

## How much delaying a pension can cost you

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Contractors who delay starting a [pension scheme](#) could find their retirement fund is well short of what they need to enjoy a financially secure and comfortable retirement.

"It is never too early for a contractor to start a pensions investment," highlights [Contractor Wealth's](#) pensions and investments expert [Angela James](#). "Contractors can lose literally tens of thousands of pounds from the value of their pension pot at retirement by delaying starting a pension."

James provides some examples of how much contractors should be saving a varying stages of a contracting career. "It is also never too late to start a pension, particularly as government tax relief enhances the value of what contractor's save."

### How much money should contractors save?

According to James, a good financial adviser will start the pensions conversation by establishing when a contractor wishes to retire and what sort of lifestyle they want to lead when they finish work.

"Setting the [retirement age](#) is the first step, and there is no default retirement age, so contractors can choose when they want to stop working," continues James. "Next, the contractor needs to calculate their target income, remembering that the value of money decreases over time, so £30,000 in today's money is worth much less in 20 years' time."

James has done some sums and gives an example of a 40-year-old who wants £30,000 in today's money when they retire at 60, 20 years from now: "If the contractor saved £1,000 a month from today, that would give them an income in future money of £46,000.

"If the contractor delayed by five years, that would lose £10,000 of that projected income at retirement. If they left it ten years before starting their pension, then they would have a shortfall of £17,500 each year."

### Why does starting saving early have such an impact on retirement income?

There are three principal factors affecting the growth of a pension pot: tax relief; the growth of the underlying investment and inflation.

"When you take the examples above, by starting five years later the contractor has missed out on the cash amounts of £60,000 into the pension pot, plus £12,000 of tax relief, alongside five years of investment growth and inflationary growth.

Starting ten years later means £120,000 less paid into the pot, and ten years or £24,000 of tax relief is lost Plus as well as being a lower amount, the amount invested into the pension suffers from ten years less of investment growth and inflationary growth.

### What happens if a contractor starts saving from age 30

"If a contractor starts saving at age 30, they don't have to invest £1,000 a month to achieve the desired retirement income of £48,000," says James.

"In fact, a 30-year-old contractor who starts paying into a pension from age 30 would only need to pay £650 per month for the same outcome. So, it really does pay to start early."

If a contractor's limited company pays the pension costs, it is a legitimate and allowable business expense. This means that that for every £1,000 invested in the pension, the company only actually pays £800.

James concludes: "From their early thirties, contractors can be paying monthly into a pension scheme that in cash terms costs less than two day's work. As a result, they will enjoy a well-funded retirement.



[Angela James](#)

Pension Specialist

Contractor Wealth

Angela is a qualified Senior Financial Planner at Contractor Wealth and specialises in pension advice and financial planning for contractors.

Contractor Wealth are a specialist in offering tailored financial solutions for contractors, together with the building of excellent client relationships. [Read Full Profile...](#)

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"It is also never too late for a contractor to start saving, and the first step should be for a contractor to review their personal circumstances with a financial adviser to determine their best course of action. The alternative is to lose tens of thousands of pounds from their retirement income."

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