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## Quit smoking for a £1m pension



**New analysis of the cost of smoking estimates that the benefits of quitting could amount to almost £1m saved in a pension pot.**

If you quit smoking 20 cigarettes a day at an early age and then invested the £7.60 a day saved in a tax-efficient pension with employer contributions on top, the potential pension pot could be enormous. Author Paul Claireaux DipPFS has produced figures exclusively for the Investors Chronicle to show that a 20-year-old quitter could end up with £530,000 in a pension at age 55 or £935,865 at age 65.

This illustration is for a basic-rate taxpayer, receiving 20 per cent income tax relief on pension contributions. A higher-rate taxpayer at 40 per cent would have an even better result.

Mr Claireaux's figures assume that the employee has access to a good company defined-contribution (DC) pension scheme in which the employer pays in on a 60 per cent or more matched basis on all earnings. This is a similar rate of employer payment (as a percentage of employee input) that will apply when the new auto-enrolled pension schemes become fully operational. In basic auto-enrolled schemes the employees will eventually contribute 4 per cent net of tax relief (5 per cent gross) on "qualifying earnings" rather than total earnings and enjoy employer payments of 3 per cent on top (which amounts to 60 per cent of their gross contributions).

The pension figure of just under £1m at age 65 is based on an employee earning £35,000 making high employee contribution of 9.91 per cent of earnings and topped up with an employer contribution of 5.94 per cent. This kind of generous workplace pension is still widely available, though not to all employees. Mr Claireaux says: "Many employers are more generous than these basic auto-enrolment schemes. In which case, employees will be able to build some wonderful pension funds."

However, if you gave up half a pack of cigarettes a day that would work with most defined pension scheme limitations and would result in half the pension - still an impressive sum.

Mr Claireaux says: "Some employers who are not already offering good DC pension schemes may restrict their pension input to the bare minimum of 3 per cent and some will take advantage of the staged introduction of auto-enrolment - keeping their contributions to a minimum until obliged to pay more.

"Our example works less well in such cases (at least until auto-enrolment has been fully phased in) because any high personal pension input (arising from smoking cessation savings) will not be matched to such an extent by the employer initially."

Separate analysis by Partnership shows that a 65-year-old retiree could have saved an extra £62,000 in their pension pot had they quit smoking 10 cigarettes a day at age 20 and invested the money saved (and this had then grown by 7 per cent a year).

Partnership advises that a smoker can receive a 22 per cent uplift on their annuity through an enhanced annuity provider. However, they would still need a pension pot of at least £36,000, just to cover the cost of them continuing to smoke 10 cigarettes a day for their life in retirement.

If you don't smoke, then cutting out the cost of a daily cappuccino or a weekly Chinese takeaway and investing the proceeds in a pension could also have a big impact.

THE SMOKER'S PENSION	
Current cost of cigarettes (pack of 20)	£7.60
Packs smoked per day	1
Savings made by giving up (per annum)	£2774**
Input tax relief if money saved into pension	20%
Grossed up personal contribution	£3,468
Employer contribution	60%
So total input to pension is	£5,548
Earnings	£35,000
Employee contribution as % of earnings	9.91%
Employer contribution as % of earnings	5.94%
Annual earnings/cost of living and pension input increases	2.50%
Total (real) investment return (growth plus income) after charges per annum	5%*

\*A reasonable assumption for asset-backed returns in low-cost occupational DC pension. Equivalent to a nominal rerun of 7.625%

\*\*365 days (ignores leap years).

Source: Paul Claireaux, Dip PFS and author

#### PROJECTED VALUES ON SMOKER'S PENSION

Term in years	Contribution	Accumulated fund	Value in today's money terms
0	£5,548	£5,548	£5,548
5	£6,277	£42,696	£37,737
20	£7,102	£100,895	£78,819
15	£8,035	£190,092	£131,252
20	£9,091	£324,725	£198,170
25	£10,286	£525,737	£283,577
30	£11,637	£823,465	£392,581
35	£13,167	£1,261,833	£531,700
40	£14,897	£1,904,395	£709,255
45	£16,854	£2,843,068	£935,865

Source: Paul Claireaux, Dip PFS and author

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