6 Steps to an early retirement

Your essential guide to boost your retirement fund.

What does retirement look like to you?

It could just be about enjoying the simple things in life. Or having the financial freedom to be spontaneous, to fulfil those dreams and ambitions you never had time for when you were working. Are you looking forward to it because you know you've got it under control? Or are you uneasy about it because you're not sure you've done enough? Maybe you've got ambitions to retire early. Can you afford to do it?

There is no shortcut to a comfortable retirement. Yet too many people think there is one. 38% of working age people are undersaving for retirement, according to a 2023 analysis by the UK Government[1]. But how much is that? Research has shown that 77% of savers don't know how much they'll need in retirement[2].

Will a £1 million pension pot be enough? It sounds like a big number. But it's the pension that many of us will need to maintain our current lifestyle in retirement. It might also sound unachievable. Yet with the right habits and the right plans, you have the potential to get there.

[1] UK Government, March 2023

[2] Pensions and Lifetime Savings Association (Based on research involving 249 participants) October 2023

What do you want in retirement, and how much will it cost?

Research for the Pensions and Lifetime Savings Association shows what kind of lifestyle you could have in retirement.

	Minimum	**Moderate**	**Comfortable**
Single	£14,400 a year	£31,300 a year	£43,100 a year
Couple	£22,400 a year	£43,100 a year	£59,000 a year
What standard of living could you have?	Covers all your needs, with some fun	More financial security and flexibility	More financial freedom and some luxuries

Source: Pensions and Lifetime Savings Association, February 2024.

Why save into a pension?

Savings options such as ISAs offer real flexibility and are a great way to build wealth for the future. But a pension has one clear advantage. Tax relief. If you're under 75, what you pay into a pension is boosted by 25% on day one. That's because everyone gets 20% basic rate tax relief on their pension contributions from the government.

And if you're a higher or additional rate taxpayer, you could claim even more tax relief through your annual tax return. Any growth is free from Income Tax and Capital Gains Tax, which can also give your retirement fund a real boost. It's also important to consider that pensions aren't generally counted as part of your estate for Inheritance Tax (IHT) purposes. So saving into one will avoid IHT at up to 40% that your estate would be liable for if the money was held elsewhere. That can make a big difference to your plans later on.

The value of an investment with St. James's Place will be linked directly to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief generally depends on individual circumstances.

How much does a £200 pension contribution cost you?

	Money paid	Tax relief
Basic rate taxpayer	£160	£40
Higher rate taxpayer	£120	£80
Top rate taxpayer	£110	£90

This is based on the assumption that contributions are eligible, and that anything over the basic rate of tax is reclaimed via your annual tax return.

How much can I pay into a pension?

Most people get tax relief on pension contributions worth up to 100% of their earnings, capped at £60,000 each tax year. This includes contributions from yourself, your employer, any third party as well as tax relief paid to the pension. This is called the 'annual allowance'.

Six top tips for boosting your retirement fund

Start early

It's all too easy and tempting to focus on immediate financial rewards and goals. After all, retirement might feel or be years away.

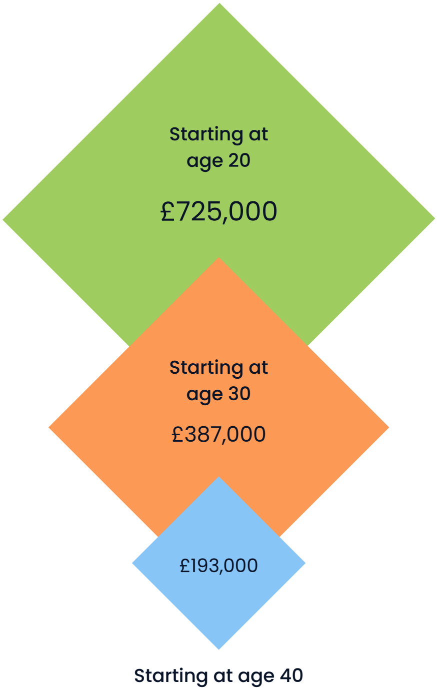
Maybe you're telling yourself that you'll put aside money for tomorrow 'when I can afford to' or 'when I'm earning more money'. If that's you, then you risk leaving it too late.

The key to achieving a comfortable retirement? **Save as much as you can, as soon as you can.**

In your 20s, you may be more concerned about getting on the property ladder. Your 30s could be a busy time with money spent on weddings, house deposits and having children. Maybe there's a career break.

Late 40s is often when earnings peak, so you really need to take advantage of your greater financial resources. In your 50s, expenses may start to dwindle. It's a good time to take stock of your plans and the perfect time to catch up on saving.

Wherever you are on your savings journey, it's vital that you keep your pension plans in focus. Getting into the savings habit earlier means that a more secure financial future can be within reach.



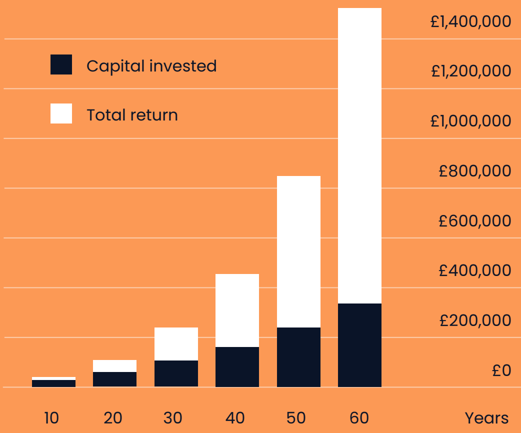
Estimated fund size at age 68

Based on £200 invested each month, increasing by 2.5% a year: return 5% a year, compounded monthly, after charges. These figures are examples only and are not guaranteed. They are not minimum or maximum amounts. What you get back depends on how your investment grows and the tax treatment of the investment. You could get back more or less than this.

Give your money time to work

The sooner you start saving, the longer your money will be invested. That really improves the chances of growing your money. Why? Because it gives time for the power of compound investing to do its work. When you invest money regularly, the returns you earn can also generate returns of their own. It's a powerful investing tool and, over time, it can really add up.

Thanks to compounding, you can potentially double your money every decade, despite the ups and downs of financial markets.



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Increase your contributions whenever you can

Once you've started paying into a pension plan, remember to regularly review what you're contributing. Just leaving it to tick along at a lower contribution level won't get you where you want to be by retirement.

Any time you get a pay rise, think about increasing your pension contribution by the same percentage. Even a small increase can make a big difference over the long term. Investing a bonus or an inheritance could also be a smart way to get nearer that savings goal. Making larger, one-off payments can have a significant impact on your retirement fund when they're invested for several years.

It's also worth finding out if you have any unused annual allowance from previous years. Subject to certain limits this could enable you to pay in more than £60,000 in one year and still get tax relief on the whole amount. You can 'carry forward' unused allowances for up to three years.

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Don't dip into your pension if you can help it

You can usually access your pension from age 55 (rising to 57 in 2028). This is when you can take up to 25% tax-free as a lump sum. Many people do, perhaps to pay off their mortgage or make a big-ticket purchase.

But if you can afford to, your best hope for a comfortable retirement is to leave your pension untouched for as long you can. That gives it as much time and potential as possible to grow.

Remember that retirement nowadays can last 30 years or more. It's a long time, and hopefully a happy time, as long as you can maintain your standard of living.

Track down old pensions

Throughout your career, you might work for different employers and accumulate a collection of workplace pensions through various schemes. You may also have some personal pensions, especially if you have been self-employed at any point.

It's not always easy to keep track of all your pensions, or for your pension provider to keep track of you. Multiple pension pots from different providers mean you run a much higher risk of losing track of them. House moves are often to blame for this as paperwork is lost and providers not notified.

It adds up to a lot of money. 2.8 million pension pots worth £26.6bn are lost or dormant in the UK[3]. That's money that could be helping people towards a more comfortable retirement. That could include you.

[3] Pensions Policy Institute - October 2022

You've got a few options for tracking down forgotten pension pots:

- Contact each old employer with the dates you worked there and they should be able to confirm the pension provider they contributed to for workplace pensions at that time. You're likely to need your National Insurance number.
- Try the government's free Pension Tracing Service to help you find old employers. Once you've got their contact details, get in touch and ask them to give you the name of your pension provider and policy number.
- Contact your old pension provider directly if you can remember the name. You'll need to provide your name, address and NI number.

Review your pension plans

Once you've got a full picture of your pensions, it's worth getting some advice to review them.

You need to understand how your accumulated pensions are going to help you towards the retirement you're after.

How are the investments performing? Are they still the right investments for you? Are there any restrictions or important benefits you need to be aware of? There may be changes you need to make, especially if a pension hasn't been looked at for a long time.

You've worked hard for your money. Investing the time to get your pension plans into shape can ensure all your money is working as hard as possible towards your retirement.

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What next?

Taking control of your plans is the start of creating the financial future you hope for.

We can help you. Get in touch today.

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