PENSION geeks

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Leeds Beckett University - Early Career Pension Guide

At the start of your career, one thing is for certain: retirement feels like an entirely different universe. And that's what you want. You're in the early days of your career - and the upheaval, establishment, order and counterorder probably pervades not just work but life in general. Talk about lots going on.

That's why, having a pension that you save towards in the background, while you get on with life, takes one less life admin headache away.

Did you know that the earlier you start saving, the longer your pension will have to grow into a real retirement fund? Having said that, 70% of young people find their pensions difficult to understand, and 24% of under-35s don't have any pension savings at all.[1]

So how do pensions work, and how do you get the most out of paying in?

Well, you already have a pension – assuming you haven't opted out. Your employer is required by law to automatically enrol you if you're over 22 and your earnings before tax are at least £10,000 per year.

That's a lot of the admin taken care of already.

Your Leeds Beckett Pension will be under one of these schemes:

- West Yorkshire Pension Scheme
- Teacher's Pension Scheme
- Universities Superannuation Scheme (USS)

Your pension is called a Defined Benefit (DB) pension. You may have heard it called a final salary or career average scheme. In fact, these are two different kinds of DB pension, and you may even have one of each.

In a DB pension, you are guaranteed an income for life after retirement, and the amount you receive is based on your salary and the length of time you've been a part of the pension scheme.

You'll pay into the scheme, receiving tax relief on your contributions and your employer also contributes to your pension too. Your employer pays in the balance of the cost of providing your benefits in the scheme.

A DB pension has a significant advantage over the more common Defined Contributions type pensions almost ubiquitous within the private sector.

That's because a Defined Benefit pension guarantees you an income regardless of your contribution levels over the years. A DC scheme doesn't and relies on regular monthly contributions and investment performance to grow.

DB schemes are protected from the unpredictability of investments. Like we said, it's a guaranteed income.

So, that's where the other question comes in: how do you get the most out of your Defined Benefit pension?

This is where we try to break the un-engagement endemic of the typical professional 20-something.

You've done the first step without knowing: actually owning a pension.

But to fully get on board with the pension planning game, you'll need to get to know the finances of your future.

So, you'll contribute a preset percentage of your salary monthly into your pension, but it's designed so that lower earners will contribute less. And the cost to your take-home pay is actually less - because pension contributions get tax relief. Meaning that saving doesn't need to get in the way of life.

Don't forget that your employer also contributes to your pension, which is the cherry on top. If you're in the West Yorkshire Pension Scheme, for example, Leeds Beckett University will contribute the equivalent of 17.9% of your salary towards the cost. And if you're a part of the Teacher's Pension Scheme, a contribution of 23.68% will be included.

That's a pretty generous boost to your savings. Like we mentioned earlier, if you were working in the private sector and were paying into a DC pension scheme, the maximum amount your employer has to contribute is only 3%.

There's a basic rule of thumb when it comes to pension saving, called the 'half your age' rule. It goes like this: when you first start to save for retirement, you should aim to save a percentage of your salary (before tax) equal to half your age. So, if you start at age 22, you want to be aiming to put 11% of your monthly salary into your pension.

This rule isn't by any means perfect but it's a good guide to help you understand how much to save. It also shows us that if you continue paying into the scheme, with your

employer’s contribution alone, you’ll be well on your way to having money to spend in retirement.

It may be possible to make extra contributions to your pension too and save more as you go, should you want to – you’ll even get tax relief on extra payments.

Another perk to saving into the pension scheme (not that you need any more reason), is that you’ll get life cover of up to 3 years’ pay from the moment you join (though this varies by scheme, please refer to your respective scheme for confirmation.). No medical needed, it’s open to all.

Saving in a post-COVID, cost-crazy world

It’s easy for us to harp on about how great pensions are but we do understand, saving is not always as easy as all that, especially now. That’s because of the ever-present unmistakably rent-shaped hole in a young-person’s bank account. Not to mention inflation and the rising costs, in all other aspects of life.

32% of all renters in the UK are aged between 25-34, and in 2018, 42% of 25–34-year-olds rented a property.[2] That’s a very significant minority.

Across the UK, 81% of renters are spending more than 30% of their take-home pay on rent.[3]

Perhaps it was an inevitable consequence of COVID or exacerbated by the cost-of-living crisis, but the reality is that disposable incomes have dropped.

It’s understandable if saving is the least of your worries. There are bigger fish to fry. But remember, time is on your side, especially at the start of your career – and this is where you can really harness the power of your pension.

The power of time

To realise the power of your pension and really unlock its potential, you can build accrual, too.

Accrual means that the value of your pension earned in each year is calculated using a fraction – such as 1/49th or 1/57th – of your pensionable pay.

In the Teacher’s Pension Scheme, for instance, if you have a career average pension, you’ll build 1/57th of your salary each year you’re a member. This is then increased at the rate of inflation, meaning that each year your pension’s value will grow.

And the longer you pay into the pension, the more you'll be able to build a retirement warchest.

With time on your side, a lower earner can build up a pension that might make a late-starting higher earner jealous.

When you're just starting out in your career, you have fewer financial obligations than people in their mid-to-late thirties might have; from supporting a family to owning a mortgage, so there might never be a better chance to begin building a solid base for your future. And just like exercising or eating healthy, once you get into the habit of saving into a pension, it becomes easier to do.

To find out more about your pension scheme, click here.

[1] Imperium Advice, How to get your children thinking about their financial future. https://imperiumadvice.com/how-to-get-your-children-thinking-about-their-financial-future

[2] Ministry of Housing, Communities and Local Government, English Housing Survey: Private Rented Sector, 2019-2020. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000052/EHS_19-20_PRS_report.pdf

[3] Property118: A third of renters are spending more than 50% of their wages on rent. May 2023 https://www.property118.com/a-third-of-renters-are-spending-more-than-50-of-their-wages-on-rent/