

Conversation about contributions transcript

Introduction: Welcome to the latest episode of the Aviva Workplace Savings Podcast. You're about to hear a clip from our Pensions Awareness Day live Q&A session. Kofi, Martin and Jennie discuss one of the most important and often overlooked topics that can affect our future self, pension contributions. Are you paying in enough? What does tax relief really mean? Within this short ten-minute clip, we dive into all of this and more. This episode is packed with information and insights to help you feel confident about your financial future. So, grab a cuppa, get comfy, and let's unpack the smart moves you can make today to build a better tomorrow.

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Kofi: So, we'll change subject, and I'll direct this at Mart. So, the hot seat is being switched on there. We're going to look at contribution levels that kind of thing. We've had a few questions come in and Chanel has asked will my employer increase their contributions, if I was to increase mine or she was to increase hers?

Martin: Great question. So, I think before we go into like employer and employee contributions, let's understand a bit more around what contributions should be and why it's in place. So, the government set out something called auto enrolment. And basically, this says that collectively between you and your employer, you should contribute eight percent into your pension. Now this would normally consist of five percent from you as an employee and three percent from your company. Now companies differ in terms of their contribution levels. So, this is a very unique circumstance for each and every one when it comes down to individual contributions.

And absolutely like Chanel said, yes, people can increase their contributions and sometimes the company will match that. Again, sometimes it's capped at a certain level. But best thing to do for that is speak to the company. You might have a flex benefits platform that you change your contributions on. You might have a paper document that you get from HR or payroll there or the pensions team but speak to them because potentially you could increase your contribution, and they could increase that as well.

Kofi: And Jenny, if I can go to you for this next question. So, Melissa's asked, is there a limit to one off payments into my workplace pension?

Jennie: Yeah. So, so you know, there are there are limits in terms of how much you can put into a pension and you're limited by, you know, either or I suppose the greater or is it the lesser of. I'm trying to think about the best way to put it, but basically you can put up to one hundred percent of your, uh, your earnings into a pension, but it's capped by something called the annual allowance, which for most people is sixty thousand pounds a year. Um, you know, so if you earn thirty-five thousand pounds a year, you can put up to thirty thousand, Thirty-five thousand pounds a year gross into your pension. So, including tax. Um, but if you earn seventy-five thousand pounds a year, then you're capped by that sixty thousand pounds annual allowance. For very high earners, there are additional allowances that they need to be sort of considerate of, um, but really what it means is that for the majority of people, you've actually got a lot of headroom, should you wish to put additional contributions into your pension plan.

Um, whether that be by additional contributions on a regular basis or whether it be by putting in an additional single payment into your plan? Um, you know, there are sometimes restrictions from, from an employer perspective about how many times you can make a change or when you can make a change when we're talking about regular contributions, um, and also, they have to be careful not to take your salary below a certain level if they're using certain functions of paying in. So, it's just worth kind of just being aware of that, maybe talking to your payroll department or HR, depending on where that change happens.

Single payments typically it would be something slightly different. You wouldn't do it via payroll. It would be you can do it on the app. So, app mention for the app again via the online account, so you can contact us and put in a single payment that way. Or you can sometimes do it through your employer as well.

Kofi: Right. So, if they do have any kind of additional questions, again, they've always got that avenue to reach out to HR rewards team whoever, just to get some additional support. That's brill. And can I stick with you for this next question that's coming from Maria. So, what are the advantages of paying more into my pension?

Jennie: Um, I mean, I suppose the advantages are it's all about kind of planning, isn't it? So, the advantage is if you kind of just put it in broad terms, you kind of think the more the more in the better, so you'll have more in retirement. You could kind of put it in simple terms like that. I think the advantage is that if you if you are able to

save more and we're not all able to do it, and we may not all be able to do it right now. So, I think sometimes we can we can always be put off pensions by the idea that if we're not doing everything today, then it's not worth it. But actually, a lot of the time getting in a pension and sticking with a pension from as early as an age as possible is the key to kind of really generating a decent sized pension pot when we get to retirement.

But obviously the advantages of paying in more, if you're able to do it, is that you will have ultimately more in your pension pot when you get to retirement. So, I think it's you've got to it's a balancing it with the, the other things in life. But yeah, you know, putting more in um, that, you know, you're able to save more. That means hopefully you'll get that investment growth on top of it over the long term, and therefore you'll have a greater income in retirement.

Kofi: Yeah. And it's kind of that kind of compound interest, the magic of that compound as well.

Jennie: Yeah sure.

Kofi: That snowballing effect.

Jennie: Absolutely.

Kofi: It's rolling down the hill. The bigger the snowball is going to be. I guess in this environment, the longer it's invested, hopefully the bigger the pot of money is going to be when you do get to retirement.

Jennie: And I guess, you know, the beauty of starting early is that you'll have less. You push that snowball a little bit less with less force. I think if you leave it until you're older, it's not to say that you can't catch up, but you have to have to do it or consider it in possibly a slightly different way. Um, you know, if you are able to get into a pension young and to stick with it, then it will pay dividends in the end.

Kofi: Perfect. Thank you for that. And Mart we'll go for you to this next one. Um so it'll probably depend on circumstances with this particular question that's come through by Claire. But it says how do I know if I'm saving enough towards my, my pension?

Martin: The million-dollar question, ain't it that. How do we know if we're saving enough? Well, Jen said about those calculators like shape my future earlier. Great place to go to to model that lifestyle. What you want to leave when you lead, when you stop working versus what you're paying in at the moment. Um, probably going to air on the side that you're never going to have too much money for the level of lifestyle that you want to lead. Be a lovely problem to have, I'm sure. Um, it's probably going to be the other way around where you haven't saved enough for maybe the lifestyle, what you want to lead.

So, getting in there, modelling that, checking things out sooner rather than later, like Jenny said, can be beneficial for future, future pot value. Great time to increase your contributions around pay rise season as well. If it goes up by a couple of percent. Pop an extra percent on your pension. You're not going to miss that money. What you've never had as such. Yeah, it might feel painful doing it sooner rather than later. But again, if we can do that every couple of years, it could pay off a lot better.

Kofi: Yeah

Martin: But I can't stress enough how good those tools are.

Jennie: I actually heard something fairly that that I thought was just a good way for me to think about it is almost think about what your expenses are now. Think about what will. So, in a very kind of, you know, some people will have really elaborate spreadsheets set up for this type of thing. But, you know, even at the basic level, if you could think about what you what you have now and what that cost you, and then do something like using one of those forecasting tools to see where you're going to get to with your pension potentially in the future, and actually just see if there's a gap between kind of where you are now and what you spend your money on now. Yes, there might be some changes in retirement, but kind of could you do it. Actually, are you going to be able to cover your costs, your bills, your food, entertainment, whatever your kind of trying to cover with that, with what that forecaster is telling you.

Kofi: Yeah. No, that's super helpful. Hopefully that's key takeaway for people. Again, to check out online tools and whatnot that can support them. So, we'll move on to the next topic then and we'll talk about taxation. Um,

eye rolls in the, in the studio. But um, so we've got a question that's come through saying how does tax relief work on contributions. So, Mart, I'll come to you if that's all right.

Martin: Yeah. And to be fair, taxes are really key thing when it comes down to pensions. And there's two guaranteed things in life, death and taxes. Unfortunately, not the most cheerful subjects. But when it comes down to contributions and paying into your pension, it depends on the method that you your company, uses to pay into your pension. Basically, everyone will get tax relief on their pension's contributions there. So, a basic rate taxpayer, for example, would save their twenty percent tax relief on the contributions that they make into their pension. Now, higher additional rate taxpayers still get their forty or forty five percent or forty six percent, if you live in Scotland there.

But depending on how that contribution comes over, if it's done via something called salary sacrifice or salary exchange, a bit of a chameleon goes by a number of different names but means the same thing. You will get all of your tax relief at source there, so there's no need to do self-assessment or contact HMRC. Now if you don't pay through salary sacrifice or salary exchange and you are higher or additional rate taxpayer, you'll need to contact HMRC to claim back that excess rate of tax relief if you are eligible for that. But in essence, if you do pay via salary sacrifice, salary exchange, you get full tax relief at source. Plus, a little bit of National Insurance saving on there as well. So, it makes actually paying into our pension a little bit more affordable for each and every one of us.

Kofi: Perfect. Thank you, thank you. You've answered kind of a lot of questions through just what you've just said there, really and truly. But I just want to reiterate, for somebody who's just asked them a question, just to reaffirm what you've said. So, Grace has asked what is salary sacrifice and how exactly does it work. So, it's taking gross, is that right?

Martin: Yeah. Correct. So, if you imagine your payslip, you've got the left-hand side which is before deductions, and the right-hand side which is deductions that come out like your tax, your national insurance, maybe your student loan. Now with salary sacrifice, salary exchange, it comes out on the left-hand side of our payslip. And because it comes out on the left-hand side of our payslip, we benefit from saving our full tax relief at source and National Insurance contributions on that as well. Now it's not taking you out of National Insurance contributions. Like you said earlier, Jen. The company still got to pay you a minimum level, so you'll still earn a salary. As such, you'll still pay National Insurance on the money that you take home. But because it's coming out before tax and NI, that's the beauty of salary sacrifice. We get a little bit more of a saving by doing that.

Kofi: Perfect. Thank you, thank you.

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Closing: I hope discussing that topic in more detail was useful. Please do remember the information shared isn't intended as financial or investment advice as we haven't considered your personal circumstances. Any tax references are based on our understanding of current legislation for this tax year, which could change in the future. And remember, investments can go down as well as up, so there are no guarantees. With that being said, thank you for listening.