GUIDE

How to Build a Pension Pot

This document contains important information and you should read it carefully and keep it safe for future reference.

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IMPORTANT INFORMATION

Introduction

Building a pension pot is a vital step towards securing your financial future for your retirement.

With changing economic landscapes and evolving retirement expectations, it's essential to understand the steps involved in creating a robust pension fund that can support your desired lifestyle during your retirement years.

From setting clear goals to maximising contributions and staying informed about pension regulations, this guide will equip you with the knowledge and strategies needed to build a solid foundation for your retirement future.

Understanding pension types

It is firstly important to familiarise yourself with the different types of pension schemes available in the UK. This includes workplace pensions, personal pensions and the state pension.

Workplace pensions

Workplace pensions are split into two categories, final salary schemes (also known as Defined Benefit schemes) and defined contribution schemes (also referred to as personal pensions). The eventual pension income from a final salary scheme is typically determined by your length of service and the level of their salary when you retire and the risk is generally held with the employer.

With a defined contribution Scheme, the employee bears the investment risk, as the eventual pension payout depends on the performance of the investments held within the pension account and are based upon the contributions made.

Personal pensions

Personal pensions such as defined contribution schemes, offer individuals flexibility in managing their retirement savings as you can decide how much you save and when and where your pension pot is invested.

The new state pension

Accessible at 66 years, rising to 67 in 2026, the amount of money that you will receive from the new state pension is based on your national insurance contributions throughout your working life.

As it stands, in order to receive any of the new state pension, you will need to have 10 qualifying years on your national insurance record. In order to receive the full new state pension, which is £230.25 per week in the 2025/26 tax year, you will need 35 qualifying years of national insurance contributions.

You are able to check your state pension forecast by completing a BR19 form. You can do this if you are over the age of 16 and at least 30 days away from your state pension age.

Understanding the intricacies of each pension type, including eligibility criteria, contribution levels and potential tax implications, is vital for optimising retirement income and ensuring a comfortable standard of living in later years.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Investments carry risk. Workplace pensions are regulated by The Pensions Regulator.

Assess your current financial situation

Begin by conducting a thorough assessment of your current financial situation by keeping track of any existing pension plans, savings and investments that you have.

Understanding where you stand financially will help you to determine how much you need to save for your retirement. This also allows you to identify any gaps in savings that need to be addressed.

The large majority of retirement providers, like Aviva, allow you to show a projection of what your current pension pot could look like by your chosen retirement age. Pension pots are subject to market conditions so the total of your pension pot can go down as well as up, however, looking at projections can give you an idea of the worst-case scenario and how much you would have should that happen.

Set clear goals

Setting clear and realistic retirement goals is crucial to building a pension pot effectively. Consider factors such as the lifestyle you envision, the age at which you aim to retire and any financial obligations you may have. Having clear goals will give you a target to work towards and help you to stay motivated to save.

Starting early

Time is your greatest ally when it comes to building a pension pot. Starting early allows you to take full advantage of compounding, which can significantly boost the growth of your savings over time. Compounding refers to the process where the value of an investment grows over time, as the earnings on the investment generate further earnings. It's like a snowball effect for your money.

Even small contributions made early on can make a substantial difference to your pension fund in the long run due to the benefits of compounding.

A study conducted in September 2024 showed that 1 in 3 of 18 – 25 year olds who are currently working had not contributed to a workplace or pension. The key reasons for this were found to be because 'milestone' planning, such as saving for a house or a wedding was a greater priority.

Further insights are showing that young people who delay paying into a pension until the age of 27, could be around £54,000 worse off in retirement than their counterparts who start at the age of 22 and those who wait until 42 would be around £208,000 worse off!

Maximise employer contributions

If you have access to a workplace pension scheme, take full advantage of any employer contributions available to you. Employer contributions are essentially free money that can significantly boost your pension pot over time. Make sure you're contributing enough to your workplace pension to maximise these benefits.

From April 2019, the minimum your employer pays into your workplace pension is 3% and you pay in 5% making the total minimum contribution 8%. This can differ based on your pension scheme, so it is important to get in touch with your employer to best understand which scheme you are in.

Contribute regularly

Consistency is key when it comes to building a pension pot. Make regular contributions to your pension fund and set up automatic payments, if possible, to ensure you don't miss any contributions. Even small contributions can add up over time and help you to reach your retirement goals.

If you come into some money, it could be a wise decision to invest this into your pension instead of having it sat in a low-rate savings account.

Consistency is key when it comes to building a pension pot.

Take advantage of tax relief

Contributions to pension schemes benefit from generous tax relief. This means that for every contribution you make, the government will add tax relief at your highest rate of income tax. Take advantage of this by maximising your contributions within the annual allowance limits to maximise your tax savings. For the 2025/26 tax year, your pension annual allowance is £60,000 or 100% of your net relevant earnings, whichever is lower.

Review and adjust

Regularly review your pension pot and investment performance to ensure that you're on track to meet your retirement goals. Make adjustments as needed to your contribution levels, investment strategy and retirement goals to stay on course. Life circumstances can change, so it's important to review your pension plan regularly and make any necessary changes.

Inheritance shouldn't replace retirement savings

According to a 2023 survey by Standard Life, 36% of Gen Z (18-25) and 29% of Millennials (26-41) say they're not focusing on saving for their retirement because they're expecting to inherit money or property in future.

This should not be a sole part of your retirement plan as inheritance is contingent upon the longevity and financial decisions of your parent/s or other benefactors. It's unpredictable and may not materialise as expected due to changes in their circumstances, unforeseen expenses such as later life care costs or changes in their estate planning. Conversely, it may be that parents simply decide to spend the money that they earned in their retirement with 2024 data from SunLife highlighting that a third of people over 50 would rather spend their children's 'inheritance' on enjoying their own retirement.

People are also living longer and you could be faced with a scenario where they live until well into their 90s and you don't receive anything until you are well into your 70s, by which point you could have been retired for over 20 years if you retired at 55 for example.

It is true that gaining an inheritance can contribute significantly to your retirement income, however, you should not rely on it.

The purpose of this benefit is to offer financial support to the deceased employee's dependents during a difficult time. It is an important part of many employee benefits packages and is designed to provide peace of mind to employees and their families.

Ensuring their future

Having a family is full of surprises, both joyful and challenging. Having the correct level of insurance provides a safety net that allows you to focus on the joys of bringing up a family without worrying about the "what-ifs" of life.

Whether it's a sudden illness or that toy car through the TV screen, having the right insurance coverage in place gives you the confidence and peace of mind to handle whatever comes your way.

As soon as you become a parent or legal guardian it is important to make sure that your will is up to date to reflect your wishes upon your death. As part of creating a will, you can outline who you want your estate to go to, whether that be your partner, child or someone else. Within your will you can also set up conditions that for example if you pass away before your child turns 18, they will not have immediate access to a large sum of money and it will be put in trust.

The Financial Conduct Authority does not regulate trusts, will writing, estate planning or tax planning.

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