Pennymatters
THE MODERN APPROACH TO FINANCIAL ADVICE

Pennymatters Ltd
Building 329, Doncastle Road
Bracknell, Berkshire RG12 8PE
T: 01344 988390 F: 01344 988394
E: enquiries@pennymatters.co.uk
W: www.pennymatters.co.uk

Pension myths exposed

Distinguishing fact from fiction to fully utilise opportunities and secure your future

Investing in a pension is a dependable and effective way to ensure a comfortable retirement. However, ongoing misconceptions often prevent people from fully enjoying the benefits that pensions can offer. These myths may cause missed opportunities, particularly regarding valuable tax relief and government incentives designed to help savers build their retirement funds.

Let's address some of the most common pension myths head-on. By separating fact from fiction, you'll be better equipped to make informed decisions and take full advantage of opportunities to secure your future.

MYTH 1: WORKING PART-TIME OR TAKING A BREAK MEANS NO PENSION

It's a common misconception that part-time workers or those taking a career break cannot contribute to a pension. The reality is quite different.

- **Part-time workers:** If you earn over £10,000 a year with one employer and are aged 22 to state pension age, you are automatically enrolled in a workplace pension under the automatic enrolment rules. Even if you earn less, you can, in some cases, still choose to join your employer's pension scheme and receive employer contributions.
- **Career breaks:** If you are taking time off to care for children or relatives, you can still build your pension. For example, claiming Child Benefit while earning below the National Insurance threshold ensures you receive National Insurance credits, which count towards your State Pension. Additionally, you can continue contributing to a personal pension during your break.

MYTH 2: IT'S TOO LATE TO START SAVING INTO A PENSION

Many believe that starting a pension later in life is futile, but this couldn't be further from the truth.

- **Tax relief:** Contributions to your pension benefit from tax relief, meaning the government adds to your savings. For example, a £100 contribution only costs a basic rate taxpayer £80.
- **Flexible contributions:** You can contribute to your pension until the age of 75, giving you more time to build your retirement fund. Even small contributions in your 40s, 50s or later can grow substantially, especially with employer contributions and tax relief.

MYTH 3: PROPERTY IS A SUBSTITUTE FOR A PENSION

While property is often viewed as a retirement safety net, it's not a substitute for a pension.

- **Unpredictable housing market:** Property values can fluctuate, and selling or downsizing may not generate the income you expect.
- **Liquidity:** Unlike pensions, property is not easily accessible. A pension provides a steady income, while property may require selling or renting out to generate cash.
- **Tax benefits:** Pensions offer tax relief on contributions and tax-free growth, a benefit that property investments do not provide.

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MYTH 4: YOU MUST STOP WORKING WHEN YOU ACCESS YOUR PENSION

Accessing your pension doesn't mean you have to stop working.

- **Work and draw your pension:** You can withdraw from your pension while continuing to work, providing a supplementary income.
- Tax planning: Be aware of tax implications, as withdrawing from your pension while earning a salary may result in being taxed at a higher rate. We can advise you and assist in optimising your income.

MYTH 5: ANNUITIES ARE YOUR ONLY OPTION

Before 2015, many retirees were required to purchase an annuity with their pension savings. However, pension freedoms have changed the landscape.

- **Flexible options:** You can now choose from options like flexi-access drawdown, lump-sum withdrawals or leaving your pension invested.
- **Annuities still have value:** While not mandatory, annuities can provide a guaranteed income for life, making them a suitable option for those seeking financial stability.

MYTH 6: YOUR PENSION VANISHES WHEN YOU DIE

A common concern is that pensions disappear upon death, but pensions offer significant flexibility.

- **Defined contribution pensions:** These can be passed on to beneficiaries. If you die before age 75, your pension can be inherited tax-free. After 75, beneficiaries pay Income Tax on withdrawals at their marginal rate.
- **Defined benefit pensions:** These often provide a reduced income to a spouse or dependent after your death.

MYTH 7: YOUR PENSION ISN'T PROTECTED

Worries about losing your pension if your employer goes bust are understandable but largely unfounded.

- **Defined contribution pensions:** Your savings are held in a separate trust, protected from your employer's financial troubles.
- **Defined benefit pensions:** The Pension Protection Fund (PPF) ensures you still receive most of your benefits if your employer becomes insolvent.

TAKE CONTROL OF YOUR RETIREMENT PLANNING

Pensions are a vital tool for securing financial stability in retirement, and it's important not to be misled by false myths. Understanding your options, claiming tax relief and consulting professionals can help you make well-informed choices about your future. ■

IS IT TIME TO DISCUSS YOUR RETIREMENT PLANS WITH US?

Planning for a prosperous retirement doesn't have to be daunting. With prompt action, consistent saving and a well-defined strategy, you can secure the future you've always wanted. For personalised advice or to explore your options further, please contact us. We'll help you chart a clear path to achieving your financial goals.