Fingerprint
FINANCIAL PLANNING

10 ways to make the most of your pension

03452 100 100 hello@fingerprintfp.co.uk

Your pension fund is likely to form a large part of the money you'll live on in retirement. The amount in your fund when you retire will go a long way in determining the sort of retirement you have. It may even determine whether you'll be able to retire at all.

Although you'll get a State Pension, this may cover little more than your utility bills and some of the monthly food shopping. And, if you're currently 40 years old, you won't get your State Pension until you are 68, and there is often talk of this being put back even further. Given the importance of your own pension provision, it's therefore crucial that you take the necessary steps to make the most of your pension arrangements.

Even if you're in your thirties and still consider yourself to be 30 years away from retirement, a few simple actions you can take now will make a massive difference to the size of your pension fund when you come to retire, and the quality of life when you do.

If you have a spouse or partner, both of you should read this guide, as it will be equally applicable to you both. You should consider both your initial and longer-term pension planning on a joint basis.

In this guide, discover 10 ways to make the most of your pension.

You should note that the information is this guide is current as at 2 October 2020. Where growth rates are shown they are purely for information purposes and are not indicative returns. You should remember that investments may fall in value as well as rise. Pension and tax rules, rates and allowances are subject to change. The benefit of allowances and reliefs is dependent on individual circumstances. This guide includes tax rules applicable to contributions made into a pension. Different rules will apply when you're taking capital and income from your fund.

1. Maximise your pension contributions

It's never too soon to start saving for your retirement.

If you haven't started putting money into a pension already, consider making it a priority, regardless of your age. Even just starting with a low monthly amount will get you into the habit, and the longer the money is invested, the more chance it has to grow in value and the greater the chance of better investment growth.

This table shows the value of a £500 per month investment over different terms to age 65, assuming 5% investment growth each year.

Starting Age	Value at age 65
35	£417,863
40	£298,995
45	£206,373

Source – Calculatorsite.com

Please note: The values of pension funds may fall as well as rise

As you can see, a delay of just five years in starting contributions can have a massive impact on the final fund. In this example, five years' worth of contributions is £30,000, yet the impact of that money not being invested means a drop of around nearly £120,000 in fund value at age 65.

If you're already contributing to a pension plan, consider increasing your contributions, and review the amount you put in each year as your salary goes up. Think about using pay rises as an opportunity to increase your regular payments by redirecting some or all of the extra amount into your pension. Likewise, with any lump sums you receive.

The table below shows the value of increasing regular contributions by just 3% each year. It clearly shows that even just a small increase each year can make a substantial difference to the final value of your pension fund. Again, this assumes 5% investment growth each year.

Starting Age	Value at age 65, no increase to contributions	Value at 65, increasing contributions 3% each year
35	£417,863	£594,440
40	£298,995	£404,215
45	£206,373	£264,093

Source – Calculatorsite.com

Please note: The values of pension funds may fall as well as rise

If you currently have other fixed term financial outgoings such as a car loan, consider diverting that money into your pension when you've paid the loan off.

Next Steps

Talk to a Fingerprint adviser to review your finances and see how much you could realistically contribute to your pension. If you are already paying into a plan, consider increasing your contributions.

2. Don’t forget tax relief

One of the key things to remember when you’re looking to contribute to a pension is that, when you start paying money in, the government will put in extra for you in the form of tax relief.

If you’re a basic rate taxpayer, for every £100 you contribute, they’ll pay in another £25. Your pension provider – the company with whom your pension is invested – will claim this tax relief amount on your behalf, so you don’t need to do anything. The money will automatically be credited to your fund.

If you’re a higher or additional rate taxpayer, you’ll get even more tax relief. You’ll get automatically basic rate tax relief on contributions, but then you can claim back additional higher tax relief through your annual tax return.

For example:

- David pays £500 per month into a personal pension plan. He earns £60,000 a year and is therefore a higher rate taxpayer.
- His pension provider claims the basic rate tax relief of £125 per month and pays it into his pension, making his monthly contribution £625
- On his annual self-assessment, he declares an annual total of £7,500 into his pension (£625 x 12)
- David’s basic rate tax band is increased by £7,500, so he effectively pays tax at 20% rather than 40% on that amount.
- He therefore receives higher rate tax relief of £1,500 (20% of £7,500)

Tax relief at these levels makes pension contributions one of the most tax efficient way of saving. If you are a higher rate taxpayer, a £10,000 pension contribution will cost you just £5,500. Because of this, pension tax relief is often identified as an area that may be targeted by the Chancellor to save money for the Treasury – most recently to offset some of the massive public spending increases during the Covid-19 crisis.

It’s therefore worth looking to maximise your contributions as much as possible to take advantage of a very real benefit.

Next Steps

If you are a higher or additional rate taxpayer, speak to a Fingerprint adviser to check that you are claiming the right amount of tax relief on your pension contributions.

3. Join your company pension scheme

Check that you are a member of your employer's pension scheme.

Most employers are obliged to offer a workplace pension scheme that they will automatically enrol you into. They will pay a monthly employer contribution into the scheme for you and deduct a percentage of your salary each month which will also be paid into the scheme.

For a standard workplace scheme, the minimum employer contribution is 3% of your salary between £6,250 and £50,000, which is effectively free money, or a 3% pay rise! You'll pay an additional 4% on top of this, and your contribution will attract tax relief making it up to 5%.

Sometimes your employer will match your contributions, so try to increase your contributions if you possibly can.

It's worth seeing if your employer will allow you to pay more than the minimum employee contribution into the scheme, as the 20% tax relief added to your contribution by the government makes this a very valuable benefit.

Next Steps

If you're not a member of your employer's scheme, make enquiries as to how you join. If you're already a member, consider increasing your contributions.

4. Ensure you have the right investment strategy

How your pension fund is invested can be crucial to the success of the fund.

Different investments carry different levels of risk. Higher risk investments have the potential for higher investment returns, but equally have a higher chance of losses.

As a general rule, if you're still some time away from retirement, you might want to look to invest for more growth potential knowing, over the longer-term, higher risk investments should deliver higher returns.

As you get closer to retirement, a sudden drop in value could impact on your plans to retire, as it may take time for your fund value to recover to where it was. You may therefore want to consider starting to move some or even all your fund to lower-risk investments.

Investing can be complicated so, if you aren't sure about different investment strategies, we'd strongly recommend you get financial advice.

Next Steps

Review your current pensions to see where they are invested. Speak to a Fingerprint adviser regarding your investment strategy.

5. Consider consolidating your different pension arrangements

With the days of a 'job for life' seemingly long gone, it's very likely that you could have a series of different pensions from different employers, as well as personal arrangements you may have set up yourself.

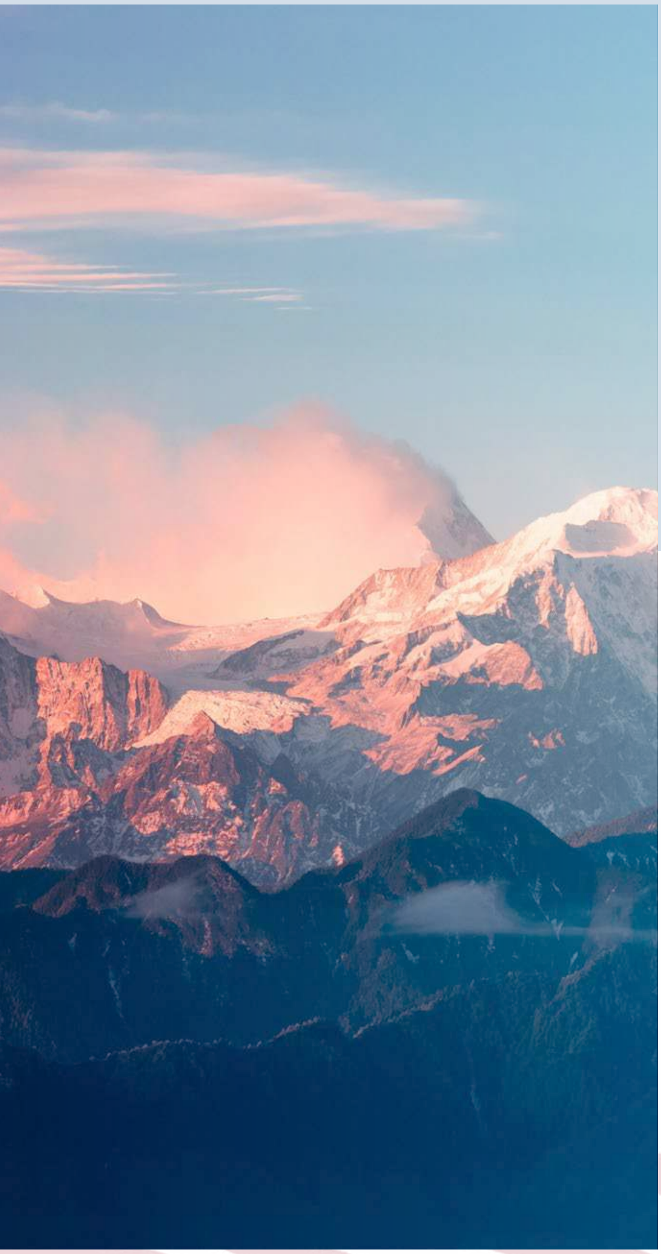
Rolling all your small pension pots into one means you don't have a whole series of statements to keep an eye on – you'll just have one plan with a single view. This will make it much easier to review and manage.

Consolidating your pensions also means you can potentially reduce the charges you're currently paying and could also give you access to a wider choice of investment funds.

However, financial advice is important if you're thinking of consolidating as you need to ensure you don't give up any valuable benefits, such as guaranteed income, by transferring out of an existing scheme. In particular, financial advice is compulsory if you're considering transferring out of a Defined Benefit scheme (sometimes known as a Final Salary scheme).

Next Steps

Put together a schedule of all your pension arrangements. If you're not sure of some of the details, speak to one of the qualified Fingerprint team or use the Pension Tracing Service set up by the government to help you track old plans.



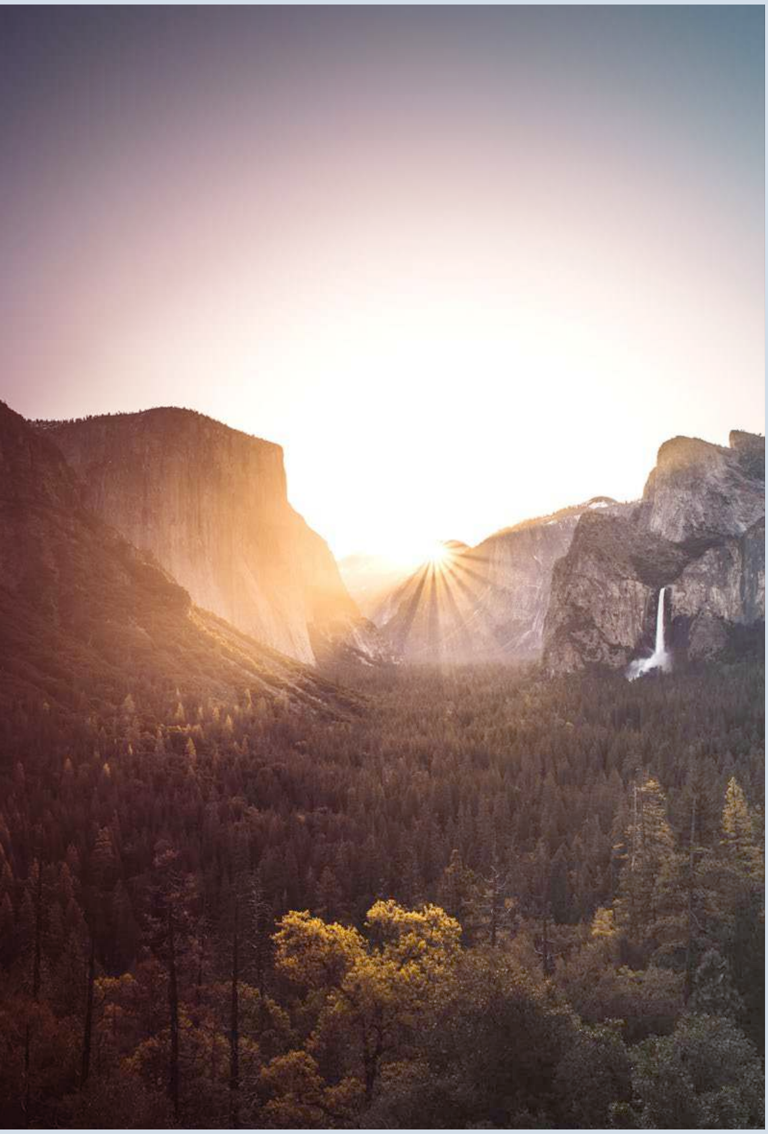
6. Regularly review your pension

You should review your pensions at least annually. It's important to check things are on track and that your investment profile still matches your plans and aspirations.

Remember investments are for the long term, so try to avoid being tempted to switch investments because a particular fund has had a bad year. As an example of how investments can fluctuate, the FTSE 100 index – one of the most commonly-quoted indices – has had a healthy average annual return of 6.8% since its inception in 1984. But, in that time, it fell by 31% in 2008, as well as being impacted by other big cataclysmic events such as the 'dotcom bubble' and the recent Covid-19 virus.

Next Steps

Set up a meeting to review your pension with a Fingerprint adviser. We have a team of experts that can help so, if you don't have a financial adviser, get in touch to find out what we can do for you.



7. Think about what happens when you die

Pensions are a great way of passing wealth down through generations. If you die before age 75, the value of your remaining pension fund typically passes to your descendants free of tax. This makes them one of the most efficient inter-generational savings vehicles – you could even pass your pension down to your grandchildren.

You should therefore ensure you've got everything in order to facilitate that. Making sure all the necessary nomination forms are completed means less stress for your dependents when you die.

Next Steps

Make sure you've completed the necessary death benefit nomination forms for your pension plans. Talk to a Fingerprint adviser if you need help.

8. Take your spouse/partner's pensions into account

As well as looking at your own pension arrangements, you should also consider the arrangements held by your spouse or partner and incorporate them into your planning considerations.

If your spouse or partner does have their own pension arrangements, consider them alongside your own arrangements when looking at retirement income planning. If one of you is in a higher tax bracket than the other, it may be more advantageous to make additional contributions into the pension of the higher earner, thereby maximising tax relief at a higher rate.

Likewise, if one or other of you has reached your Annual Allowance – the maximum amount you're able to contribute to a pension each tax year – it's still possible to make further contributions for the other person.

Next Steps

Check the pension arrangements held by your spouse or partner. You can use the Pension Tracing Service to find any pensions they might have or speak to an expert at Fingerprint for advice.

9. Start planning for retirement

Start putting a retirement plan together, even if it's just an outline of the sort of things you'd like to do. This can help inform your investment strategy but giving an idea of how much you'll need to do what you want to do in retirement.

The plan should include a date when you'd like to retire.

As you get within ten years, and certainly within five years of your retirement, it's time to start paying closer attention to the value of your fund.

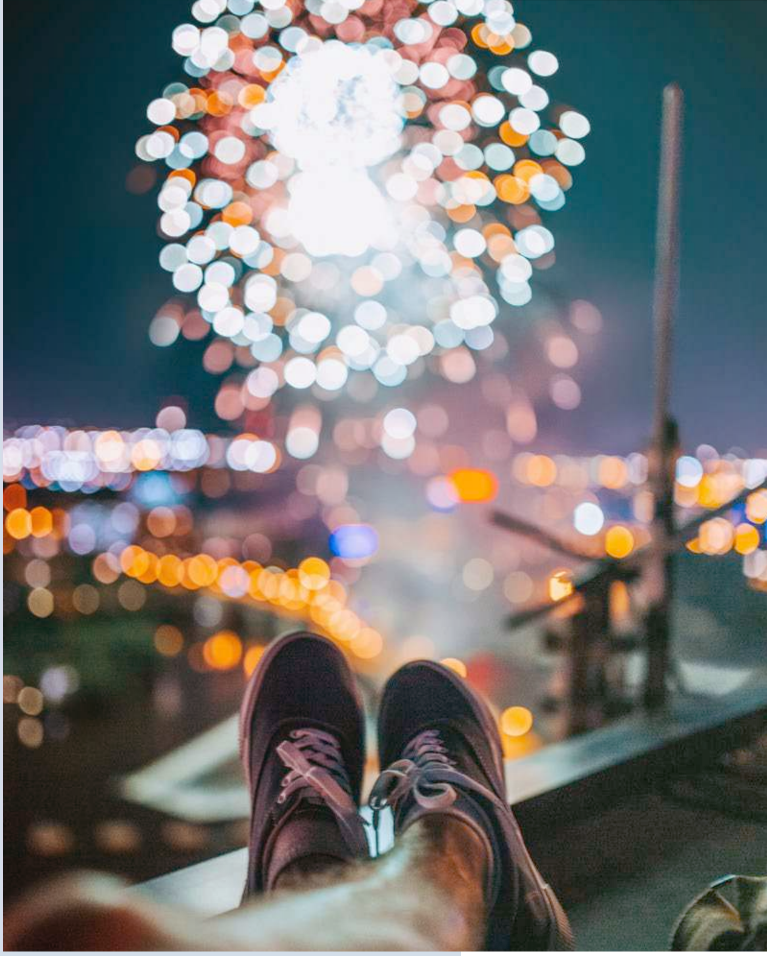
Next Steps

Put together an outline plan including when you're hoping to retire and what you'd like to do when you do. Review this with a Fingerprint financial adviser.

10. Financial advice can add value to your pension

Getting advice can also add actual value to your fund. Research carried out by the International Longevity Centre in 2017, and subsequently updated in 2019, has suggested that the value of financial advice could equate to £47,000 in additional wealth over the course of a decade.

This figure included an extra £31,000 of pension wealth and £16,000 of non-pension financial wealth. The key reason for this increase is that clients receiving advice are more likely to invest in assets with a higher associated risk but with potentially greater returns.



Here at Fingerprint we have a team of highly qualified advisers that will help you with all the aspects of investing we've covered in this guide, including:

- How much to invest
- Working out your tolerance for risk
- What provision you have already made
- How to achieve your financial and life goals

They will also be able to help you with the different taxation implications associated with pensions, so you benefit from the tax advantages and avoid any unnecessary tax charges.

Additionally, they'll regularly review your pension arrangements to ensure you're on track, suggesting adjustments to your plan and investments as necessary.

Contact details

Here at Fingerprint we are pension experts. We can help you review your current circumstances and help you plan for retirement, making sure you have the right arrangements in place.

If you feel you would benefit from our professional, expert retirement planning advice, please get in touch.

Email **hello@fingerprintfp.co.uk** or call us on **0345 210 0100**.

Fingerprint Financial Planning
Admirals Offices, Main Gate Road, The Historic Dockyard
Chatham, Kent, ME4 4TZ