Understanding pensions

A guide for people living with a terminal illness and their families
2015-16

Marie Curie

Care and support through terminal illness

Introduction

Some people find that they want to access their pension savings early when they're ill. This could be to help with living costs, to take a special holiday or to leave something to those close to them. Pensions can be complex and with recent changes to the rules, it helps to understand how they work.

This booklet aims to answer some of the questions you might have about pensions, like the differences between each scheme, how to draw your savings early and what could happen to your pension after you die. It also has information that may be useful to family, friends and carers about their entitlements and how to protect their own pensions if they have to stop working.

You should consider getting financial advice before making any decisions about your pensions. See pages 54-56 for a list of organisations that may be able to help.

⇨ For more information and support, visit **mariecurie.org.uk/money** or call the Marie Curie Support Line on **0800 090 2309***.

* Calls from landlines are free, but there may be a charge if you're calling from a mobile. Check with your mobile provider for details. Calls from any type of phone will be free from 1 July 2015.

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Section one: your pension choices

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Different types of pension schemes

Pension schemes are a way of saving to provide you with a retirement income, but they may provide other benefits as well, like a lump sum or pension for your partner or children when you die.

You may have built up savings in various pension schemes. These could include:

- a scheme you belong to through your current job if you're working
- schemes with employers you have worked for in the past
- schemes that you've taken out for yourself

The earliest age you can draw out your pension savings is 55, but you may be able to get your savings back earlier if you're ill. It's important to know what sort of schemes you have and to keep track of the pensions you're building up.

What sort of pensions do you have?

Currently, all but the smallest employers should let you join a pension scheme through your workplace. By 2018, this will apply to all employers. These days, you'll usually be automatically enrolled into the workplace pension scheme, but you can opt out if you want to.

In most cases, your employer must pay something into the workplace pension scheme for you. Usually, you pay into it as well. There are different types of workplace scheme. You might belong to a:

- company scheme
- multi-employer scheme
- personal pension scheme

A scheme that you arrange for yourself will always be a personal pension scheme.

Company pension scheme

A company pension scheme (sometimes called superannuation) is a workplace scheme set up and run by your employer. Your employer always pays into it. Usually, you do as well, but some company schemes are non-contributory, which means your employer pays the whole cost.

There are two main types of company pension scheme: a **defined benefit scheme** and a **defined contribution scheme**.

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Defined benefit scheme

These are usually salary-related schemes. That means you're promised a pension that's a fraction of your pay for each year you've belonged to the scheme.

For example, if you've been in a scheme for 10 years, your pay is £30,000, and you get 1/60th of this for each year you've worked, your pension would be 10 x £30,000 x 1/60 = £5,000 a year.

Your pay on leaving the scheme	Years worked	Rate	Yearly pension
£30,000	10	1/60th	£5,000 (10 x £30,000 x 1/60)

The definition of pay (£30,000 in this example) in the calculation depends on the type of scheme that you belong to. Broadly, a **final salary scheme** takes your pay as the amount you're getting when you leave the scheme.

A **career average scheme** bases your pension on an average of your pay over all the years you have been in the scheme. Usually the pay for earlier years is increased in line with inflation for pension calculation purposes.

A pension worked out in this way is payable from the normal pension age for the scheme, which is often age 65. You can start your pension earlier provided you've reached age 55, but the pension is likely to be a lot lower. For example, the pension might be reduced by 5% for each year before normal pension age that it's started. So, in the example on page 10, starting the pension two years early would mean a 10% reduction from £5,000 a year to £4,500 a year.

Your main workplace scheme will be a defined benefit scheme if you work in the public sector (for example, for local government, in education, for the emergency services or the NHS). Some big employers in the private sector also offer defined benefit schemes, but most private sector jobs come with some type of defined contribution scheme.

Defined contribution scheme

With this type of scheme, what you and your employer pay in goes into your own pension pot, which is invested (usually on the stock market). When the time comes to retire, you can choose to use the pot that has built up to provide a retirement income. You can also draw out lump sums before retirement provided you've reached age 55 and your scheme offers this option.

Many people aim to start their pension around age 65. If you start it earlier, the pension will normally be lower because your savings will have had less time to build up and the pension might have to be paid for longer. In some cases, there may also be penalties for accessing it early. Your employer or a financial adviser will be able to tell you more about this, including how the fund is invested. See pages 54-56 for details on where to find a financial adviser.

Multi-employer scheme

A multi-employer scheme is a workplace scheme run by an outside organisation that covers people who work for many different employers. Examples include the National Employment Savings Trust (NEST), NOW Pensions and The People's Pension Scheme. Your human resources (HR), payroll or pensions department at work can tell you if your workplace scheme is one of these.

Multi-employer schemes are similar to company schemes but are usually defined contribution schemes.

Personal pension scheme

With a personal pension, you have an arrangement direct with a pension provider (often an insurance company). This might be a scheme that you have chosen and arranged for yourself or it could be a scheme you joined through work.

All personal pension schemes are defined contribution schemes. So the money paid in is invested and builds up a pot that you can, if you choose, use at retirement to provide a pension. If you join through work, the provider is chosen by your employer. While you work, what you pay in is taken from your salary and your employer normally pays something in too.

A personal pension you join through your workplace might be:

- **A group personal pension scheme (GPPS)** where you're one of a group of employees all taking out the same type of personal pension scheme with the same provider. You still have your own individual arrangement with the provider. You choose how your savings are invested, from a selection of investment funds. However, if you don't want to choose, your money goes automatically into a type of fund that is suitable for most people.
- **A group self-invested personal pension (SIPP)** which is a GPPS that gives you a wide choice over how your pension pot is invested. So typically you have a much wider choice of investment funds than with a standard GPPS and you can also invest directly in shares and bonds.
- **A stakeholder pension scheme** which is a type of personal pension scheme that by law must meet certain conditions, such as low minimum contributions.

Where you have chosen and arranged your own personal pension scheme, this could be a stakeholder pension scheme, a SIPP or just an ordinary sort of personal pension scheme.

Keeping in touch with your schemes

You may have several different pension schemes that you have built up over the years, for example, while working for different employers. Keep the paperwork and make sure that all the schemes that owe you a pension have your current contact details. You should also let your family or next of kin know the details of these schemes.

If you've lost touch with a scheme that still has your savings, there's a free service that can help you find lost pensions called the Pension Tracing Service. See page 55 for contact details.

Keeping your pension safe

It's important to watch out for pension scams. Some scammers may approach you out of the blue, offering cash or investments that sound too good to be true. If you feel that something isn't right, there are some things you can do:

- Make sure that the adviser is registered with the Financial Conduct Authority.
- Contact the Pensions Advisory Service for advice.
- Contact Action Fraud if you've already accepted an offer.

See pages 54-56 for contact details of these organisations.

Defined contribution pension rules and benefits entitlements

If you're claiming an income-related benefit, the amount you're entitled to claim might be affected depending on how much you draw out of your pension. Income-related benefits include: Employment and Support Allowance (income based), Housing Benefit, Income Support, Jobseeker's Allowance (income based), Pension Credit and Universal Credit.

If you've reached the age at which you could qualify for Pension Credit (around 62 and a half in 2015), you may be treated as if you have some pension income, even if you haven't started to draw out your savings. It's your responsibility to tell the Department for Work and Pensions or Social Security Agency in Northern Ireland if you're taking money from your pension pot, as this may affect the amount you're entitled to claim. For more information about the rules, contact a benefits adviser from one of the organisations listed on pages 54-56.

Things to remember

- Many employers have to let you join a pension scheme through your workplace.
- If you've lost touch with a scheme, contact the Pension Tracing Service (see page 55).

Getting money from your pension if you're ill and unable to work

The main purpose of a pension scheme is to provide income in retirement. If you're ill you may need these savings earlier to help with care costs or other bills. There are different options for accessing your savings, depending on your age, situation and the type of schemes you have. Most of the options in this section are available to people who have defined contribution schemes.

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Drawdown

If you're ready to start drawing out your pension savings, you may choose to take a quarter (25%) of your pot as a tax-free lump sum. With drawdown, you then transfer the rest of the pension pot into a drawdown fund. Your savings remain invested (typically in the stock market) and you can draw lump sums and income direct from the fund. There's no minimum you have to draw out – you could take out nothing at all.

Since April 2015, everyone can use a form of flexible drawdown, called flexi-access drawdown. (Previously this was available only to people who had other sources of secure pension income.)
This means they can draw out as much as they like.

An advantage of drawdown over most annuities (see page 27) is that your partner or family can inherit any pension savings you leave behind.

Drawdown risks and charges

In the past, drawdown has usually been suitable only for people with large pension pots (eg £100,000 or more). This is because drawdown normally involves extra risks and charges compared with buying an annuity. But new, lower charging products are coming on to the market that could be suitable for pension pots as low as £30,000.

Investment risk

To get a better income than from an annuity, you normally need to carry on investing in the stock market, so the value of your pension pot can go down as well as up. If it goes down, you might have to reduce any income you're drawing or you might run out of savings. If you invest in fairly safe investments, the value of your pot is less likely to fall but it's less likely to grow much either. However, if you're ill, this might still be a better deal than an annuity. You should consider taking financial advice if you're thinking about using drawdown.

Investment charges

Because your savings are still invested, you have to pay for these investments to be traded, managed and looked after. However, some providers are introducing lower cost versions of drawdown. Again, you should consider taking financial advice before deciding on drawdown.

Taking cash sums straight from your pension pot

You may be able to draw out some or even all of your savings as lump sums rather than income if you want to. Provided you've reached age 55, you can draw out cash in one or more lump sums straight from your pension pot. A quarter of each lump sum is tax-free. This means you can access your savings, even if you don't want to start a pension just now.

Using this option, you can even draw out your whole pension savings as cash, but apart from the tax-free bit, the rest is taxed at your normal tax rates for the year of the withdrawal. This means that taking out a large cash sum could mean losing up to 40% (or even 45%) of your money in tax. You'll usually save tax by taking out a series of smaller lump sums over several years.

Example of flexi-access drawdown and cash lump sums

The option to take cash direct from your pension pot and the ability to take cash sums out of a drawdown fund may seem similar, but there's an important difference in the way the tax-free lump sum is treated:

- **Flexi-access drawdown** lets you take up to a quarter of your pension pot as tax-free cash before the rest goes into the drawdown fund. After that, the whole amount of any withdrawals from the drawdown fund count as taxable income.
- **Cash sums straight from your pension pot** allow for a quarter of each sum to be tax-free, while the remaining three-quarters is taxable.

For example, if you're a basic-rate taxpayer and you have a pension pot of £40,000 from which you need £10,000, the two options would work like this:

- If you choose **flexi-access drawdown**, you can take £10,000 as a tax-free lump sum and the remaining £30,000 goes into the drawdown fund. Following withdrawals from the fund will then be fully taxable.

- If you take **cash straight from your pension pot**, you'll need to draw out £11,765 to get £10,000 after tax. You would get a quarter of the £11,765 tax-free, which comes to £2,941. The remaining £8,824 would be taxed at the basic rate (20%) leaving you with £7,059. Adding this to the tax-free amount gives you £10,000 (£2,941 + £7,059). £28,235 is left in your pot and a quarter of each future cash withdrawal is also tax-free.

How you access your money	Pension pot	You need	Basic rate tax payer takes	Remaining	Tax on future withdrawals
Flexi-access drawdown	£40,000	£10,000	£10,000 tax free	£30,000 (now in drawdown fund)	All withdrawals from the drawdown fund are fully taxable
Cash straight from pension pot	£40,000	£10,000	£11,765 – quarter (£2,941) tax free with £7,059 at 20% tax	£28,235 (left in pension pot)	A quarter of every amount from the pot is tax free. The other three quarters is taxable

If you're in a defined benefit scheme and want to use drawdown or take lump sums direct from your pot

If you're in a defined benefit scheme (a workplace pension scheme that typically promises you a set level of pension usually linked to your pay) you may be able to choose to transfer to a defined contribution scheme to take advantage of the flexibility of drawdown or taking lump sums direct from your pension pot.

This option to transfer is not usually available if you're in a public sector pension scheme (for example for teachers, NHS employees or the emergency services). However, it is if you're in a public sector scheme that is 'funded' (backed by investments) as is the case with, for example, the Local Government Pension Scheme.

Usually, it's not a good idea to give up the security of a defined benefit pension but it might be if you have less time left because of a terminal illness.

If you work in the private sector, you'll be allowed to transfer, but, if the value of your pension rights is more than £30,000, you must get financial advice first. Important things to think about include whether your existing scheme pays a generous enough ill-health pension and benefits for those close to you.

Taking an ill health pension

Normally, the earliest you can start to draw out your pension savings is age 55. But the law says you can start a pension before then if your pension scheme has received medical evidence that you're not able to carry on your occupation because of 'physical or mental impairment'.

The precise conditions you'll have to meet to get an ill-health pension vary from scheme to scheme, as does the amount you can get. Whatever the scheme and whatever age you are when your pension starts, you can normally take up to a quarter of your pension savings as a tax-free lump sum.

There are a couple of situations which let you take your whole pension savings as cash, regardless of the type of pension scheme you are in. Under normal rules, if you're aged 55 or over, and your pension savings are small, you can take the whole lot as a lump sum. But the age limit doesn't apply if you're retiring through ill health. In that case, you can draw your savings as a lump sum at any age if:

- you have a defined benefit pension and the total of your pension savings from all schemes comes to no more than £30,000
- you have any pension (defined benefit or defined contribution) worth £10,000 or less

A quarter of each lump sum is tax-free. The rest is taxable at your normal tax rates.

If your doctors say you're expected to live for less than a year, your pension provider can release the whole of your pension pot as a lump sum at any age. The whole amount is tax-free if you're under 75.

Pension from a defined benefit scheme

A defined benefit scheme is a workplace pension scheme where you're promised a set level of pension at retirement. This is often a fraction of your pay for each year that you've been in the scheme. Pay might mean your annual salary at the time you leave (final salary scheme) or an average of your pay during the time you've been a member (career average salary scheme).

Ill-health benefits

If you retire before the normal pension age for your scheme, your pension is usually lower than it would have been at retirement, because:

- you've had fewer years in the scheme than if you'd been able to work longer
- your pension might have to be paid out for longer than if you had retired later
- your pay might be lower than it would have been later on

However, some schemes top up ill-health pensions, for example, basing them on the number of years you would have been in the scheme if you had been able to carry on working until normal pension age.

For example, suppose you're 45 now, have been in the scheme for 10 years and would normally have worked until age 65 (so 30 years in total). Assuming your pay is, say £30,000 and you get one-sixtieth of this for each year of membership, the ill-health pension might be 30 x £30,000 x 1/60th = £15,000 a year.

Check what ill-health benefits your scheme offers by contacting the scheme administrator or your human resources (HR) department.

Pension from a defined contribution scheme

Most other workplace schemes and all personal pension schemes that you arrange for yourself are defined contribution schemes. With these, you build up your own pension pot that is used to buy a pension or other benefits.

If you retire early, the pension you can get is likely to be lower than you would have had by retirement. This is because less will have been paid in, and there will have been less time for the invested contributions to grow.

Enhanced annuity

It's up to you to decide how to arrange for an income to be paid. For example, you may choose to buy an annuity (see page 27). In that case, you should be eligible for an enhanced annuity or impaired-life annuity. These pay a higher-than-normal income where you may have less time left because of illness. How much higher varies from person to person because it depends on your specific medical history.

Other options

Rather than buy an annuity, you might consider direct withdrawals from your pension pot or flexi-access drawdown.

In both cases, this means leaving your pension savings invested and drawing lump sums and income direct from it, though the tax treatment for each is different. These options are described in more detail on pages 16-20.

Find out more

You can discuss the ill-health options with your pension provider, but should also shop around for other options. You may want to get the help of a financial adviser.

If you're considering an annuity, be aware that the income an annuity offers varies from one provider to another and the scheme that you've built up your pension pot with might not even offer enhanced annuities. So it's very important to shop around to get the highest income you can.

How to claim

To claim an ill-health pension or buy an enhanced or impaired-life annuity, contact the pension scheme administrator or annuity provider. You'll be asked to complete a medical questionnaire and to give them the contact details of your doctor so they can see your medical reports.

The scheme or provider might get a second opinion from its own medical practitioner. This opinion could be based on your medical records alone or you might be asked to attend a medical examination.

The scheme or provider should reply promptly to let you know it's looking at your case, but there's no set time limit by which it must make a decision. Ill-health pensions are complex, so it could take a while.

If you feel the scheme or provider is taking too long, first complain to it. If you're not happy with the time they are taking or the decision they make, you can get free help from the Pensions Advisory Service (see page 55).

Getting support

Everyone entitled to draw benefits from a defined contribution scheme is eligible for free guidance about the new options. This is called the **guidance guarantee**. It's provided by a new service called Pension Wise, which you can access online through its website, face-to-face through Citizens Advice or by phone from the Pensions Advisory Service (see pages 54-56 for contact details).

Guidance aims to help you understand the options and general factors you should consider but isn't the same as financial advice. If you want help deciding which of the options would be best for you given your particular circumstances, it's a good idea to get help from a financial adviser. You can find one by searching the retirement adviser directory at **directory.moneyadviceservice.org.uk** or call the Money Advice Service on **0300 500 5000**.

Things to remember

- You can draw your defined contribution savings in any way you like, as long as you're 55 or older (subject to the rules of your pension scheme). You can draw your savings earlier if you're eligible on ill health grounds.
- Taking your pension early doesn't necessarily mean it will be lower. The specific options available to you will depend on the rules of your scheme.
- Drawdown or taking lump sums can give you faster access to your savings.
- You may be able to take some or all of your pension as a lump sum.
- A quarter of any lump sum is normally tax-free – in some cases all of it.
- Seek help from a financial adviser who is regulated by the Financial Conduct Authority.
- You can get free help understanding your options from Pension Wise.

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Income from an annuity

An annuity is a financial product where you give up part or all of your pension pot and receive an income in return. It's a way of providing you with income either for life or for a set number of years. For anyone living with a terminal illness, annuities may be less useful compared to drawing out your pension savings flexibly.

If you have a defined contribution pension scheme (where you build up your own pension pot) and want to draw out the benefits as an income, an annuity is one way of doing this.

Lifetime annuities

A lifetime annuity is a type of insurance that pays an income for the rest of your life, however long you live. For example, a £10,000 pension pot might buy an average 55-year old a fixed lifetime income of £401 a year. This income will be based on an assumption that the average 55-year-old annuity buyer will live another 35 years or so.

Once you've bought a lifetime annuity, you cannot at present change your mind and get your pension pot back as a lump sum. However, the government is consulting on a proposal that may allow you from 2016 to sell an existing annuity.

A lifetime annuity provides insurance against living longer than your savings might otherwise last. But it's not usually a good choice if you have less time left because of a terminal illness.

Enhanced annuities

Some lifetime annuities, called enhanced annuities or impaired life annuities, take health into account. They pay a higher-than-normal income if you have less time left to live.

How much higher varies from person to person and will depend on your own particular medical history. It could be 40% higher or more.

Joint-life-last-survivor annuity

If you buy a single-life annuity, it stops paying out when you die, but a joint-life-last-survivor annuity carries on paying out to your partner (or to anyone else you've nominated as long as the annuity provider has accepted them) after you've died.

If you're under 75 at the time of death and the payments to your partner or approved nominee start on or after 6 April 2015, they are tax-free. If you're aged 75 or over, these payments are taxed at the survivor's normal tax rates.

When you first buy the annuity you choose whether the income your partner or approved nominee gets will be the same amount or less. For example, they could get two-thirds or half of the income you were getting.

Capital-protected annuity

A capital-protected annuity (also called value-protected) guarantees to pay out the original sum you paid. So, if you die and the income you've had comes to less, the remaining balance is paid out as a lump sum. For example, if you paid £10,000 and had received five payments of £800 (£4,000 in total), the annuity would pay out the remaining £6,000 to your partner or another nominated person.

Amount paid to annuity	Withdrawn before death	Paid after death
£10,000	£4,000 (5x £800)	£6,000 (£10,000 – £4,000)

If you're under 75 at the time of death and the payments to you started on or after 6 April 2015, the lump sum is paid out tax-free. If you're aged 75 or over, the lump sum is taxed at 45% in 2015-16, then at your partner or a nominated person's normal tax rates in following years.

Annuity with guarantee

An annuity with guarantee pays out the agreed income for a set number of years, even if you die before then. For example, if the guarantee period is five years and you die after the first year, your partner, or any other person you've nominated, will carry on getting the income for the remaining four years.

If you're under 75 at the time of death, and the payments start on or after 6 April 2015, they're tax-free. If you're aged 75 or over, payments are taxed at the survivor's normal tax rates.

Fixed-term annuities

Annuities don't all pay an income for life. Some, called fixed-term annuities, are designed to pay out just for a set period, typically from three to 20 years.

The main reason for using a fixed-term annuity is to keep your options open. You get an income for now but without having to lock into a lifetime annuity.

Flexible annuities

Providers can offer new types of annuities that are more closely tailored to your individual needs. For example, this could be an annuity that starts with a high income that reduces once you start to receive your State Pension, an annuity that pays out a combination of income and lump sums in a pattern agreed at the time you buy the annuity, or an annuity that pays more if you start to need long-term care.

These changes began in April 2015, so it's too soon to say what new types of annuity providers will offer.

Things to remember

- Annuities may be less useful than drawing out your pension savings flexibly if you're living with a terminal illness.
- Usually, once you've bought a lifetime annuity you cannot change your mind.
- You may want to seek financial advice before making a decision.

State Pension

Most people are entitled to at least some State Pension once they reach State Pension age. You cannot start this pension early, even if you have a terminal illness, but you might be entitled to other state benefits.

You build up an entitlement to State Pension by paying National Insurance contributions while you're working. You can also get National Insurance credits during some periods when you cannot work, for example, because you're ill, caring for someone who is ill or looking after children.

Visit **mariecurie.org.uk/money** or call the Marie Curie Support Line on **0800 090 2309*** for more information about state benefits and entitlements.

When can you get your State Pension?

The earliest age you can start this pension is when you reach State Pension age. At present this is 65 for men and 62 and a half for women, but State Pension age for women is increasing and will reach 65 by November 2018. After that, State Pension age is set to increase for men and women to 66, then 67, and at least 68 and possibly higher.

Your own State Pension age depends on when you were born. You can check it using the government's State Pension calculator at **gov.uk/calculate-state-pension**

Can you draw your State Pension early?

You can't start your State Pension before you reach State Pension age. However, if you can't work, you may be entitled to claim other state benefits instead, like Employment and Support Allowance if you're ill or Carer's Allowance if you're caring for someone who is ill.

How much State Pension will you get?

If you reach State Pension age on or after 6 April 2016, you'll receive the new State Pension instead of Basic and Additional Pension.

New State Pension (from April 2016)

This will be at least £151.25 a week (£7,865 a year). You'll need 35 years of National Insurance contributions and credits to get the full amount. If you have fewer years, you'll get less. You'll need at least a minimum number of years (expected to be 10) to get any new State Pension at all.

If you've already built up more than the new State Pension in Basic and Additional State Pension, the extra amount is protected under the new system. If you reach your State Pension age before 6 April 2016, you don't get the new pension but get the Basic State Pension and Additional State Pension under the current rules.

Basic State Pension

In 2015-16, the full Basic State Pension for a single person is £115.95 a week (£6,029 a year). To get this, you must have built up 30 years' worth of National Insurance contributions and credits. If you have fewer years, you get one-thirtieth of the full amount for each complete year. For example if you had built up 29 years of National Insurance contributions, you would get
29/30 x £115.95 = £112.09 a week.

Additional State Pension

The Additional State Pension is based on an average of your earnings over the years since 1978 or when you started work if later. This could be as much as £160 a week but the average is much lower at around £30, because through a system called 'contracting out' many people have built up a pension in a company pension scheme or personal pension scheme that replaces some or all of their additional pension.

Layton Thompson/Marie Curie

What happens to your pension when you die?

State Pension

If your husband, wife or civil partner is over State Pension age when you die, they might be able to increase their State Pension based on your qualifying years. The rules are changing from April 2016 so they should contact the Pension Service (see page 55) to check if they can make a claim.

Other pension schemes

Some pension schemes can provide a lump sum and or income that you can leave for those close to you. These are sometimes called survivor pensions. You need to say who you want to get these benefits, but anyone who is financially dependent on you might have a claim.

The benefits your partner, children and any other dependants may get will depend on the type of pension scheme you have and whether you have already started to draw a pension. Broadly, a dependant is someone who relies on you financially or with whom you shared living expenses.

Check with your pension provider what your scheme will provide.

Step one: check whether you have anything to leave

Pension already started from a defined benefit scheme

A defined benefit scheme (see page 10) is a workplace pension scheme that promises to pay an income at retirement usually linked to your pay and the number of years you've been in the scheme.

When you die, it will usually carry on paying a pension to your partner, or any other person you've nominated, but at a reduced rate. They will pay tax on the pension at their normal tax rates (even if you were under 75 at the time you died.)

The scheme might also pay a pension for any children who are not yet adult or are still in full-time education.

The precise benefits vary from scheme to scheme, so check your scheme website or handbook, or talk to the pension scheme administrator.

However, when starting the pension, you may have chosen to cancel any survivor pensions in return for a higher retirement pension. In that case, there will be nothing to leave.

Pension already started from a defined contribution scheme

Any workplace pension that isn't a defined benefit scheme and any personal pension that you arranged for yourself, will normally be a defined contribution scheme (see page 11). With this, whatever is paid in builds up a pension pot that can be used to provide retirement income.

When you started your pension, you'll have chosen how it will be paid out. You'll have chosen either a lifetime annuity (see page 27) or drawdown (see page 16).

With a lifetime annuity, you'll have given up your whole pension pot and in return got a regular income payable for life. If you chose a joint-life-last-survivor annuity, the pension will carry on being paid to your partner or an approved nominee when you die, probably at a reduced rate. If you're under 75 at that time and the payments start on or after 6 April 2015, the payments will be tax-free. If you chose a single-life annuity, the income stops when you die and there is normally nothing to leave to your family.

However, some annuities are capital protected (or value protected). This means the provider will pay out a lump sum if the total pension you've had comes to less than the value of the pension pot you used to buy the annuity. Some other annuities have a guarantee and carry on paying an income for the remainder of a set period (eg, five or 10 years) if you die before then.

If you chose income drawdown, you kept your pension savings and have been drawing lump sums or income from them. When you die, your family can inherit the remaining savings.

If you're under 75 at the time of death and any lump sum is paid, or any income starts on or after 6 April 2015, it will be tax-free.

Pension not yet started

If you haven't started to draw a pension, your family will normally be entitled to get a lump sum and possibly a pension too from a defined benefit scheme. They'll normally inherit your pension pot from any defined contribution scheme and can choose to draw it out as a lump sum or income.

If you're under 75 at the time of death, any lump sum will be tax-free. In the case of most defined contribution schemes, if your family choose an income and it starts on or after 6 April 2015, it will be tax-free. Income from a defined benefit scheme is taxable.

Step two: let your scheme know who should inherit

Pension schemes are normally set up so that legally you don't directly own your pension savings or rights to a pension. So, when you die, technically the scheme decides who will get any lump sum and survivor pension.

This has the advantage that the benefits go direct from the scheme to your family without becoming part of your estate (the possessions you leave). So there is normally no inheritance tax on the pensions you leave and no delay while your affairs are sorted out.

The scheme will ask you to complete an expression of wish form saying who you want to get the benefits. In a defined benefit scheme, anyone can get a lump sum, but only dependants can get a pension. In a defined contribution scheme, anyone can get a lump sum or pension.

In most cases, the scheme will follow your wishes. Very occasionally, someone else who was financially dependent on you may have a valid claim to receive some or all of the benefits instead. This could be a former husband or wife, or children from a previous relationship.

If you haven't filled in a form and have no dependants, any lump sum will end up as part of your estate where it may be taxed and will be passed on according to your Will or, if you don't have a Will, according to intestacy laws. You can find out more about making a Will at **mariecurie.org.uk/makingawill** or by calling the Marie Curie Support Line on **0800 090 2309***.

Make sure you have provided each scheme with a completed expression of wish form and keep it up to date.

Things to remember

- Some pension schemes can provide an income for those close to you after you die.
- In a defined benefit scheme, anyone can potentially inherit a lump sum but only dependants can inherit a pension.
- In a defined contribution scheme, anyone can inherit a lump sum or a pension.
- It’s very important that you tell each scheme who you would like to inherit from you.
- Check your options with your pension provider or a financial adviser.

Section two: information for family, friends and carers

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Protecting your pensions if you're a carer

A terminal illness can affect your family's finances, not just because the person who is ill may be off work, but because you, as the carer, may have to cut back your hours or stop work too.

This can affect your income today and also the pension you'll have when you reach retirement. Even if that seems a long way off and not a priority right now, it's a good idea to protect your pensions.

State Pension

Most people are building up an entitlement to get a State Pension when they retire. You normally do this by paying National Insurance contributions while you're working. In situations when that's not possible, you may get National Insurance credits. These prevent there being gaps in your National Insurance record that might reduce your State Pension. You may get credits if you're a carer – see below.

Carer's Credit

Getting Carer's Credit doesn't depend on your income or savings, so you can get it even if you do some part-time work or you're studying alongside being a carer.

You must be caring for someone for at least 20 hours a week. That person must be unable to work because of their illness and normally get one of the following state benefits:

- Attendance Allowance.
- Personal Independence Payment at the standard or enhanced rate.
- Disability Living Allowance at the middle or higher rate.

- Constant Attendance Allowance.
- Armed Forces Payment.

You carry on getting Carer's Credit during short breaks from caring up to 12 weeks. You get Carer's Credit automatically if you're getting Carer's Allowance, which is a cash benefit for carers. To qualify for Carer's Allowance, you must be caring for at least 35 hours a week. You'll also get Carer's Credit automatically if you're getting Child Benefit for a child under the age of 12.

How to apply

If you're not getting Carer's Allowance or Child Benefit, you'll need to claim Carer's Credit. You can do this using the claim form available from **GOV.uk** or **nidirect.gov.uk** in Northern Ireland. You'll need to ask a health or social care worker to sign a care certificate for you, which is also downloadable from these websites.

Before 2010, your State Pension was protected by a similar system called Home Responsibilities Protection (HRP). Years of HRP in your National Insurance record have now been converted to Carer's Credit.

A workplace pension

Working less hours

You may be working fewer hours as a carer. Because pension contributions are normally linked to pay, this will reduce the rate at which you're building up a pension.

By law, part-time workers have the same access to pension schemes as full-time workers, and increasingly employers are automatically enrolling their workers into a workplace pension scheme.

If money is tight, you might feel tempted to opt out of your workplace pension scheme. Think carefully before doing this. In most cases, your employer must pay into the scheme on your behalf, so opting out is like turning down a pay rise.

Stopping work

If you have to stop work, you still belong to any pension scheme you had been a member of while working. But, instead of being an active member (with new contributions going in), you become a deferred member with a deferred pension.

What being a deferred member means depends on the type of scheme you belong to:

- **If it's a defined benefit scheme** you're promised a pension from the scheme's normal pension age. This is usually based on the number of years you had been in the scheme and your pay up to the time you left. This deferred pension is normally increased each year at least in line with price inflation so that it doesn't lose its buying power
- **If it's a defined contribution scheme** you have been building up your own pension pot that can be used later to buy pension and other benefits. Although no more contributions are being paid in, the pot remains invested and, provided the investments do well, it may carry on growing. With some workplace defined contribution schemes, you can choose to carry on paying in even if you have stopped work.

A personal pension you arrange for yourself

All personal pension schemes are defined contribution schemes, so what you pay in is invested and builds up your own pension pot. Unlike a workplace scheme, there are usually no contributions from an employer.

If you cannot afford to carry on paying in just now, the pot you have built up so far remains invested and, provided the investments do well, it may carry on growing.

Bear in mind that anyone can pay into your personal pension scheme for you. For example, if you're caring for a child or parent who is ill and you have a partner who is working, it's worth discussing with your partner whether they would be willing to pay into your personal pension for you.

Layton Thompson/Marie Curie

Cashing in your pension early

If you've reached age 55, you can draw cash out of most defined contribution schemes. In many cases you'll be able to transfer from a defined benefit scheme to take advantage of the new pensions flexibility, although you must seek financial advice if you're thinking about doing this and your defined benefit pension is worth more than £30,000.

This might help you to cope with any strain on your current finances, for example, enabling you to reduce or pay off a mortgage or other debts. You should bear in mind that cash you take out now means there will be less to provide a pension later on. You should take financial advice if you're considering taking your benefits early.

You're entitled to free pension guidance from a new service called Pension Wise. It's available online from the Pension Wise website, face-to-face from Citizens Advice or by phone from the Pensions Advisory Service. See pages 54-56 for contact details.

You can find out more about the State Pension and other benefits for carers at **mariecurie.org.uk/money** or call the Marie Curie Support Line on **0800 090 2309***.

Telling the pension administrator about a death

When someone dies, it's important to contact any pension schemes they had straight away so that lump sums and pensions for family (also known as survivor pensions) can be paid as soon as possible.

If the person who died had started to draw a pension, the scheme will need to stop paying the pension. Whether or not any pension has started, the scheme needs to know about the death so that any lump sum death benefit and pensions for family can be paid out.

What to do

If the person has left a Will or any other documents explaining their wishes, you may find details of pension schemes there. The government's free Pension Tracing Service (see page 55) can also help you track down lost pensions.

Contact each scheme by phone, email or post. The Money Advice Service website has a useful template letter you could use – see **tinyurl.com/MASletter**. The scheme will usually send you a form to complete and will need to see the death certificate.

If the person who died had several pension schemes (or lots of other financial arrangements as well), you can speed up the process by getting several copies of the death certificate at the time you register the death. Visit **mariecurie.org.uk/registeringadeath** or call the Marie Curie Support Line on **0800 090 2309*** for more details.

Inheriting a pension

When someone close to you dies, you can find yourself trying to cope financially as well as emotionally. If your partner had any pensions or pension savings, you may be entitled to a lump sum or pension for yourself and your children. These are sometimes called death benefits.

The type of death benefits you might inherit depends on what type of pension scheme (or schemes) your partner had and whether they had already started to draw any savings out.

Your partner will normally have completed an expression of wish form, telling each pension scheme who is to receive any benefits in the event of death. The benefits from a pension scheme are nearly always paid direct to family or others and don't depend on whether or not your partner left a Will.

As a partner (either married or unmarried but living together), you may be entitled to receive something from the scheme. But sometimes a former husband or wife or children from an earlier relationship may have a claim too.

Step one: check whether your partner belonged to any defined benefit schemes

A defined benefit scheme is a workplace pension scheme that promises to pay a pension at retirement. It's usually linked to pay and the number of years the person has been in the scheme. On death before retirement, the benefits it pays are normally also linked to the person's pay.

The precise benefits vary from scheme to scheme, so you should contact the scheme administrator as soon as possible to find out whether you're entitled to a pension, and how much this might be.

Any pensions you get count as part of your taxable income.

If your partner hadn't started their pension

If your partner was still contributing to and had not started to draw a pension from their current employer's scheme, the scheme may pay a tax-free lump sum death benefit to anyone he or she had nominated to receive it. Typically, the amount could be two to four times his or her salary at the time of death.

Defined benefit schemes will normally pay a pension to a dependant and pensions for any children who are not yet adult or are still in full-time education. To qualify for a dependant's pension, you must have been financially dependent on, or shared living costs (co-dependent) with, your partner.

Previous employer's scheme and pension not started

If your partner was owed a pension from a former employer's scheme, it might provide a pension for you and any children who are not yet adult or are still in full-time education. It might instead just refund the contributions your partner had paid in.

If your partner had started drawing a pension

If your partner had already started drawing a pension from a defined benefit scheme, it will normally continue paying out a pension to you but at a reduced rate.

It usually also provides pensions for any children who are not yet adult or are still in full-time education.

However, when starting the pension, your partner might have chosen to cancel any pensions after their death in return for a higher retirement pension. In that case, you won't be entitled to any pension from the scheme.

Step two: check what other pension savings your partner had

Other pension savings your partner had built up will be in defined contribution schemes. This means schemes where whatever is paid in went into their own pension pot, which was invested (usually on the stock market). The pension pot is then used to buy benefits, such as a retirement pension or lump sums or income for the family (or others).

You can contact the pension provider to find out whether there is anything to inherit and whether you're entitled to it.

The amount you may be entitled to depends on whether your partner had started to draw out their savings, the size of the pension pot, the choices that you now make and how what you get is taxed.

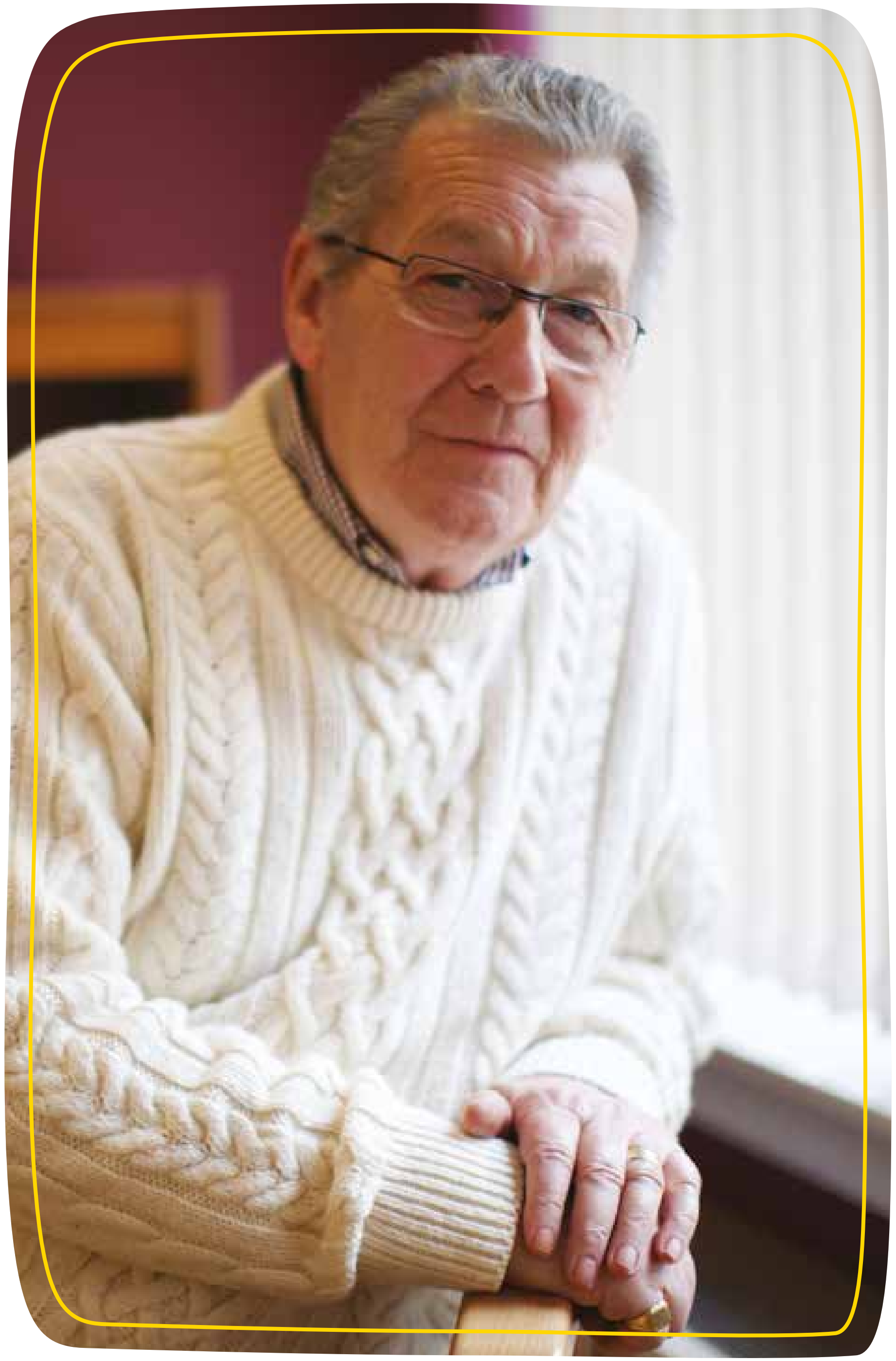
If your partner belonged to a company pension scheme that works on a defined benefit basis, it might not be able to offer you all the choices you would like. In that case, you may need to transfer the pension pot to a personal pension scheme that offers you more choice.

If your partner had already started their pension, it's possible that there might be no pension pot left for you to inherit.

Inheriting your partner's defined contribution pension: example

How you draw the money out	Your partner's age at the time of death	
	Under 75	75 or over
As one or more lump sums (open to anyone)	Tax-free whether or not your partner had taken any pension or lump sum	Tax at 45% is deducted if a lump sum is taken in 2015–16 Your normal tax rates apply from 6 April 2016 onwards
As an income (open to anyone)	Tax-free whether or not your partner had taken any pension or lump sum*	Taxed at your normal tax rates

* The rules may be different if the benefits are being paid from an employer's defined contribution scheme. Check with the scheme.



Kieran Dodds/Marie Curie

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How we can help

We help everyone affected by a terminal illness get the information and support they need, whether you have an illness yourself or you're a family member or friend.

Marie Curie Support Line
0800 090 2309*

Ask questions and find support. Open 9am to 5pm Monday to Friday. (Your call may be recorded for training and monitoring purposes.)

* Calls from landlines are free, but there may be a charge if you're calling from a mobile. Check with your mobile provider for details. Calls from any type of phone will be free from 1 July 2015.

Marie Curie Community
community.mariecurie.org.uk

For anyone affected by terminal illness to share experiences and support each other. Available 24 hours a day.

More information and further support

We also have an extensive range of information materials available to view online or in print. Visit **mariecurie.org.uk/help** where you can also find film guides, information about our services, and links to further support.

Marie Curie Nurses

Marie Curie Nurses work night and day, in people's homes across the UK, providing hands-on care and vital emotional support. If you're living with a terminal illness, they can help you stay surrounded by the people you care about most, in the place where you're most comfortable.
mariecurie.org.uk/nurses

Marie Curie Hospices

Our hospices offer the reassurance of specialist care and support, in a friendly, welcoming environment, for people living with a terminal illness and their loved ones – whether you're staying in the hospice, or just coming in for the day.
mariecurie.org.uk/hospices

Marie Curie Helper

We know the little things can make a big difference when you're living with a terminal illness. That's where our trained Helper volunteers come in. They can visit you regularly to have a chat over a cup of tea, help you get to an appointment or just listen when you need a friendly ear.
mariecurie.org.uk/helper

Chris Renton/Marie Curie

Useful organisations

Action Fraud
actionfraud.police.uk
0300 123 2040
Action Fraud is the UK's national reporting centre for fraud and internet crime where you can report fraud if you've been scammed, defrauded or experienced cybercrime.

Citizens Advice
General enquiries: 03454 04 05 06 / 03454 04 05 05 (Welsh)
To book an appointment with Pension Wise: 0300 330 1001
adviceguide.org.uk
The Adviceguide website is the main public information service of Citizens Advice, providing 24/7 access to information on your rights, including benefits, housing and employment, and on debt, consumer and legal issues. Search the site for your nearest bureau in England, Wales, Scotland and Northern Ireland.

Financial Conduct Authority
0800 111 6768
fca.org.uk
The FCA regulates financial services in the UK, including banks, building societies, mortgage and insurance brokers, and financial advisers.

Money Advice Service
0300 500 5000 / 0300 500 5555 (Welsh)
moneyadviceservice.org.uk
A free, independent service set up by the government to help people manage their money. You can call its telephone helpline or book a face-to-face appointment. It has a retirement adviser directory where you can find a financial adviser who is regulated by the Financial Conduct Authority at **directory.moneyadviceservice.org.uk**

The Pensions Advisory Service
General enquiries: 0300 123 1047
Pension Wise: 0300 330 1001
pensionsadvisoryservice.org.uk
Provides free and impartial guidance for people with workplace and personal pension schemes.

The Pension Service
0800 731 7898 (textphone 0800 731 7339)
gov.uk/contact-pension-service
Help with State Pension eligibility, claims and payments.

Pension Tracing Service
0845 600 2537 (textphone 0845 3000 169)
gov.uk/find-lost-pension
Find a lost pension by contacting the Pension Tracing Service either online or over the phone. You'll be asked to fill in a form. This service is free.

Pension Wise
0300 330 1001
pensionwise.gov.uk
A free and impartial government service that can help you understand your pension options.

Unbiased
unbiased.co.uk
A website listing experienced, regulated and independent financial advisers and other financial professionals. It features a postcode search so you can find an adviser near you.

Did you find this information useful?

If you have any feedback about the information in this booklet, please email us at **review@mariecurie.org.uk** or call the Marie Curie Support Line on **0800 090 2309***.

Further information

This booklet was produced by Marie Curie's Information and Support team. It has been reviewed by financial and legal professionals and people affected by terminal illness.

If you'd like the list of sources used to create this information, please email **review@mariecurie.org.uk** or call the Marie Curie Support Line on **0800 090 2309***.

Notice

The information in this publication is provided for the benefit and personal use of people with a terminal illness, their families and carers.

This information is provided as general guidance for information purposes only. It should not be considered as medical or clinical advice, or used as a substitute for personalised or specific advice from a qualified medical practitioner. In respect of legal, financial or other matters covered by this information, you should also consider seeking specific professional advice about your personal circumstances; Marie Curie does not provide legal, financial or investment advice or services.

While we try to ensure that this information is accurate, we do not accept any liability arising from its use. Please refer to our website for our full terms and conditions.

Notes

Marie Curie – what we're here for

We're here for people living with any terminal illness, and their families. We offer expert care, guidance and support to help them get the most from the time they have left.

Marie Curie Support Line
0800 090 2309*

Ask questions and find support. Open 9am to 5pm Monday to Friday. (Your call may be recorded for training and monitoring purposes.)
mariecurie.org.uk/help

You can also visit **community.mariecurie.org.uk** to share experiences and find support by talking to people in a similar situation.

* Calls from landlines are free, but there may be a charge if you're calling from a mobile. Check with your mobile provider for details. Calls from any type of phone will be free from 1 July 2015.

Marie Curie

Care and support through terminal illness

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