## MANDATORY PENSIONS AND THE SAVINGS GAP

On 1st October 2012 a new law came into force which began a process by which some 9 million good citizens of the United Kingdom will be "auto-enrolled" into pension schemes over the next 5 years.

Much of the media attention on this has focussed around the plight of hard-pressed employers and their staff having to afford yet another demand on their diminishing income. Whilst this perspective is understandable in a time of recession, in our view mandatory pension contributions are a GOOD thing.

We have long campaigned for pension contributions to be made mandatory. The current pre-retirement generation has been pressing the pedal to the floor like Jack Kerouac's Dean Moriarty. We are driving hard into the sunset of our retirement - but the tank is running on empty.

The issue is: many of us will not benefit from the defined benefit pension schemes of our parents' generation and the State cannot afford to provide for us via the State pension. It is down to us to plug the savings gap and fund for our own retirement.

This is a steep hill to climb.  Try counting up the pay days you have until your intended retirement age and that's the number of opportunities you have to set aside some savings to provide you with the income you need for the remainder of your life when you retire.  People are living longer so even more resources are needed to fund the retirement gap.

The good news is that the earlier you start to save, the bigger impact you can make upon this gap (because of compound returns).  For example: saving £200 per month over a 40 year period with a 7% annual rate of return will produce a fund of over £500,000.  But it is a sobering thought that if you wait 5 years to start you must increase your monthly saving by 50% to £300 - or your pension fund will only just exceed £350,000!

Pensions Minister Steve Webb says he hopes the new auto-enrolment scheme will mean millions of people will start saving for their retirement. In the radical shake-up of workplace pensions, tax-paying workers will be automatically enrolled in their work's pension scheme. The new scheme has the support of the TUC. **Guardian website 1 October**

What does this mean for you?

1. If you work for an employer who already has you in a pension scheme, congratulations, you are probably sorted;
2. Otherwise, if you earn over £8,105pa, are over 22 and not yet retired you will be auto-enrolled into a new personal pension (big firms have started, smaller firms have longer to get going);
3. If you are younger (or past your pension age but not yet 75) you can choose to opt-in to your employer's scheme;
4. You can opt-out of the pension scheme but have to ask (and will have to ask every 3 years);
5. If you are an employer you will need to set up a scheme and add each member of staff older than 22. If that's you, give us a call to guide you through this process.

To start with you (both employer and employee) will only pay in 1% of earnings between £8,105 and £42,475. By 2017 this will increase to 3% from the employer, 4% from the employee and 1% from the tax man: a total of 8%. Not enough but better than nothing.

We recommend doing all this but **doubling** the level of contribution.

Previous newsletters have banged this drum but we make no apology for doing so again – ensuring that you have sufficient income in retirement is not easy. It is hard enough to *know* what you need to do and it is even harder to actually *do* it

David Flowers

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Address: PO Box 795, Leeds, LS1 9LX.
Tel: 0113 237 1979.
www.flowersmcewan.co.uk