**Personal Pensions**

Personal pensions were introduced on 1 July 1988, replacing retirement annuity contracts (RACs), to allow people greater opportunity to save for retirement on a private basis.  Apart from those who already had an existing RAC and until the introduction of stakeholder pension schemes in April 2001, personal pensions were the only pension arrangements available for the following:

* those who were self-employed
* those in non-pensionable employment
* anyone who had opted out or chosen not to join a workplace scheme offered by their employer.
* those in an occupational pension scheme that was not contracted out. A personal pension could be taken out for contracting out purposes only.

A personal pension plan can accept transfers from other pension arrangements.

Before 6 April 2006, tax relief on contributions to a personal pension was limited to a percentage of qualifying earnings until stakeholder pensions were introduced and contributions could be paid up to £3,600 each year without reference to earnings.

Before 6 April 2006, subject to any Protected Rights restrictions (see below) retirement benefits could be taken any time between age 50 and 75, with up to 25% of the fund available as a tax free lump sum and the balance used to purchase an annuity (with no limit on the amount of pension payable).  If the fund value was below a certain level it was possible for the member to take their benefits as a lump sum on grounds of triviality.  However, a lump sum on grounds of serious ill health was not available (as it was in an occupational pension scheme).

If a personal pension was used for contracting out before 6 April 2006, it had to comply with the Protected Rights requirements that applied at that time. Protected Rights could not be taken before age 60 and could not be commuted for tax-free cash except on grounds of triviality. Also, annuities purchased with Protected Rights had to have compulsory increases in payment, as explained in the Role of Government section.

From 6 April 2006, personal pensions became subject to the same requirements as any other registered pension scheme in terms of contribution limits and the types of benefit they could provide, and scheme rules (and contract terms) had to be adapted to comply with the requirements of the new pensions tax regime - further information about the new pensions tax regime is given in the Role of Government section.

However, personal pensions will continue to be different in other respects from occupational pension schemes and other types of pension arrangement.

Employees can be members of both an occupational pension scheme and have a personal pension at the same time (concurrent membership).

The policyholder must normally be offered various types of annuity from which to choose (e.g. single life, joint life, without and with a time guarantee, and non-increasing or increasing at various levels). Importantly, there is an ‘open market option’ (OMO) as part of the terms of the policy. This means that an individual can shop around the annuity providers to get the best annuity in exchange for the proceeds of their policy (after having taken the tax free lump sum).

There are Financial Conduct Authority rules in place which require certain information to be provided about the OMO and the pension flexibilities that were introduced from 6 April 2015.

Up until 6 April 2012, personal pensions could accept the National Insurance rebates if they were used for contracting out, and were called Appropriate Personal Pensions (APPs). Members of occupational pension schemes who were not contracted out could take out an APP which only accepted National Insurance rebates – a rebate-only personal pension. Contracting out on a defined contribution basis was abolished on 6 April 2012 (see the Role of Government section).

Personal pension schemes can be used as qualifying pension schemes for automatic enrolment purposes.