SFB Sanders Geeson

# Planning your retirement

Whatever your age, it's never too late to start saving to retire.

It's more important than ever to start your retirement planning from an early age, however dull a prospect that may sound to younger generations.

Putting money into a pension each month will provide you with a regular income once you retire.

There are three types of pension:

- **state pension** – you receive income from the state once you reach a certain age
- **workplace pension** – contributions from your salary, your employer and government
- **personal pension** – aimed to supplement other pensions or for the self-employed.

More than seven million workers have been automatically enrolled into workplace pensions since the policy was introduced in 2012, with the figure set to pass ten million next year.

The days of relying on a state pension to cover the costs of your retirement are long gone. Consumer watchdog Which? calculates the average person currently needs an annual income of £26,000 to fund a comfortable retirement, which is why the earlier you start saving the more financially stable you will be later in life.

## In your 20s

If you're in your 20s, saving for your retirement is unlikely to be high on your list of priorities. But people in this age band have the best chance to prepare for retirement, and chipping away at a student debt can free up more resources to boost your savings.

Avoid temptation to opt out of automatic enrolment if you are in employment. It would be short-sighted to cancel the 1% deduction from your monthly pay packet when your employer is matching that – and with the minimum employer contribution to rise to 3% in 2019.

You will probably already be paying into your state pension through national insurance contributions (NICs). If circumstances allow and you harbour ambitions of boosting your pension pot outside of your state or workplace pension, the Lifetime ISA enables over-18s to put in up to £4,000 a year with the state paying an annual bonus of 25% – or up to £1,000 a year.

For example, if you were to open a Lifetime ISA at the age of 18, and pay the maximum of £4,000 a year into it until the age of 50, you will earn a government bonus of £32,000 on top of the £128,000 you've saved (£150,000 total plus interest).

If you are self-employed or caring for children or relatives, opening a personal pension should be an essential move. While you will not benefit from an employer contribution, taxpayers will get tax relief at their marginal rate.

Those who begin saving at the age of 20 need to contribute at least (£131 per month over 48 years) to achieve the target income of £26,000 by the average retirement age of 68.

## In your 30s

It's fair to say most people begin to change their priorities in their 30s, whether that's taking their first steps on the property ladder, getting married or perhaps starting a family. Even though you may be feeling the squeeze on your finances, it is important to put away as much as possible for retirement as any saving at this stage will be worthwhile later on.

As your career progresses so should your earnings. You can choose to increase your workplace pension contributions – and now would be a good time to do this. However much you choose to put in on top of your default contribution, your employer and the government will also contribute.

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## In your 40s

With around 20 years left until you retire (if you're lucky), your finances should be on a fairly even keel. Hopefully your earning power will have increased, while sizeable outgoings such as mortgage repayments and childcare costs will be either under control or possibly even behind you.

If you have a partner, consider their provision to give you a good idea of where you are and what you need to do. If you're at or near your earnings peak in your 40s, now would be a good time to assess the size of your pension pot and how it is invested. You should be able to take a higher level of risk with your investments after building up a solid base and these should pay off in the long run.

However, if you haven't already started planning your retirement, it's crucial to act now before it's too late. According to Which?, the average retired couple needs an annual income of £18,000 to cover household essentials, such as energy bills, food and transport. With inflation climbing to a four-year high of 2.7% in May 2017, it looks certain you will need more than this when your time comes to retire.

## In your 50s

As thoughts of retirement become clearer in your 50s, now is the time to start thinking about when you will actually call it a day. The first port of call should be to check your state pension age to find out when you can start claiming the state pension.

If your earnings allow, consider increasing contributions into your workplace pension as well as any personal pensions or ISAs you have been paying into. This can only build your pension pot when the time comes to retire or help you support grown-up children with rising living or education costs.

You can usually access any personal pensions from the age of 55, with options including annuities, income drawdown and taking either lump sums or the whole pot. The first 25% of your withdrawal will be tax-free, although the rest will be taxed as income.

If you've yet to start planning for your retirement, be aware that 50-year-olds would need to save the most (£633 per month over 17 years) to achieve the target annual income of £26,000 by the age of 67.

Based on the current retirement ages and state pension entitlements, individuals who are starting from scratch need to be saving the following amounts each month to generate £26,000 per year of income in retirement:

| Age | Saving for | State pension age | Amount to save |
|---|---|---|---|
| 20 | 48 years | 68 years old | £131 |
| 30 | 38 years | 68 years old | £198 |
| 40 | 27 years | 67 years old | £338 |
| 50 | 17 years | 67 years old | £633 |

## In your 60s

With retirement edging ever closer, get updates on your state pension forecast from the government and all of your pension providers to tell you what you will receive and when. This will also give you time to contemplate what you want to do with the money, including any options to buy an annuity to provide you with a steady income for the rest of your life.

Make sure any outstanding debts are paid off as you won't want to be carrying these into your post-work life. Pay off your mortgage and any credit cards debts if you haven't already done so.

For those less fortunate to consider retiring in their 60s, be aware that more people are working past their retirement age. SunLife polled 50,000 retirees and found 80% of over-50s and 88% of over-70s thought they retired too soon, whether that's because they needed the money or because they enjoyed their role and had stopped too soon.

If there are any gaps in your state pension, you can make up one or more qualifying years by paying class 3 NICs. People must pay the voluntary contributions within six years of the missed year in question.

Without doubt the earlier you start saving, the better chance you stand of accumulating a comfortable pension pot for your retirement. There are plenty of options to help you achieve the retirement you want but the later you leave it, the bigger the mountain you have to climb.

Contact us for advice on planning your retirement.