tax relief. This means you could pay in £2,808 <u>in 2007, and it is expected that you could pay £2,880 in tax years from April 2008,</u> and the income tax relief would increase your contribution to £3,600.

If you pay income tax at the higher rate, you will be able to claim back the extra tax from HM Revenue and Customs at the end of each tax year.

Even if you have no form of paid employment, you can set up a stakeholder pension. You can then benefit from tax relief on your contributions, even if you don't pay any income tax.

There is however a maximum "annual allowance" – set at £~~215,000~~ 225,000 for tax year 200~~6~~7/0~~7~~8 – which applies to all contributions made by you and on your behalf (including from an employer). If the contributions made by and for you in any year exceed the annual allowance, the contributions above the annual allowance will still attract tax relief, but you will have to pay a 40% tax charge on any contributions which exceed the annual allowance.

There is also an overall "lifetime allowance" on the total amount of money you can save in your pension free of any tax charge when you come to draw your benefits. This is set at £1.~~5~~6 million for tax year 200~~6~~7/0~~7~~8, rising in stages to £1.8 million by tax year 2010/11. It includes the value of all the other current or old pension schemes you may have from previous jobs. There is information on how to get details of your old pension plans on page [*insert page number*].

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