FINANCE UPDATES

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THE IMPORTANCE OF RETIREMENT SAVING

When, why and how to start.

There's no doubt that the older you get, the faster time flies, and with it comes less time to plan for a comfortable retirement.

Saving for retirement can be a challenge, particularly when your income is diverted by other priorities, such as saving for a mortgage deposit or raising children.

Workplace pensions have made this task considerably easier for employees, however, with the number of people automatically enrolled passing 10 million earlier this year.

But with minimum contributions into workplace pensions increasing last month, that means less take-home pay for many people who are automatically enrolled into a workplace pension.

While this may seem like a tipping point for some, workplace pensions provide the foundation upon which to build a modern-day retirement savings strategy.

WHY TO START

Quite simply, when the time comes to stop working - whether in full-time employment or self-employment - the money can quickly dry up.

You may be used to a certain standard or quality of life which was previously funded by your income, and you should start saving early on if you want to maintain that when you retire.

Retirement savings are increasingly important for today's workers as you simply will not have the same benefits available as those enjoyed by previous generations.

For instance, people who grew up in the mid-20th century may have been able to rely on the state pension to maintain a comfortable retirement - but that's no longer the case.

Due to the UK's ageing population, the national insurance fund - which is where your national insurance contributions (NICs) go and from which the state pension is paid - is at breaking point.

Last year, the state pension took up more than 90% of the fund's annual outlay, while a review by the Government Actuary's Department predicts the fund will be empty by 2032.

Stashing away cash in property is also no longer the safe haven it once was, with the housing market stagnant and house prices remaining subdued amid Brexit uncertainty.

Building a property portfolio with the intention of using buy-to-let to fund your retirement is also falling out of favour, with professional landlords feeling the squeeze from recently introduced tax measures.

Then there's consumer prices inflation, the rate at which the prices of the goods and services we buy rise or fall, which can easily erode the buying power of your income.

Combine those factors with the decline of final salary pensions and defined benefit contributions and it's clear to see the ways you can save for retirement are diminishing.

WHEN TO START

Like most saving strategies, the earlier you start saving for your retirement the more time you have to fund that comfortable retirement by paying in less over a longer period of time.

Everyone's definition of that depends on their circumstances: do you have a big mortgage to pay off, are you in line for an inheritance windfall, or have you won the EuroMillions jackpot?

A rule of thumb could be to take the age you start saving for your pension, halve it, and divert this percentage of your gross salary towards your pension each year until you retire.

For example, you could aim to save 11% if you're 22 years old, or 30% if you're aged 60. The theory is that as your earnings increase over time, you will be able to divert more of your salary towards your retirement.

Most people overestimate how much money they will need to fund a comfortable retirement, mainly based on the false assumption that they spend the equivalent of their current income when retired.

Various retirement experts reckon you need between half and two-thirds of your final net salary to maintain your lifestyle once you call it a day.

That ball-park figure is based on the assumption that most people will be mortgage-free by this point, and will no longer be raising children.

Research from Which? in 2018 polled more than 6,000 retirees and found the average UK household spends around £2,200 a month in retirement, or around £26,000 a year.

That covers basic costs plus European holidays, hobbies and dining out, although this estimate rises to £39,000 if you want to enjoy long-haul trips and a new car every five years.

HOW TO START

If you're employed, earning more than £10,000 a year, and aged between 22 and state pension age, being automatically enrolled into a **workplace pension** offers you the best foundation.

In exchange for sacrificing at least 5% of your salary, your employer is legally obliged to contribute a minimum of 3% and you get tax relief at the basic rate from the Government.

Both you and your employer can contribute more towards your workplace pension if your circumstances allow.

With auto-enrolment not currently applying to the self-employed, **personal pensions** can play an especially important role.

Two of the most popular options include stakeholder pensions and self-invested personal pensions (SIPPs).

The former must meet government rules, while SIPPs allow you to control investments that make up your pension fund.

Ensure your provider is approved by the Financial Conduct Authority or the Pensions Regulator.

ISAs are a secondary retirement saving option for both employees and the self-employed, and provide a tax-free way to save up to £20,000 towards your retirement in 2019/20.

You can choose from several different types of ISA, with cash or stocks and shares options among the most popular depending on your appetite for risk.

While these offer more freedom than workplace pensions, there's also the temptation to dip into your ISA savings as anything placed into an ISA will be exempt from income and capital gains tax.

Lifetime ISAs are partially geared up towards retirement saving, with a government bonus of £1,000 available on maximum savings of £4,000 a year.

This 25% annual bonus is paid until you reach the age of 50, and you can access your savings without being penalised from the age of 60. However, various caveats apply.

Paying NICs, whether at source through PAYE or voluntarily if you're self-employed, count towards your **state pension**.

The self-employed can make class 2 voluntary NICs towards their state pension, assuming they are registered with HMRC.

Currently, a maximum of 35 years of NICs are needed to qualify for the full new state pension of £168.60 a week.

SEEK PROFESSIONAL ADVICE

There's a suspicion in our sector that complacency reigns supreme when it comes to retirement saving attitudes in the UK.

Indeed, LV= polled more than 2,400 people in the UK on their savings habits and found that 62% of respondents aged between 45 and 54 did not know how much they'd saved for retirement.

Whether you're starting your retirement journey or thinking about raiding your pension pot at the age of 55, speak to us for comprehensive retirement planning advice.

Talk to us about retirement planning.

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. Pension and ISA eligibility depends on individual circumstances and pension benefits can usually only be taken from age 55.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any pension or investment decisions based on its content.

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