CHALLENGE POVERTY WEEK 2020

RETIREMENT

Planning for Your Retirement

None of us want to think that we are getting older, but the sooner we start planning for our retirement, the easier it will be on us all.

Wherever you choose to save for your future, the more you can afford to put away now, the more comfortable your retirement will be.

You don't have to decide on one particular route and stick to that for your lifetime. Often choosing a combination of savings accounts and pensions can provide you with both flexibility and access to tax relief on your pension contributions.

Always seek professional independent financial advice if you need help deciding which investments are right for you.

Pensions Pros and Cons

The big advantage of a pension is that you get tax relief on any contributions you make, so your investment is given an immediate boost. If you are basic rate taxpayer, you save 20p in tax for every pound you make in pension contributions, rising to 40p in tax for every pound you contribute if you are a higher rate taxpayer. If you are an additional rate taxpayer, you save 45p in tax for every pound you pay into your pension.

In the current tax year, everyone is allowed to shelter up to £40,000 or 100% of their earnings – whichever is less – from tax by making pension contributions in the current tax year. Unlike ISAs, you can also carry forward any unused annual allowance from the three tax years preceding this one.

If your employer offers a workplace pension, you should join it as they will usually make contributions on your behalf in addition to any payments you make into the scheme. Some will even match or better your contributions, providing a big boost to your pension pot.

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All employers will have to provide workers with a workplace pension scheme by law over the next few years, under the government's auto-enrolment scheme. Under this scheme, you will automatically be enrolled in your employer's pension scheme if you haven't joined already.

Whereas you can get your hands on any savings held in cash ISAs whenever you want, you can't currently draw retirement benefits from your pension until you reach the age of 55, so pensions aren't as flexible as savings accounts.

However, thanks to a rule change in April 2015, once you reach 55 when you can take out as much money from your pension as you want at any time without being hit by huge tax charges you can take 25% of your pension as a tax-free lump sum and any withdrawals after that will be taxed at your personal rate. Previously, any withdrawals after your tax-free lump sum would have been taxed at 55%.

Because you can access as much cash in your pension pot as you want to, you will no longer have to buy an annuity. An annuity is a contract you buy from an insurance company that guarantees to pay you an income until you die, in return for you handing over your pension savings to them.

If you do still opt for an annuity, remember you do not have to buy from the same firm that provided your pension fund, as much better annuity rates may be available elsewhere. You will also be offered independent advice.

What is a Pension Pot?

'Pension pot' refers to the savings you build up in a certain type of pension known as a 'defined contribution' pension scheme. You and your employer (if you are employed) pay into the scheme and this builds up a 'pot' of money over time, which you can use to give yourself an income when you want to cut down how much you work, or stop working altogether. It includes workplace, personal and stakeholder pension schemes.

State Pension

Most people get some State Pension. It's paid by the government and is a secure income for life which increases by at least the rate of inflation each year.

You build up your entitlement to the State Pension by making National Insurance contributions during your working life.

In some cases, you can do this even when you're not working, such as when you're bringing up children or claiming certain benefits.

From April 2016 a new flat-rate State Pension was introduced. For the current tax year 2020-21 the full new State Pension is £175.20 per week.

However, you might be entitled to more than this if you have built up entitlement to 'additional state pension' under the old pre-April 2016 system – or less than this if you were 'contracted out' of the additional state pension.

To be eligible for the full State Pension you will need 35 qualifying years on your National Insurance (NI) record.

You'll usually need at least 10 qualifying years on your NI record to qualify for any State Pension at all.

Always seek independent financial advice on any aspect of your Pension Planning and the sites can give general advice on all aspects of retirement planning:

https://www.moneyadviceservice.org.uk/en/articles/pension-information-guide-to-the-basic-facts

https://www.moneysavingexpert.com/search/#stq=pensions%20&stp=1%20

10 things you need to know when planning your retirement

How much will you have to live on when you retire? Have you put the right provisions in place? Will you get the retirement you want? There's plenty to think about when planning for later life, so we've put together the top 10 things you need to know.

1. As I have my State Pension, will I need to save?

A full State Pension is around £9,100 a year according to 2020/21 figures.

It is based on your National Insurance contributions throughout your life, so yours may be higher or lower than this. You can Check your State Pension (external website) online to find out what you could get, and when you can get it, or find out more about National Insurance contributions (external website).

The State Pension is a good foundation, but for many people relying on this could mean a fall in income upon retirement. Saving into a workplace pension, or in other ways, means you'll be better prepared to get the retirement you want. Even if you've left it until much later, there's always time to start building up a pot and saving for the future.

2. Am I saving enough?

The State Pension is a foundation for when you retire, but it's important to consider the lifestyle you want in retirement and how much you might need for this

3. My grandma only lived to 70 so surely I won't live much longer. Why bother saving?

People tend to underestimate how long they are likely to live, and life expectancy is changing fast.

People are living longer. A girl born in 1951 was expected to live to 82 and a boy to 77, but by 2018 this had increased to 92 and 90 respectively. Increasing life expectancy means people may have to save more to get the retirement they want, so get into the habit of saving regularly

4. Are my pension contributions tax free?

When you pay into a workplace pension, you usually do not pay income tax on your contributions up to £40,000 a year. Your contributions come from your pre-tax income. That usually means your pension pot is growing even faster.

5. Can my house be my pension pot?

Many people plan to rely on the equity built up in their property (external website) when they retire. But of course, you may need to sell or downsize to actually release that money. Make sure you understand the rules about paying tax on that income too.

6. How is my pension protected?

Pensions are protected in various ways to make sure you do not lose out. Always speak to an independent financial advisor in relation to your pension / pensions.

7. Can I join my company pension scheme before 22?

It is a legal requirement for your employer to offer you a workplace pension once you're 22 and earning more than a set amount, but most employers offer them to younger people too. If your employer hasn't automatically offered you a workplace pension, then you have a right to ask to join. If you earn more than £6,240 a year (2020/21 rates) then they also pay in for you, so your pension pot will grow even faster.

Starting early can make a huge difference, so try to get into the savings habit. If you save early on, you're allowing your pension pot even more time to grow.

8. Can I stop paying into a pension once I've begun?

Most pension schemes allow you to start, stop, top-up and amend your contributions. Some will even let you pause them for a while. You need to check the rules with your pension provider.

However, if you stop contributing into your workplace pension then your employer will also stop contributing, so you're missing out on that additional money and slowing your pension pot's growth. Starting early, and saving throughout, means your pension pot has the most time to grow.

If you do need to stop for whatever reason, then try to restart as soon as you can. You can ask to re-join your employer's pension scheme at any time, but bear in mind that employers do not have to accept eligible workers back into their workplace pension scheme if they have left in the past 12 months.

9. Will I be forced to retire when I get to the State Pension age?

Retirement does not have to be a finish line.

You do not have to stop working just because you have reached a specific age. For many people working in a different way can be a good bridge into retirement. Staying in work means you can keep earning and keep saving too. Slowing down, working flexibly or even doing a different job could be the right thing for you.

A mid-life MOT can help you to get the retirement you want, with guidance around your money, work and health.

10. When can I get my pension?

Different pension schemes have different rules.

Some older schemes, such as Defined Benefit (DB) schemes, have a set age when you can get (or start to get) your pension. In most newer DB schemes, you usually claim your private pension at the same age as you get your State Pension. Check your paperwork or talk to your pension provider to see how your pension scheme works.

Most modern pensions are called Defined Contribution (DC) schemes, where you pay in a set percentage of your salary. You can start to access these savings from the age of 55 if you want, but it's important to get advice before you cash in your pension pot. You have different ways to access your money, and there are scammers out there trying to get hold of it too.