Retirement planning

Set up an easy route to retirement

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RETIREMENT PLANNING

Setting up an easy route to retirement.

With the rising costs of living affecting every aspect of almost everyone's finances, there's no time like the present to start considering your retirement plans.

Unfortunately, the Government has significantly increased the state pension age over a number of years. The state pension age is currently 66 years old for both men and women, but it may be different depending on exactly when you were born. You can check your state pension age on the Government's website.

The state pension age is constantly under review to account for costs and changing life expectancy. The age increased to 66 only in 2021 and is expected to rise to 68 between 2044 and 2046.

However, earlier this year, the Government announced plans to bring the timetable forward so it will become 68 between 2037 and 2039.

Although this means a longer wait for a lot of people, it gives greater reason to start contributing to private pension schemes and focus on a retirement strategy.

WHY IS RETIREMENT PLANNING IMPORTANT?

Planning for your future is essential. Failing to do so could mean you end up nearing retirement without enough money to fall back on.

First, there's inflation to think about. Gradual inflation is a fact of life in a healthy economy and means the money you put away today in a workplace or private pension scheme won't be as much as in the future. You, therefore, need to save for tomorrow's prices, not today's.

Of course, the state pension rises every year according to inflation, average wage increases or 2.5%, whichever is highest, at least in theory. This is known as the 'triple lock' on state pensions.

In his Autumn Statement, Chancellor Jeremy Hunt announced the Government would return to the policy after abandoning it for the 2022/23 tax year, lifting state pensions by 10.1%. That increases the state pension from £9,628 a year for the 2022/23 tax year to £10,600 for 2023/24.

However, you'll only receive the full amount if you have a minimum of 35 years of qualifying contributions. If not, your state pension for 2023/24 would be £8,122. Either way, is that enough for you to live off?

The earlier you start planning for your retirement, the better. By budgeting and saving a portion of your salary each week or month (depending on your pay schedule), you can set realistic goals for your ideal retirement age while planning for any future healthcare you may need.

As always, it's best to talk to a professional advisor to explore your options when it comes to saving for your retirement.

HOW MUCH DOES THE AVERAGE PERSON NEED TO SAVE?

Many people overestimate how much they'll need to save to afford a comfortable retirement.

First, you may not need to save as much as you automatically assume, as you'll not likely have a mortgage to pay for or child raising costs.

That said, in a survey carried out by consumer group Which? data showed that retired couples living "comfortably" in retirement spent on average around £2,333 a month per household, totalling an average of £28,000 a year to live. This figure includes spending money on some luxuries, such as holidays in Europe and dining out on a semi-regular basis.

According to calculations from Which?, this means that anyone wishing to live on £28,000 a year will need £204,750 in savings to comfortably retire, including their state pension. To achieve this, couples aged 20 with no retirement savings need to save £182 a month, while those aged 40 need to save £329.

For a "luxurious lifestyle", couples need an estimated £3,750 a month (£45,000 a year), which equates to a pension pot of £470,580. In terms of savings per month, that means: £591 for a couple aged 20 with no pension savings, compared to £1,068 for a couple aged 40.

HAS THE COST OF LIVING CRISIS CHANGED THINGS?

According to People Management, 50% of young adults aged between 18-34 have said that they have reduced or stopped any regular savings in a bid to deal with the cost of living crisis, which could have a profound effect on their future retirement plans. This is largely due to higher rental rates and the soaring costs of energy bills, not to mention the increase in food prices.

When you factor in all adults, this figure drops to 42%, while 32% of people aged 55 and over said they are saving less. That is a significantly large minority of adults and older people who are saving less because of the cost of living crisis.

To manage the cost of energy bills, it's been reported that people are dipping into their pensions early, which former pensions minister Steve Webb is heavily advising against, saying:

"You really don't want to be doing that at the start of your retirement. It is one thing doing it when you're 80 but doing it when you're 65 is quite different."

COMMON RETIREMENT MISTAKES AND HOW TO AVOID THEM

Apart from a lack of savings, there are also a number of common mistakes people make when planning for their retirement.

Relying on a potential future source of income, such as inheritance and property, is one such pitfall people may experience. As life expectancy increases, relying on inheriting assets or wealth from a family member might be a mistake. Then there's the inheritance tax liability you might be responsible for once part of the estate goes to you.

Another common mistake people make is losing track of how much they've saved, especially if it's spread across a wide range of workplace pension pots. Consolidating your pension savings into one place is worth considering.

Are you also aware that you will receive tax relief on your pension contributions made from net pay? The Government will contribute a further 25% off your net contribution, up to 100% of your salary or £40,000 – whichever is lower.

If you earn less than £3,600, the maximum gross contribution you can make and still receive tax relief is £3,600. So, if you have contributed £2,880, the Government will top your contribution up to £3,600. If you only put away £1,000, however, the Government would only give you £250. In other words, the more you save, the more the Government gives you.

There are other methods to save money in a pension in a tax-efficient manner, including 'relief at source' and higher rate tax relief on pension contributions, so talk to a financial adviser to get the full picture of what would work best for you.

RETIREMENT PLANNING IF YOU HAVE A BUSINESS

If you're a business owner, you'll not only have to consider your retirement but also a potential succession plan. If you run a family-owned business, it will be your responsibility to decide whether you wish to pass it on to future generations or sell it to an outside buyer.

When planning your succession, choosing the right candidate is essential. You want to make sure that the person you choose is trained for the role to allow for a smooth transition when the time comes for you to retire. Setting out a training plan and gradually passing over some of your responsibilities is the best way to start. Not only will this prepare your successor, but it also doesn't put too much strain on them while you're still working together.

Without proper planning, you could potentially have to delay your retirement until you've found a suitable successor. After running a business for a number of years, the last thing you'll want is to end up pushing your retirement back by a couple of years.

The best way to plan your succession is by starting early, even as early as 15 years before your expected retirement. This will allow you to plan your key goals, a timetable for the transition and also any contingency plans you may need should something go wrong.

Talk to us about retirement planning.