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From maternity to MOTs: saving for your retirement

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By Holly Thomas

Jaki Howard, 32, says she has her mother to thank for being clued up about the importance of saving for retirement.

"I've always opted into pension schemes at my employers," Howard, who works in HR, said. "I know that saving early is often the key to building a decent pension. My mum instilled that in me from my early twenties."

Howard recently consolidated four old work pensions into a self-invested personal pension (Sipp) with Interactive Investor.

"I've had quite a few jobs since I left university and realised it wasn't very efficient having a bunch of small pots, so I moved them into one, where I am in control of how they are invested."

Her Sipp is mainly invested in investment trusts including BlackRock World Mining, Scottish Mortgage, City of London and Fidelity Special Values. Howard also holds a handful of shares including National Grid. The portfolio is up 17 per cent since she opened it in 2018.

Howard and her partner, Dean Beaden, 36, who live in Ilkley, West Yorkshire, are about to buy a house so most of their money is going into that.

"Once we're in and the spending stops, I plan to start contributing to my Sipp as well as my work pension to boost my fund."

Howard is the exception: most of us are not saving enough for retirement.

There is no doubt that most people will need our pension pots to last for decades. The latest data on life expectancy indicates that the number of people aged 85 is set to rise from 1.7 million now to 3.1 million by 2045.

While there is no one-size-fits-all solution on how to approach retirement planning or how to invest your pension, here's a guide to how you might save at different life stages.

In your twenties

The longer you save, the more chance you have of seeing your money grow, in large part because of compounding. So it's great that thanks to the government's auto-enrolment scheme most workers are saving for retirement. It is possible to opt out of the scheme to leave more money in your pay packet, but the rules are that if you contribute, so does your employer, so by opting out you would be giving up free money.

On top of that you get unrivalled tax breaks on pension contributions. All taxpayers get 20 per cent relief from HM Revenue & Customs on their contributions and if you pay a higher or additional rate you can claim relief on your self-assessment tax return.

If you are under 22 you will need to ask to be added to your workplace pension scheme as it will not happen automatically. It's a no-brainer to opt in.

When it comes to choosing the way you invest at this age, go large on risk, the experts say. Laith Khalaf from the investment platform AJ Bell said: "You can afford to take a fairly high degree of risk with your investments, with a 100 per cent equity approach. With such a long time until you draw on your investments, you can also consider higher-risk areas such as smaller companies and emerging markets, which tend to experience more ups and downs but also come with the potential for higher returns. If you are a cautious investor you might add some bonds and diversifiers to reduce volatility."

Khalaf suggested considering Fidelity Index World fund, which tracks the performance of the global stock market and has a low ongoing charge of 0.12 per cent. "It works for the hands-off investor, or as a core holding around which you can add some more exploratory options," he said. Khalaf also tipped Abrdn UK Smaller Companies Growth Trust, which invests in small companies that it expects to grow.

Becky O’Connor from Interactive Investor, another investment platform, says your late twenties are an important age to think about your pension, because 29 is the average age a woman has her first child in the UK.

“This is significant because this is also the age where pension contributions can start to take a hit for parents who step back from work to look after young children,” she said. “Keep your pension contributions going if you are on parental leave. If you decide to become a stay-at-home parent, register for child benefit even if you will have to pay it back because you earn too much, so you get national insurance credits towards your state pension while not working.” Households where someone earns more than £50,000 must pay back some of the benefit, which is wiped out once earnings reach £60,000.

In your thirties and forties

If your earnings rise and you can afford to pay more into your pension, do so. Often when you increase contributions your employer will match them.

Find out how your money is being invested and the associated charges of your scheme. If you think you can do better elsewhere you could consider opening a private pension, for example a self-invested personal pension (Sipp). This would mean giving up any employer contributions, but you would still benefit from tax relief and have control of your money. You may even want to transfer in old schemes to which you no longer contribute if you prefer to take control.

With at least 25 years until retirement you can still afford to take risks with your investment choices. Khalaf said: “As your portfolio grows you could add further diversification with Lazard Emerging Markets fund, which looks for attractively valued large companies across the globe, factoring economic, political and environmental risks into the portfolio.”

According to O’Connor, people often have a moment of financial reflection on reaching the age of 40. “This is when people often take stock of what they have to date in their pension and set a target for what they will need when they retire, or consider whether early retirement is on the cards,” she said.

“Some may look in horror at what’s in their pot relative to what they will need and decide to turbocharge contributions while they can.”

In your fifties and beyond

If you are planning to work into your sixties you can continue to save. While the experts insist that early investments are the most valuable, thanks to compounding, it is still essential to keep contributing to a pension.

It is not too late even if you are only just starting to plough money into your pension because the tax breaks are really worth having.

Your early fifties is the time when you might need to take advice — call it a midlife MOT — if the total value of your pot is nearing the lifetime allowance, frozen at £1,073,100 until 2026. You will be taxed 25-55 per cent on anything over this, depending on how you draw it.

If you hit 50 and decide you are not going to draw on your pension until you are 65 or thereabouts then you have a bit of time, so a global growth fund could be appropriate. Khalaf suggested Fidelity Global Special Situations or Monks Investment Trust.

As you progress through your fifties you might consider dialling down risk in your portfolio.

"You could start making use of multi-asset trusts or funds like Personal Assets Trust and RIT Capital Partners and reducing exposure to volatile areas like emerging markets and smaller companies," Khalaf said.

As you approach the age at which you want to retire you might put some of your pot into cash to protect it from volatility. You will not want any nasty shocks that might reduce the value of your 25 per cent tax-free lump sum.

For the rest of your pot remember you are likely to need it for another 20 years or more in retirement, so it needs to stay invested for a long time yet.

New rules mean that from June 1 you will need to make an appointment with the government service Pension Wise before you access cash held in workplace schemes. The service will walk you through your options on how to withdraw retirement savings.

If you are in a final salary scheme you can contact your old employer to find out what you are due to receive. Those whose previous employers have gone bust will be members of the Pension Protection Fund (PPF). In this instance you can ask the PPF for information.

And do not forget to check what you will get from your state pension. The full rate is £179.60 per week but how much you get depends on your national insurance contributions throughout your working life.