Saving for retirement

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Before taking this out you should consider the effect this may have on:

- Your ability to borrow money, for example for a mortgage.
- Your entitlement to redundancy payments or other benefits such as statutory maternity pay, working tax credit or child tax credit.
- Any life insurance or income protection where the amount paid is linked to your salary.

INVESTMENT DECISIONS

Unless you only have defined benefit pension arrangements, your pension will require you to make and regularly review investment choices.

Default funds

All auto-enrolment pension arrangements and some other pension plans offer 'default' funds or investment strategies, designed to spare you the task of making investment decisions. The simplicity may appeal to new investors, who aren't ready to make such investment decisions.

Research has shown that as many as 90% of newly auto-enrolled savers opt for their provider's default investment solution. If you do the same, remember:

- You are still making an investment choice, which is to follow the decisions made by the manager of the default fund or strategy.
- By definition, the default option is not personalised to your particular circumstances. For example, it takes no account of your other investments.
- There is no such thing as a standard default fund or strategy: a 2019 survey found one large pension provider holding 85% of its default fund in shares, while a competitor had just 35%.

The tailored approach

As an alternative to the default 'choice' you can actively take investment decisions designed to match your retirement goals. Many people who adopt this route rely upon their financial adviser either to make fund recommendations, manage the whole process or appoint a specialist external investment manager. You always have the option of DIY management, but in practice this requires time and expertise to avoid serious mistakes.

A major advantage of the tailored approach is that it allows your pension investments to be integrated into your overall investment portfolio. Otherwise you could find yourself, for example, selling Japanese funds from your portfolio while your default investment manager buys into Japan.

The more refined the tailored approach, the more likely it is that a pension plan should be a SIPP. The key difference compared to other defined contribution arrangements is the range of investments available under a SIPP, which vary among providers. Insurance companies typically offer a relatively limited range that will suit most investors, while specialist providers may offer the full range. Investment options include:

- A very wide range of investment funds.
- Direct investment in stocks and shares.
- Cash deposits.
- Commercial property.

Planning point

You can take a more tailored approach to integrate your pension investments with your portfolio, but without advice this can be risky and time-consuming.

THE NEED FOR REGULAR REVIEWS

If you were to wait for a time when pension rules remain constant, your retirement date would be likely to arrive first. Governments of all hues have regularly revised the tax and other rules surrounding pensions. Often the motivation has been to save money, either by reducing the tax relief cost (estimated at £39.9 billion in 2019/20) or by cutting expenditure on the state pension.

Government changes to pension taxation have meant that, for some people, there is no longer any financial sense in making pension contributions, a reminder of how important reviews can be. For others, recent reforms have transformed pensions into a key estate planning tool.

Aside from government interventions, regular reviews are also necessary for other reasons:

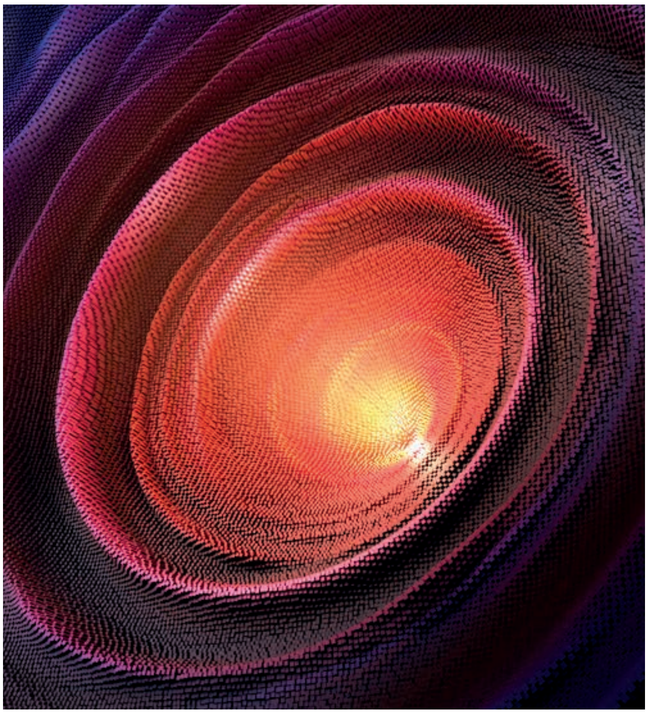
- Your circumstances could change. For instance, you may want to alter your retirement date, use an inherited lump sum to make a one-off contribution or move to a new employer offering a different pension arrangement.
- If you have a defined contribution plan, the underlying investments will need to be reviewed in the light of market conditions and any changes in your circumstances. Usually it is best to do this as part of an overall portfolio review.
- As you approach retirement your pensions will usually need to be recast as plans to provide income rather than build up wealth. This could mean a different investment strategy and/or in some cases a switch of pension provider.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Planning point

Given the frequency of government reforms to pensions, plus your own changing circumstances, regular reviews should be built into your financial planning.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investment in a registered pension fund is subject to many restrictions on access on how the funds can be used.



HOW WE CAN HELP

Retirement planning is complicated and has been made even more so by constant changes to the rules. We make it our business to stay up-to-date with the latest developments, and to help clients take full advantage of the available tax breaks. In particular, we can give guidance on:

- Assessing your financial priorities and choosing suitable ways of saving for retirement.
- Integrating any auto-enrolment pension provision from your employer with your own private provision.
- Maximising pension contributions, using carry forward where appropriate.
- Advising whether salary sacrifice could increase the amount invested in your pension, at no extra cost to you or your employer.
- The appropriateness of a SIPP, and the right investment strategy.
- How to deal with pension arrangements from previous employments.
- Managing the move from saving to withdrawing from your pension.
- Keeping you informed on how any new government legislation could affect your retirement planning.

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