Steve Dodge writes on interesting pensions???

I recently read an excellent article talking about making provision for retirement, how can pension provision be interesting I hear you ask, well it just was.

Apparently a survey has found, that one in seven Yorkshire men have included winning the lottery in their retirement plans. Now that might be sensible if the chances of winning were realistic but at 14,000,000 to 1 the odds are out of this world.

It is very hard to describe just how small the chance of a major win really is, in time terms it's like picking out one "winning" second out of 162 days.

A lot of people say that their house is their pension and they will go "downmarket", when they retire. In East Anglia the average house price is £205,894 (source BBC) the average flat £145,660, allow for stamp duty, solicitors fees, removal costs, re-decoration etc. and you might release £40,000.

At 4% net of tax that's £1,600 a year or just over £30 a week income, hardly life changing, for going through all the stress of moving away from friends and neighbours and who will be above, below and around you?

The only way to build up a pension that's worthwhile is to start early and pay in a sensible amount, but with Kids and mortgages we do know how hard that can be. A good friend of mine was saying that he could not afford to save for a pension, as he was stubbing out a fag outside the Pub. He's 30 and I asked how many a day he and his wife smoked.

"20 a day each I suppose" he said. " How much does that cost now" I enquired, "around a tenner" was the prompt reply.

"Well" I said reaching for my calculator, "that's say £300 a month. You're a 40% tax-payer so if you both stopped smoking and saved £300 a month net of 40% tax in a pension that would be a gross contribution of £500 a month."

"£500 a month until age 68 at 7% growth would be a pension fund of £1,136,841. You can have 25% or £284,210 tax-free lump sum and around £51,000 p.a. pension, gross and all you have to do is stop smoking!" Sure inflation will reduce the real value of the figures but my point was made.

The message is simple start saving a little as early as possible. A 20 year old basic rate tax-payer saving just £25 a week net (five packs of fags!) in a pension would on the same basis as above have a fund of £592,928 at 68, assuming the contribution is never increased.

The ultimate pension is for the newborn. A gift from granny or granddad to the new child of £2,880 could save Inheritance tax of £1,152. If the gift of £2,880 is placed in a pension fund the revenue adds £720 immediately. At age 68 on the above assumptions the fund could be £358,425, for a "one off" contribution, not a bad start in life.

See your IFA for more information on pensions; they really can be quite interesting.