A quick guide to...

Retirement & pension planning

What is retirement planning?

Retirement planning is the process of defining your goals and objectives for retirement – and importantly, working out exactly how you are going to achieve them.

But what is the retirement planning process and how can you plan for retirement? Here we share some tips for and advice with retirement planning.

What is a pension plan?

A pension plan is a tax efficient way to save money for later in life, you can pay into as many plans or schemes as you like and whilst there are many different providers to choose from, the plan itself will generally fall into one of two categories:

- Workplace Pension Plans
- Personal Pension Plans

A work place pension is a plan that is arranged by your employer and these are often referred to as an 'occupational' or 'work-based' pensions. Each payday, part of your salary is placed into the pension plan automatically and, in most cases, your employers will also add or even match your contributions. Government legislation now requires every employer in the UK to enrol qualifying staff into a pension scheme and contribute towards this; this scheme is called Auto-Enrolment.

A personal pension plan is a type of defined contribution pension where you can choose the pension provider and make arrangements for your contributions to be paid as either a regular payment or as a lump sum; whilst there are various different personal pensions available, the most common amongst them are Self-Invested Personal Pension (SIPP) or a Stakeholder Pension, which must meet minimum standards set by the government.

Whichever pension plan you have or choose, any contributions made will usually benefit from tax relief up to a certain limit.

What are the two stages of a pension plan?

There are two basic stages of a pension plan – the accumulation and decumulation stages:

1 Accumulation is when you grow your pension savings in preparation for funding your retirement years. There are pension options available to you and it is worth consulting a financial expert to consider the different opportunities available.

2 Decumulation is where you convert the savings you have accumulated in your pension to your retirement income. There are multiple options available to you to structure the income you receive during these years.

When you reach the decumulation stage, there are various ways to access your pension savings, one option you may wish to consider is income drawdown. This is a way of using your pension savings to provide a regular retirement income whilst the rest of the funds remain invested it in selected funds. Whether this option is right for you will depend on your expectations, circumstances and attitude to risk but one potential benefit is flexibility. This can be important if you think your requirements may change during your retirement years.

Who needs a pension plan and why would you need a pension plan?

Most of us realise that we need to look far beyond state provision as a source of retirement funding. Pension planning and effective planning for your retirement is essential for you to be able to get out of retirement what you want to.

Advantages

- A pension is effectively a long-term savings plan with tax relief. The contributions you (or your employer) make are invested during your working life to provide you with an income in retirement.
- Once your income is above a certain level, the government takes tax from your earnings. However, paying into a pension scheme qualifies for tax relief. This can mean that some of the money that would have gone to the government is put into your pension pot instead.
- With 'automatic enrolment' employers are gradually being required to enrol their employees into a pension scheme (if they do not already have one). If your work contributes to your pension, this can help you save more for your retirement but this is cost is shared with your employer.
- Recent legislation has provided more flexibility with your options when withdrawing from your pension. Depending on the type of pension, there may be the option of taking a tax-free lump sum which could help you in achieving some of your retirement goals.

Disadvantages

- The structure of pension plans means that your pension pot cannot be accessed until you retire (or at the very earliest, before the age of 55).
- All investments carry an element of risk. Investments can fall as well as rise and you may not get back the original amount you invested. However, planning early can help you mitigate the risk with falls in value and help you to grow your pension pot.

When should I start planning for retirement?

Retirement planning is necessary in order for you to have a comfortable, enjoyable retirement. In short, it is never too early to start thinking about your retirement and it is often the case of the earlier, the better!

You might have many questions such as 'Do I need retirement planning?' or 'What impacts retirement planning?'. The answers to these questions will vary depending on your individual circumstances but by seeking expert financial advice you can ensure that you are best placed to be able to work towards goals that have the potential to give you the results that you are looking for.

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