

**So what exactly is a Defined Contribution Pension Scheme?**

A Defined Contribution (DC) pension scheme is a type of workplace pension where a fund of money is built up consisting of your own contributions, those your employer makes and tax relief from the Government.

You have various options on what to do with this fund on your retirement, such as those listed below:

* Draw 25% of the fund value as a tax-free cash sum and use the rest to purchase a pension for life (known as an annuity)
* Draw the whole lot as a lump sum payment. Please note however that significant amounts would be lost in tax under this option. You would be able to claim 25% of your fund value tax-free but the remaining 75% would be subject to tax at your marginal rate of income tax
* Use your fund like a bank account making withdrawals from it whenever you want to. Again, 25% of the value of each withdrawal would be paid tax-free and the rest would be taxed
* Draw 25% of the fund value as a tax-free cash sum and leave the rest of the money invested, drawing down an income every so often when you need it (although this would potentially be taxed)

**Retirement Age:** This will be specified in the rules of your scheme but you can draw from age 55

**Tax relief:** You get full tax relief on your contributions at your marginal rate of income tax. Hence every £100 invested costs a higher rate taxpayer (at the 40% rate) £60 and £80 for a basic rate tax payer. Even non-taxpayers can claim 20% relief

**How a DC scheme works in practice**

You start employment and your employer enrols you in their workplace DC scheme where they contribute twice what you pay up to a maximum of 10%. Hence if you contribute 5%, they will pay 10%. You earn £30,000 a year and elect to pay 5%. Therefore:

* You contribute £1500 into your pension a year
* Your employer contributes £3,000 (i.e. double yours)
* You receive a further £300 from the Government in tax relief (i.e. 20%, the basic rate of tax relief)

**The total that gets added to your pension each year is therefore £4,800**

This amount will be invested in a fund selected by you and will go up or down depending on investment performance. Charges can also apply to the fund and reduce the overall value. The most common charge is an Annual Management Charge (AMC). The Government has capped charges at 0.75% for all auto-enrolment workplace pension schemes.

**UNISON would hope for employer DC schemes to fulfil the following criteria:**

* A healthy contribution structure is in place ensuring adequate yearly contributions are made
* Preferably the employer paying twice the member’s contribution and at least 10%
* Total charges being less than 0.75%
* A proven track record of consistent investment performance across a range of asset classes
* The presence of a Trustee Board or Governance Committee tasked with monitoring fund performance, value for members and engagement levels
* Receipt of an NAPF Pensions Quality Mark and preferably the NAPF Pensions Quality Mark Plus, which requires a 10% employer contribution

The Pension Calculator

**How big a fund/pension might you build up?**

The Money Advice Service provide an interactive Pensions Calculator that enables you to get some sort of idea of the size of fund and possible pension (including the State Pension) you could build up at your retirement, which you can access at <https://www.moneyadviceservice.org.uk/en/tools/pension-calculator/info>.

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