PUZZLED BY PENSIONS?
PENSIONS AWARENESS CAMPAIGN
ANSWERING THE DOUBTERS

Pensions

Pensions can seem complicated, which is often the reason why people put off doing anything about them. Here's what we say to some of the typical reasons people give for not joining their company pension scheme.

Why should I join a pension scheme?

Everybody needs money to live on when they retire. How much you've saved will make the difference between a secure and enjoyable retirement and a long, hard struggle to make ends meet.

Financial experts say that the best investment for retirement income is joining a good pension scheme. Not only does a pension scheme qualify for a number of tax incentives, you will also potentially benefit from a contribution by your employer.

Why can't I just live on state benefits?

Relying on state benefits to provide you with income in retirement is a gamble.

State benefits are means-tested and discretionary. This means that somebody else decides whether to give you benefits and how much to give you.

You might not qualify for benefits if your State Pension and other savings put you over the minimum level of income to claim. If you live with other people, their incomes may mean you receive no benefits.

State benefits may be cut by future governments to save money.

The State Pension was totally reformed in April 2016 and the amount you will receive will depend on your own National Insurance record.

Your new State Pension will be based on how many 'Qualifying Years' you have on your National Insurance record and whether you have previously been contracted out of the additional State Pension (previously known as SERPS) at any time prior to April 2016.

Company pension schemes offer financial security in retirement and they are not affected by other incomes and savings.

Paying into a pension scheme takes money I need out of my pay packet. How can I afford it?

Firstly, can you afford not to? Think of how much of a struggle you will face in retirement if you don't start saving now.

Secondly, pensions aren't as expensive as you think they are.

Pension savings are free of tax. This means that every £10 that you contribute towards your pension will only cost you £8 of your net pay.

If your company pension scheme booklet tells you that you have to contribute 5% of your pay, the tax saving means that you are really only giving up 4% of your net pay.

Also, if your company pension scheme offers a 'salary sacrifice' arrangement, then joining the scheme could save you money by reducing the amount of National Insurance contributions that you pay.

If you are thinking of joining your company pension scheme, find out how much will be deducted from your pay in pounds and pence, from the payroll department.

What else is in it for me?

A contribution from your employer

There's a good chance that your employer also pays a contribution into your company scheme on your behalf, so if you don't join then you are turning down free money.

Life insurance

Joining your pension scheme might also make you eligible for life insurance or a higher level of life insurance than you currently receive. If the worst happens, this extra money might be invaluable to your family.

Ill-health benefits

Membership of a pension scheme can sometimes provide for you if you have an accident, suffer an injury or if a disease prevents you from continuing your employment.

I'm young and retirement is a long way off – can't I think about it later?

The sooner you join the better.

A 25 year old who starts paying 5% of their pay into a pension scheme now (with their employer also paying 5%) can expect a decent pension when they retire. A 35 year old who is starting to save at the same time would need to contribute 12% of their pay to get the same pension – quite a difference.

Continued overleaf ...

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The longer you leave it the more it will impact on your income when you finally decide to do something about it.

If you are auto-enrolled and decide to opt out your employer must check if you qualify for re-enrolment every three years, after which time you may be in a better financial position to stay in the pension scheme.

I've heard a lot about people being mis-sold pensions or company schemes going bust – aren't pensions a bit risky?

The mis-selling of private pensions mostly took place between 1986 and 1996 and since then there has been legislation strictly monitoring the sale of all financial products. Those people who were mis-sold a pension have since been compensated.

If you are a member of a Defined Benefit scheme (even if your scheme has closed) the Pension Protection Fund acts as a safety net so that if a company does go bust its employees are compensated by up to 90% of the value of their benefits.

Many people are also worried about large financial institutions, like the insurance companies that provide pensions, going bust.

The Financial Services Compensation Scheme (FSCS) is a fund set up by the Government to compensate UK customers of financial services firms which are unable to pay claims made against them.

The FSCS covers up to 100% of pension claims.

I'm only a few years away from retirement now and I've saved in the past so do I really need to join?

Can you ever truly say you've saved enough when you don't know how much 'enough' will be? Food bills, water bills, electricity bills and heating bills have all been rising and will probably continue to do so. So even if you've saved already it's a good idea to save a bit more while you still have the chance.

It is likely your employer will make a contribution on your behalf and you could qualify for other benefits as well. Many employers now offer Defined Benefit Contribution pension schemes and from April 2015, you also have a lot more flexibility as to how you can access your pension pot.

You can take your entire pot as a cash sum or some cash initially, then draw down the rest as and when you like – the choice is yours.

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I've made other investments for my retirement

Some people will say they've made other investments for their retirement or that 'my house is my pension'.

But does their employer make a contribution towards these investments? Are contributions towards these other investments boosted by tax incentives granted by the Government and are they fully aware of the risks in these alternative investments?

It's not always wise to put all your eggs in one basket by investing in property alone for example.

Financial experts and trade unions agree that company pension schemes are the best investment for retirement.

I don't understand pensions – they're too complicated

Don't be put off by the idea that pensions are complicated. Usdaw members can rely on their union for help and information.

Remember the key things about pensions are:

- Contributions are tax-free and don't cost you as much as you think.
- Most employers make a contribution towards them too.
- Defined Benefit schemes provide a regular income in retirement and Defined Contribution schemes can be accessed on a flexible basis.
- You can take a tax-free lump sum when you retire.
- Financial experts and trade unions both recommend that the sooner you join your employer's pension scheme, the better.

Stock photo, posed by model.

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