

Money Matters

An Introduction to Pensions for Freelancers (Sean Kelly)

Sean revealed that only 14% of freelancers save for a pension. These days, the average life expectancy is around 82 (slightly less for men). This is 20 years past the retirement age. The state pension is £168/wk, which is around £9Kpa. Median UK earning are £30K. Surprisingly, the average UK household spend in retirement cost is around £26Kpa. It is therefore unlikely that the state pension will be sufficient for most people.

Pensions are tax efficient and should grow. For a basic rate payer, the government adds 20% to each 80p to make £1.

Types of pensions are:

- Defined Benefit (less available now)
- Money purchase (sometimes called defined contribution)
- SIPS (self invested)
- State Pension

Defined Benefit

Employees receive a pension dependent upon years of service. Not very many active schemes exist.

Money Purchase

You save money into a pension fund, the amount of tax you will have paid on your contribution is paid in by HMRC, and on retirement (at age 55 or above) you can draw down cash from the fund, take all the money or buy an annuity (a form of insurance policy). Suitable for freelancers as you can pay in either regular amounts and/or lump sums.

If you take the cash, it will be subject to tax.

The danger of drawing down is running out of money before you die.

Buying an annuity is for many the safest option as the insurance company is taking a bet on your life expectancy and will guarantee a regular payment until you die in return for your pension pot. You can buy annuities which give you an index-linked pension, and which will cover your partner. The size of the pot, your health and personal circumstances and whether your pension increases and a partner is included all affect the size of your annuity.

Auto-enrolment

This can occur for any eligible worker (i.e. somebody who receives holiday pay) after three months of employment – so it's unusual for this to happen for Film & TV

freelancers. A proposal to extend auto-enrolment to freelancers has not been implemented. Auto-enrolment is a money purchase system which requires the worker and employer to pay a certain minimum amount (currently 8% of earnings) into a pension scheme.

NEST

NEST is the auto-enrolment default supplier of pensions. It has the advantages of being simple and not able to refuse anyone, and the charges are relatively low, so it may be a suitable pension scheme provider for the self-employed, many of who make intermittent payments which not all insurance company pension schemes like.

If you are auto-enrolled while working for an engager, they can choose the pension supplier. Over a number of jobs, this can lead to multiple pension pots. But if you have a NEST account, it may be possible to pass this number to an engager to ensure all your auto-enrolment money goes in one pot, but that depends whether the engager is willing - they should be as NEST is generally cheaper for them.

Pensions dashboard

A proposed solution to having a collection of pension pots is an online pension 'dashboard', enabling you to check where your money is - it may be possible to combine pots.

There is a suggestion that freelancers have access to "sidecar savings" - a proportion of their scheme savings available at short notice as a rainy day fund. No proposals yet.

State Pension

You build up entitlement according to the number of years for which you pay National Insurance, and you cannot draw it until your State Pension Age.

If you have a pension scheme from an employer in the past, it might reduce the pension you get from your NIC2 payments, so check your state pension entitlement.

You can go online to check your projected state pension entitlement.

Rates

Check <https://camerabrand.org.uk/rates/> regularly for rate information and contribute to the rates survey.

Tax

Introduction here and tax guide via this page...

<https://bectu.org.uk/article/how-do-i-pay-tax-as-a-self-employed-freelancer/>