Pareto
ALL MATTERS FINANCIAL

GUIDE TO PRE-RETIREMENT PLANNING

Getting set for retirement and planning your income

UNDERSTANDING PENSIONS

Everyone needs to plan for their retirement. People are living longer and healthier lives, so it's even more important to think about how and when to save for retirement and how long to keep working.

A pension is a type of savings plan you can pay into during your working life and draw on when you retire. There are a number of different types of pension plans including:

	• **State pension** - provided by the government and funded by national insurance contributions. The full state pension for 2024/25 is £11,500 per year but eligibility depends upon your personal circumstances. You can check your expected state pension at www.gov.uk.
	• **Workplace pension** – these pensions are provided by your employer. They will fall into one of two areas: – Defined benefits (final salary) schemes – the benefits in retirement are linked directly to the length of service with an employer. – Defined contribution (money purchase) schemes – the benefits in retirement are linked to the value of the accumulated pension fund.
	• **Private pension** - these pensions are arranged by you on a personal basis and are managed by pension providers. Personal Pensions operate on a defined contribution basis, contributions can be invested in a range of assets, such as stocks, bonds, and mutual funds.

Contributions to either workplace or personal pensions benefit from tax relief, making them an efficient way to save for retirement.

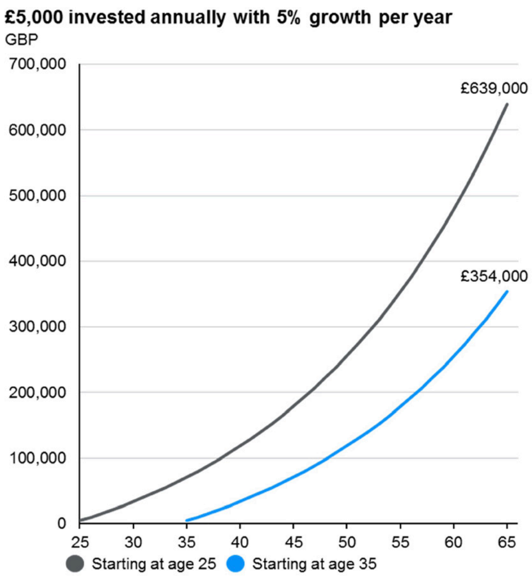
Pensions, regardless of the type of scheme used, are subject to rules in respect of:

- Eligibility to join the scheme.
- The amount which can be paid in and the tax relief obtained during any one tax year.
- When you can begin to access your pension fund.
- What happens if you were to die.

STARTING EARLY

It is never too early or too late to start saving or investing for retirement. Every contribution made towards a pension scheme has the potential to earn interest or investment returns, which then themselves can benefit from compounding. This snowball effect accelerates with time, allowing the initial investment to grow exponentially.

By beginning to save for retirement at an early age, individuals have more time for their investments to compound. Even modest contributions made in your twenties or thirties can snowball into a substantial nest egg by the time retirement rolls around.



Data source: Guide to the Markets | J.P. Morgan Asset Management - page 91 (jpmorgan.com)
Past performance is not a reliable indicator of future performance.

Personal contributions made to a pension generate direct tax savings – most personal contributions made are net of basic rate tax relief. This means an individual will only actually contribute £80 net for every £100 of contributions paid. Higher and additional rate taxpayers likewise make contributions net of basic rate tax and can then claim additional relief via a Self-Assessment return.

Investments in pensions grow free from income tax and capital gains tax (CGT). Your money may therefore grow faster in a pension than in most other forms of investment.

HOW MUCH DO I NEED TO RETIRE?

The Pensions and Lifetime Savings Association (PLSA) partnered with researchers at Loughborough University's Centre for Research in Social Policy to develop the Minimum Income Standard. For many people their private and state pensions and other savings could go a long way towards retirement costs.

The table below gives an indication to the minimum annual income you may need, depending on your desired retirement lifestyle:

	MINIMUM	MODERATE	COMFORTABLE
SINGLE PERSON	£14,400 per year	£31,300 per year	£43,100 per year
COUPLE EQUIVALENT	*£22,400 per year*	*£43,100 per year*	*£59,000 per year*
WHAT STANDARD OF LIVING COULD YOU HAVE?	COVERS ALL YOUR NEEDS, WITH SOME LEFT OVER FOR FUN	MORE FINANCIAL SECURITY AND FLEXIBILITY	MORE FINANCIAL FREEDOM AND SOME LUXURIES
HOUSE	DIY £100 a year to maintain condition of your property.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years
FOOD	Around £50 a week on groceries, £25 a month on food out of the home, £15 per fortnight on takeaways.	Around £55 a week on groceries, £30 a week on food out of the home, £10 a week on takeaways, £100 a month to take others out for a meal.	Around £70 a week on food, £40 a week on food out of the homes, £20 a week on takeaways, £100 a month to take others out for a meal.
TRANSPORT	No car, £10 per week on taxis, £100 per year on rail fares.	3 year old small car, replaced every 7 years, £20 a month on taxis, £100 per year on rail fares.	3 year old small car, replaced every 5 years, £20 a month on taxis, £200 per year on rail fares.
HOLIDAYS & LEISURE	A week long UK holiday, Basic TV and broadband plus a streaming service.	A fortnight 3* all inclusive holiday in the Med and a long weekend break in the UK. Basic TV and broadband plus two streaming services.	A fortnight 4* holiday in the Med with spending money and 3 long weekend breaks in the UK. Extensive bundled broadband and TV subscription.
CLOTHING & PERSONAL	Up to £630 for clothing and footwear each year.	Up to £1,500 for clothing and footwear each year.	Up to £1,500 for clothing and footwear each year.
HELPING OTHERS	£20 for each birthday and Xmas present, £50 a year charity donation.	£30 for each birthday and Xmas present, £200 a year charity donation, £1,000 for supporting family members e.g. paying for grandchildren activities.	£50 for each birthday and Xmas present, £25 per month charity donation, £1,000 family support

**The figures shown are the amounts of annual expenditure required to achieve the living standard (ie they are not gross income figures). Data source: https://www.retirementlivingstandards.org.uk*

You may need to add other costs depending on your circumstances, such as mortgage, rent, social care costs and any tax on pension income. This information is a starting point when thinking about the income needed in retirement.

ANNUAL ALLOWANCES

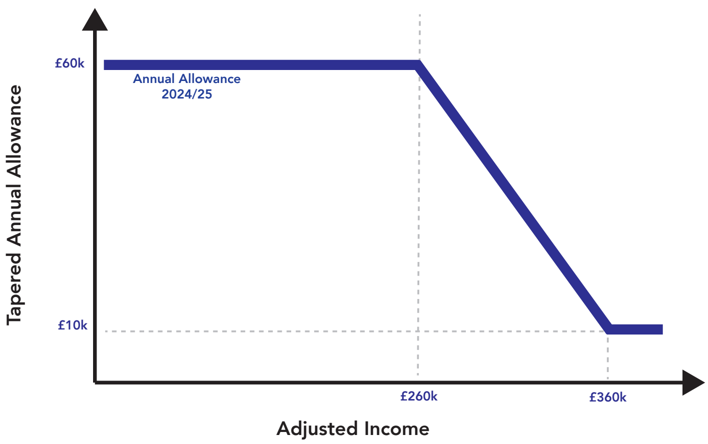
Pension Annual Allowance

The annual allowance for pensions is currently £60,000 for the 2024/25 tax year. Providing you have sufficient income, you can contribute, or have contributions made on your behalf (by your employer for example), up to £60,000 in total per tax year to your pension pots without incurring tax charges.

Tapered Annual Allowance

However, since 6 April 2023, people with an Adjusted income (which includes employer pension contributions) over £260,000 will have their annual allowance for that tax year restricted.

This means that for every £2 of adjusted income you have over £260,000, your annual allowance is reduced by £1. This only applies if your threshold income (broadly total taxable income less their own pension contributions) is above £200,000.



For more information on the Tapered Annual Allowance, please ask your adviser for a copy of our Tapered Annual Allowance Guide.

Money Purchase Annual Allowance (MPAA)

If you start to take money from a defined contribution pension pot, the amount that can be contributed to your defined contribution pensions while still getting tax relief on might reduce. This is known as the Money Purchase Annual Allowance or MPAA.

For most people, the total amount that can be contributed to their pensions each tax year which they'll receive tax-relief on is £60,000. This includes any contributions from your employer. But if you trigger the MPAA, this reduces to £10,000 a year.

The MPAA only applies to contributions to defined contribution pensions and not defined benefit pension schemes.

More information on Pension Tax Limits can be found at gov.uk.

SELF INVESTED PERSONAL PENSIONS (SIPPS)

What is a SIPP?

SIPPs are a specialist type of personal pension that can provide individuals with greater control and flexibility over their investment choices. With SIPPs, investors can choose from an extensive range of investment options, including stocks, bonds, property, and alternative investments.

One of the key benefits of a SIPP is the potential for higher returns compared to traditional pension schemes, as investors have the opportunity to invest in a diversified portfolio that aligns with their financial goals. Like other pensions, SIPPS also offer tax advantages, such as tax relief on contributions and the ability to grow investments tax-free within the pension wrapper.

However, while SIPPs offer greater control, they may also come with risks including investment risk, tax legislation changes, and a lack of employer contributions. They also require active management.

Investing in Property with a SIPP

SIPPs, either individually or part of a Group arrangement, can also be used to purchase commercial property. This can be in full, or in conjunction with a loan – with the SIPP receiving rental income.

The rent you pay into your SIPP, less any loan repayments, generally grows free of income tax and capital gains tax.

Although this may prove profitable, and may free up capital which can be used as investment within a business, there may be issues in the future when the property is to be sold, or if the existing tenant defaults on the rental agreement.

For more information please ask your adviser for a copy of our Investing in Property with a SIPP guide.

PENSION CONSOLIDATION

Consolidating pensions into a single plan could help reduce the stress of managing multiple pots, while also giving you more transparency into their performance and the fees you're paying.

With people now having multiple different jobs during their career, they will often be enrolled into a new pension at each workplace. This means you may end up with a number of pensions. This can make it difficult to understand your retirement savings if you have several pension pots. By consolidating, you may also reduce charges.

Below are some potential advantages and disadvantages to consider when thinking about consolidating your pension:

ADVANTAGES	DISADVANTAGES
Simplicity: Consolidating pensions can simplify retirement planning by reducing the number of accounts to manage and monitor.	**Loss of Benefits:** Consolidating pensions may result in the loss of benefits or features associated with individual pension plans, such as guaranteed annuity rates or enhanced protection.
Cost Savings: It may lead to cost savings by reducing administrative fees and charges associated with multiple pension accounts.	**Exit Charges:** Some pension providers may impose exit charges or penalties for transferring funds out of their scheme, which can erode potential cost savings.
Easier Tracking: Tracking your retirement savings becomes more straightforward with consolidated statements and reporting.	**Tax Implications:** Transferring pensions may have tax implications, such as triggering a taxable event so require careful consideration.
Ease of Access: Managing withdrawals and accessing funds can be easier with a single consolidated pension account.	**Lack of Diversification:** Consolidating pensions into a single plan may limit diversification opportunities, increasing investment risk.

Whether you consolidate or not depends on a number of factors like your current pension benefits, exit fees and tax implications - we recommend you seek professional advice before making a decision.

ALTERNATIVE RETIREMENT PLANNING

While pensions are a common and vital source of income for many retirees, they are just one piece of the puzzle. Diversifying your income sources can provide greater financial stability and flexibility. Many people choose to pay for their retirement through a combination of:

Effective retirement planning takes all of these possible income streams into account and considers them alongside your long-term life goals.

As you prepare for a new chapter, remember that retirement is not an end, but a beginning. Embrace the freedom to design a life that reflects your aspirations and desires. With thoughtful planning and a positive outlook, your retirement years can be some of the most fulfilling and enjoyable of your life.

RETIREMENT PLANNING CHECKLIST

Assess Your Current Financial Situation:

- [ ] Calculate your current income, expenses, assets, and debts.
- [ ] Review any existing pension plans, savings, investments, and insurance policies.
- [ ] You may wish to consider cash flow modelling with a financial adviser.

Set Retirement Goals:

- [ ] Determine the age you aim to retire.
- [ ] Estimate your desired retirement income and lifestyle.

Understand State Pension Entitlement:

- [ ] Check your eligibility for the State Pension and estimate the amount you're likely to receive.
- [ ] Review the State Pension age to understand when you can start receiving payments.

Contribute to Workplace Pensions:

- [ ] Take advantage of employer-sponsored pension schemes, such as the Workplace Pension Scheme, and
- [ ] contribute the maximum to benefit from employer matching contributions.

Consider Personal Pension Plans:

- [ ] Explore additional private pension options like Self-Invested Personal Pensions (SIPPs).
- [ ] Compare different providers and investment options to find the most suitable plan for your needs.

Diversify Investments:

- [ ] Spread your investments across different asset classes (e.g., stocks, bonds, real estate) to reduce risk.
- [ ] Regularly review and adjust your investment portfolio based on your risk tolerance and retirement timeline. This is especially important as you approach retirement age.

Utilise Tax Efficiency:

- [ ] Take advantage of tax-efficient savings and investment vehicles such as Individual Savings Accounts (ISAs) and workplace pension schemes.
- [ ] Consider utilising pension contribution tax relief to boost your retirement savings.

Budget and Save Wisely:

- [ ] Create a budget to track your income and expenditure.
- [ ] Establish an emergency fund to cover unexpected expenses and prevent the need to dip into retirement savings.

Consider Long-Term Care Needs:

- [ ] Investigate long-term care insurance options to protect your assets in case you require care in later life.

Review and Update Regularly:

- [ ] Regularly review your retirement plan and adjust it as your circumstances change, such as life events, changes in income or investment performance.
- [ ] Try to stay informed about changes to pension regulations and tax laws that may affect your retirement planning.

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