GETTING THE BEST DEAL FROM YOUR UK PENSION

CREDENCE INTERNATIONAL

TIPS ON **SAVING** MORE FOR A BETTER **RETIREMENT**

Getting the best deal From your UK Pension

Presented to you by Credence International

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The very word "Pension" puts many people off as they see their retirement as something that will happen a long way in the future and therefore they do not consider it to be of immediate importance.

This is particularly the case for younger people who prefer to look at shorter term needs.

Even as you move into your thirties and forties, your priorities tend to turn to other financial commitments such as wedding expended, buying a home, starting a family and saving into your pension gets pushed back further.

As you reach your fifties, many people consider they have left it too late and see retirement planning as too much of a financial commitment to make worthwhile.

However, without making the right financial planning for your retirement throughout your life will leave you needing to rely on the state to provide you with an income to cover living expenses once you give up work.

But,you mustn't forget that savings for pension is your best option for a financially stable and fulfilling post-retirement life.

Post retirement, you will still have financial liabilities like accommodation, paying for bills, food and, most importantly, medical expenses. It will be really difficult to manage your finance then, if you don't plan it now.

Plan well in advance: Your pension pays off more if you start saving for it at a young age.

What is a pension?

A pension is a financial instrument into which you save money during your working life to build up a fund which is then able to provide you with an income when you stop working.

Essentially, it is a retirement fund that grows during your working life by savings made by both you and your employer. This fund benefits from tax relief on your contributions and also grows largely free of tax throughout the period thus improving the overall performance compared to other types of savings plans.

Once you stop working and retire, the fund can then provide an income for you with the flexibility, in some cases, to take lump sums (some of which will be tax free).

People generally start their pension plan through their workplace. But,you can also independently invest in a personal pension plan.

Types of Pension Schemes

Traditionally, there have been 2 types of pension schemes available to employees – Defined Benefit (also known as Final Salary) and Defined Contribution (also known as Personal Pensions or Money Purchased). Many Defined Benefit Schemes have closed to new entrants, but individuals with a longer work history may find that they still benefit from this type of arrangement.

These terms may not explain much but let's try to understand how they work.

Defined benefit schemes

Under these scheme, you receive a fixed annual income after you retire. So, here the benefits you receive are 'defined'.

These schemes are also known as 'final salary schemes', because, in this you receive an income based on your last drawn salaryfromyour employer before leaving employment with them. However, pensions under this scheme can also consist of CARE or Career average revalued earnings or some other specific methods of calculating the retirement income.

The most important aspect of defined benefit scheme is the Employer's promise to pay a specific amount annually to the employee at a set retirement age.

These schemes are either contributory (employees also make contributions) or non-contributory (the company makes all contributions without the need for payments from the employee).

The amount you receive at the pre-determined retirement age (usually either 60 or 65) will be based on the value of your salary when leaving service and the number of years you worked for the company.

Many of these schemes are now closed to new members due to the high cost in running such schemes, the changes in legislation on how to report the liabilities and also the fact that people are living longer and hence they are perceived to be expensive options.

However, most Public Sector employees are still members of such schemes.

Defined Contribution Schemes

Under Defined contribution schemes,no promisedamount is set after retirement. In its place, your income in retirement will be dependent upon the contributions you (and your employer) have made throughout your working life and the value this has grown to when you want to start commencing an income. It is therefore the "contributions" that are "defined" rather than the benefits.

In defined contribution pension scheme, employees are free to decide on the percentage of their salary they would like to set aside for their pensions and their employers will often either match or partially match this contribution.

These contributions, through and investment fund, will then grow throughout the employment period to provide the corpus from which to start your retirement income.

In this pension scheme,you will have to decide on the amount of fund you would like to set for your retirement. You can decide on the investment instrument and track its performance and, if need be, may change it as well.

DEFINED BENEFIT VS. DEFINED CONTRIBUTION

DEFINED BENEFIT - Eg	DEFINED CONTRIBUTION - Eg
An employee consents to pay a specificamount,say 6% of their salary, everymonth into their final salary pension scheme.	Anemployee agrees to deposit a specificamount (say, 5%) of their salary, into their defined contribution pension scheme.
At the same time, their employer pays them a fixed percentage(say, 6%) of their lastremuneration for the number ofyears they have been employed in the organisation.	Their employer will then contribute equal amount, i.e., 5% and therefore, 10% of their salary will go into this fund every month. (Minimum levels may belower than this percentage).
So, an employee who has beena member of this pension scheme for,say 40 years, would receive 2/3rd of his/her final salary (40/60) after retirement.	The amountis then invested in bonds/ stocks so that the fund increases over the years. After retirement, the member can eithertake a lump sum amount or a fixed monthly amount.

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Personal pension schemes

Other than pension funds maintained by your employer you can also save for it by setting up your personalpension investment plan.

This can either work alongside your work pension or in place of it. There are several such personal pension schemes starting with an inexpensive and basic contract-based Stakeholder Pension Pensionthrough to more complex and bespoke Self Invested Personal Pensions (SIPPs).

Such pension plans also Classed as defined contribution plans in which you can decide on the amount of money you wish to invest every month to build up your funds.

Tax savings: The good thing about pension contributions is that you get tax benefit on them.

Tax benefit on your pension

The UK Government provides tax relief on contributions into a pension thus enhancing the savings you make.

The way this is achieved depends on the type of scheme you pay into but effectively, you receive an enhancement of 25% of your contribution each time a payment is made (this equates to tax relief at basic rate of 20%).

If you are a higher rate taxpayer, then a further 20% relief is made by reducing the tax you pay through your tax return.

This makes saving for your retirement a very effective way of saving money as there are not many monthly savings plans which will give an immediate 25% return on payment.

However, this tax benefit has a limit.

Currently, the annual allowance is capped at £40,000. This is the maximum amount you can contribute to a Defined Contribution Scheme and the total amount of benefits that can build up in a Defined Benefit scheme.

There is also a Lifetime Allowance on the total size of your pension value which has been creeping down in recent years and is not set at £1M.

These limits, however, still give large scope for the average person to make significant contributions to making their retirement enjoyable.

How to start your pension scheme?

Generally, individuals start theirpension during their employment.

Employers enroll their employees for workplace pensions with the help of auto-enrolment, unless the employee voluntarily opts out of it.

Thiswork pension can be started eitherunder defined benefit scheme in which,as stated earlier, you receive a fixed income once you retireor under a more prevalent defined contribution scheme.

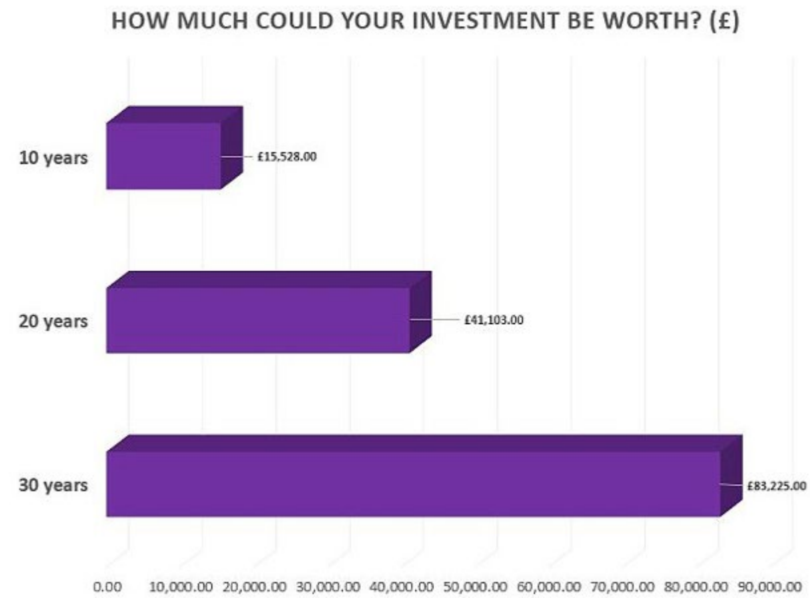
Underdefined contribution scheme, your contribution will be managed by a provider chosen by your employer. The contribution you make from your salary towards the scheme will be matched by your employer.

The money deposited through these schemes is then invested on your behalf in with a variety of investment options usually available to you.

You will have the choice throughout the term of your pension savings to pick a suitable investment strategy based upon your appetite for investment risk. Generally, the higher the risk, the higher the potential return but at the same time, the greater the possibility for a downward movement.
For those who do not have workplace pensions available (e.g. self-employed) or indeed those wishing to further boost their retirement pot, Personal Pensions are available. These usually give more investment choice and are more actively managed for you although the costs are usually slightly higher.

It is sensible to continue to receive advice in this respect to ensure you remain on plan to achieve your goals and any changes in legislation are accounted for.

Know more about personal pensions and SIPPs in our guides



Take advantage of timely investment: The chart hereshows how by investing £100 every month you can enjoy a steady 5% return as it grows over the years

The right time to start investing in a pension scheme

Keep aside: You cannottouch your pension until you have reached 55

Longer time horizon is your key to a financially stable and fulfilling retirement years.

You get more in retirement you when start saving earlier for it.

Set your monthly contribution at an affordable level then, as your salary grows, increase your contribution.

The above chart shows how your fund can grow for your retirement pension if you save for10, 20 or, undoubtedly the best option, for 30+ years.

If you invest for 20 years at the rate of £100 every month, the value reaches £41,000 at 5% growth rate. When the term is increased to 30 years tenure becomes 30, just an additional 10 years, the value becomes more than double making it £83,000.

This is possible because of compounding, when the return increases due to the amount you have already received as returns. Like a snowball rolling down a hill, your investment grows in size with all the accumulated returns on the initial investment.

Saving over a longer term also helps with any short term fluctuations in the investment markets. If you leave this too late to start, it can become more difficult to recover from short term market fluctuations.

What is the ideal amount for pension savings?

This is very much down to affordability but keeping in mind that the more you save, the greater your retirement income.

Most schemes will match an employee's contribution up to say 5%. Some are more favourable than this.

A good rule of thumb is to take your age, half it, and use this as the percentage of your earnings that should be saved into a pension scheme (including emplyer's contributions).

e.g. a 20 year old should have contributions of 10% of their salary into a pension, a 50 year old should look to 25% in total.

When will the funds be accessible and what can be done with it?

As per current legislation, the earliest age for accessing your pension is 55, although many Defined Benefit Schemes have a set retirement age of either 60 or 65.

This ensures that your pension is available to you in later life rather than using the capital in earlier years.

The options available to you will depend on the type of scheme you have been contributing to throughout your working life.

A Defined Benefit Scheme usually have pre-determined benefits and these are payable at a normal retirement age. You have the option to consider transferring these to a Defined Contribution pension scheme to increase the flexibility on access, but in doing so, you give up the guaranteed fixed income in favour of a more flexible access.

With a Defined Contribution pension, at age 55, you now have much more flexibility as to how you access your pension.

Usually, 25% of the fund can be received as a Pension Commencement Lump Sum (usually tax free) and the remaining 75% is designed to give you a taxable income during your retirement years. (traditionally achieved through purchasing an annuity)

More recently, the UK government have changed the rules allowing Pension Freedom on this 75% meaning you could, if desired, take the full amount as a lump sum (subject to income tax at your highest marginal rate).

However, many people prefer to tailor their income over the years ensuring that they receive a regular and predictable income to help cover the cost of living in retirement.

It is important to seek advice from a professional when looking to make your financial planning decisions. Getting good advice, at the right time, can make a fundamental difference to your future wealth and standard of living.

State Pension

In addition to any individual pensions you have contributed to during your working life, you are also likely to be eligible to receive a State Pension.

The amount you received will be dependent on the National Insurance Contributions you have made throughout your working life. Generally, NI contributions are deducted from your salary at source and help to accumulate this benefit.

Under current rules, you need to have made 35 years' worth of NI contributions to be eligible for the maximum state pension which is currently £155.65 per week and the age at which you receive this will vary depending on the year you were born.

State Pension is designed to cover the bare essentials and, for many, it does not even cover that. It is therefore important to ensure your own pension planning is sufficient enough to provide you with the standard of living in retirement that you both want and deserve.

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