



RETIREMENT APATHY WILL COST YOU DEARLY

There is much to be said for living for the moment and, for people coping with the economic downturn, getting through the week is understandably the major consideration. Yet many people risk a life of poverty in retirement because they are significantly underfunding their retirement savings.

We are all expected to live longer and there is a good chance that many of us will live almost a third of our lives in retirement so you would do well not to underestimate the size of the retirement fund you will need to live comfortably.

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A pension fund of £200,000 may sound a decent sum, but today that will buy you an annual income of a little more than £10,000, which is why you need to get to grips with your retirement plans long before you pick up your gold watch. The longer you leave it, the harder it is to catch up on missed time.

The difference between starting at 25 and starting at 45 is staggering. It can be even worse for women - they live longer than men on average and many will take career breaks to have children, leaving gaps in their contributions.

A 25 year-old male who wants to retire on £20,000 a year when he gets to 65, will have to put aside £501 a month for the next 40 years. If he waits until he is 35, he would have to save £788 a month to retire on £20,000 a year.



The monthly sum will rise to more than £1,300 a month, if the same man delayed saving until he was in his mid-forties (Source: Standard Life, March 2011), so it is important to start your retirement planning early.

People should seriously consider joining their company scheme, particularly if the employer is contributing to the fund as well or if it is based on final salary. Remember that an employer contribution to a pension is effectively deferred salary, so failure to join a company scheme is akin to taking a pay cut.

Yet, surprisingly, many people turn down this 'free money'. In an experiment by Axa in 2005, tracking the lives of people in Brighton, it found that a number of people did not bother to join their company scheme even if their employer made a contribution.

However, if your employer offers a defined contribution pension scheme, rather than a final salary pension scheme (also known as a defined benefit scheme) the plan alone may not be sufficient for your needs.

Employers tend to contribute far less to defined contribution schemes than they typically used to put into final-salary schemes, so a total employer and employee contribution of say 13 per cent is likely to be insufficient to fund your entire income in retirement.

Increasing your retirement provision through AVCs (or additional voluntary contributions) or Personal Pension Plans is a highly tax-efficient way of boosting retirement provision and it is worth seeking advice on maximizing this opportunity to meet your personal goals. Even if your employer doesn't make contributions, having a fixed sum transferred from your salary each month is a pain-free way to start the savings habit.

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Retirement planning is not just about investing into a pension – Individual Savings Accounts (ISAs) can come into the mix, for instance. Indeed, younger workers who expect to be higher-rate taxpayers later in their career could consider saving via an ISA first and then moving those savings into a pension when they become higher-rate taxpayers to benefit from the higher tax relief.

It should be noted that the levels and bases of taxation and reliefs from taxation can change at any time as they are subject to changes in legislation. The value of any tax reliefs depends on individual circumstances.

As you get older and move into your forties and fifties, you need to work out whether the plans you had in place are on track. Firstly, establish what your likely state pension entitlement would be. You should also contact the pension



trustees of your current and previous employers, who will be able to provide pension forecasts, as will the companies managing any private pension plans.

Given the volatility of stock markets there is a chance that what you are currently on target to receive is less than you'd ideally like, or perhaps even need. It makes sense to seek advice about how you can bridge this gap. You might need to consider whether options such as retiring later or working part-time beyond your retirement date may be a more realistic way of meeting your retirement goals.

As you get even closer to your chosen retirement age, you may need to consider reducing the risk of your investments to protect the fund you have built up over the years. Many experts suggest that this risk reduction should start at least five years before you wave goodbye to the working world for good.

Retirement planning may not be the hot topic of conversation at dinner parties and social gatherings but that does not mean it should be ignored. Plan ahead and get your strategies in place early will mean that your dreams of a happy retirement have a greater chance of coming to fruition. Failure to act will mean that they are nothing but pipe dreams.

COMPLIMENTARY GUIDES

INHERITANCE TAX	WEALTH MANAGEMENT	RETIREMENT PLANNING
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