John Head Finance

Biggest Mistakes in Retirement Planning

Over the years we have seen the end result of having made too little provision for retirement income. It is always that extra pension (whether it be from an Employers Scheme or Personal Pension) which makes all the difference in retirement. You will find below our top 4 tips for avoiding Pension Poverty…

“The State will provide for me if I do not have enough income in retirement”

No it won’t – it cannot afford to. The State Pension was never intended to provide enough for anyone to live comfortably; it was merely a starting point.

Basic State Pension for a Single Person in 2010/11 is £97.65 per week.

If you have a Partner who does not qualify for his/her own Basic State Pension and has to rely on your National Insurance Contributions to claim they will get £58.50 per week.

If that is all you have, you can of course claim Pension Credit…

Pension Credit Allowance for a Single Person in 2010/11 is £132.60 per week.

Pension Credit Allowance for a Couple in 2010/11 is £202.40 per week.

(The Pension Credit Allowances include any entitlement to State Pension)

COULD YOU AFFORD TO LIVE ON EITHER OF THE ABOVE INCOMES?

You can get more information on The State Pension, including your own State Pension forecast by the Direct Gov website.
(http://www.direct.gov.uk/en/Pensionsandretirementplanning)

“I’ll start my pension next year, when I can afford a little more”

Inevitably this leads to starting too late or not even at all. It is a fact that it is the money you invest in your pension in the early years which produces the best long term returns – merely because it has longer to grow…

We all know that balancing the family budget is difficult enough in these times but it is fair to say that forcing yourself is the only sure way to save. There used to be a saying that “If the pension contributions do not hurt a little, they will never be enough”

“This Pension is rubbish – I have been saving in it for 20 years and the income I am going to get is hardly worth having”

This statement is a regular one we come across and there is usually a very good reason for it which has nothing to do with investment performance or the charges within the pension…

Many people start pension contributions early in life but very few increase their contributions as their income rises. We often see people who started saving £20 per month which was a fairly large amount compared to their income at the time but, 20 years later they are still saving £20 per month. Average Earnings in the UK grew by an average of 5.95% per annum over the 20 years up until July 2010 (**Source: Office for National Statistics)** so it would make financial sense for pension contributions to have increased by that rate as well – otherwise the pension funds has no chance of keeping up with the cost of living. We urge everyone to have a pension plan in which contributions increase automatically each year.

“The growth in my pension plan has been rubbish”

A statement which often comes out when the person is actually at retirement.

It should never be forgotten that a pension plan is an **INVESTMENT** contract and is very often your second biggest asset (behind your house). It should be looked at regularly and because investment conditions and markets change rapidly it needs to be managed and monitored.

If you are not going to review it regularly then at the very least ensure that the fund you use is a broadly based, diversified one which has an internal system for adjusting the underlying investments held.