Pensions

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What is a Pension?

A pension ensures that you will continue receiving money once you have retired from work. Though there are some state provisions for the elderly and retired, these are unlikely to provide you with enough money to have the standard of life you would like to have. Therefore, paying in to a pension will allow you to create a more comfortable retirement for yourself.

Many people consider pensions to be something that you don't have to be concerned about until you are much older, but in reality, the earlier you start considering pensions and looking into your options, the better it will be for you. The Money Advice Service calculated that if you start saving at 40, you will have to contribute over a quarter of your yearly income to save as much as you would have if you started contributing 10% every year from the age of 20. Therefore, the earlier you start saving for your pension, the less you will have to give up every year to create a comfortable income for retirement.

There are three common types of pension that may be available to you on retirement or that you could start.

State Pension

If you are over 16 and working, or have worked before, it is likely that you have paid National Insurance contributions. Part of these payments go towards your State Pension, therefore if you have ever paid national insurance, you have some form of state pension which you will be able to withdraw once you reach State Pension Age (between 60-65 depending on age and gender, see "Retirement" for more information)

The most you can currently receive from your state pension is £113.10 per week. Many workers may also be earning a "Second State Pension" which is based on your national insurance contributions as well as your income. Self-employed individuals do not get a Second State Pension, and you might have "contracted out" of the second state pension, or your employer may have done so in favour of another pension scheme which you have joined, in which case you would not receive this pension either.

Though the state makes these provisions for National Insurance contributing employees, many find that the payments from the state pension are not enough to keep them living comfortably throughout retirement, and bolster their retirement income in other ways, such as starting one of the following types of pensions.

Workplace Pension

With workplace pensions, a percentage of your income is paid into your pension every payday, which you then cannot access until you are at least 55, with some exceptions if you are seriously ill. In Britain, by law, employers have to automatically enrol their employees into a workplace pension scheme if they are aged between 22 and State Pension Age, earning over £10,000 a year and working in the UK. They also have to contribute to their employee's state pensions, and in many cases the Government will also make a contribution. If you don't meet these criteria, you can still choose to enrol in the company's pension scheme and your employer cannot refuse you this, but they do not have to make contributions into your pension if you earn less than £111 a week or £481 a month.

There are two main types of Workplace Pension that you might be enrolled in. Your employer decides which type of scheme you will be offered:

- "Defined Contribution Pension Scheme" – Your employer chooses a pension provider, which invests the money you pay in to your pension pot into stocks, shares and other investments to try and increase the amount you will get at retirement. The amount you receive on retirement depends on how much you have paid in, how long you have been paying for and how well the investments went. In some cases, providers move your money to lower-risk investments as you get closer to retirement age, and often providers will take a small amount of

your pension payments for management fees – if you want to know how much this will be, ask your employer or the pension provider directly.

- "Defined Benefit Pension Scheme" – In this type of scheme, how much you will get when you retire does not depend on investments. This type of scheme promises to give you a certain amount every year when you retire, based on how much you earn and how long you've worked for your employer.
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You can opt out of these schemes if you wish to, and employers must refund any money you have paid into it within a month. They must also allow you to rejoin the scheme at least once a year, and automatically enrol you again every 3 years if you have opted out but are eligible for automatic enrolment.

Personal Pension

Personal pensions are private pensions arranged by yourself. Often, you will need to talk to an expert financial advisor to arrange one of these. You might choose to start a personal pension if you want to add to your workplace pension, you are self-employed and do not have access to a workplace pension, or if you can afford to start a pension but are not working. Personal pension providers have to be registered with the Financial Conduct Authority, and like other pensions, you usually cannot access your personal pension until you are at least 55 years old. However, you do not need to be retired to access your private pension.

Adding to your Pension

There are ways to add to your workplace and personal pension funds. For personal pensions, you can simply increase your contribution, as you are in charge of your payments. For workplace pensions, your employed may offer an additional voluntary contribution allowing you to pay more than they would usually take into your workplace pension. If your employer does not offer this, you can pay in to a Free-Standing Additional Voluntary Contribution which is offered by a separate pension provision company.

Claiming your Pension

The size of the payments from your pension are dependent on how much you pay in, but also on your age when you retire – the older you are, the higher your payments will be as your life expectancy is lower. You should first decide how you wish to receive your payments – generally, you will have to option of withdrawing up to 25% of your pension tax-free and receiving the rest as regular, taxable payments, which can be made monthly, half-yearly or annually. If your entire pension is under £30,000, you may be able to withdraw this as a lump sum if you are 60 or older. Similarly, If your personal pension is less than £10,000, you can usually withdraw this as a lump sum regardless of how much you have in your other pensions.

For most defined contribution schemes, to receive your regular payments you will have to purchase an Annuity, which will transfer your pension fund from your provider to an insurance company, who will then decide an amount based on your life expectancy that they will pay to you on a regular basis. You do not have to buy this from your pension provider, and it may be wise to shop around to find an annuity that suits you best.