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How pensions work — the basics

A pension is simply a long-term savings pot with unusually generous tax breaks, designed to pay for life after work. This guide explains the main types and how money actually grows inside them.

The three main types

- **State Pension** — paid by the government from State Pension age, based on your National Insurance record. For 2026/27 the full new State Pension is £241.30 a week (about £12,548 a year).
- **Defined contribution (DC)** — most workplace and personal pensions today. You and/or your employer pay in, the money is invested, and the final pot depends on contributions and investment growth. SIPPs work this way too.
- **Defined benefit (DB)** — "final salary" or "career average" schemes, now rare outside the public sector. They promise an income for life based on salary and service, rather than building a pot.

How a DC pension grows

Three engines drive your pot: what goes in, investment returns, and time. Under auto-enrolment, a minimum of 8% of qualifying earnings goes in (at least 3% from your employer). Tax relief adds to every personal contribution — a £100 contribution typically costs a basic-rate taxpayer £80, and a higher-rate taxpayer can claim further relief.

Your money is invested, usually in a "default fund" chosen by the provider. Defaults are designed for the average member — which may or may not look like you. Charges, fund choice and how long the money stays invested make an enormous difference over decades.

Why small differences compound

A 1% difference in annual charges sounds trivial, but over 30 years it can reduce a pot by tens of thousands of pounds. Equally, starting five years earlier — or adding 1% more in contributions — compounds powerfully in your favour. Pensions reward attention paid early.

Watch out for…

- Old pots from previous jobs that you have lost track of — the average career now creates ten or more.
- Default funds that do not match your goals, timescale or attitude to risk.
- Charges that vary widely between providers for essentially the same investments.
- Assuming the auto-enrolment minimum of 8% will be enough on its own — for most people it will not.

How taking advice might help

A pension is one of the few financial decisions where small choices made early — the contribution rate, the fund, the provider — quietly decide the outcome decades later. Deliberate choices tend to beat accidental ones.

A guidance or advice conversation typically helps in three ways: tracing and reviewing old pots so nothing is forgotten, checking that how your money is invested actually matches your goals, and modelling whether your current path lands you where you want to be — while there is still time to change course.

Questions worth asking yourself

- Do you know how many pension pots you have, and what each is worth today?
- What percentage of your pay goes in each month — and could you nudge it up?
- Do you know what your pension is invested in, and what you are being charged?

• When did you last review any of this — and who would you ask if something looked wrong?

Want to talk it through?

Send your question via pensionhelper.com — you'll get a straight answer within 24 working hours. Free to ask. Fixed-fee guidance from £99 when it's worth doing the numbers properly. A regulated adviser introduction when it's genuinely warranted.