PEARSON MAY
CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS
Originated 1841

November 2023

TIPS FOR RETIREMENT PLANNING

For many savers, retirement can seem like a far-off or even unattainable goal. But to maximise your chances of retiring comfortably, early planning is essential. As the cost-of-living crisis puts pressure on day-to-day finances, it's a difficult time to think about saving for the future. But these challenges make it all the more important to carefully consider your finances and plan for the long term. Here are some tips on how to plan for retirement.

Assess your saving goals

At its most basic, retirement planning from a financial perspective comes down to two key questions: how much do you need to save, and how will you save it? The answers to these can be down to various factors.

To start working out how much money you'll need in retirement, you'll need to consider your various expenses and the lifestyle you'd like to achieve. Give careful consideration to factors like holidays and leisure, transport, home maintenance, food and drink, shopping and gifts.

The Pensions and Lifetime Savings Association estimates that a single person would need at least £12,800 a year to afford at least a minimum level across these expenses in retirement. For a 'moderate' lifestyle that offers more financial security and flexibility, they estimate that you'd need at least £23,300, while a more comfortable lifestyle with some luxuries would require £37,300 a year.

These estimates could vary significantly for couples and different locations in the UK, and you'll also need to factor in additional costs like medical and social care. They also assume that you own a home and are no longer renting or paying a mortgage. But with these points in mind, they can provide a useful starting point for your calculations.

How long will your retirement be?

This is obviously an almost impossible question to answer, but remember that life expectancy has increased drastically in the last 50 years, and according to the Office for National Statistics, it's expected to increase again in the next 50 years, by approximately 6.6 years for males and 5.5 years for females in England and Wales.

Clearly, the sooner you start saving toward your retirement, the better, plus compounding interest/growth means the money you put in earlier can go further.

Understand your pension

Most people in the UK are entitled to income from the state pension, as well as any workplace or personal pension savings they've built up over time.

State pension

The new state pension, which applies to people reaching retirement age (currently 66) on or after 6 April 2016, offers a full amount of £203.85 per week (£10,600 per year). But the amount you receive will depend on your National Insurance record. You can check how much state pension you're entitled to, when you should get it, and how you might be able to increase it using the Government's 'Check your state pension forecast' tool, which can be found at www.gov.uk/check-state-pension.

Workplace pension

In the last few years, more people have been saving into a workplace pension scheme following the introduction of auto-enrolment laws. These require employers to automatically enrol qualifying employees into a workplace pension scheme and make contributions as a percentage of the employee's salary.

Currently, the minimum total contribution for auto-enrolment pensions is 8% of pensionable earnings. Employers must pay a minimum of 3%, with employees covering the remaining 5% – although employers can choose to contribute a higher amount.

Personal pension

You also have the option to arrange a pension yourself. This can be particularly useful if you're self-employed and therefore unable to benefit from an employer's pension scheme. There are a few different types of pension you could choose from and it is important to take appropriate advice from a suitably qualified independent financial adviser.

Withdrawing from your pension

When the time comes to access your pension savings, it's important to be aware of the tax implications. From the age of 55, you can usually take up to 25% of your total pension pot as a tax-free lump sum. Withdrawals after this are subject to income tax. You'll still receive your tax-free personal allowance in retirement, which currently stands at £12,570.

Tax on pension income can be very complicated, and while you have various flexible options for withdrawing your funds, it's essential to get professional advice to avoid unexpected tax charges.

Assess your savings options

Many people also choose other methods to save for retirement, such as Individual Savings Accounts (ISAs). You can make contributions to an ISA up to an annual limit without incurring tax on the growth of your savings. The maximum amount you can pay into an ISA each tax year is currently £20,000 and has been at that threshold for a few years.

You can also make many other investments of course e.g. stocks and shares (whether within an ISA or not), or other assets like land and property. Holding investments over a longer period generally gives you a better chance of returns, but as ever, the value of investments can go down as well as up and specific advice in relation to investments and pension schemes should be obtained from your pension adviser or an independent financial adviser.

The above is for general guidance only and no action should be taken without obtaining specific advice.

Bath
37 Great Pulteney Street
Bath
BA2 4DA
+44 (0)1225 460491

Chippenham
67 & 68 St Mary Street
Chippenham, Wiltshire
SN15 3JF
+44 (0)1249 444666

Trowbridge
5 Wicker Hill
Trowbridge, Wiltshire
BA14 8JS
+44 (0)1225 764441