

ISLE OF MAN
PENSION MATTERS

Safeguard your future



**YOUR
FUTURE
NEEDS
YOU!**

Here are
some things you
need to know
about pensions

If you are not sure what
to do, get professional
financial advice

**YOU ARE RESPONSIBLE FOR
YOUR RETIREMENT PLANNING**

*If you retire at 65 you could be retired for over 20 years,
that's about half of the average working life*

This leaflet will help you prepare for your retirement by:

- Planning your savings
 - When should you start saving?
 - What do you want to do in your retirement?
 - How much will you need to put aside so you can afford to do that?
- Discussing what you can do with your pension savings when you retire to make them last your whole life.

This leaflet also signposts where to find out more information.

WHAT IS “MY PENSION”?

Your pension replaces your salary when you retire. The Government provides a **State Pension** but this isn't designed to replace your current earnings.

If your pension (including State Pension) is insufficient, and you don't have savings, how will you provide for a comfortable retirement?

PENSIONS CAN BUILD UP THEIR VALUE IN TWO DIFFERENT WAYS:

In a Defined Benefit Pension Scheme:

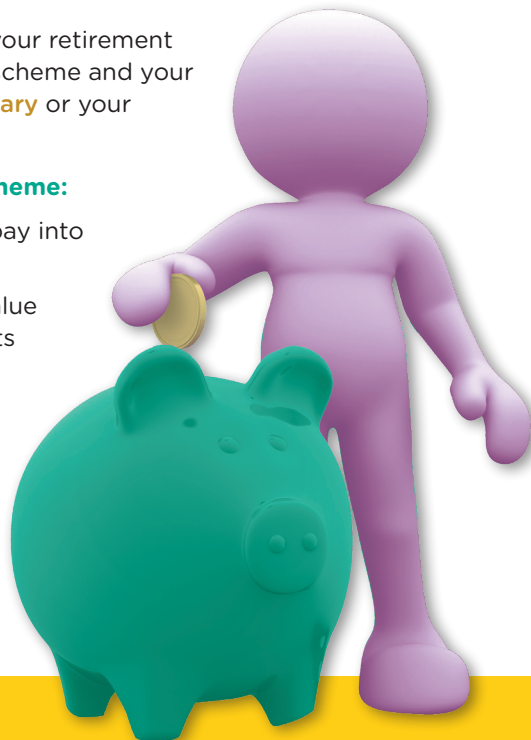
- A pension set up by your employer which pays you a regular income for life.
- The pension you get depends on your retirement age, how long you've been in the scheme and your salary – this could be your **final salary** or your **career average salary**.

In a Defined Contribution Pension Scheme:

- Normally you and your employer pay into your pension pot.
- Your pension pot is invested; its value depends upon how the investments perform (after charges).

Other savings:

- A pension is not the only way to put money aside for retirement. Savings plans and investments can also be used.



HOW MUCH DO I NEED TO SAVE TO BUILD MY PENSION POT?

You can look at savings calculators to see how regular savings grow over time. For example, how much would you have to save each month to retire at age 65 with a pension pot of £200,000?

Monthly savings needed to achieve £200,000 age 65	Age when savings started			
	25	35	45	55
At 5% growth pa	£135	£245	£491	£1,291
At 4% growth pa	£172	£291	£548	£1,359
At 3% growth pa	£218	£345	£611	£1,431

* Interest rates vary over time. Current interest rates are historically low.

The median amount UK workers paid into their pension each month according to the Chartered Institute for Securities & Investment pension survey 2018



HOW MUCH WILL I NEED WHEN I RETIRE?

Try to work out what you spend now and consider what will change when you retire:

- Will you spend more time at home, which may increase heating costs?
- Do you plan to take holidays?
- Will you have a mortgage/rent to pay?
- Will you have a partner/dependants?
- What is your health like?
- How long have your relatives lived?
- Will you have other income/wealth?
- When do you want to retire?
- Do you want to leave a legacy/inheritance?

Your income needs to last your whole retirement. This is difficult to assess as you don't know how long you will live.

THE BASICS

You will need to cover food, bills and clothing



INDEPENDENCE & FLEXIBILITY

You may want a car, savings or home improvements



LIFE'S LITTLE LUXURIES

If you can afford it, gifts and holidays



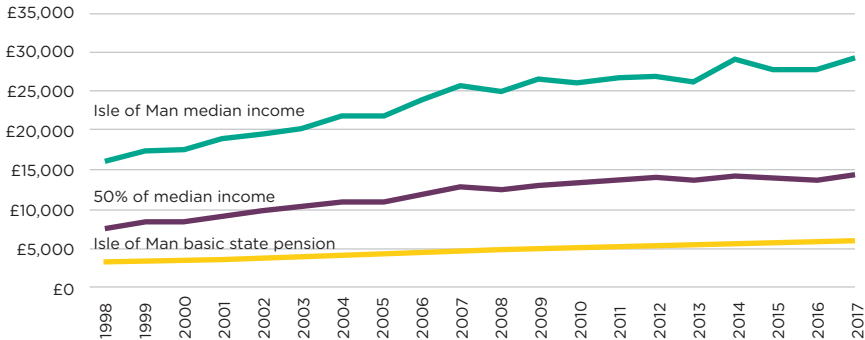
It's never too early to plan for your future

If you are not sure what to do, get advice

DOESN'T THE STATE PROVIDE FOR RETIREMENT?

Yes, but only to a limited extent. The state will provide you with a regular pension based on your National Insurance record at state pension age. To help you assess how much a basic state pension could provide, the graph below compares historic income to the basic state pension.

Median Isle of Man Annual Income v Basic State Pension 1998-2017



You may get additional **State Pension** and Manx Pension Supplement on top of your basic state pension depending on your circumstances. Limited extra help is available to pensioners on the lowest incomes.

What you get from the state is likely to provide you with a basic standard of living when you retire, but not enough for you to live on comfortably. You need to save extra for your retirement if you can.

WHAT WILL I GET FROM A PRIVATE PENSION WHEN I RETIRE?

If you are in a Defined Benefit Scheme:

- You usually get a monthly income for life.
- You may have the option to take a tax free lump sum, but that will mean a smaller monthly income.

If you are in a Defined Contribution Scheme your pension income depends on:

- How much you and/or your employer have contributed.
- How well your investments have performed (after tax and charges).
- What you do with your pension when you retire – **annuity** vs investing the pension pot and taking regular **income withdrawals**.
- Whether you take an optional lump sum.



ARE MY DEPENDANTS PROTECTED?

Pension planning should consider your dependants. Do you need to make provision for them? Have they made separate arrangements?

If you have an **annuity**, payments will stop when you die unless your annuity makes provision for a spouse or dependant children's pension.

If you have a Defined Contribution Scheme, and your pension pot is not in an annuity, you can leave any remaining value to your beneficiaries.

You can use life insurance cover to provide a lump sum for your dependants in the event of your untimely death.

WHEN CAN I RECEIVE MY PENSION?

Private pensions - this will depend on your circumstances, including your health and the terms and conditions. Typically you will have the option to retire from the age of 55.

The State Pension age is rising. For more details you should refer to <https://www.gov.im/categories/benefits-and-financial-support/pensions/people-who-reached-state-pension-age-before-6-april-2019/retirement-pension-premium/>

HOW DO I JOIN A PENSION?

You can set up a personal pension scheme and/or join an occupational pension scheme if your employer has one. There is no auto-enrolment on the Isle of Man, however some employers offer voluntary private pension schemes. If you are unsure what type of pension your employer has, you should ask them.

ARE THERE INCENTIVES TO ENCOURAGE SAVING USING A PENSION PLAN?

The Isle of Man Government actively supports pension savings for local people. This is done by offering **tax relief** for contributions into pension schemes (occupational or personal) that meet certain minimum requirements and have been approved by the Assessor of Income Tax.

Except in the event of serious ill health or death, benefits cannot be paid earlier than the pension scheme's minimum retirement age.

WHAT CAN I DO WITH MY PENSION POT?

It is hard to predict how big your pension pot needs to be to provide the income that you want. You are likely to be retired for a long time. Therefore it is important your pension meets your retirement needs.

PUT YOUR PENSION INTO AN ANNUITY?

If you want absolute certainty, an **insured annuity** pays you a guaranteed amount of money each month for the rest of your life. A Defined Benefit Scheme also pays a guaranteed income for life.

The annuity will cease when you die unless you arranged for it to provide benefits to your dependants after your death. You will not have a lump sum to pass on to your beneficiaries. If you have dependants this is something that you need to consider at the time you purchase the annuity.



Please note: Indicative figures on basic assumptions as at March 2018. If you want to see what it could mean for you, go to www.pensionwise.gov.uk/en/guaranteed-income. **BE AWARE** this is a UK Government website and the information is not tailored to Isle of Man legislation.

A lower amount would be payable if you also wanted to provide a pension for your dependants after your death and/or if you wanted to provide a level of inflation proofing.

KEEP YOUR PENSION POT INVESTED AND TAKE WITHDRAWALS (DRAWDOWN)?

Unlike insured annuities the retirement income you can withdraw is not guaranteed; it depends upon the ongoing investment performance of your pension fund and the remaining amount in the fund. The initial amount you could take would be similar to that available from an annuity purchase but would not be guaranteed.

* Source: Royal London 2015



24% of women + 17% of men aged 65 are expected to live to 100*

If investments perform well you might get more income than an annuity but investments are not guaranteed. If they under-perform or you live for longer than you expect, your pot may run out. When you die funds remaining in a personal pension scheme can be left to your beneficiaries.

It is important that you understand the risks and charges associated with investing and administering your pension. If you invest in high risk assets there is an increased risk that you will lose some or all of your investment as well as an increased chance that it will perform better than the market. You should diversify your investments to spread the risk of one investment failing or under performing.

Investing your pension pot is a complex area and if you are in any doubt about what is the right thing for you to do, take professional financial advice.

CAN I CHANGE OR CASH IN MY PENSION?

If you are a member of a private pension scheme and join a new scheme (for example on changing employment) you can choose to **transfer your existing pension fund** to your new pension scheme. To understand the benefits of your pension scheme you should read the terms and conditions of your scheme.

Depending upon your pension scheme you may also be able to cash in part or all of your pension (up to £100,000).

In April 2018 IOM Treasury introduced a new type of pension scheme which:

- gives full access to your pension pot age 55,
- accepts transfers from Defined Contribution Schemes for a 10% fee,
- provides tax relief on contributions,
- gives a tax-free lump sum of 40%,
- allows regular saving.

If you access your pension pot, you still need to consider how you will secure enough income so you can make ends meet and enjoy the whole of your retirement.



FRAUD RISKS

Pension savings are a target for fraudsters. Never deal with anyone who cold calls you and always check whether an adviser is regulated.

Remember, if someone contacts you unexpectedly and says they can help you transfer your pot, it could be a **pension scam**.

If it looks too good to be true it probably is!

THE FINANCIAL SERVICES OMBUDSMAN

The Financial Services Ombudsman Scheme may be able to consider a complaint if unsuitable advice is given by an Isle of Man Financial Adviser.

It is your responsibility to ensure that you are entirely comfortable with any proposed investments. You should do your own research to ensure you understand how your money is being invested before signing up.

More information can be found on the **Financial Services Ombudsman Scheme** website.

CLOSING THOUGHTS

You are responsible for your retirement. Take time to plan for your future so you can make it more comfortable.

If you are unsure you should seek professional financial advice. To check if a firm of advisers is licensed by the Financial Services Authority refer to the registers on **www.iomfsa.im**.



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