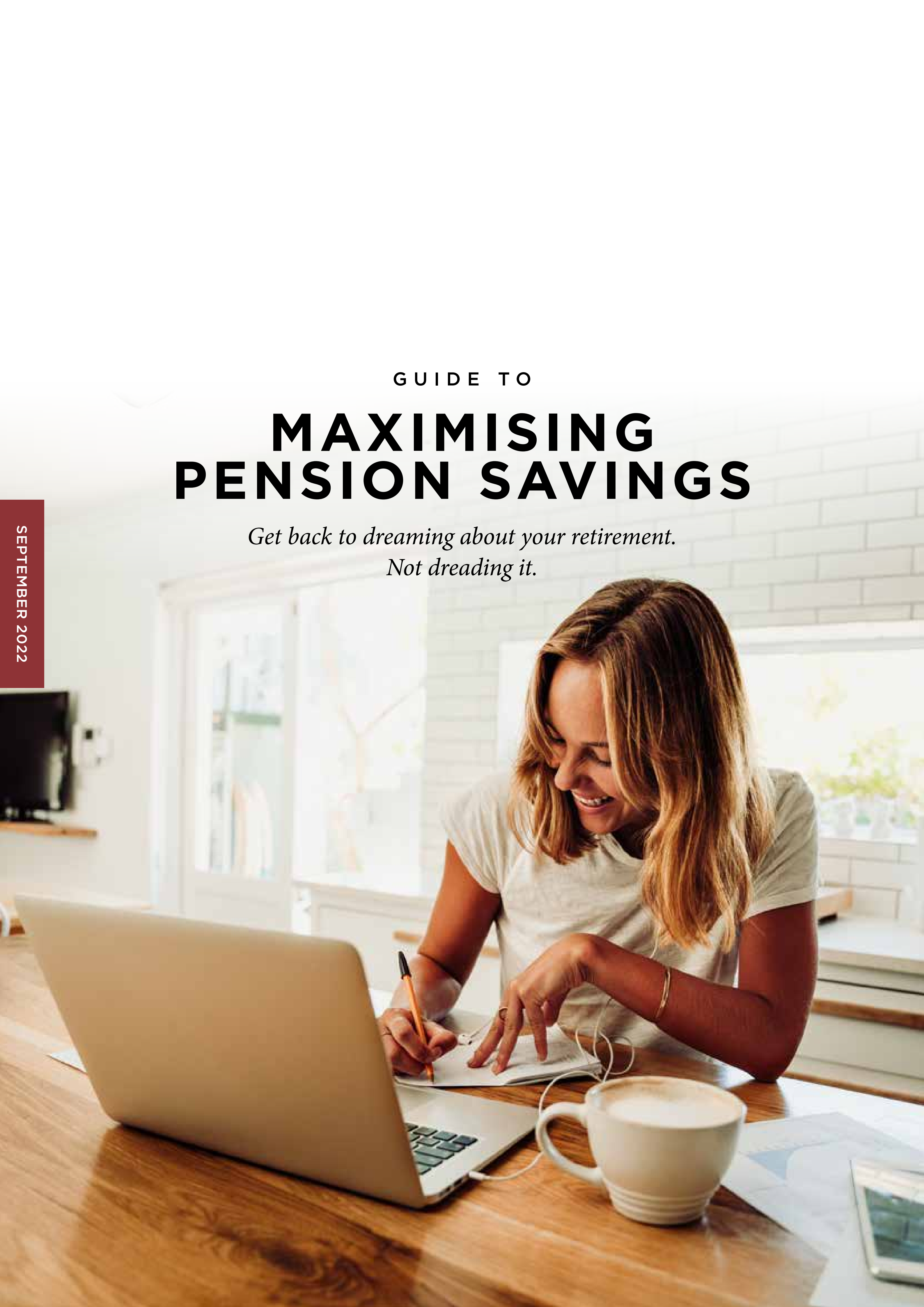

GUIDE TO

MAXIMISING PENSION SAVINGS

Get back to dreaming about your retirement. Not dreading it.

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Welcome to our *Guide to Maximising Pension Savings*. Many people are feeling the pressure on their finances at the moment due to the backdrop of rising inflation and the cost-of-living soaring. In these circumstances, it can be difficult to think about your long-term finances or even contemplate saving for the future.

However, even in the current climate there are ways to maximise the value of any pension savings you do have.

Free money from your employer

When offered the opportunity to join a workplace pension, it's nearly always a good idea to do so. For most people, your employer must automatically enrol you in a workplace pension scheme, and you may even be offered a pension plan if you don't meet the criteria.

Workplace pension schemes are made up of your own payments (5% or more of earnings) which are deducted from your salary, often before you pay tax, making it easier to save, and your employer's contribution, which at the very least must be equivalent to 3% of your earnings.

Many employers offer more than this or match any extra payments you make so it's worth checking if you're getting the most out of this valuable benefit.

Extra money from the government

Anyone who decides against investing in a workplace or personal pension also turns down help from the government. That's because in order to encourage people to save for retirement, the government provides a top-up called 'tax relief' to pension payments.

How you receive tax relief depends on the type of plan you have and the rate of income tax you pay. But as an example, if you're a basic rate taxpayer saving into a personal pension in the current tax year, you get 20% tax relief on your payments. So, if you pay £200 a month into your pension plan, the £40 of tax relief you receive on that payment means it will only cost you £160. Higher rate or additional rate taxpayers could claim back even more.

Some workplace pension schemes offer tax relief in a different way, such as through salary sacrifice or exchange schemes, so check with your employer if you're not sure how this works for you. And in Scotland, the tax relief details differ slightly. But in all these cases, the general point is the same: each time you defer paying into a pension plan, you miss out on an extra boost.

The State Pension will not cover everything

Another common mistake is to assume that the State Pension will meet your retirement needs. However, it's important to know that the State Pension won't be available until your late 60s, and may not cover all of your outgoings.

Currently, the new flat-rate State Pension is £185.15 a week, or just over £9,600 a year. At the same time, the Pensions and Lifetime Savings Association (PLSA) calculates that a single person needs £10,900 a year for just a 'minimum' standard of living in retirement. This rises to £20,800 a year for a 'moderate' lifestyle, which includes a car and some help with maintenance and decorating each year.

Keep a track of all your pension plans

If you have moved jobs or home a few times, and not informed your pension provider, then one of these 'lost' pension pots could be yours. It's worth spending time tracking down any potential missing pots to help boost your future finances.

The minimum contribution is unlikely to be enough

Auto-enrolment has boosted the pension savings of millions of people but the 8% minimum payment may not get you the retirement lifestyle you want. It's important, therefore, to have a retirement lifestyle in mind – the PLSA calculations can be helpful here as they can give you a real figure to aim for, and you can then work out what's feasible and put the necessary steps in place to help you achieve your goals.

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Review your pension plan regularly

You might not want to talk about your pension plan every day, but dismissing pensions as boring is a mistake, and one that becomes increasingly serious over time. While this might be difficult at the moment, steps such as topping up your payments, especially in your 20s, 30s or early 40s, can make a large difference, thanks to the snowball effect of compounding.

Understanding your workplace or private pension, making sure you know how to get more 'free' payments from your employer or the government, or using it to pay less tax (such as through bonus sacrifice) could make a major difference to your long-term finances.

Understand where your pot is invested

A related mistake is not knowing where your pension pot is invested, whether that matches your life-stage and priorities or how to choose the right investment options. For example, if your retirement is still some years ahead, you could potentially afford to take a little more risk. Conversely, you may want to dial down the risk as you get nearer to retirement. ■

NEED A HAND WITH YOUR RETIREMENT PLANS?

The details surrounding pension rules are complex. Careful financial planning combined with our expert knowledge can help you manage your affairs as tax-efficiently as possible. To ensure you have enough money to have the retirement you want, please contact us.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

TAX TREATMENT VARIES ACCORDING TO INDIVIDUAL CIRCUMSTANCES AND IS SUBJECT TO CHANGE.

WANT TO DISCUSS HOW TO MAXIMISE YOUR PENSION SAVINGS?

Making the right choices now could make a big difference to how much money you have in the future and saving for retirement could help you achieve your desired lifestyle.

To discuss your plans for the future and how we can help, please contact us.

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