DAVIES MEDIA

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Brief: An FAQ style overview of what your entitlements are when retiring and how best to set yourself up for the future.

Pension Planning – A Basic Guide to Get You Started

Not so long ago, we retired at 60 or 65 and only expected to live to our mid-70s. But now, most of us are living longer and retirement can last for 30 years or more. A basic pension is just that – a 'basic' amount of money you'll use to live on when you retire. And those currently under 35 may have little or no pension at all[1]. The Government simply won't be able to afford to support our ageing population.

So it's a good idea to have your own pension scheme that enables you to pay into a savings plan with special tax benefits to provide a secure income for your retirement.

What Types of Pension Are There?

- **State Pension**

  This entitles you to a secure, inflation proof, income paid by the Government for life. The actual amount you get will depend on the amount of National Insurance Contributions or credits you have built up over your working years. Once you reach your state pension age (you can find out when that is here), you can either claim your pension or defer it to get more.

- **Defined Benefit (DB) Pension**

  If you work for the public sector or have worked for a large company, you may have one of these. These pay out a secure income for life, based on your final salary when you retire, when you leave the scheme, or sometimes an average of your pay while you were there. You can normally take your pension when you reach 65, sometimes earlier. Again, you may be able to defer it to get more. You can decide to take some of it as a tax free cash sum or leave it in the pot to increase the amount of income you receive.

- **Defined Contribution (DC) Pension**

  These can be 'workplace', 'personal' and 'stakeholder' and the size of the pot depends on how much you and your employer put in, how well the investments perform and any fees and charges used to manage your fund. Once you're 55 you have the freedom to choose what you do with your pension fund. You can:

- leave it untouched until you need it (and continue to pay into it if you wanted to)
- buy an annuity – an insurance policy that guarantees an income for life
- take an adjustable income
- take out cash as an when you need it until it runs out
- take it all out in one go, or
- a mix of options

You can get more information and free and impartial guidance, either over the phone or face to face, at pensionwise.gov.uk. If want further advice on what to do, you should speak to a professional financial adviser. You can find FCA registered retirement planning specialists here.

How Much Pension Will I Get?

You'll be able to work out what you're likely to get by looking at your statements from your pension providers. You can get a forecast of your state pension here.

Am I Entitled to Any Other Benefits?

You could be. This independent calculator at gov.uk or this one at ageuk.org.uk can help you find out what benefits you can get, how to claim them and how they will be affected if your working circumstances change.

What Else Is There?

You might also have some other flexible income in your retirement, such as a part time job or other savings and investments. You may also be able to downsize your home to release some cash or sell or rent out other property. Paying off any loans, credit cards and your mortgage may be a good idea to reduce your monthly spending in retirement, but as always, it would be wise to take advice on your particular situation.

How Much Will I Need?

At some point before retirement, you should work out your expected living costs. Yes, you'll not have to pay for things like travelling to and from work, but you'll need to make extra allowances for things like increased utility bills from being at home during the day, for example. And what about all the things you want to do when you have the extra time; a new hobby or perhaps more frequent holidays. You might also want to put some money aside in case your health deteriorates to such an extent that you'll need to pay for additional help and care.

What If There's a Shortfall?

It's never too early or too late to save more. You can look at starting a new scheme, or find ways to pay more in to your savings and/or look at ways to make your savings work harder. Even half a percentage point can make a big difference over time.

What About Tax on My Pension?

When calculating the income you want in retirement, you'll need to allow for tax. Once you decide to draw from your pension, the income you receive will be taxed like any other income above your personal allowance. How much will depend on your personal circumstances.

However, most schemes will allow you to take out some of your pension as a tax-free cash sum. You might want to check out this guide from the Government's Pension Wise website or again, seek advice from a professional retirement planning specialist.

How Much Should I Save?

This depends on where you work, how much you can afford, how much you want and how old you are.

If you're in a Defined Benefit scheme, then your employer will tell you what you have to save to provide the income they are offering.

In Defined Contribution pension schemes, the more you put in, the more you'll get out and the earlier you start the better. If you're in your 20s, you could pay around 12% of your salary for a decent level of retirement income but if you wait until you're 40, you'd have to invest more like 20% to get the same result[2]. Here's a good pension calculator from the Money Advice Service.

Why Use a Pension Scheme?

It makes sense to take advantage of the tax benefits offered under pension schemes. There are limits, but you'll get tax relief on contributions, so that you're effectively saving out of untaxed income. In other words a basic rate taxpayer will invest £100 for every £80 they contribute[3].

If you can join a 'workplace' pension scheme, then your contributions can be taken straight from your wages (so you won't miss what you don't have) and your employer may also match your contribution (up to 5%). You may have been advised of 'automatic enrolment' where your employer will automatically do this, unless you opt out. You can find out more about workplace pensions and automatic enrolment on the Department for Works Pensions (DWP) website.

If you're self-employed or don't have a workplace pension, you can usually get tax relief on money you pay into a personal or stakeholder pension. These are agreements directly between you and the pension provider; normally an insurance or investment company. Who you set it up with is entirely up to you. You can shop around yourself or a professional financial adviser can help you find a personal solution that is suitable for you.

How Do I Get Started?

If you haven't thought about planning your retirement yet, don't worry. Whether you're 20 years or 20 months from giving it all up, there are always things you can do to make your retirement as comfortable as possible. Hopefully this guide will have given you a good starting point – and there's no time like the present.

[1] http://www.dailymail.co.uk/news/article-2787372/The-state-pension-fund-run-cash-year-Amount-handed-future-generations-derisory-thanks-flaw-Government-s-accounts.html (Correct as of 10/10/14)
[2] http://www.thisismoney.co.uk/money/howmoneyworks/article-3177112/How-money-need-save-pension.html (Correct as of 26/08/15)
[3] http://www.nidirect.gov.uk/tax-relief-on-pension-contributions (Correct as of 19/09/15)