How is your pension different to a savings account?

Based on salary exchange*

Imagine your salary was the UK Median **£31,285 (ONS 2021)**. Let's take a look at how your monthly pay packet would look in a savings account vs your pension...

	SAVINGS	PENSION
Your Pension Contribution (5%)	£0.00	£130.35
Your Employers Pension Contribution (3%)	£0.00	£78.21
Savings (matching equivalent pension contribution)	£130.35	£0.00
Total put away (monthly)	£130.35	£208.56
Actual monthly cost to you (Because salary exchange reduces the amount of Income Tax and NI you pay)	£130.35	£88.64
Take-Home Pay (after savings, tax and National Insurance deductions)	£1,947.64	£1,989.36 (after net pension contributions, tax and National Insurance deductions)

While your money could sit in a savings account gathering interest and doing not very much, after 30 years invested in a pension, it could look like this...

	SAVINGS	PENSION
Total contributions over 30 years	£46,927.50	£75,084
Total after 30 years	£64,000** ** Based on savings account growth rate of **1%**	£93,000** ** Based on investment growth rate of **4.6%**

We've assumed a fund management charge of 1% and an inflation rate of 2%. Please note these figures are for illustrative purposes only and are not guaranteed

*The pension contributions in this example are paid by salary exchange.
The income tax and the national insurance savings are not invested. Take-home pay is higher as a result.
Based on current pensions and tax legislation, which is subject to change.

Remember, investments can go down as well as up and you might not get back all the money you paid in.

And while we're here, let's take a look beyond the numbers...

SAVINGS **VS** **PENSION**

Advantages of savings account

- ✓ You have more flexibility and can access your money at any time
- ✓ Less risk in losing your money compared to an invested pension as it is less likely to fluctuate

Disadvantages of savings account

- ✗ Generally interest rates are lower, which means your money doesn't grow as much as it could with your pension
- ✗ Inflation (the general rise in prices of things over time) is likely to outpace your savings which means your savings money can buy less
- ✗ It's only your money, your employer does not contribute to the amount
- ✗ Your money is paid into your savings account after you have paid tax, which means your take-home is less than if you put this into your pension

Advantages of pension account

- ✓ Your employer also pays in to your pension which can make a huge difference over time*
- ✓ When using salary exchange you give up some of your salary in exchange for an employer pension contribution. This means you pay less income tax and national insurance contributions than if you pay without using salary exchange.
- ✓ You can take a tax free lump sum from age 55

Disadvantages of pension account

- ✗ You can't access your pension money until you're 55
- ✗ Risk of poor returns

To find out more about where your pension money goes, visit us at **royallondon.com/secretlifeofpensions** or **#SecretLifeOfPensions**.
Find out what happens when your pension money leaves your pay packet.

*Under the Automatic Enrolment regulations employers are required by law to pay pension contribution for certain employees. The pension contributions in this example are paid by salary exchange. The income tax and the national insurance savings are not invested. Take-home pay is higher as a result.Based on current pensions and tax legislation, which is subject to change. It is not intended as substitute for taxation, legal or financial advice.

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