Guide to Retirement Planning

What is Retirement Planning?

It is generally accepted that retirement planning is about ensuring that you have sufficient financial resources to enjoy your retirement. Although most attention is placed on the provision of a pension, it is also wise to consider the timing of debt repayment to ensure the majority is repaid before you retire. This is especially important on any mortgage on your home.

Over recent years there has been considerable political comment and press coverage regarding the level of the State Retirement Pension. Large numbers of people believe that they will require more money after their retirement than the state pension can offer.

These feelings often lead to people beginning their long term planning with regular contributions into a pension scheme. Pension planning is normally a long-term commitment. The Government is trying to encourage more people to build up a pension fund of their own with the introduction of Stakeholder Pensions and changes to Contracting Out from the State Earnings Related Pensions (SERPS) or the State Second Pension (S2P).

In addition to considering your income in retirement, you may wish to consider provision of Health cover, or perhaps plan for how you are going to provide for your dependents.

You may even want to think about planning the effects of Inheritance Tax on your Estate and consider whether it would be wise to transfer a portion of your current assets to your children or grandchildren.

Tax Incentives

Pension funds in the UK benefit from significant tax incentives. These include allowing for any growth in the value of the pension fund to be free of tax. Also the current rules provide that a portion of the pension fund may be drawn in the form of a tax-free lump sum. Additionally any contributions made to the pension fund by either you, or your employer, will qualify for tax relief.

Those people who pay income tax at the basic rate (22% for the tax year 2006/07) will receive tax relief at this rate reducing the real cost of any pension contribution (e.g. a £100 contribution will actually cost you £78 due to the tax relief available). Where contributions are made to Stakeholder or Personal Pension plans the tax relief is granted at source, meaning that you actually pay the net amount due, and the pension company reclaims the amount available in tax relief directly from the Inland Revenue. Tax relief up to 40% is available for those people that are liable to pay income tax at the higher rate. Those with Stakeholder or Personal Pensions must claim their additional tax relief from the Inland Revenue this can be done via the annual tax return. .

If you are less certain about the timing of your retirement you may wish to consider savings using products other than Pension Plans then you may find the tax efficiency of ISAs very attractive. Savings into Unit Trusts/OEICS or Shares can be very tax efficient for those people who make proper use of the exemptions available under the current rules of Capital Gains Tax. This may be an area where you wish to seek advice from us.

Savings into share based assets such as unit trusts/OEICS or stocks and shares ISAs are normally considered to be most suitable for those people who wish to save for the medium to long term.

There is not a long time before I wish to retire

Even if you do not have a long time to save for your retirement you should still consider retirement planning. There have been many changes to the charging structures applied by the Pension Providers. This means that even if the period until your retirement is quite short you could still get a good overall return on the money you invest. Investment returns can fluctuate and cannot be guaranteed

When can I retire?

Many people focus their planned retirement to coincide with ages 65 (men) or 60 (women). This tends to be for historic reasons, based on the age at which people can claim their State Retirement pensions. Recently the State Retirement age for all women born after 6th April 1955 has been changed to 65, the same as for men. No change was made to the state retirement age of women born before 6th April 1950.

If you intend to retire before the State Pension age, additional planning is normally required. This is necessary as you will be unable to claim your state pension until you do reach State Pension age. Therefore those who are considering retiring before state pension age often have a greater need to make long term plans to provide a sufficient income at the time they wish to stop working.

If you are making private pension provision, or are a member of an occupational pension scheme, then under normal circumstances benefits cannot be drawn form the pension plan unless you are aged 50 (increasing to 55 from 2010) or over (men or women). Special rules apply to those who have to retire due to serious ill health.

There are some occupations where special reduced retirement ages operate. This allows the benefits of a pension plan to be drawn prior to age 50 (increasing to 55 from 2010). Normally reduced retirement ages apply to employments like professional sports people, or some types of Financial Dealers.

Do I have to retire at age State Pension Age?

You are under no obligation to retire at the State Retirement Age. If you want you can delay the drawing of your state pension. During the period that you defer receiving your State Pension it will be increased, so that once the pension is started the weekly payment will be higher than would have been the case at your State Pension Age.

The start date of receiving benefits from Private Pensions cannot normally be extended beyond age 75. Whether the delay in the start of the pension payments will result in a higher income being paid to you will depend on the terms of your particular pension plan. You should contact us for assistance.

When I draw my Pension must I buy an annuity?

A pension annuity is bought by using your pension fund, at the time you retire, to provide an income in retirement.

Many private personal pension plans now allow you to draw your benefits at the time you wish to retire but do not force you to purchase an annuity. Your income is provided by making withdrawals directly from the pension fund which remains invested. Under current rules you can defer the purchase of an annuity until the time you reach age 75.

If you wish to investigate the option of deferring the purchase of your annuity when you retire please **contact us** for assistance.