Opting Out – DC Pensions

The government initiative known as 'Auto Enrolment' means that most people will be automatically enrolled in their company's pension scheme within 3 months of joining the company. However, all members of the scheme, whether auto-enrolled or not, have the right to withdraw or 'opt out' of the scheme at any time.

How do I Opt Out?

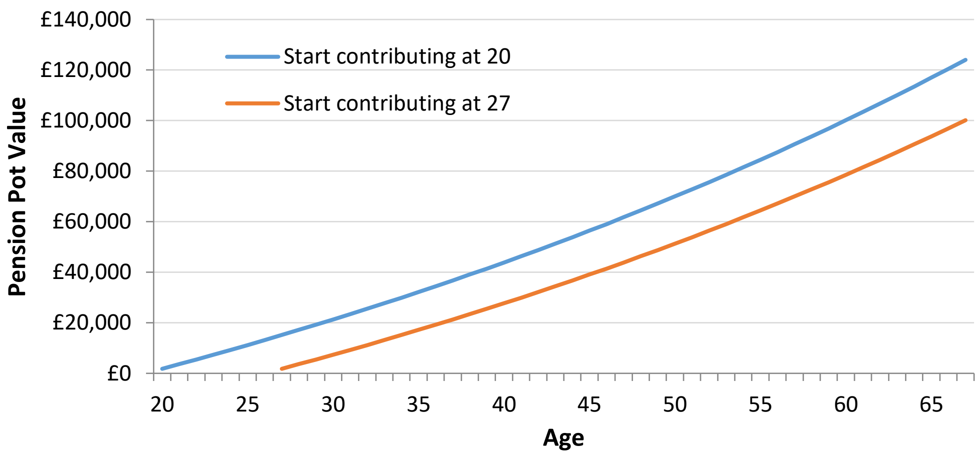
This is done by contacting your payroll department and advising them that you no longer want to be a member of the Plan.

What Will Happen?

When you opt out of the Plan, all future contributions from you and the company will stop. The pot you have accumulated so far will continue to be invested and the value will rise or fall depending on the performance of these investments. After 3 years, the company must, by law, re-enrol you back into the Plan, but you have the right to opt out again.

Things to Consider

With many living expenses, young people in particular may feel that contributing even the minimum amount to a pension fund is unaffordable and want to join at a later date. However, these early years of pension contributions are exactly the time when the most benefits are built up. In addition, you will lose out on the employer's contribution to your retirement pot (for Affinity Water, this is £2 for every £1 you contribute) as well as tax relief on contributions. Let's look at an illustration…



In this graph, it is assumed that a 20 year old's starting salary is £20,000. Salaries and investments are assumed to grow by 2.5% and 4.0% respectively and that the minimum member contribution rate of 3% is being paid.

- The person that delayed paying contributions until 27 ends up with over £23,000 less at age 67, despite saving only around £4,200 in contributions between 20 and 27.
- The person who started contributing at 20 will pay around £29,000 from their pay packet into the scheme over their working life but could end up with a pot worth almost £124,000 at 67.
- Someone who opts out at 20 and doesn't opt back in would lose out on £95,000 of potentially available money i.e. missed company contribution and investment growth.
- *These figures are stated in real terms, that is, the pot values and contribution amounts are stated as what they would be worth today in terms of purchasing power. The actual monetary value will be higher.*