GUIDE TO SIPPS & PERSONAL PENSIONS

We all dream of spending our well-earned retirement doing what we love without worrying about money. But getting your dream retirement can take a lot of effort and discipline to ensure you have enough cash to be comfortable during your golden years. In fact, according to a recent study, you'll need at least £10,200 a year to have all your basic needs covered in retirement[1]. Assuming you finish work at 67 and live until the age of 82, you could need around £153,000 in your pension pot by the time you retire. This amount can sound scary, but don't worry, there are many ways to help you reach your retirement goals.

How to plan for retirement

When it comes to planning for retirement, it's important to understand how pensions work. Generally speaking, a pension is a sum of money that is paid to you on a regular basis as soon as you stop working. But not all pensions are the same! They all come with different benefits and rules. In the UK, there are three main types of pensions: state pension, workplace pension, and SIPPs (Self-Invested Personal Pensions). And if you want to make the most of your retirement, it's a good idea to familiarise yourself with each type.

State pension – how does it work?

If you're living and working in the UK, you should be able to claim a state pension. The good thing about the state pension is that you don't need to do much as most of the work is done automatically. If you're employed and earn over £166 a week, your company should be paying in your national insurance contributions out of your salary. In order to get any state pension, you'll need to make contributions for at least 10 years. If you want to receive the full state-pension, which would currently give you an annual income of £9,100, you'll need to pay contributions for 35 years. As things stand, only 44% of UK pensioners have been able to claim the full amount[2]. So, make sure you're on top of your national insurance contributions. Also, if you have any gaps and worry about not having enough years of contributions to get the full state pension, it could be worth checking whether you're eligible to pay voluntary contributions.

If you're self-employed, then you don't have anyone to make contributions on your behalf, meaning you've got to do it all on your own. So, it's important to keep track of your national insurance contributions to ensure everything is in the right place. It could also be a good idea to contact HMRC just to check if there's any gaps.

If you're eligible to claim a state pension, you'll only be able to access your pot once you reach your pension age. Currently, you can claim your state pension when you turn 65. However, as people are tending to live longer, the pension age is set to increase in the future. It'll rise to 66 by April 2020, 67 by 2029, and 68 between 2044 and 2046 – although there are plans to reduce the time-frame to 2037 and 2039.

Workplace pension – how to make the most of it?

If you're employed, it's a good idea to pay into your workplace pension. Typically, with a workplace pension, you and your employer will put money aside for your golden years, and this money will be invested in funds - think of them as hampers full of investments, such as shares and bonds. Since April 2019, you must contribute at least 5% of your salary, and your employer will pay a minimum of 3% of your pay. But if you can afford to pay more into your pot, don't hesitate to review your contributions, as it could help your retirement pot grow a little faster.

Although you get automatically enrolled, workplace pensions are often overlooked. In fact, many Brits tend to forget about their pots. A recent study has found that there are about 1.6 million unclaimed pension pots in the UK – and together they're worth more than £19 billion[3]. So, if you've had several jobs and contributed to different workplace pension schemes, try to keep an eye on them and track where they are.

It could be a good idea to bring all your workplace pensions into one simple scheme - that way you'll have everything in one place, and it'll be easier for you to manage your retirement savings. But before consolidating your pensions, it's important to shop around and compare the different fees taken by providers. It's not always well understood, but charges and fees will eat into your potential returns and as a consequence, they could make a significant impact to how much money you'll receive in later life. So, when looking for a provider to transfer your pensions to, make sure you do your research. However, don't just focus on fees and consider other things, like customer service, user experience, and investment strategy.

SIPPs and personal pensions - everything you need to know

If you want to take control of your retirement and make the most of your golden years, it could be worth looking at other options. If you're in a comfortable place financially, it could really benefit you in the long run to consider opening a personal pension, also known as a SIPP (Self-Invested Personal Pension). But what is it? A SIPP is a type of personal pension that gives you control and flexibility over your retirement pot, as you can make your own contributions.

With a SIPP, your money can be invested in a wide range of investments, such as shares, bonds, and commodities, and you'll receive tax relief on your contributions. For each contribution you make, you will receive a 25% top up. In other words, for every £100 investment in your SIPP, you'll only need to pay in £80 as the government will add the remaining £20. The top up increases to if you're a higher or an additional rate taxpayer – one thing to keep in mind though is that you'll need to contact HMRC to claim your extra top up.

The amount you can invest tax-efficiently is limited. Currently, the annual limit is set to £60,000 or 100% of your earnings (whichever is lower) – this allowance is the combined contributions made by you and the government. If you contribute more, you may need to pay tax on the excess. If you don't have any UK earnings, you can still pay into a SIPP, but the annual allowance will be much lower. Each year, you'll only be able to contribute up to £3,600 (including tax relief).

The table below shows the tax benefits that come with a SIPP:

Amount you pay	Amount added by the government (25%)	Total contributions in your SIPP
£800	£200	**£1,000**
£2,880	£720	**£3,600**
£16,000	£4,000	**£20,000**

If you're unable to use your full allowance, you have the possibility to carry it from the three previous tax years, provided you meet two key requirements:

- Your earnings need to be at least equal to the total amount of your contributions
- You need to be signed up to a registered pension scheme

The good thing with a SIPP is that your money is locked in until you turn 55, but you can keep paying into your pot until your 75th birthday. Once you're 55, you'll be able to withdraw up to 25% of your money as a tax-free lump sum.

SIPPs are particularly well designed for people who are self-employed. Unlike employed people, those who are self-employed aren't enrolled in workplace pensions and also need to arrange national insurance contributions on their own. Needless to say, self-employed workers are more likely to struggle when building their retirement pot. According to a survey, over 60% of Britain's self-employed workers are not saving in a pension, compared to 30% of employees[4]. The situation may be challenging, but it's not hopeless. Personal pensions and SIPPs are great options when it comes to saving for retirement and they could help self-employed workers take back control over their later life.

Retirement planning across the years

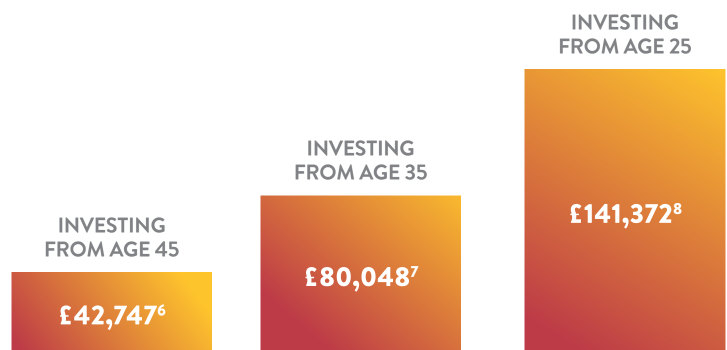
20S AND 30S: START PLANNING FOR LATER LIFE

Retirement may not be your priority at this point – after all it's a long way off and you surely have other financial matters to deal with. However, this doesn't mean you shouldn't start thinking about your golden years. The main thing you could do now is try and take control of your finances by creating a budget and sticking to it.

Don't know where to start? Well, simply review your monthly spending and list all your expenses. This will help you see where you can cut down and save. Your first aim should be to build up an emergency fund so you can cover any unexpected costs coming your way. Once your finances are in a good shape, start having a look at the different retirement options you've got. It's estimated that 35% of people don't have a pension, and yet there are ways to dip your toe in the pension world[5]. If you're over 22 and currently working, make sure you keep track of your national insurance contributions, so you can claim your state pension when the time comes. Also, try to remain enrolled in your workplace pension, and keep track of any previous pots.

In addition to contributing to your state and workplace pensions, you could also start paying into a SIPP. If your personal circumstances and financial situation allow it, investing in a personal pension could help boost your golden years. But is it not too soon to consider saving for retirement, you ask? The answer is no. It's never too early to enter the investment world. In fact, starting whilst you're still young could pay off in the long run. The sooner you invest for your retirement, the earlier your money could potentially grow and benefit from compound interest. When you pay into a SIPP, your money gets invested in companies, and as a result, you can enjoy some of their profits in the form of dividends. When these dividends get reinvested into your pot, your money could quickly add up, and over the long-term, your retirement savings could grow exponentially bigger. To take full advantage of compounding, it's important to remain invested over a number of years. The longer you stick with your investments, the more likely you are to earn positive returns.

Here's how the power of compounding works:



HOW MUCH YOUR RETIREMENT POT COULD BE WORTH IF YOU INVESTED £100 A MONTH AND RETIRED AT 65

40S AND 50S:
MAXIMISE YOUR RETIREMENT POT

If you haven't planned for retirement yet, it's not too late. Although it may require more effort to reach your goal than it would have had in your 30s, you can still take control of your later life. Start by checking your state pension and see how much you'll be entitled to. Also, if you're employed, check you're currently enrolled in your workplace pension and look into increasing your contributions to catch up.

If you're on top of your retirement savings, you could consider increasing how much you put in your pension schemes. Also, it could be a good idea to consolidate all your pensions in one place, so you can keep track of your savings easily. In addition to maximising your retirement pot, you could start drawing up a plan for your golden years. There are many things you could already decide on. For instance, you could choose the age you're intending to wave goodbye to your working life. It could also be worth thinking about the monthly income you'd like to have when you retire. Such estimates don't need to be set in stone. Depending on your situation, you can always come back to them and make adjustments, if needed.

60S ONWARDS:
MAKE THE BIG DECISIONS

Retirement is approaching and it's time to make important decisions regarding your hard-earned rest. The first thing you could do is check how much is in your pension. Start by requesting your state pension forecast and find out how much you'll likely receive and when. Ask your pension provider(s) for statements and have a look at your savings accounts and other investment plans. Add up what you've got and then decide how much you'll be withdrawing from your pot. Also, think about the way you'll take your funds out. Some pensions will pay out a specific income for life which will increase each year – this is known as 'defined benefit pensions.' Other pensions are 'defined contributions schemes' and they'll let you choose how to withdraw your money. Put simply, you'll be able to either take your whole pension as a lump sum in one go, take out lump sums when you need them, or get paid a regular income based on your pot size. Remember, whatever options you go for, you'll be able to take up to 25% of your pot as a tax-free lump sum.

Once you've reached all your retirement targets, you can officially say farewell to the working world and retire. But don't forget, if you have a SIPP, you can make contributions until you're 75, so try to keep up the effort and enjoy the later life of your dreams.

Take control of your retirement with Wealthify

Investing in a SIPP is easier than you might think. With digital investing services, like Wealthify, you can open a personal pension in just a few taps.

WHY CHOOSE THE WEALTHIFY PENSION?

You can start with just £50 If you can't afford to put big lump sums in your SIPP, that's absolutely fine. With Wealthify, it's now possible to open a personal pension with just £50 upfront. And the minimum remains the same if you're planning to make monthly contributions.

We do the hard work for you. With Wealthify, you don't need much financial knowledge or experience to start investing. Our investment managers are here to look after your money and make all the investing decisions for you - from picking the right investments to managing your pension on a regular basis. But it doesn't stop there! Every time you add money to your pension, we'll automatically add the government's top up to your pot and invest it for you.

You're always in control. Although your pension is managed for you, you'll remain in control. With our online investing platform, you can easily check how your investments are performing at anytime, anywhere.

We keep our fees low. At Wealthify, we offer an affordable way to manage your pension, allowing you to keep more of your money to enjoy in your golden years. We take a simple annual fee of 0.6% for managing your investments. And as with most investments, other costs, including fund charges and transaction costs, will apply, but we make sure to keep these as low as possible. View our charges.

You can invest ethically. If you want to do your bit for the future, Wealthify could be the right option for you as you can choose to make your pension ethical. With an Ethical Pension, your money will be invested in companies that are committed to doing their part for society and the environment – and sectors such as weapons, tobacco, gambling, and adult entertainment will be excluded from your pension. Learn more about our Ethical Plans.

HOW WE INVEST YOUR RETIREMENT SAVINGS

We have a qualified team of investment professionals with over 50 years of experience at established UK firms. Our do-it-for-you approach means that our investment team will build and manage your pension, so you can focus on other aspects of your life.

We use a variety of funds to build your pension that hold investments worldwide including regions, such as, America, Europe, Asia. The core investment types that we invest in are bonds, shares, and property. By using a mixture of funds, we can avoid putting all our eggs in one basket, known as diversification. Our customers' plans can hold over 10,000 underlying investments, from shares in Apple to UK government bonds, by owning just 15 funds.

Our investment team will regularly review the funds used in your pension and will change them when necessary to ensure you're invested in the best funds to match your needs. As well as reviewing funds, our investment team will manage your allocations in different regions and investment types, and will actively make changes to your pension to benefit from potential opportunities and protect your pension from potential harm.

HOW TO OPEN A WEALTHIFY PENSION

Opening a Wealthify Pension is easy. All you need to do is choose how much you want to invest and the risk level that suits you. You can be cautious, adventurous, or somewhere in between. And don't forget, if you want to invest in line with your principles, you can make your plan sustainable just by switching our 'ethical' toggle on.

HOW TO TRANSFER YOUR PENSION TO WEALTHIFY

Consolidating your previous pensions in one place can sound like a big job, but it doesn't need to be. With Wealthify, transferring your pensions has never been easier. Start by choosing how much you want to transfer and the risk level you're most comfortable with. Also, for your transfer to be successful, you must complete the official Pension Transfer Form. Learn more about bringing your pensions to Wealthify.

References

1: https://www.fool.co.uk/investing/2019/10/18/heres-how-much-income-you-need-for-a-comfortable-retirement-the-state-pension-isnt-enough/
2: https://www.independent.co.uk/money/spend-save/pension-state-dwp-income-retirement-money-women-a9203726.html
3: https://www.theguardian.com/money/2019/may/12/lost-pension-funds-pots-auto-enrol-track-trace
4: https://www.theguardian.com/money/2019/jun/29/pensions-why-self-employed-people-should-mind-the-gap
5: https://www.finder.com/uk/pension-statistics
6: This is the projected value for a Confident Plan (Medium Risk Plan). This is only a forecast and is not a reliable indicator of future performance. If markets perform worse, your return could be £32,823. If markets perform better, your return could be £56,142. Values correct as of 12/02/20.
7: This is the projected value for a Confident Plan (Medium Risk Plan). This is only a forecast and is not a reliable indicator of future performance. If markets perform worse, your return could be £56,419. If markets perform better, your return could be £122,123. Values correct as of 12/02/20.
8: This is the projected value for a Confident Plan (Medium Risk Plan). This is only a forecast and is not a reliable indicator of future performance. If markets perform worse, your return could be £87,809. If markets perform better, your return could be £242,992. Values correct as of 12/02/20.

Wealthify's 5 Star rated Digital Wealth Management proposition offers ISAs and a general investment account.
The tax treatment depends on your individual circumstances and may be subject to change in the future.
Please remember the value of your investments can go down as well as up, and you could get back less than invested.