

# How is your pension different to a savings account?

Based on relief at source\*

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...

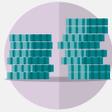


## SAVINGS

# VS



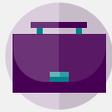
## PENSION



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 of tax relief on your contribution)

£130.35

£104.28



**Take-Home Pay** (after savings, tax and National Insurance deductions)

**£1,947.64**

**£1,973.71**

(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...



Total contributions over 30 years

£46,927.50

£75,084



Total after 30 years

**£64,000\*\***

\*\*Based on savings account growth rate of 1%

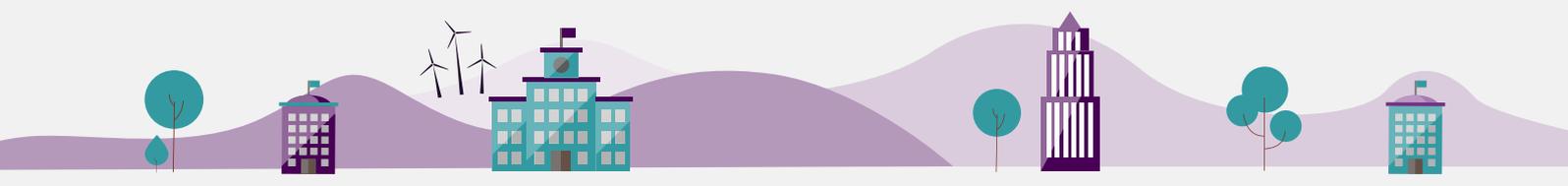
**£93,000\*\***

\*\* 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

\*Relief at source means your contributions are taken from your net pay (after your wages are taxed). Then your pension provider automatically claim tax relief for you from HM Revenue & Customs (HMRC), adding the basic tax rate of 20% (different rules apply for Scotland) to your pension contributions.

**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

Based on current tax legislation

### Advantages of pension account

- ✓ Your employer also pays in to your pension which can make a huge difference over time
- ✓ When paying into your pension, you receive tax relief on any contributions that you make
- ✓ Generally the higher investment growth rate of your pension over time means that your money can keep up with or even outpace inflation
- ✓ 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](https://royallondon.com/secretlifeofpensions) or [#SecretLifeOfPensions](https://twitter.com/SecretLifeOfPensions). Find out what happens when your pension money leaves your pay packet.

