Keeping Excellence
in Training Standards

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THIS ISSUE:

Pensions

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Pensions, pensions, pensions.. Retirement may seem far away for you, but why is it important to start saving early? Do you know?

In this newsletter, we answer all your questions around pensions.

What is a pension?

A pension is the most popular way to save up money to support yourself for when you retire. The main benefit of a pension is that your contributions receive tax relief from the government. This means you can add a large chunk of extra money on top of everything you pay in. A workplace pension may also receive contributions from your employer too. These special features give pensions a huge advantage over ordinary investments.

How do pensions work?

There are two main types of pension, which work in different ways. The most common kind is called defined contribution (DC). This is essentially a big savings pot that you pay into regularly. You can then access this money at any age from 55 onwards. Most workplace pensions and all personal pensions are this type.

The other type (less common) is a defined benefit (DB) pension. Sometimes offered by a workplace. In these, you pay in contributions each month, and when you reach a certain age the pension pays you a guaranteed income for the rest of your life. This type is also known as a 'final salary scheme'.

In this newsletter we will be talking about defined contribution pensions (DC).

Did you already know what a pension is? Do you have one? If so, which one?

Why should you start saving early?

Your retirement may last for 25 years or more, so you'll need to be able to support yourself for that entire length of time. So even for a basic retirement, with no round the world trips, you'll have to build up a substantial amount of savings.

Fortunately, there's a thing called 'compound interest' to help you. The longer your money is invested, the more interest it can earn, and the interest will itself earn interest, and so on. This means that even someone on modest earnings can save up an impressive amount, just by starting early enough and paying in every month.

Ideally you should start a pension as soon as you start your first job – but late is still better than never. An Apprenticeship counts as a first job as you are a paid employee!

Can I start a pension?

If you're employed aged between 16 and 21, your employer will not automatically enrol you in their workplace pension. But you have the right to join if you want to, so it's worth having a chat with your employer about. If you are over 22 and employed you'll automatically be enrolled by your employer.

It's important to know all about your pension, if you're not sure just ask your employer.

Have you spoken to your employer about your pension?

What is a state pension?

The State Pension is a guaranteed income paid to you by the government once you retire, provided you've made sufficient National Insurance contributions through your working life. However, the amount is very small, and is only paid to you from the State Pension Age, which rises regularly. So it is best to have your own pension savings alongside to support you both before and after you reach the State Pension Age. The government currently propose a potential rise in the State Pension Age to 68. (Oct 2022)

Saving into a pension

You should contribute a portion of your earnings into your pension every month if you can. If your employer also contributes, try to make the most of this. Some employers make contributions in proportion to what you pay in (e.g. matching or doubling up), so this can be a real incentive to save more. There are pension allowances which limit how much you pay in, both in a single year and over your lifetime. However, most people will never exceed these.

When should you start saving?

The very best time to start a pension is when you are YOUNG. Making early pension contributions lets you make full use of compound interest. This means that even small savings early on can be more important than larger savings later.

It doesn't matter if you can afford only small payments into your pension at this stage – you can increase your payments later as your income rises!

What do you want to do when you retire?

Have you got somewhere safe you can keep any documentation about your current pension?

Do you pay National Insurance?

Sources: https://www.unbiased.co.uk/