Salary exchange arrangement

ROYAL LONDON

Should I increase my regular pension contributions?

Increasing your regular pension contributions, even by small incremental amounts, could make a big difference to your pension savings at retirement.

Reviewing how much you have saved, when you hope to retire, and how much your investments are expected to grow can help you decide if your pension savings are likely to be enough for the lifestyle you want in retirement, or if increasing your contributions could help you achieve this.

The case study below can help you understand the potential benefits of increasing pension contributions.

Meet Sam and James

Sam and James are both 45 years old. They earn the same salary and contribute the same amount to their workplace pension each month by exchanging some of their salary for an employer pension contribution.

James decides to increase his regular contributions by 1% each year, over a 5-year period only, while Sam chooses not to. If they both retired at age 65, here's what their pension savings could look like:

NO CHANGE TO CONTRIBUTIONS	VS	1% INCREASE (each year for 5 years)
Sam earns **£125,000** each year and has **£60,000** in his workplace pension.		James also earns **£125,000** each year and has **£60,000** in his workplace pension too.
Sam's exchanging 5% of his salary for an employer pension contribution. His employer is contributing a further 3%. As Sam's salary exchange arrangement is set up with all tax and NI savings added to his pension contributions this means the total pension contribution paid into his plan each month is **£942.98**.		James and his employer have been contributing the same as Sam and his employer, with all tax and NI savings added to his pension contributions.
Sam doesn't make any changes to his salary exchange arrangement. Although the percentage won't change, the monetary amount being added to his pension will increase in line with any pay rises.		James' pension contributions will also increase in line with any pay rises. However, James decides to increase the amount he's exchanging for an employer pension contribution by a further 1% each year from age 45 to 49. As an example, the monthly amount he's exchanging will increase by **£126.10** in the first year, and will continue to increase year-on-year by 1%.
When Sam reaches his chosen retirement age of 65, the total pension contributions paid into his plan will be **£215,355**.		The total pension contributions paid into James' plan will be **£348,797** at age 65.
At age 65 Sam's pension savings could be worth **£427,000**.		James' pension savings at age 65 could be worth **£623,000**.
		By making this change to his regular contributions, James could have **£196,000** more at retirement.

These are illustrative figures based on an assumed growth rate of 2.94% which has been reduced to include inflation. Inflation reduces the buying power of their retirement savings and we've allowed for this by reducing the assumed growth rate by 2%, giving a more realistic view of what that would look like if payable today.

We've assumed an annual management charge of 0.45% and a pay increase of 3.5% each year to their salary.

What you could get back at retirement depends on how much you pay in, the charges on your plan and how well the fund you're invested in performs. Contributions are invested so the value of pension savings can go down as well and up and you could get back less than you invest.

Are you saving enough for retirement?

Our **pension planning calculator** can help you work out if you're on track for retirement and what your pension savings might be worth at your chosen retirement age. It's based on the **Retirement Living Standards** from the Pension and Lifetime Savings Association, which have been developed to help you understand how much you might need in retirement for the type of lifestyle you want to live.

How to increase your regular contributions

If you'd like to make changes to your workplace pension contributions, you should speak to your employer. They'll tell you what changes you can make and how to make them.