Teachers Financial Planning

Starting retirement planning

A guide to laying the foundations for a comfortable retirement.

There are many things that people in their 20s and 30s feel they should be focusing their time and attention on, and retirement planning may not necessarily be one of them.

In between choosing a career, securing a decent income, shouldering student debt, dealing with rented accommodation and trying to get a foot on the property ladder, a person could be forgiven for losing sight of something 30 or more years down the line.

But retirement planning is an immensely important facet of modern life. The decisions made now will influence what kind of life you are able to live in your post-employment, twilight years.

The difference between having a retirement full of possibilities and one where financial concerns hang heavy comes down to the choices made today.

The foundations of retirement planning

Retirement planning has to start with 2 basic facts: the age you are likely to retire at and the basic state pension you will receive. These 2 factors give you a timescale and a base level of income to work from.

The retirement age is the date that you will be able to stop working, and is based on the date you were born. For a 35 year old person born in 1980, the state pension age is likely to be 68 years old.

However, the scrapping of the default retirement age means that people can choose to work past their retirement age.

You can of course decide to stop working before you reach state pension age but you will not receive your state pension before this date.

The new state pension which is being introduced on 6 April 2016 will provide a maximum of £155.65 a week. The eligibility for the new state pension will be based on the year of an individual's birth (6 April 1953 for women and 6 April 1951 for men) and their national insurance record.

Your state pension payments will be counted as part of your income and so may be subject to tax.

These 2 factors may change slightly but they provide a good framework for the next part of the process.

Get in touch to talk about retirement.

Making sure you have enough

You might have looked at the state pension and thought that living off that alone may represent a significant drop in regular income. While it is common for people to take a cut in income in retirement, you don't have to rely solely on the state pension.

The most important part of retirement planning is all about making sure that this likely drop in income does not hinder your ability to live the post-employment life you want.

When beginning to think about how to make a meaningful start to the process of retirement planning, it is important to think about the following points.

Minimise your debts

Any debts you have when you retire will eat further into your income.

For people in their 20s and 30s this will equate to trying to not take on too much debt that will stay with them.

It is also worth being aware of this when getting a mortgage as ideally you would want to have this paid off by the time you retire.

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Make your savings work

Firstly, you will want to beat inflation at the very minimum. Having your savings stay flat or getting gently eroded by inflation will have a direct impact on your standard of living in retirement.

Earning interest on your savings is also important, and a whole range of banks, building societies and organisations like NS&I offer long-term savings vehicles.

Limiting taxation

Legally minimising the level of tax you pay is also something to consider.

Pensions are seen as a tax-efficient way to save for retirement as they have a number of tax advantages. The money you put into your private pension will not be taxed if you do not exceed the annual allowance, which currently stands at £40,000. It is possible to top up your allowance for the current tax year.

ISAs are also tax-efficient way of saving as you are not liable to pay income tax on the interest earned. The current limit on the amount you can put into an ISA in a given year is £15,240.

The early stages of retirement planning come down to making sure that you are saving in a tax-efficient manner and trying to minimise your debts.

Talk to us about asset management.

Pensions

Personal pensions are the final part of the puzzle when starting the retirement planning process. Personal pensions are defined contribution schemes where you choose the provider and they invest the money you pay on your behalf.

The end goal is that you are presented with an accumulated sum when you retire. You can then have 3 main options, which you can use singly or in any combination that you choose:

- buy an annuity which guarantees a set level of income for the rest of an individual's life
- go into income drawdown where your money stays invested until you take it out (meaning that your pot can continue to grow or fall)
- withdraw as much from your pot as you want when you reach 55 – the first 25% is tax free and the rest is taxed as income at your marginal rate.

Personal pensions are obviously the place for people who are self-employed to go, but many people who are also part of a workplace pension scheme also choose to have a personal pot as well.

Auto-enrolment

The law now states that all employers must automatically enrol any eligible employees in a workplace pension whereby both contribute to a worker's pension pot. If a worker is over 22 years old but below state pension age, works in the UK and earns more than £10,000, they must be included, unless they specifically opt out of the chosen scheme.

Currently, an employee must pay 0.8% of their qualifying earnings and an employer must pay 1%. This will rise to 2.4% and 2% respectively from October 2017, and then 4% and 3% from October 2018. The government will contribute in the form of tax relief on employee contributions.

The early stages of retirement planning are about the broad strokes, starting to save and reducing debt are the key priorities while choosing a personal pension remains an option for those who have not been auto-enrolled.

Retirement planning is the process of balancing what you want from your retirement with what you currently have, what you need to get and what you can afford to contribute.

If you are in the beginning of the process, the foundations that you lay today while have an enormous influence on the life you are able to live in retirement.

We can help you plan for retirement.