Monahans

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Make Sure You’re Comfortable in Retirement

It’s important to plan your retirement

It is well known we have an ageing population and we can expect to live longer than previous generations.

The singles persons’ basic State pension is currently only £95.25 a week and is linked to prices indexation rather than earnings, so the figure is set to fall in value over the years. In addition there will be less State pension money available to go around.

It is therefore important that we make extra provision for our retirement. To encourage people to save for retirement, the Government allows very generous tax breaks on pension contributions. Basic rate taxpayers currently receive tax relief at 20% and higher rate taxpayers may receive relief at 40%. Therefore, it makes sense to take advantage of a pension, one of the most tax-efficient ways on investing.

What type of pension schemes are there?

If you are employed and your employer runs a company pension scheme, it is almost always advisable to join it, especially if your employer makes contributions on your behalf.

If your employer does not offer a company pension scheme, or if you are self- employed, you should think about a stakeholder or personal pension plan.

For the “Rolls-Royce” of personal pensions, you could consider a Self Invested Personal Pension (SIPP), where you can choose your own investments.

You can contribute to as many pension plans as you like as long as you do not exceed the maximum levels for contributions.

Stakeholder Pensions

Stakeholder pensions were introduced in April 2001, in an attempt to encourage more people to make provision for their retirement. Also those without earnings or a job, including children, are able to save into a pension plan or someone can on their behalf.

Many employers have been compelled by legislation to offer a stakeholder pension scheme to their employees, unless they already offer a pension scheme, which meets certain criteria.

The aim is that Stakeholder pensions are simple, low-cost, flexible and transparent in terms of charges. The maximum plan charge is 1.5% of the fund each year and contributions can be varied or stopped without penalty at any time. The member can also transfer to another provider or take early retirement without penalty.

How much can I contribute?

Contribution limits will depend on whether the employer or the member is paying.

An individual may contribute and receive tax relief on up to 100% of their earnings or £3,600 if greater. They can contribute to a personal pension even if they are in a company pension scheme. An employer can contribute whatever they wish. If total contributions exceed the annual allowance (£245,000 for 2009/10), a benefit in kind tax charge may be levied against the employee.

Taking Benefits

Benefits can commence between age 50 (55 from April 2010) and 75. When benefits commence, up to 25% of the fund can be taken as a tax free lump sum. The remainder must be used to provide a secure income (e.g. An Annuity) or an unsecured income (e.g. Income Drawdown). Any funds in excess of the lifetime allowance (£1.75 million for 2009/10) can be taken as a lump sum subject to a tax charge.

There are some members of occupational schemes who are entitled to take more than 25% as a tax free lump sum. They can preserve that entitlement, but the protection is not always portable, therefore care must be taken on transfer.

Which is the right choice for me?

If your employer offers a company scheme, which they pay into, in most cases you should join it.

Otherwise a stakeholder or a personal pension plan could be considered for funding for retirement, as these schemes will give you investment choices to match your attitude to risk.

The sooner you start making realistic contributions, the more comfortable your retirement could be.

The pensions world has been complex and baffling for many people. However, major changes implemented in 2006, should make matters a lot simpler for the majority.

Choosing the right pension provider, the most appropriate funds and agreeing an affordable level of contributions can be difficult to decide by yourself.

We are here to help. We will assess your financial situation and then suggest appropriate solutions. We will:

- Explain your investment choices
- Take you through the different types of pension schemes available
- Assess your attitude to risk
- Suggest the type of funds that will suit you.
- Look at your earnings and outgoings and suggest how much you should be saving.

Monahans Financial Services Ltd is the financial services arm of the Monahans Group.

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For further advice and assistance

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