

## **Saving for your Retirement**

### **Why should you save for your retirement?**

Retirement might seem like an awfully long way off, especially if you're still paying off your student loan, furiously saving to get a foot on the housing ladder, or have a young family which are burning a rather large hole in your pocket. But you could end up spending more than 30 years in retirement, so it's essential to make plans to save into a pension, keep a close eye on how much you're saving, what investments you are choosing and what level of income in retirement you will get.

The basic state pension from the government will give you a start, but you can't rely on it! The current full weekly allowance for a single person is £90.70 and £145.05 for a couple (up until April 2009). This adds up to around £393 a month if you're on your own. Think about how much you're earning now. The state pension isn't much is it?

However, not everyone actually qualifies for a full state pension. It depends on how much National Insurance (NI) you've paid during your working life. A woman with a working life of 44 years will need 39 qualifying years of making NI contributions for a full state pension, and a man with a working life of 49 years will need 44 qualifying years.

The good news is that from 2010 the number of years of NI contributions that need to be paid to gain a full state pension will be cut to just 30, for both men and women.

The government has also taken note of how much longer people are living nowadays and will be increasing the state pension age so people will have to work longer before they get their state pension. (For more details see '**Pensions have gotten a lot simpler**').

It's a fact of life in Britain that due to medical advances and higher standards of living, people are living much longer than their grandparents did. Life expectancy at age 65 in the UK has reached its highest level ever for both men and women. Men aged 65 could expect to live a further 16.6 years and women a further 19.4 years if mortality rates remain the same as they were in 2003-05, according to the Office for National Statistics. The jump in longevity is highlighted by the fact that during the years 1980-82 and 2003-05 life expectancy at age 65 in the UK increased by 3.7 years for males and 2.5 years for females. That's a large rise in just a couple of decades.

One more thing to think about on top of the lowly state pension is that pension schemes provided by employers are on the whole becoming less generous. While your parents and grandparents probably benefitted from a final salary pension scheme (also known as a defined benefit scheme) at the companies where they worked, changes in regulation, volatility in investment markets and longevity increases have made it difficult and expensive for employers to continue offering them.

The pension income paid by a final salary scheme is calculated as being a percentage of your salary multiplied by your years of qualifying service. But these pension schemes are now few and far between and the final salary schemes that do exist are rapidly closing to new members.

The type of employers pension scheme that is replacing final salary schemes is called a defined contribution pension scheme (also known as a money purchase scheme).

A defined contribution pension scheme places the responsibility on you, and if applicable, your employer, to pay contributions into the scheme. You can't rely on the guarantee of knowing what the value of your pension benefits will be as provided by a final salary scheme. You have to choose the funds or assets your pension fund is investing in and you need to ensure that you are paying enough into the scheme to be fairly sure that a sufficient pension will be paid to you when you retire.

To find out where you stand in terms of making pension provision, your first step should be obtaining a state pension forecast by calling 0845 3000 168, and then have a look at '**How can you save for your retirement**' for details of different pension and savings vehicles available to help you plan for your retirement. A visit to an experienced and qualified IFA will help you with your pension choices and will explain what you need to do with your financial plans to have a comfortable retirement.

### **How can you save for your retirement?**

Individual Savings Accounts (ISAs) are a great way to save. They are available to individuals who are UK resident for tax purposes. The minimum contribution levels are low and ISAs are available to those aged 16 and over for a Cash ISA or aged 18 or over for a Stocks and Shares ISA. You can contribute up to £7,200 a year into an ISA and gain gross interest. You can also withdraw money from the majority of ISAs whenever you want.

There are two types of Individual Savings Accounts, a cash ISA or a stocks and shares ISA. You can invest up to £7,200 in stocks and shares in the 2008/2009 tax year in an ISA. Up £3,600 of this amount can be saved in cash with one provider. The remainder of the £7,200 can be invested in stocks and shares with the same provider.

The investment limits for the 2008/2009 tax year follow.

Cash ISA up to £3,600	<b>Plus</b>	The remainder of up to £7,200 in a Stocks and Shares ISA
	<b>Or</b> Stocks and Shares ISA up to £7,200	

It makes sense that you should try to invest in both an ISA and a pension plan. With a pension plan you can contribute up to 100% of your salary into it (to a maximum of £235,000 for 2007/2008) and receive tax relief.

The tax relief is generous as for every 80p a basic taxpayer contributes to a pension, the government will add 20p. For a higher rate taxpayer, they will receive 40% tax relief, meaning they will pay just 60p for it to be topped up to £1 by the government.

If you decide to save in an ISA and a pension plan, with the former you can take the money out for say a deposit on a home, and with the latter, as you cannot access the funds when you want, however you will have the peace of mind that a pension fund will be there for your golden years.

17% of people don't know what pension their employer provides, according to Towers Perrin research, so make sure you're not one of them!

Ask your employer what pension schemes they offer. If you can join a final salary scheme you may be best served doing so. If you are able to join your employer's defined contribution pension scheme you need to decide where contributions into the scheme are invested and find out if your employer will pay money into your pension.

If you're in pension scheme where the onus falls on you to make the decisions about how to invest the contributions, this may sound daunting. You should talk to an independent financial adviser to help guide you through your choices.

Remember, turning down employer's contributions which would be paid into an employer's occupational pension scheme is akin to turning down a pay rise, so think carefully before you make a rash decision and decide there's no point joining!

It may be that you have to make your own pension provision. If so, you should consider saving in a personal pension plan. You can also save into a personal pension plan if you are a member of an employer's pension scheme.

A straightforward personal pension plan is a "stakeholder" personal pension plan which is a type of low-charge pension in which you can save from as little as £20.

Or you could choose a personal pension which often offers a wider investment choice than what's available with a "stakeholder" personal pension. But do be aware that personal pension plans often have higher minimum contributions and the charges could be higher too.

Self-invested personal pensions (Sipps) are another type of personal pension plan which are for more sophisticated pension investors as there are very few restrictions on what you can invest in. But do be aware that SIPP's can have

high fees because of the width of the investment choices. There are well over 50 Sipp providers so speak to an Independent Financial Adviser to see if a “stakeholder” personal pension plan, a personal pension plan or a self invested personal pension plan is right for you.

### **How much should I save?**

The earlier you start to save, the more potential your pension savings have to grow. It’s far better to pay a realistic percentage of your earnings into a pension as soon as you start earning, than to suddenly panic when you get to the age of 50 and realise that you will have to pay in hundreds of pounds every month if you want to get a half-decent pension.

Of course you need to be careful to strike the right balance in how much you save. Think carefully about how much income you might need before you retire – have you factored in children’s university fees, what you would do if you were suddenly made redundant?

An Independent Financial Adviser will be able to help pinpoint how much you should save so you can have a comfortable retirement, but without leaving you short in the meantime.

### **Pensions have gotten a lot simpler**

From 6<sup>th</sup> April 2006, so-called “A-Day” or pensions simplification, life got simpler for retirement savers as the government brought in a new simplified set of rules, effectively shelving the eight previous tax frameworks for pensions.

One change is that all pension policyholders will be able to take 25% of the value of the fund as a tax-free lump sum, when they come to take benefits. This levels the playing field between different pensions.

It’s a good idea to re-consider which pension arrangements are the most attractive to you with the help of an expert IFA.

Another new rule is that you and your employer will be able to pay up to one annual allowance into your pension. This amount is up to 100% of your earnings and for the tax year 2008/09 is capped at £235,000, with the limit set at £3,600 for low or non-earners paying into personal and stakeholder pensions.

A further move designed to encourage us to save more is the greater ease with which people can save into a number of different pensions at the same time under the new rules.

As well as the annual allowance, there is also a limit on your entire pension savings, including any private pensions, occupational pensions and free-standing additional voluntary contributions.

In the tax year 2008/2009 this amount is £1.65m, with the threshold expected to rise over the years to allow for the impact of inflation.

Introducing one lifetime limit for pension fund size effectively bins the sometimes complicated calculations savers could be forced to work through. If you exceed £1.65m, you will be hit by the new lifetime allowance charge, or recovery tax, which will be charged at up to 55%.

A pension fund of more than £1.65m might sound like the preserve of the very rich, but it is likely that more individuals than they realise will be in danger of breaching the lifetime limit.

If you have already breached the £1.65m threshold or are concerned about doing so, you are strongly recommended to seek professional advice. The state pension system is also experiencing a considerable shake-up. The Pensions Act 2007, which became law on 25 July 2007, made changes which will, generally speaking, affect people who reach state pension age on or after 6 April 2010.

At the moment, the basic state pension is paid to women at age 60 and men at 65.

But from 6 April 2020, the state pension age for both men and women will be 65. In 2024, it will rise to 66, in 2034 it will be 67 and then in 2044 it will reach 68.

However if you were born before 6 April 1950, the changes won't affect you. These rises are in response to the fact that people are living much longer, and it is becoming a burden for the government to support pensioners from the age of 65.

While working longer may seem like bad news, the good news is that the number of years' national insurance contributions people will need to achieve a full basic state pension will reduce to 30, for both men and women, from 2010. This is a significant reduction from the current requirement of 44 years for men and 39 years for women.

Another change is a plan to re-link the state pension with earnings, rather than inflation, in 2012.

Because earnings accelerate faster than inflation does each year, the state pension will become more generous.

The fourth big change for state pensions is the move of the state second pension to a simple flat rate. If you think this may affect you, seek professional advice from an experienced IFA.

I hope you've digested all of that, because the government has proposed even more changes on top.

In the same year that the capital is hosting the Olympics, a new model of pension saving is planned, called personal accounts.

All employees aged 22 and over and earning more than £5,000 per year, who aren't offered access to an employer pension arrangement, will be auto-enrolled into personal accounts in 2012.

You do have the chance to opt out, should you wish. But if you don't let your employer know that you have opted out, you will automatically join the scheme and pay 4% of your salary into it.

Your employer will contribute 3% of your earnings, and an extra 1% from tax relief will be added in making a total of 8%.

So, if your employer doesn't offer a pension scheme at present, they will have to offer personal accounts and it may be a good idea to stay opted in as you will receive employer contributions, a bit like a delayed pay rise.

However, as some means-testing issues have yet to be ironed out with regards to personal accounts, it may be worth seeking financial advice about whether you should opt out or not.

### **Finding A Pension IFA**

The range of qualifications an IFA can have in order to be able to give specialist pensions advice is expanding, reflecting the changes taking place with pensions regulation. When choosing for an adviser to give you pensions advice, there are other qualifications for consumers to watch out for such as the advanced pensions paper, "G60", or "AF3", exams "J04" and "J05", which deal with post-retirement planning, and the APMI pension qualification. There is also the pensions simplification paper CF9.

Those shopping around for independent financial advice should be sure to enquire about the qualifications an adviser has, but should also bear in mind it might be as helpful and meaningful to enquire about an adviser's experience in certain areas.

Many IFAs offer the first half hour consultation free of charge, giving you an opportunity to find out more about their expertise and how they will be able to help you.

Finding an adviser in your neighbourhood is easy. IFA Promotion holds the details of over 9,000 IFA firms throughout the UK on its database, along with details of advanced pension qualifications held by these IFAs. By visiting [www.unbiased.co.uk](http://www.unbiased.co.uk) or calling 0800 085 3250, you can obtain details of local IFAs with additional specialist pension qualifications.

An IFA will be able to help you decide what action to take. Questions include:

How much should I save into my pension?

How much can I save without incurring a tax penalty?  
What are my options when I come to take benefits from my pension?  
Now the tax treatment for all types of pensions is similar, how can I tell which are best suited to my needs?  
Is there any action I ought to consider because of rule changes at A-Day to safeguard my benefits and make the most of new tax breaks?

TABLE 1

Proposed contribution annual allowances

2008/2009	£235,000
2009/2010	£245,000
2010/2011	£255,000

TABLE 2

Proposed lifetime allowance limits

2008/2009	£1.65m
2009/2010	£1.75m
2010/2011	£1.80m

For further information on the subject contained in this guide, please contact your IFA.

If you do not already have an IFA, our 'Find an IFA' hotlines and website enable you to confidentially search for a list of IFAs in your local area. You can search for an IFA based on a whole host of criteria (including product, qualifications, gender and payment options) so you can be sure you'll find an IFA that meets your precise requirements.

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April 2008