Is your pension 'sexy'?

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FORMER pensions minister Ros Altmann said the problem the government faces, when encouraging us to save into our pensions, was to make pensions sexy (her words), rather than watching people yawn with boredom when pension saving is mentioned.

Well, we say: pensions mean money, and security in retirement, and money is never boring.

Today we would like to describe why pensions are never boring.

The main types of pension are your workplace pension, your state pension, and if you wish, a personal pension you open yourself, as a third strand of saving.

A pension is far and away the best way to save for retirement, for several reasons.

First, tax relief on contributions: if you are a basic rate taxpayer, for every £80 you pay in, the government tops it up to £100. It's quite literally free money.

Second, pension savings are normally invested in the stock market, which usually provides far stronger growth than any bank account over the long term. The money grows free of UK income and capital gains tax.

When you come to age 55 or to retire, you can take the first 25 per cent of your pension pot tax-free. Beyond that, the rest is taxed at your marginal (normal) rate. (That age 55 will be rising to 57 in 2028).

You can pay into someone else's pension on their behalf, such as your spouse.

Little-known 'fun fact': you can even open a Children's Stakeholder Pension for your child, from the day they are born, and that gets tax relief as normal.

It's a great way for you as parents, but also grandparents, aunts and uncles to put money away for the child, and that money could have over five decades to grow. Not only does it give your child a great head start on their retirement saving, but it can give them peace of mind throughout their working life.

When you come to 55 (or as I say, 57 after 2028), you may consider drawing down money from your pension, especially if you wish to take early retirement.

If, like most people these days, you have the normal defined contribution pension, you can take your 25 per cent tax-free and use the remainder to buy an annuity, giving you an income for life, or draw down the rest of your money slice by slice over the years. However, drawdown requires professional advice to ensure you avoid incurring an avoidable tax bill.

If you have a defined benefit (final salary) pension, you can take your 25 per cent tax-free lump sum and head off on that world cruise, and still have a guaranteed, albeit reduced, income for life.

Besides all this, there is of course the state pension, although you currently don't get that until the age of 66, rising to 68 by 2046.

As you can see, saving into your various pensions translates into financial security, money, and ultimately happiness in your later years.

If that's "sexy" enough for you, then give us a call. We'll make sure you're on the right track for a great retirement, and if you're not, we'll help you make the right changes so that you are.

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