**Chapter 7: Retirement Planning**

**Quick Think:**

**What is the retirement age in the following countries for men and women?**

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| **Country** | **Men** | **Women** |
| USA |  |  |
| UK |  |  |
| China |  |  |
| India |  |  |
| Mexico |  |  |
| Philippines |  |  |

**What is “retirement planning”?**

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**What are the three main sources of pensions?**

Pension Sources

**Pension Source 1:**

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**Pension Source 2:**

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**Pension Source 3:**

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| **State Pension Schemes: UK Case Study**   |  |  | | --- | --- | | **Circumstances** | **Basic State Pension weekly rate for 2015/2016** | | Maximum qualifying years |  | | Married man, woman or civil partner (using his wife's, her husband's or civil partner's National Insurance record) |  |   **Current State Pension**   * Current State Pension is made up of basic State Pension and additional State pension. * If you are a man born before 6 April 1951 or a woman born before 6 April 1953 then you may be eligible for the current State Pension.   **New State Pension**  If you are born on or after 6 April 1951 (man) or 1953 (woman) you may be eligible for the new State Pension.   * The full amount of new State Pension will be **£155.65** a week * Under the new system, from April 2016, the actual amount will depend on your National Insurance record. You could receive a higher or lower amount.   <https://www.nidirect.gov.uk/articles/state-pension-and-pension-credit-rate> |

**Stretch & Challenge: Retirement Planning**

**Using the BBC article below as a basis, and conducting some of your own research draw up a case for and against the new state pension scheme introduced by George Osbourne in March 2016.**

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| **Question** | **Discussion** |
| What are the issues under the new state pension scheme? |  |
| Who are the winners under the new state pension scheme? |  |
| What are your overall conclusions on the fairness of this new system? |  |

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| **Winners & Losers under the new state pension**  By Brian Milligan Personal Finance reporter  4 April 2016  **The new flat-rate, or single-tier, state pension is coming into effect for everyone who retires after 6 April, 2016.**   * The government argues it will be simpler - and that over the next 15 years, most people will end up getting a higher pension. * While the current basic state pension is worth around £120 a week, the new one will start at £155. * Women, and the self-employed, are among the groups that, on average, should benefit. * But there will be losers too - especially for those currently in their 20s and 30s. And in the long run the new system will save the government money.   **What happens if I have already retired?**   * If you have retired before 6 April, 2016, you will continue on the old two-tier system. That is, you will receive a basic state pension, plus top-ups. * These consist of pension credit, for the low-paid, as well as payments from the second state pension (previously known as Serps), if you qualify.   **Who will be eligible for the new state pension?**   * Men born after 6 April 1951, and women born after 6 April 1953. * To qualify for any pension at all you will need to have 10 years of National Insurance contributions (NICs). Previously there was no minimum. * As a result of this, Age UK has calculated that 70,000 people will no longer qualify for any state pension.   **As changes to the state pension come into place, who will financially benefit, and who will be worse off?**   * NICs don't have to be paid in consecutive years, and some parents, carers and jobseekers have special exemptions. Each year of NICs will add £4.44 a week to your pension, at current prices. * To qualify for the full new state pension, you will need to have 35 qualifying years. Previously this was 30 years.   **Will some people get less than £155?**   * Yes. Anyone who contracted out of the second state pension before 6 April 2016. This will particularly be the case for millions of teachers, NHS workers, police officers and members of the armed forces - in other words public sector employees. * Such workers will have paid a lower rate of NICs. Instead they will have paid extra into a workplace pension scheme. As a result they will be paid a reduced state pension. * How much less will depend on how long they were contracted out for. * Government figures show that only 45% of pensioners will get the full amount in the first five years of the new state pension. As many as two million people will not get the full amount.   **How can I tell if I was contracted out?**   * Look on an old payslip. On the National Insurance line, the letter "D" or "N" means you were contracted out. "A" means you were not contracted out. However, from 6 April 2016, no-one will be contracted out, as contributions to the second state pension will end. * Those contracting back in will therefore go back to paying the standard - higher- rate of NICs. For most people their contribution rate will rise from 10.6% to 12% of qualifying salary - or around £37 a week on average.   **Will some people get more than £155?**   * Yes. Anyone who paid into the second state pension will retain that as a protected payment and could therefore earn more than £155. In some cases, part of the pension credit payment will also be retained. * No one will lose out in reality under the new system - in the early years - as in effect there will be transitional arrangements.   **Who will be the long-term losers?**     * Over the long-term, younger people will lose out. Many will get less under the new system than they notionally would have received under the old system. * This is because they will pay standard NICs, yet they won't qualify for the second state pension, which is being abolished. * The Pensions Policy Institute has calculated that three quarters of those now in their 20s will lose a notional £19,000 over the course of their retirement. * Two-thirds of those now in their 30s will lose £17,000. However the remainder will gain an average of £10,000 in both cases. * Others with less than 35 years of NICs will also lose, as previously they would have qualified for a full state pension with just 30 years of contributions.   **Who will be the long-term winners?**     * Over the first 15 years of the new state pension, the government says that three-quarters of those reaching state pension age will get a higher pay-out than they would have done under the old system. * That means that by 2030, three million men and three million women will benefit. * However, government documents show that the proportion of people doing well will gradually decline the further out you look. * By 2050, around half of retirees will get a higher pay-out, with half getting a lower pay-out. Assuming a pension age of 70 by then, you can make this generalisation: * People born before 1980 can, on average, expect to do better out of the new system. People born after that date are likely to fare worse.   *Source:* [*http://www.bbc.co.uk/news/business-35928308*](http://www.bbc.co.uk/news/business-35928308) |