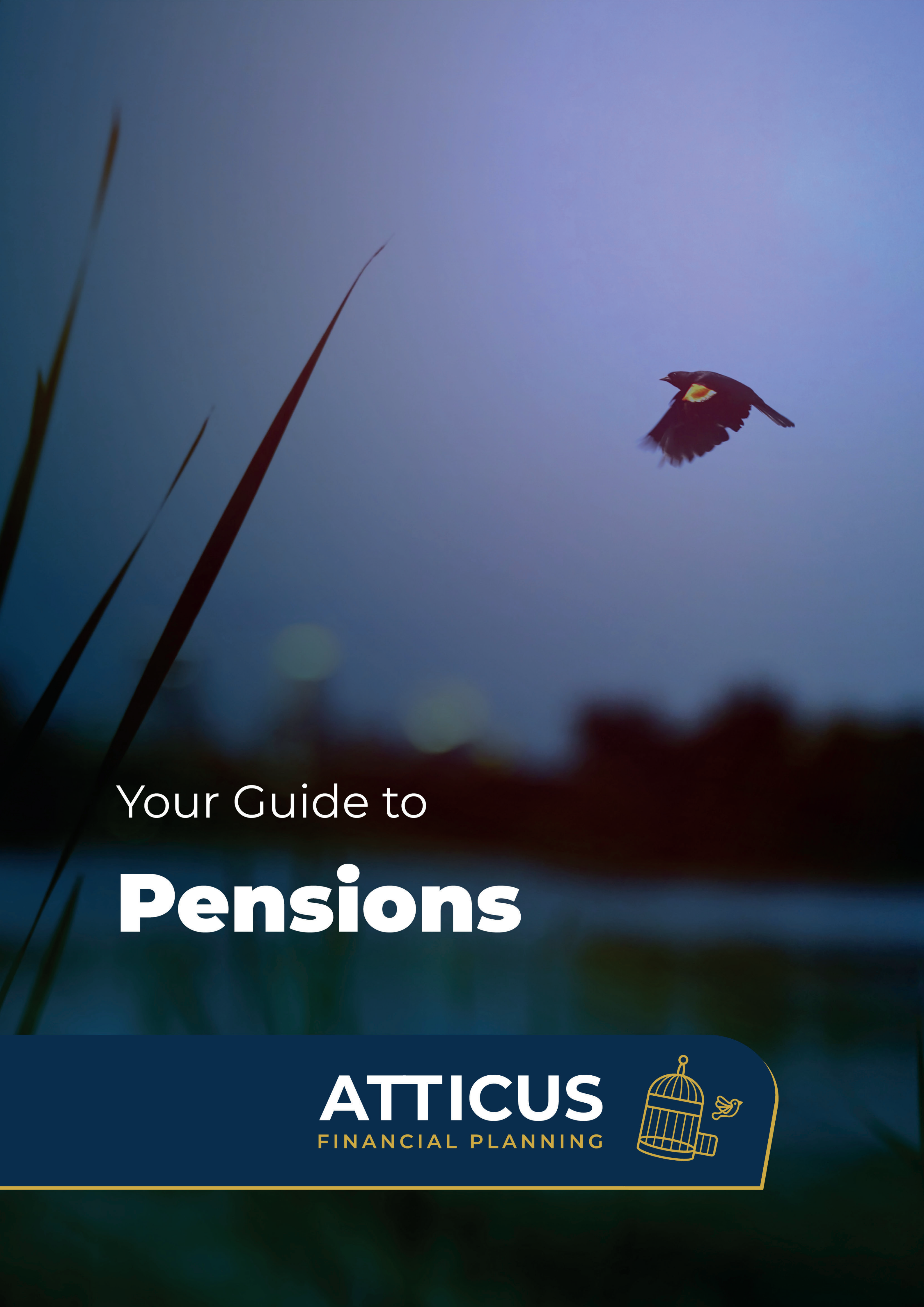

Your Guide to

Pensions

ATTICUS
FINANCIAL PLANNING

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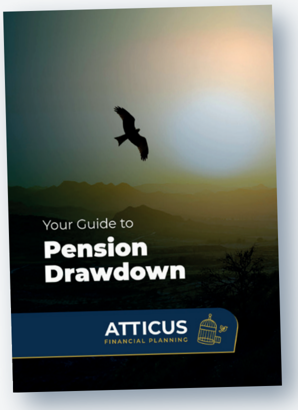
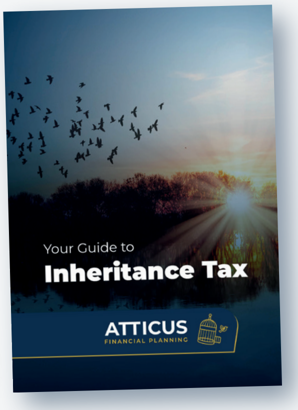
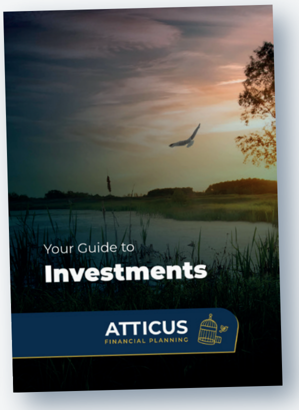
Contact us to start your journey to financial freedom, or find out more at www.atticusfinancialplanning.co.uk

The following Guides are also available from Atticus Financial Planning...







Compliance Statement

Workplace pensions are regulated by The Pensions Regulator (TPR).

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Taxation planning is not regulated by the Financial Conduct Authority.

Liability for tax depends on your personal circumstances and tax rules, which may change over time.

A pension is a long-term investment the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates, and tax legislation.

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Introduction

For many people, pensions remain one of the most confusing parts of financial planning. Terms like "defined contribution," "annual allowance," and "drawdown" can make your eyes glaze over. And that's completely normal.

The truth is, pensions don't need to be complicated to understand. What they do need is a bit of time and patience. This guide is written for people just like you who want to get pension fundamentals right without needing a degree in finance.

We've seen over and over how understanding your pension properly can transform your retirement. Not because the maths becomes magic, but because clarity builds confidence. And confidence means you can make decisions that actually align with what matters to you.

At Atticus Financial Planning, we believe money is a facilitator of dreams. It's there to help you live the life you want, both now and in retirement. That is what this guide is about.

If you would like to discuss any of the topics covered in this guide in greater detail, please don't hesitate to book a free initial conversation with us here at Atticus Financial Planning.

Email us at info@atticusfp.co.uk
or give us a call on **01420 446 777**

Abraham Uys
Director & Chartered Financial Planner

Let's chat, find a time that suits you...

www.atticusfinancialplanning.co.uk/services#schedule

What Is a Pension, Really?

Here's the simplest way to think about it: a pension is a pot of money you build up during your working life to help support you when you stop working.

That's it. That's the core concept.

But what makes pensions different from just putting money in a savings account is the tax support. The government wants you to save for retirement, so it gives you tax breaks to help you do it. Money you put into a pension gets tax relief. Your employer might chip in too. The pot grows over time, often invested in stocks and bonds. And when you retire, you have options for how to use that money.

Why does any of this matter? Because without a decent retirement income, life gets much harder. The State Pension helps, but for most people it won't be enough to live the life they want. That's where your own pensions come in. They bridge the gap between what the state provides and what you actually need.

Think of it this way. You're working today. You're earning. Part of that earning goes toward your pension pot. Future you, in retirement, will be grateful for the choices present you makes today.

The State Pension

Before we talk about the pensions you build yourself, let's talk about the State Pension. This is money the government pays you when you reach State Pension age.

How much you get depends on your National Insurance record. To get the full new State Pension, you need roughly 35 years of National Insurance contributions or credits. If you have fewer years, you get a lower amount. If you've had time out of work (for caring, unemployment, or other reasons), you may still get credits that count toward this.

The State Pension age is currently 66 for most people, though this is rising over time. It's worth checking what your personal State Pension age will be, as it varies depending on when you were born.

Here's what's important to know: the State Pension rises each year in line with the triple lock. This means it goes up by whichever is highest: inflation, average earnings growth, or 2.5%. So your State Pension income keeps pace with life as it changes.

Most people will get roughly between a third and half of what they need for retirement from the State Pension alone. The rest needs to come from your own pensions and savings. This is why building your own pension pot matters so much.

Workplace Pensions and Auto-Enrolment

If you're an employee, there's a good chance your employer has put you into a workplace pension scheme. This happened automatically when you started, or at your staging date if you were already employed.

This is called auto-enrolment, and it's been a game changer in UK pensions. Before this rule came in, many people never saved into a pension at all. Now, if you earn over a certain threshold, your employer is legally required to put you into a scheme and pay a percentage of your wages into it.

How much do employers have to contribute? At least 3% of your earnings (as of 2024). You, the employee, contribute at least 5%. Together that's 8%, which is a decent starting point for building a retirement pot.

You have the right to opt out if you really want to, but most people are better off staying in. You're getting free money from your employer. The contributions are paid before tax, so you get tax relief automatically. And your money is invested over time, so it has the chance to grow.

Some people worry their workplace pension is restrictive or that they'll get trapped. You don't have to stay with the same pension provider if you leave your job. You can transfer it to your next employer's scheme, move it to a personal pension, or leave it where it is to keep growing. The money is yours.

One thing to bear in mind: workplace pensions are usually defined contribution schemes. We'll explain what that means next.

Personal Pensions and SIPPs

Not everyone has a workplace pension. If you're self-employed, or if you want to save extra beyond what your workplace scheme offers, you can set up a personal pension. A personal pension is your own individual pension pot. You control it. You decide how much to pay in (within the rules). You choose the investments. No employer involvement needed.

Many people use personal pensions alongside their workplace pension. Perhaps you're a freelancer with one personal pension, and you also work part-time somewhere with a workplace scheme. Both are building your retirement income.

A SIPP is a Self Invested Personal Pension. It's a type of personal pension where you have even more control over the investments. Some SIPPs allow you to invest in things like commercial property, shares in your own business, or more niche investments. Not all providers offer this, and it's not for everyone, but for business owners and more sophisticated investors, a SIPP can be very useful.

The key advantage of personal pensions is flexibility. The key disadvantage is that you have to manage them yourself. You make the investment decisions. You have to think about whether your choices are right for you.

Defined Benefit vs Defined Contribution

You'll hear these terms, and they sound like jargon.
But they're actually just describing two different ways a pension can work.

A **Defined Benefit (DB)** scheme promises you a specific amount of income when you retire. Your pension is defined by the scheme rules. Often it's based on your salary and how long you've worked there.

A teacher with a DB pension, for example, might know they'll get half their final salary as a pension for life. That's defined. The scheme takes the risk of making sure that money is there.

A **Defined Contribution (DC)** scheme works differently. Your money and your employer's money go into a pot. That pot is invested. When you retire, whatever is in the pot is yours to use.

The amount varies depending on how well the investments performed, and how much was paid in. You take the risk that your pot might be smaller or larger than expected.

Most newer workplace pensions are defined contribution. Many public sector pensions are still defined benefit. If you have a DB pension, it's usually quite valuable and worth understanding well.

The practical difference is this: with a DB pension, you know roughly what you'll get. Your employer bears the investment risk. With a DC pension, you know what's going in and roughly when, but not what you'll get out. You bear the investment risk.

Neither is better or worse. But they're very different animals, and the choices you make about them are different too.

Tax Relief on Pension Contributions

Here's something that feels like magic but is actually just the government trying to encourage you to save: tax relief.

When you pay money into your pension, you get tax relief on it. This means the money isn't taxed as income. It reduces your taxable income for that year.

If you're a basic rate taxpayer (paying 20% income tax), the government is essentially giving you a 20% boost. Pay in £800, and the government adds £200. If you're a higher rate taxpayer, you get 40% relief. Some very high earners get 45% relief. This is why pensions are so powerful as a saving vehicle. You're getting the government to help you save, through tax relief.

How does it work in practice? If you're an employee, your pension contributions usually come out of your salary before tax is calculated. So you never pay tax on that money in the first place. If you're self-employed or contributing to a personal pension, you get tax relief through your tax return.

The practical tip is this: if you're a higher rate taxpayer and you've paid into a pension but haven't claimed the extra relief, your tax return can help you recover it. It's free money you've earned through saving sensibly.

Pension Allowances

The government wants you to save for retirement, but there are limits. These limits exist partly to prevent tax avoidance, and partly because there are rules around how much tax relief you can get.

The main one you'll hear about is the Annual Allowance. This is the maximum amount you can put into all your pensions in a tax year and get full tax relief. The exact figure changes each tax year, so we won't quote a specific number (it wouldn't be accurate for long). But the principle is simple: if you exceed it, you'll pay extra tax.

Most employees don't need to worry about this. You'd have to earn a very substantial income, or be putting in huge amounts, to hit it. But if you're a high earner or a business owner, it's worth understanding.

For many years, there was also something called the Lifetime Allowance. This was a total cap on how much you could accumulate in all your pensions over your lifetime. This was abolished in April 2024, which was genuinely good news for savers. It means you no longer have to worry about your pension pot getting "too big."

The key thing to know is this: if pension allowances concern you, that usually means you're doing very well, and professional advice is essential to make sure you're structured optimally. A good financial planner can show you strategies to make the most of your situation.

How to Access Your Pension

When you reach State Pension age (or earlier if your pension terms allow), you have options for how to use your pension pot. This is called accessing your pension.

Most workplace and personal pensions can't be touched until you're 55 (rising to 57 in 2028). There are exceptions, but these are rare. The idea is that this money is truly for retirement.

So what are your options when you can access it?

Annuity

You can use your pension pot to buy an annuity. This is an insurance product that pays you a guaranteed income for life. You hand over your pot, and in return, you get a set amount each month. The amount depends on your age, health, and current interest rates. An annuity gives you security and certainty. You know exactly how much you'll receive. The downside is your money is gone, and if you die, your family might not benefit.

Drawdown

You can leave your pension pot invested and draw money out as you need it. This is called drawdown. You keep your money invested (usually in cautious investments as you get older), and you take an income. Your remaining pot keeps the chance to grow. Drawdown gives you flexibility and control. The downside is you have to make investment decisions, and you bear the risk that your money might run out.

A Combination

Many people take a bit of both. Perhaps they buy a small annuity to cover essential living costs, then use drawdown for flexibility above that.

Lump Sum

Depending on your pension type, you may be able to take part of your pot as a tax free lump sum, and deal with the rest through annuity, drawdown, or leaving it invested.

Pension Income Drawdown

Some schemes let you take income while leaving the capital invested. This is similar to drawdown but works within your original pension.

The right choice depends entirely on your circumstances, your attitude to risk, your other resources, and what you're trying to achieve in retirement. This is genuinely a place where professional advice makes a real difference. The choices you make here will affect your income for the rest of your life.

What Happens to Your Pension When You Die

People often don't think about this until it's too late, but it matters. What happens to your pension pot when you die?

The answer depends on your pension type and how you've accessed it.

If you die before you start accessing your pension, usually your pension pot will pass to your beneficiaries. It might be your spouse, children, or whoever you've named. The exact rules depend on your scheme, so it's worth checking.

If you die after you've started drawing income, the situation varies. With an annuity, typically the income stops (unless you bought a special annuity with survivor benefits). With drawdown, whatever is left in your pot usually goes to your beneficiaries.

There can be tax implications too. Pensions are often more tax efficient to leave to the next generation than other assets, which is another reason why they're so valuable.

The practical point is this: make sure you've told your pension provider who you'd like to benefit if something happens to you. Check it occasionally. And if you're worried about this, talk to a professional about how your pensions fit into your overall estate planning.

Common Pension Mistakes

We've seen people make similar pension mistakes again and again. Here are the big ones to avoid.

Not starting early enough

The longer your money is invested, the more time it has to grow. Starting your pension at 25 gives your money 40 years to compound. Starting at 45 gives it 20 years. That's a huge difference. If your employer offers a workplace pension, take it. Even small contributions matter over time.

Stopping contributions when you change jobs

Some people opt out of pensions when they switch employers because they think they're losing control or wasting money. Actually, you're walking away from tax relief and employer contributions. Just let your old pension sit and grow, or transfer it to your new employer's scheme. Keep contributing.

Not reviewing your investments

If you're in a pension with investments, they need to be appropriate for your age and your goals. A 25-year-old might be comfortable with growth investments. A 60-year-old probably isn't. Check that your investments make sense for where you are in life.

Cashing in pensions early

Sometimes people are tempted to cash in a pension early to pay off a debt or make a purchase. This is usually a bad idea. You lose tax relief. You might face penalties. And you lose out on years of growth. A small debt today is rarely worth sacrificing your retirement security.

Ignoring the State Pension

Some people think the State Pension is so small it's not worth worrying about. But it's predictable. It's inflation protected. It's genuinely valuable. Make sure your National Insurance record is correct (you can check it for free on gov.uk). A small gap in your record now could mean a smaller pension later.

Making decisions alone

Pension rules are complex. Your situation is unique. Making pension decisions without advice often means you miss opportunities or get things wrong. Even a quick conversation with a professional can be enormously valuable.

Why Professional Advice Matters

You might read this guide and think, “I’ve got the basics now, I’m fine.” And you might be. But there’s a real difference between understanding the basics and making the right decisions for your situation.

Here’s why professional advice adds genuine value

At Atticus, this is how we approach every client conversation. We start by understanding what matters to you. We listen to your dreams and worries. Then we talk through options. We explain things clearly. We help you make choices you feel good about. We come back and check in. We make sure your pension is working for you, not against you.

Because that’s what pensions should do. They should facilitate your dreams. They should give you the freedom to do the things that matter when you stop working.

1. First, **we listen**. We understand your goals, your circumstances, your worries. We don’t just run through a checklist. We get to know you first. This understanding is the foundation for good advice.
2. Second, **we understand** the full picture. We can see how your pension fits with your other savings, your mortgage, your insurance, your taxes. We spot opportunities and risks that you’d miss looking at pensions in isolation.
3. Third, **we keep you on track**. Pensions are a long-term commitment. Life changes. Markets move. Tax rules shift. A good adviser reviews your pension regularly and adjusts if needed. We stop you making panic decisions when markets are volatile. We remind you why you made the choices you did.
4. Fourth, **we handle the complexity**. Pension rules are genuinely complicated. Small decisions can have big tax consequences. An adviser knows the rules and helps you navigate them. The cost of getting professional advice is usually far less than the cost of getting it wrong.
5. Fifth, and this matters, **we give you peace of mind**. When you’re uncertain about something this important, talking to someone who knows what they’re doing is invaluable. You sleep better. You’re more confident. You know your retirement is being looked after properly.

Key Questions to Consider

Use these questions to start thinking about your own pension situation. Write down your answers, and they'll help focus any conversations with a financial adviser.

Understanding your current position

1. Do you know how much is in all your pensions combined?
2. Can you list all the pensions you have (workplace, personal, old schemes)?
3. Do you know roughly how much the State Pension will be?
4. Have you checked your National Insurance record?

Thinking about your future

5. What does retirement look like for you? What do you actually want to do?
6. How much money do you think you'll need each year?
7. When would you like to stop working?
8. Are there things you'd like to do that require specific amounts of money?

Your current contributions

9. Are you contributing to a workplace pension? If yes, how much?
10. Could you afford to contribute more?
11. Are you getting full tax relief on your contributions?
12. Do you have a personal pension alongside your workplace scheme?

Access and flexibility

13. Do you know when you can access your pension?
14. Have you thought about how you'd like to access it (annuity, drawdown, combination)?
15. Are there dependents who might need to benefit from your pension?

Getting help

16. Do you feel confident about your pension decisions?
17. Would it help to talk through your options with someone who knows pensions well?
18. What's the biggest uncertainty you have?

In Summary

Pensions don't have to be scary. At their heart, they're straightforward: money you save now to help you live well later, with tax support from the government to encourage you.

You've learned that the State Pension is the foundation, but it won't be enough alone. You've learned about workplace pensions, which are usually automatic. You've learned about personal pensions and SIPPs, which give you more control. You've learned that DB and DC schemes work very differently. You've learned about tax relief, allowances, and access options. You've learned about common mistakes to avoid.

Most importantly, you've learned that this is complex enough that talking to someone who knows what they're doing is genuinely valuable, not just a nice to have.

If you're ready to get clearer on your own pension situation, that's what we're here for. Or if you just want to think through things on your own for now, that's fine too. Either way, the fact that you're reading this means you're already thinking about something that matters enormously.

That's a good start.

About Us

We believe in the importance of money, not as an end in itself, but as a **facilitator of dreams**. With true financial planning, money becomes a means by which **lives can become richer** and more fulfilled and individuals can be freed to follow their true purpose.

At Atticus Financial Planning we feel that our clients choose to partner with us in making their dreams a reality. Together we work to create a meaningful and rich future, built upon a sound and robust financial plan. This forms the foundations that allows them to flourish, not just financially, but also mentally, physically and spiritually.

Our aim is to offer simple, effective advice that works and makes a difference in the lives of our clients.

Contact us to start your journey to financial freedom by email at info@atticusfp.co.uk, give us a call on 01420 446 777, or find out more at www.atticusfinancialplanning.co.uk

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