QUICK GUIDE TO **PENSIONS**

Many writers never stop writing: our past President, PD James, published her bestselling novel, *Death Comes to Pemberley*, when she was 91, and Diana Athill, who died in January aged 101, was still writing at her death. Even if you aren't still writing, royalties will still accrue if your works are still being sold or performed – copyright lasts for your lifetime and 70 years thereafter, so you and your beneficiaries may make a good living from your works for many years into the future (the Society of Authors still benefits every time a Bernard Shaw play is performed though he died in 1950).

So, why worry about a pension?

The reality is that most books are out of commerce by ten years after first publication or production. Only a few works earn royalties for many years and those royalties tend to diminish year on year. Work and writers go out of fashion – and even if your works are still popular, you may not wish or be able to continue to write. Even Diana Athill acknowledged in 2017: '*I can't think many centenarians are still living by their pen*.'

It is therefore really important to consider your pension as early as possible to ensure that your later years are provided for.

WHAT IS A PENSION?

A pension is a savings vehicle designed to provide you with an income in retirement. It is designed to replace your earnings previously generated through self-employment/employment when you cease or reduce working or earning due to age. See four things self-employed workers need to know about pensions and retirement here (or https://bit.ly/2WNG2df).

I have paid contributions. Won't I get a state pension?

You might – but the full rate of New State Pension for tax year 2018/19 is £164.35 a week. Would that be sufficient for you to live on?

And it isn't automatic:

- An individual with no National Insurance record before 6 April 2016 will need 35 qualifying years of National Insurance contributions (NICs) or NI credits to get the full weekly rate of New State Pension. To get any New State Pension at all, you'll need at least 10 qualifying years. This is a big increase from the old minimum of just one qualifying year under the old State pension rules.
- Anyone with between 10 and 35 qualifying years will get a proportionate amount of New State Pension.
- Individuals who started their working life before 6 April 2016 may of course have built up some State pension entitlement already – which is protected. In this scenario, a calculation is done as at 6 April 2016, to establish a New State Pension starting amount (the 'foundation amount'), from which the New State Pension entitlement would be built.

I'm an employee for all or part of my income – won't my work scheme cover me?

In the past, many workers missed out on valuable pension benefits, because their employer didn't offer them a pension, or they didn't apply to join their company's pension scheme. The good news is that the Government realised that it was facing a crisis because the State pension will not be sufficient for most people's needs and introduced automatic enrolment from 2012. It makes it compulsory for employers to automatically enrol their eligible workers into a pension scheme. The employer must also pay money into the scheme.

Whether you work full time or part time, your employer will have to enrol you in a workplace pension scheme if you:

- work in the UK
- are not already in a suitable workplace pension scheme
- are at least 22 years old, but under State Pension age
- earn more than £10,000 a year for the tax year 2018-19.

As long as you meet these criteria you'll also be covered if you're on a short-term contract, an agency pays your wages, or you're away on maternity, adoption or carer's leave.

If you earn less than £10,000, but above £6,032 (for the tax year 2018-19) your employer doesn't have to automatically enrol you in the scheme. However, you can still ask to join, in which case your employer can't refuse and must make contributions for you.

These benefits are transferable between jobs and, if they are offered you should seriously consider taking advantage of them.

I used to be an employee and I think I paid into something in my old job. Will that cover me?

There are a lot of older schemes and they vary in type, generosity and ease of transfer. The trick is to keep or find records of all of them and factor them in when taking advice on your likely pension benefits.

Do I need a pension scheme?

At the very least you need to regularly consider what you will get on retirement by way of guaranteed royalties (rare), other income and existing pensions and whether it will be enough. If not, you should consider investing in a pension as early as possible, not least because it still offers highly attractive tax relief (as documented below) and provides a source of income to allow you have a more comfortable retirement. Pensions can provide a flexible means of providing retirement income as you can take lump sums or receive regular payments.

Plus, any growth received in the pension is free of income and capital gains tax. The pension does not form part of your Estate for Inheritance tax calculations, and when you come to access your pension, 25% of the pension pot is paid tax free. The remaining funds are taxed at your marginal rate of income tax.

TYPES OF PENSIONS

There are different types of pensions and the main two are categorised as:

- **Defined Contribution:** The pension pot is based on how much is paid in and the underlying investment decisions you make.
- **Defined Benefit:** The level of pension you will receive at retirement is based on your salary and length of service at during employment.

Self-employed authors would only be able to contribute to Defined Contribution (e.g. personal pensions). You should always seek specialist advice as individual circumstances can differ, and important to remember to save for your pension throughout your life – particularly if you are not an employee.

How much should I pay?

Choosing the level of contribution that is right for you depends on a number of factors, but is invariably driven by:

- Your retirement objectives – how much you require and the age you want to retire
- The savings you have made to date
- Affordability.

How much can I pay?

There are no maximum levels of contribution that an individual can make into a pension. However, the amount of tax relief that it attracts is limited.

The standard Annual Allowance for personal contributions that will attract tax relief in the 2018/19 tax year is the greater of £3,600 or 100% of **relevant** UK earnings. The overall maximum level of contribution from all sources (including employers) is £40,000. There are complex rules regarding contributions and if contributions are to exceed £3,600 advice should be sought.

WHAT IS A PENSION TAX RELIEF?

When you save into a pension, the Government likes to give you extra as a way of rewarding you for saving for your future. This comes in the form of tax relief.

Tax relief is paid on your pension contributions at the highest rate of income tax you pay:

- Basic-rate taxpayers get 20% pension tax relief
- Higher-rate taxpayers can claim 40% pension tax relief
- Additional-rate taxpayers can claim 45% pension tax relief.

For example, if someone received self-employed income of £30,000 in 2018/19 tax year and contributes £80 per month into a pension, the pension scheme would be able to reclaim £20 and add this to the pension. The amount contributed and invested in the pension would therefore be £100, at a cost of £80 to the individual. This makes a pension a highly attractive method of saving.

Please note – the rules are slightly different in Scotland based on the different bandings.

VALUE AND SAVINGS

What will influence the value of my pension pot at my retirement date?

There are a wide range of factors that determine the size of the pension pot, however, the main contributors are:

- Level of contributions made
- Time until retirement
- Level of risk
- Investment performance
- Pension contract and fund charges.

What might my pension pot provide me when I retire?

In normal circumstances, you can take your personal pension benefits from age 55. The minimum retirement will increase to 57 when state pension age increases to 67 in the not-too-distant future. You can obtain a state pension forecast online (https://www.gov.uk/check-state-pension), which will tell you your state pension age.

At retirement, you would need to examine whether the accumulated fund is large enough to adequately cater for your income requirements.

When you decide to access your pension and draw an income, there are a range of retirement strategies available. This is a very important moment and each strategy offers advantages and disadvantages, therefore, it is recommended to seek advice at this time.

An annuity is one option and generally considered low risk and secure. An annuity provides you with a guaranteed income with for the rest of your life. To try and give an indication of the level of income your pension pot could provide you, here’s an example of the level of annuity that a £100,000 pension pot may provide at different ages:

Age	**Annuity**
60	£4,950
66	£5,700
70	£6,350

The above figures are based on a single life, non-escalating annuity for someone in good health who is a non-smoker and should be used for guidance purposes only. There are different options available when establishing an annuity, including income that increases with inflation, providing a pension for a spouse/partner in the event of the annuitant’s death and including a guaranteed minimum payment period.

What happens if I die before drawing my benefits?

For most pensions, the full value of your fund accumulated to the date of death will be available as a lump sum. (Other options may be available depending on the pension structure you have.) You may nominate who you wish to receive the death benefits and if death occurs before the age of 75, the lump sum will be paid tax free to your nominated beneficiary.

What if I have previous/old pensions?

Many people do not start their working life as self-employed and build up various pension pots throughout their employment with different companies. In addition, many self-employed people make personal contributions to their own pension arrangements. This can lead to someone having a variety of pensions and not knowing what the best thing is to do with them.

Importantly, there is no restriction on the number of pension plans an individual can have, but it is important to note that all pensions are different. Following a series of legislation changes and technology advances, some pensions are more desirable than others, therefore it is important to review the features on existing pensions and consider/relate these to your personal objectives:

- Retirement income options
- Death benefits
- Charges
- Investment fund choice.

Why doesn't the SoA offer a pension fund to members?

These days pensions are much more flexible and there is very little benefit in the SoA offering a scheme to members – we are not financial advisers and do not know your individual circumstances or your attitude to risk. There are many excellent schemes that can now be accessed by individuals.

CONCLUSION

This might not be the most exciting advice we have ever given you – but it may be the most important: **We recommend saving for your pension throughout your life, especially if you are self-employed. It's important to remember that individual circumstances can vary, and you should always seek specialist advice.**

Thanks to Independent Financial Advisor Richard Price of Ascot Lloyd for pension advice. To find out more, email Richard.Price@AsoctLloyd.co.uk.

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