HARGREAVES LANSDOWN

WOMEN AND PENSIONS

Some of the big financial goals in life are fundamentally harder for women to reach than men – and saving enough for retirement is one of them.

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Because we tend to live longer, the money has to last longer, so the finish line is set further down the road. Meanwhile, we often pick up a lot of responsibilities that slow us down. It's no wonder that so many of us feel we're on a hiding to nothing, and give up altogether.

But it doesn't have to be insurmountable. This article is not personal advice. If unsure of an investment or course of action for your circumstances, please seek advice.

WE'VE SWITCHED OFF

We carried out some research in September, into how much people knew about their pensions, and men were much more likely to know the ins and outs of their arrangements. More men knew how much they already had saved in pensions (44% of men and 25% of women). They were almost twice as likely to know how much income they'll need in retirement (37% of men and 21% of women).

This gap was particularly noticeable when it came to pension investments. Only one in five women knew their pension is invested in the stockmarket – compared to one in three men.

It should possibly go without saying that our disinterest when it comes to pensions isn't part of some overall financial weakness. Studies a few years ago found that women tend to be more likely to run the day-to-day finances at home and make major spending decisions for the household.

It's not that we put pensions out of our minds entirely either. From the work HL does in workplaces, we know that women are worried about their pension savings, and are more likely than men to take up the offer of a one-to-one session going over their pensions.

So why have so many women switched off from pensions?

WHY PENSIONS TURN US OFF

Unsurprisingly there's no single reason for this. We're all different, so we all have separate reasons not to get excited about pensions.

For many people, the idea of building a decent pension pot is all well and good, but there's just not the money available for it. The gender pay gap that currently exists is exacerbated by the fact that women are more likely to take career breaks or move to part time work in order to juggle work with the needs of their family. When you're on a much lower income, you don't always feel you have the luxury of being able to pay into a pension.

Once we've put off pension saving for a while, it gets harder. The fact we know we don't have enough saved for the future, and we can't see any way to change the situation, means it's tempting to write it off and resign ourselves to working forever or relying on the state pension.

There's also the possibility that we don't really know what we're planning for. Given that women are more likely to take on caring responsibilities, there's a risk we have to give up work earlier than planned. We may also need to take a break later in our careers, when it can be difficult to return to the workplace at the same income level. Only one in five women say they know how and when they'll finish work – half as many as the men.

Then there's the fact that we all lead such busy lives. It can be hard to spare the time to keep on top of the day-to-day finances, let alone to sit down and think about the long term.

It's important not to overlook the fact that some people just feel they don't know enough to make decisions about their pension. The fear of making the wrong decision means they may end up not making a decision at all.

Remember though that money in a pension is not usually accessible until age 55 (57 from 2028).

For others there may be a psychological barrier, where pensions seem like something completely removed from them. It's something that hasn't been helped by the way financial companies have tended to talk about pensions in the past – which haven't always reflected women's priorities or the realities of their lives.

But we don't have to give up and resign ourselves to pensions misery: a few small changes can boost your pension and ease the burden, so saving for a pension doesn't feel like such an impossible goal.

WHAT CAN YOU DO?

Starting out

The good news is that the first step has often been taken for us. Pension rules mean that as long as you're employed, aged between 22 and State Pension age, and you earn £10,000 per annum, you'll usually already have been put into a pension scheme at work, and both you and your employer will be paying into it. If you make less than £10,000 a year, you'll have to ask your employer to sign you up, but they're not allowed to refuse.

If you're self-employed then this first step is up to you, but it doesn't have to be a major leap forward. Consider opening a pension and pay in whatever you can afford each month, as soon as you can. This doesn't have to be a huge sum of cash – you can set up a direct debit from as little as £20 a month – just pledge to revisit it each year and see if you can afford to bump your contributions up a little. Anything you do is better than nothing. Remember though that money in a pension is not usually accessible until age 55 (57 from 2028).

If you have a workplace pension, ask your employer to talk you through it. They will know what's being paid into the pension, and should be able to explain what's on offer. In some cases, if you put in more than the minimum payment, they'll match it, which will make an enormous difference to how it grows. If your employer struggles to explain the pension clearly, see if they'll provide access to one-to-one sessions with the company that actually runs the pension.

Once you're in a pension, you should get an annual statement, which it's worth looking at. It's up to your provider or your employer to make these interesting enough to hold your attention and clear enough to understand. If they've done a terrible job, ask them to talk you through it. It's your money, so you have every right to expect them to be able to communicate properly how much you have, and how it is invested.

Starting a family

If you take a career break, you need to think about your pension. If you go on maternity leave, there's a handy trick worth knowing about. If you keep your pension contributions up while you're on paid maternity leave, you'll pay that percentage of your maternity pay (which is usually much lower than your usual salary) – so if you were paying in 5% of your salary, you'll need to pay in 5% of your maternity pay –which is usually lower. Your employer, meanwhile will have to maintain exactly the same payments they were making before you left – so if they were paying 5% of your pre-maternity salary they'll have to keep paying the same amount.

If your employer runs a salary sacrifice scheme for payments into the pension, you're in an even better position, because as far as the government is concerned, all the contributions are being paid by your employer. So if both you and your employer were paying 5% of your salary, your employer will have to keep up all the contributions for both of you.

If you take a longer break, your pension doesn't have to fall by the wayside. You and your partner will need to talk about how you'll meet all your other expenses while the household income is lower, so make sure your pension is part of the conversation. Even non earners (under 75) can pay up to £2,880 a year into pensions, an amount which is then topped up with basic rate tax relief. Tax rules change and benefits depend on individual circumstances.

If your partner pays tax at a higher rate than basic rate, then part of the discussion will include the fact that any payments into their pension will normally receive more tax relief. However, that doesn't necessarily mean all pension payments should automatically be paid into their pension, because there's an inherent risk in you both relying on a pension controlled by one of you.

If one of you earns more than £50,000, you may be hit by the high income child benefit tax charge – which means at least some of any child benefit you receive would need to be repaid. If either of you earns £60,000 or more, it may all need to be repaid. You can simply choose not to receive the benefit instead. However, if one of you is not working, you still need to complete the child benefit form to ensure the non-working partner receives National Insurance credits for any years they don't work – which will count towards their state pension.

Making pension contributions can reduce your income for the purpose of determining whether you have to pay the high income child benefit tax charge.

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Starting later

If you're further into your career, and your pension has become a bit of a casualty of a complicated life, it's easy to assume it's too late, but there's still plenty you can do. You'll need to contribute as much as you can afford, as soon as possible. But you don't need to do all of the work – because you can get the money in your pension working harder for you too.

When you open a pension through work, if you don't make a decision about where you want the money to be invested, you'll automatically be put into the 'default fund'. These are designed to meet the needs of the average scheme member, and split your money between different assets including bonds and shares in order to help spread any risk. This will tend to mean lower returns over the long run than share-based funds. If you have ten years or more before you need the money, you may be able to take more risk in share-based funds. These tend to rise and fall more in the short term, but have better potential for growth over the long term. Investments including any default funds can fall as well as rise in value and you may not get back what you have invested.

Get some help

You don't have to go it alone when you're trying to get to grips with your pension investments. Consider how you prefer to learn things. If you're happy to read articles and guides, we have plenty of those to get you started. If you'd prefer to speak to someone, ask your employer if they offer seminars or one to one sessions. You can also call your provider for information and they will often be able to clarify things for you on the phone. If you need advice, you'll need to pay a fee for it, but if it can ensure you can afford to retire, it may be well worth the money.

If all this is leaving you with the feeling you have far too much else to worry about, it's important to bear in mind that you'll be paying a price for putting it off. It's much easier to see the consequences if you neglect your day to day finances, but just because you can't see them at the moment, it doesn't mean there are no consequences for overlooking your pension. The earlier you get started, the more chance you have of a comfortable retirement. So pass some of the mental load to someone else, take the time to concentrate on your pension, and transform your future.

Our Helpdesk will be happy to help:

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