Eight good reasons to have a pension

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1 Don't turn down deferred pay, you could be giving give away £450,000

- If you opt out of the pension scheme provided to you by your employer then you could be giving away anything from the current auto enrolment legal minimum of 3% of pensionable salary to above 20% in some schemes.
- Insurer Aegon has said that over time, workers' contributions plus their employer's contributions can grow to very substantial sums – and someone on average earnings who chooses not to join their workplace pension scheme could potentially lose out on pension savings of £450,000 by the time they reach retirement.

2 Don't give away 20% tax relief

- You get tax relief when you pay money into your pension.
- A basic-rate tax payer gets 20% back on their pension contributions, a higher rate payer 40% and top rate payer 45%.
- For a basic-rate taxpayer for every 80p you pay into your pension, a further 20p is put into your pension scheme by the government in the form of pensions tax relief.

3 A pension can provide life assurance

- Most pension schemes will provide a lump sum in the event of your death for the dependants you choose.
- Some may also pay a survivors pension to a dependant.
- If you die before you reach pension age then when you pass on your pension savings to your dependant it will be taxed less than other types of savings.
- If you die before 75 you can usually pass your pension on tax-free.

> "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it"
>
> Albert Einstein

4 A pension can provide an income if you suffer ill health

- Many pension schemes will provide a pension that can be paid early if a member suffers ill-health.
- For other pension schemes this will be provided for by an insurance company in the form of a lump sum and or a life annuity pension.

5 You can get up to 25% of your pension savings tax-free

- In some defined benefit (DB) pension schemes members will receive a tax-free cash sum without having to exchange any of their annual pension.
- In other defined benefit pension schemes members might chose to reduce some of their pension in exchange for a tax-free lump sum.
- In defined contribution (DC) schemes a member can take up to 25% as a tax free lump sum.

6 A minimum of 15% pension contributions needed to avoid future pensioner poverty

- A report by the Independent Review of Retirement Income (IRRI) says a national retirement savings target of 15% of lifetime earnings should be adopted "to avoid future pensioner poverty".
- Two-thirds of pre-retirement income is seen as an acceptable level of pension's provision by many pension commentators. It will take contributions greater than 15% to achieve this.
- There is an adage that suggests that people should be paying half of their age in percentage terms into their pension (for example, a 30 year-old should pay in 15%, a 40 year old 20%). These contribution levels, depending on market performance, would be more likely to provide an acceptable level of pension provision in retirement.
- However, the problem with this rule of thumb, if followed literally, is that you will miss out on the compound interest that could accumulate by contributing more earlier rather than later (see point 8).

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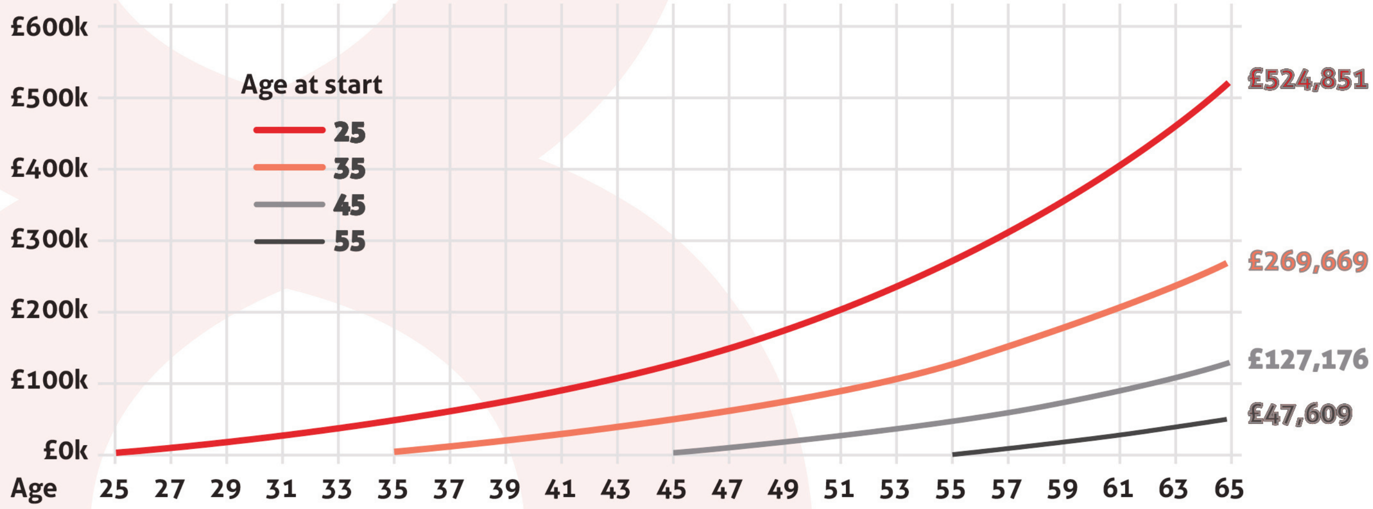
7 State Pension on its own will not be enough to live on

- The full basic State Pension is currently only £156.20 a week, as at the 6th April 2023:
  - for men born before 6.4.1951.
  - for women born before 6.4.1953.
  - The full new State Pension is currently only £203.85 a week, as at the 6th April 2023:
  - for men born after 6.4.1951.
  - for women born after 6.4.1953.
- The Pensions & Lifetime Savings Associations Retirement Living Standards report, has said that:
  - Minimum Retirement Living Standard is £12,800 for a single person & £19,900 for a couple.
  - Moderate Retirement Living Standard is £23,300 for a single person & £34,000 for a couple.
  - Comfortable Retirement Living Standard is £37,300 for a single person & £54,500 for a couple.
- So clearly, relying on State Pension alone isn't going to be enough, particularly when you consider that you are waiting longer to receive it.

8 You need to start making pensions savings now – you're missing out on interest

- Albert Einstein famously said: "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it."
- The chart below shows why starting your pension early is key.
- It is based on contributing £250 a month with assumed annual interest of 6%. This does not take into account any tax relief that you are entitled to which would go on top.
- If you start your pension aged 25, your pension savings at 65 would be £524,851.
- If you start your pension aged 35, you would have pension savings of £269,669 – 48% less than if you had started at aged 25.
- If you start your pension aged 45, you would have pension savings of £127,176 – 75% less than if you had started at aged 25.
- If you start your pension aged 55, you would have pension savings of £47,609 - 90% less than if you had started at aged 25.

Pension pot value by age at start date



Data: Charlotte Richards

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