Guide to Workplace Pensions

From 2018, all employees will be entitled to be offered a pension at work

The Basics

The law has changed and larger employers have already set up workplace pensions for their staff. From 2018 every employer has to offer their staff a pension. Even if you only employ one cleaner. Or nanny.

It starts small. From April 2018, every employee will see 3% of their salary go into this pension. With top-ups from your employer and the Government. But it gets bigger. From 2019 every employee will have to put in at least 4% of their salary. The Government will bung in an extra 1% and your employer has to put in at least 3%. So that's 8% which will be building up, month after month. The more you earn, the more you will save.

You can say you don't want to take part and 'opt out' but it's not a great idea because you'll forfeit the 3% from your employer and 1% from the government.

The detail

Automatic Enrolment happened because the powers that be in Westminster saw that no-one was saving up for retirement. And gone are the days of comfy final salary schemes. And irritatingly enough, people are daring to live for longer. So how on earth is everyone going to manage when they retire and there are no big handouts from the State OR from a company you worked at for about 100 years.

So enough of the carrot, here comes the stick. Every business has to provide a pension for its staff – whether it's British Airways, the local chippie or even if you employ a nanny, cleaner or carer.

How much is involved?

- There is a minimum total amount that has to be contributed by you, your employer, and the government in the form of tax relief. This total minimum contribution is currently set at 5% of your earnings (2.4% from you, 2% from your employer, and 0.6% as tax relief). This is going up next year.
- The minimum contribution applies to what is called your 'qualifying earnings' – anything you earn over £6,032 (in the tax year 2018-19) up to a limit of £46,350. This includes overtime and bonus payments. So if you were earning £18,000 a year, your contributions would be calculated on qualifying earnings of £11,968 (the difference between £6,032 and £18,000).
- This amount we all pay in is slowly ratcheting up between now and 2019. The Government wanted to ease us all into this gently – and for small employers this is quite a chunky pill to digest!
- From April 2019 onwards, it will get to a significant 8% of your earnings (4% from you, 3% from your employer, and 1% as tax relief).

THE AMOUNTS GET SIGNIFICANT BY 2019

Updated April 2018

Boring Money Tips

- Not sure what your firm has done for you? Pick up the phone and ask HR or your boss. Find out where your pension money is going to. Which pension is your company using?

- Make sure you are getting the contributions you should be. Your employer has to offer you this pension and can't try and force you to opt-out or avoid it.

- Try and get into the boring habit of upping your pension savings amounts by a bit every time you get a pay rise - on the basis you can't miss what you've never had.

- The current %s are not enough to fund our retirement so resist the urge to chill out and think "job done." As a very rough guide a 40 year old today on the average wage of £30,000 a year can expect to have amassed about £120,000 in a workplace pension by retirement age. With all sorts of assumptions and working on the mandated contributions. Which sounds nice but less so once you spread that over a 20+ year retirement. Try and think about paying in more every time you get a pay rise (will your boss match your contributions?) or setting up a private pension.

- When you change jobs, do think about rolling your old pension over the new one before you forget where it is and lose touch.

THINK ABOUT CONSOLIDATING YOUR PENSIONS INTO ONE

The numbers we talk about don't include the impact of inflation - the cost of living increases will mean that £10,000 at retirement buys less than it does today. Something to factor into your thinking.

Is it a good idea?

In short, yes. Of course one impact is that your monthly take-home pay will fall slightly (all other things being equal) as you see some of your earnings being siphoned off into this pension. But the benefit is that you get an additional 3% from your employer by 2019 – OK it's disappearing into a pension and you won't see any immediate benefits. But this is a bit like a pay rise which is being used to help save for your retirement. If you opt out, you won't get this.

Self-employed?

If you are self-employed you fall through this net. You are really vulnerable when it comes to retirement savings. You need to take things into your own hands and set up a private pension. You could do this with a direct debit of £25 a month.

Or try allocating 5% of any paid invoice to a private pension when it hits your bank account? You will get tax relief and Government top-ups on this (without a paperwork drama). You can start with relatively small amounts and the hardest thing is getting started... Have a look at our private pensions **Best Buys** to see which private pensions we like.

Under 40? Read up on **Lifetime ISAs.**

Here are the web links in full:

Private Pensions Best Buys	www.boringmoney.co.uk/best-buys
Lifetime ISAs	www.boringmoney.co.uk/learn/other-isas

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