



Aviva 'What is a pension' manuscript

Hi, I'm Lisa and if you haven't already watched the site tour video, I'm your personal guide to give you help whenever you need me. Right now, I'm here to help you understand, 'What is a pension'

This short video is designed to help you understand exactly what a pension is and how it can work for you.

Think of it as the first step in understanding pensions and the first step in taking control of your future.

I'll be running through the basics of what a pension is all about, and why they are important, as well as some of the different types of pensions. This should give you the necessary knowledge to take advantage of all the site features.

What is a pension exactly?

Firstly, it's important to know that when we talk about pensions, we mean your pension plan. This is the way in which you save, rather than the money you take out at retirement.

Basically, a pension is a long term investment that helps you save for your retirement.

Payments into your pension are collected together and invested to build up a pot of money known as your plan. When the time comes to retire, it is the money built up in the plan that will be used to provide you with a regular income.

So why is a pension so important?

Well, saving for your retirement is essential because everyone has to stop working at some point. Although the state will provide you with an income, it's unlikely to give you the standard of living you want. So it's your responsibility to provide for your retirement

But just having a pension may not be enough, you need to get involved and actively manage it. That way you're more likely to achieve those targets you've always wanted- like regular holidays or eating out.

A personal or company pension is a great way of supplementing your state pension income because you get tax benefits for saving in this way and your employer can also pay in.

So what are the tax benefits of having a pension?

Because the Government wants to encourage retirement saving, if you have a personal pension, you also get extra money from the tax man. This is known as tax relief.

So, whatever the basic rate of income tax is at the time you make the payment, an equivalent amount is automatically paid into your pension fund. This is the case even if you don't pay tax!

If you're a higher rate tax payer, you can claim back even more via your annual tax return.

what about tax relief for Company pensions?

Now, some company pensions, normally called Group Personal Pensions, work in the same way as a personal pension. Others, however, normally known as Occupational Pension Schemes, work differently.

With Occupational Pension Schemes you still get tax relief. You don't pay income tax on the part of your salary used to make your pension payments in the first place. Basically, the payments are taken from your salary before tax is even applied!

So what is the key benefit of a company pension?

Your employer may pay into it as well. You should consider this as part of your overall benefits package as well as your salary. And the more you pay in, the more your employer may pay. You should check your scheme documents for more details.

It's important to know how a pension works!

Remember a pension is not a bank account where you can dip in and out, but a long term investment. You put money away for when you retire, when you will most need it.

Although pensions can seem complicated, I am here to help you understand yours more.

First, you, your employer and in some cases a third party, pay money into your pension. This could be regularly such as every month or on a one-off basis.

Then we take this money and use it to buy units in the professionally managed investment fund or funds that either you, your employer, or pension scheme have chosen.

These funds carefully invest the money in various ways such as stocks, shares, cash or even property, with the aim of increasing the value. As a pension plan is a long term investment, you need to be aware that the value will go up and down throughout the investment period.

There are a number of different types of investment funds to choose from. These range from high to low risk funds.

The funds you are invested in may not have been chosen specifically by you, so it is important that you check that they are appropriate for you.

You can manage your investments in the investment section of the Pension Tracker site.

Using the Pension Tracker like this will put you in control of one of the biggest investments you may ever make.

So what happens when you retire?

Just before you reach the age at which you want to retire, we will contact you with details of the decisions you will need to make about what you want to do with the money you've built up in your plan. You need to decide how much you want to take as a cash lump sum and how much as income. You can normally take up to 25% of this money as a lump sum-and the great thing is it's tax free.

The rest of the money you have built up in your pension needs to be converted into an income, the most common ways of doing this are an annuity or income drawdown.

Lets talk about annuities first - an annuity is a type of insurance policy that you buy with your pension fund - it provides a regular income for the rest of your life.

Another common way of converting the money you've built up is through Income drawdown. Income drawdown is a pension plan that pays you an income from your pension fund whilst your fund remains invested.

Whatever way you choose to take income in retirement, it will be taxed in the same way as the income you receive while you work.

We'll tell you more about your retirement income options before you reach retirement.

Where can you find more help?

When it comes down to the details, we know that pensions can seem complicated so around the site you'll find lots more help and info. I also suggest taking a look in the tips and tools section where you can find this video and more guidance. You could also look at the plan guide you received when you took out your pension.

If however, you are still unsure it is best not to struggle on, but rather make an appointment and speak to a financial adviser.

OK, so I've told you the basics, so what should you do next?

You may have your pension and that is a great first step to enjoying your retirement. But ensuring you can fund the retirement the way you want depends on:

- How much you pay in
- How long you invest,
- And which funds you invest in.

You now need to decide what your aims for your life in retirement are, and determine the investment approach needed to achieve them. Our Pension Tracker site is designed to help you do this. You may also find it useful to speak to a financial adviser.

We've also developed the Retirement Planner section to show you what you're on track for at the moment and you can see how the changes you make may impact the future using our 'what if' calculator.

I hope you have found this video useful. Remember to look out for me around the site for more helpful hints.