Ensign

Want to save for retirement, but overwhelmed by choice?

- Saving for retirement is something that needs to be regularly thought about and actioned, throughout your working life. Do it well, and you will reap the rewards once you finish work. Do it badly, or not at all, and things could look very different. That said, whatever stage of life you are in, it's never too late to start saving, or too soon.

- To those people not in the financial services or pension industry, the savings options we are faced with to help us make the leap to a financially secure retirement can be mind blowing. From SIPPs, to workplace pensions, ISAs, savings accounts, the long-made assumption of 'my house is my pension'… where on earth do you start?

- Thankfully, in recent years, the Government has introduced something called auto enrolment, which means that all employers must provide eligible employees with a workplace pension. This is a great start in setting an individual off in the right direction, but experts believe it's still not enough, and individuals can still do more to really shape their future retirement prospects in the most positive way possible.

- We will try to help you through the maze of pension savings options, to see that pensions can be standalone or part of an overall retirement savings jigsaw, and that while bricks and mortar are generally a solid investment, your home can no longer be the only answer to securing your dream retirement.

What makes a workplace pension a better choice than a savings account or other alternative ways to save?

- **Workplace pension:** A workplace pension, such as a Master Trust or Group Personal Pension Plan, is chosen by employers and must be offered to eligible employees by all companies. This route to pension saving has many positives. Employees need to do nothing as contributions into the pension are taken each month from your salary. There are also tax breaks from the government and contributions from your employer. All do their bit to boost your overall pension pot. A workplace pension is a great way to save even for someone who knows very little about savings or investments, as everything is done for you. Generally, employees are invested into a default fund, selected on your behalf by experts. For those people who want to be more involved there will be a restricted choice of other investment options from which to choose. Whilst access to your fund is not usually available until age 55, most people do not retire until at least this age, so this is added protection for your retirement savings.

- **Savings accounts:** Savings accounts don't afford all the benefits that are otherwise associated with pensions. While it's a good thing to have savings alongside your pension, if you use a savings account in place of a pension you are choosing to miss out on the tax breaks and employer contributions that go hand in hand with workplace pensions. If you are in the lucky position to be able to do both, then by all means do, but if you can't then don't underestimate the benefits of making your workplace pension a priority.

- **Personal Pensions:** Personal pensions are a retirement saving option for people that are self-employed, people not eligible for a workplace pension, and people who have a workplace pension but want to further boost their savings. The choice of provider is made by the individual. Personal pensions work in the same way as workplace pensions, from both an investment and a tax break perspective. Crucially, the biggest difference is that there is no employer contribution to bolster your retirement pot.

- **SIPPs:** Self Invested Personal Pensions (SIPPs) work differently to workplace and personal pensions. A SIPP is effectively a tax efficient wrapper that wraps around whatever investors want to invest in, be it anything from stocks and shares, to property or land. Generally, SIPP investors will seek financial advice to guide their investment choices.

- **Stocks and Shares ISAs:** There has been an enduring debate over whether an Individual Savings Account (ISA) or a pension is best, but who says they have to be mutually exclusive? The main difference between this type of ISA and a pension is that contributions are from taxed income, while contributions to pensions are not. So, it could be argued that you get a little more bang for your buck when it comes to a workplace pension. Pensions also offer a higher annual level of contribution than ISAs, but in contrast, a stocks and shares ISA is more flexible because money isn't tied up until a certain point.

My home is my pension, isn't it?

- Before you decide what the answer to this question is, there are some more questions to be asked. Such as: 'Will I have paid off my mortgage by the time I want to retire?'; 'Will I really want to downsize or move to a different area when the time comes'; 'Will I need equity from my house to fund my children's education'; 'Once I've covered the cost of moving, will there be much left?' and so on. A large number of people have in mind that once they reach retirement, they will be able to fall back on the house they live in as a source of retirement income. For some, yes of course this is possible. For others it is an almost whimsical thought which only delays the inevitability of saving for retirement through a pension. There are also other issues to consider such as the care you may need in retirement, and inheritance for your children that you most probably want to keep intact. As well as the fact that a pension will be passed onto dependents tax free, whereas a home is liable for inheritance tax. The question of whether someone's home is their pension is no longer the simple answer it may have been years ago.

Make a workplace pension the core piece of your retirement savings jigsaw

- For the vast majority of people, the most important and beneficial thing that they can do to create an income that will have the best chance of sustaining their lifestyle once retired, is to take advantage of their workplace pension. Not only are there tax breaks and employer contributions to boost your pot, you can also feel confident that your employer has done the due diligence required to find a good quality pension scheme.

- Once you have your workplace pension in place, take an interest in it, ask yourself: 'Am I contributing enough to make a difference to my future?'. If the answer is no, then ask yourself if you are able to increase your monthly contributions. In many cases employers will match what you contribute, and pensions also benefit from compound interest, effectively interest upon interest – both of which will turbo boost your pension over time.

- When you are comfortable that you are maximising your workplace pension, the other parts of the retirement savings jigsaw can be considered – ISAs, savings accounts and other savings wrappers like SIPPs. Whether or not you can afford to consider these other savings options, feel reassured knowing that with your workplace pension in place, and contributions maximised, you are already on track to securing an income to help you take control of your financial future in retirement.