

FTMoney

Baby, don't break my pension savings

INVESTING

Maike Currie



A few weeks ago, there was a marked shift in our household. I was no longer waking up at 3am to soothe and feed our new baby. Instead, my husband was up, warming bottles, changing nappies and practising the fine art of baby burping. While he is criss-crossing the stairway to the baby room, I am back at work navigating public transport and boardroom meetings.

Shared parental leave is not just a way to share the responsibility of raising children. It is also away of ensuring long-term financial equality.

For many women, having a baby will be the biggest financial blow they'll suffer over their lifetimes. Sociologists call it the "motherhood penalty"—the opportunity cost that having a child has on your pay packet, your pension and even your career prospects.

Yet despite countless studies about the benefits of shared parental leave for families and society at large, we are in the minority of parents who take it up. Just 9,200 UK residents took shared parental leave in the 12 months to March 2018, or 2 per cent of those eligible.

Providing that working parents meet the eligibility criteria and give eight weeks' notice to their employers, they can share up to up to 50 weeks of parental leave and up to 37 weeks of statutory pay between them after their child is born. Couples can opt to take leave in blocks separated by periods of work, or take it all in one go.

You may have noticed new parents in your own workplace taking advantage of the new arrangements. However, it is still women who take the largest amount of time off work to raise children — a key factor in the gender pay gap, but also one that is fuelling the "gender pensions gap".

Taking time off to raise a family or deciding to work part-time will reduce women's average pension wealth by about 47 per cent compared with men's, according to the Pensions Policy Institute.

The shared parental leave policy

isn't going to rectify the problem, but it is an important step towards changing deeply ingrained attitudes within the workplace concerning women's career development and greater acceptance of flexible working for men and women.

But we can't just blame society, or the system for the huge pensions gap. Women themselves also need to take greater financial responsibility.

If you're pregnant, the chances are you've spent hours researching your hospital's maternity ward, obsessed over colour swatches for the new nursery and your browser cookies are bursting with search history for the best buggy and baby monitor on the market. How much time, however, have you spent finding out what happens to your pension when you leave to have a baby?

Similarly, if you've returned to work you will probably have been price crunching the cost of nurseries versus nannies, added baby to your private health and life insurance and maybe even set up a Junior Isa. But where in this giant "to do" list did your own financial needs feature?

Knowing the true cost of having a baby means realising the implications on your long-term savings and retirement wealth. If you're taking a career break, planning on changing jobs or your working pattern, or becoming self-employed, checking your pension plan is a vital part of preparing for your new life as a parent.

Here are a few practical pointers that parents-to-be should consider tackling before the onset of sleepless nights.

If you have a defined contribution workplace pension

If you're eligible for maternity pay, return to work after the first 39 weeks of statutory parental leave and there should not be any gaps in your pension contributions (this will also be the case for partners taking shared parental leave).

The contribution employers pay should be based on your salary before you went on maternity leave. However, what you pay in as a percentage of your salary could be lower as your salary may have reduced. Check the details with your employer, as you'll have to keep up your contributions during this period to avoid missing out.

Also be aware that while some

companies will pay pension contributions for longer than the statutory 39 weeks, most will not.

If you take unpaid leave after your statutory maternity leave ends, you're not expected to continue your pension contributions but you can if you want to (and can afford it).

If you're in a defined benefit scheme

Women with pensions are more likely than men to have saved in a defined benefit (DB) pension scheme, according to the Pensions Policy Institute. This is due to more women working in the public sector, where "final salary" style arrangements are more common. If you're in a DB scheme, your paid maternity leave has to be treated as "pensionable service", so your benefits (including any death benefits) will continue as they did before you went on maternity leave.

Pension contributions will be deducted from your pay but will be based on your actual salary; not your salary before you went on leave. So after the first six weeks (if you get standard maternity pay) your contributions will drop with your reduced pay. However, your employer will continue to pay contributions based on your salary before you took maternity leave — so at your full rate.

Going back to work part-time

If you return to work part-time, you can continue to pay into the workplace pension scheme. But if your contributions are smaller because of the decrease in salary, what your employer pays in will also be less — so your eventual pension will be smaller.

The nightmare combination of reduced pay and eye-watering childcare costs mean it can be tempting to claw back every penny by stopping your pension contributions altogether. Think long and hard about this, as you will also be giving up the "free money" of matched employer contributions — and you could also lose significant benefits like life cover.

You could consider managing the family finances to top up or maintain your level of pension saving, or replenish any gaps in your contributions. Find out what is possible within the rules of your scheme.

With a DC scheme you will be

carrying the investment risk. If you're returning to work after a year of market volatility, it's worth looking at your underlying investment choices and rebalancing these if needed.

Planning on being a full-time parent

If you choose to give up work altogether, you will be leaving your employer's pension scheme. Although no more contributions will be paid in to the pension pot, it should continue to grow if it is invested.

This is the time to consider setting up a self-invested personal pension (Sipp). Even if you don't work, you or your partner can still pay in up to £2,880 a year, which gets bumped up to a total of £3,600 when tax relief is applied.

When you start working again, even if you're self-employed or do not work enough hours to be auto-enrolled into another employer's pension plan, you will at least have the infrastructure set up for personal pensions saving. Be aware that you cannot receive pensions tax relief on amounts in excess of your earnings in any given tax year.

Finally, full-time parents and those with a period of unpaid leave need to make sure that they register online for child benefit. Even if you or your partner earn too much to receive the actual benefit, you still need to register in order to get the national insurance credits that you are entitled to. If you're not working, you can continue to receive credits until your child's 12th birthday.

You now need 35 years of credits to get the full state pension in later life. However, the need to opt-in to child benefit is a very poorly publicised piece of information, estimated to cost women in excess of £1bn in lost retirement savings.

So, if a family member or colleague tells you they are expecting, make it the first thing you say after offering your congratulations.

Maike Currie is an investment director at Fidelity International. The views expressed are personal. Email: maike.currie@fil.com; Twitter: @MaikeCurrie