PENSIONS AND THE YOUNGER GENERATION

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If you are in your late 40's to 50's there is a good chance that you have worked for a Company that operated a Defined Benefit Scheme sometimes also known as a Final Salary Scheme.

Defined pension schemes pay their members a secure income for life which increases each year.

The pension income, if you are lucky to be a member of one of these types of schemes, is normally based on your pensionable service (the number of years you've been a member of the scheme), pensionable earnings (this may be your salary at retirement or an average over a set number of years) and the Accrual Rate (the proportion of your earnings you'll get as a pension for each year in the scheme (commonly 1/60th or 1/80th)).

Unfortunately, as these schemes are incredibly expensive to administer they are being phased out by employers in favour of Defined Contribution Schemes.

Defined Contribution pension work by building up a pension pot using your contributions and your employers (if applicable) plus the investment returns and tax relief.

If you are a member of a scheme through your workplace, then your employer usually deducts your contribution from your salary before it is taxed.

For our children and grandchildren this is the type of scheme that they will likely be enrolled in when they begin their working lives.

According to a recent Daily Express article sponsored by Key Retirement,

7 in 10 younger workers will experience a shortfall in their expected pension income because they are not saving enough.

Those around 30 years of age typically said they thought they'd need an income of around £23,000 for a comfortable retirement – this was based on a survey of 5,300 people.

However, when they looked at what would be the expected retirement income based on the amounts that people in this age bracket were saving it showed that they would be short by about £8,000 as the yearly income would typically be £15,000.

The report advised that if a 25-year-old wanted to achieve retirement income of £23,000 a year then they would have to look to start saving almost £300 each month into their pension.

As the younger generation may be struggling to save for their retirement due to Student Debts they may be paying back and saving for and buying their first home this is clearly a problem that has to be addressed.

Perhaps for this generation the help that we can offer with regards their pension is minimal with them perhaps looking toward money they'll receive from their grandparents and/or parent's estate to fund their retirement.

We can however help their children and although it seems like a strange idea to arrange a pension for someone who still might be in nappies the argument is compelling. Parents or other family members can invest in a self-invested personal pension (SIPP) for a child, up to a maximum of £3,600 each year.

Thanks to the tax breaks that come with saving in a pension, this means investing £2,880 annually -or £240 each month – with the balance being automatically reclaimed from the HM Revenues and Customs.

The benefit of compound growth over the long term is key so the sooner you start saving the better.

There is no minimum age for a junior SIPP so it can be started the day that the child is born. The pension fund is outside the estate for inheritance tax purposes so this could become a valuable exercise if you need to reduce your estate.

For the here and now everyday emergencies or situations that our children find themselves in, the Bank of Mum and Dad or increasingly Gran and Grandad never seem to close, charges an incredibly favourable interest rate and rarely call a debt in.

Saving for your child's or grandchild's pension whilst their retirement is a lifetime away may turn out to be one of the best investments you ever make for them.

Wed 7 NOV

We are running our next Virtue Money Pre-retirement seminar on Wednesday the 7th of November 2018 between 9am and 1.15pm. We have guest speakers and will touch on the following, Wills, Powers of Attorneys, Tax, Health and of course Pensions. There will be a buffet lunch afterwards which gives you an informal opportunity to speak to our advisers if you have general questions regarding your pensions.

If you would like to attend or indeed make an appointment to speak with one of our advisers regarding life assurance, retirement, critical illness, income protection or any other aspect of your finances then please give me a call **0345 034 3424** or email me at susan@virtuemoney.com and I will be happy to arrange this, the first consultation is completely free of charge and no obligation.

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