



# What is a pension?

**KS4** Ages 14-16 🕒 3 min read

A pension is a long-term savings plan for your retirement. The basic idea: you put money in throughout your working life, it grows (through investment returns), and when you stop working you draw it back out as a regular income. Without one, you'd have to work until you physically couldn't, or rely entirely on the State Pension — which currently pays about £221 per week, which most people find insufficient on its own.

## The State Pension

In the UK, if you've worked and paid National Insurance contributions for enough years (currently 35 qualifying years for the full amount), you receive a State Pension from the government starting at state pension age (currently 66, rising to 67). It's guaranteed income for life, but it's not generous. Most financial advisers recommend having additional private savings on top.

Starting a pension is like planting a tree. The best time to plant it was 20 years ago. The second best time is today. A 22-year-old saving £100 a month will end up with significantly more at retirement than a 40-year-old saving the same amount — not because they saved more total, but because compound growth has had 18 extra years to work. Time is the most valuable ingredient in a pension, and you can't buy more of it once it's gone.

## Workplace pensions

In the UK, employers are legally required to automatically enrol employees into a workplace pension and contribute alongside them. The minimum is currently 3% from the employer and 5% from the employee (of qualifying earnings). The employer's contribution is essentially free money added to your retirement savings — opting out of a workplace pension means turning down part of your compensation.

## How does the money grow?

Pension savings are invested — typically in a mix of shares, bonds, and other assets. Over decades, markets have historically grown, turning regular contributions into

substantially larger sums. A typical pension pot might grow by 5–7% per year on average, though this isn't guaranteed and can go down as well as up. But over a 40-year working life, even modest growth compounds into significant sums.