

One Financial Solutions: Social Media
February 2017 – w/c Monday 6 February
No.2-3
Five steps to pension perfection (Part 2)

v.2 (10 February 2017)

BRIEFING

Approved

Five (easy) steps to pension perfection (Part 2)

Issued: 10 February 2017

In our continual bid to help as many people as possible reach the goal of having a ‘financially secure and comfortable retirement’, we present and comment on some of the interesting articles we see. During January, one such article appeared in The Telegraph. It listed ‘five steps to pension perfection’ ([read the article](#)) ([The link is http://www.telegraph.co.uk/pensions-retirement/financial-planning/five-steps-pension-perfection-2017/](#)) and we thought it so good that we decided to comment on each of the five steps in a mini-series.

It comes at a particularly appropriate time as we’re putting the finishing touches to the ‘Pensions’ section on our website ([visit Pensions](#)). ([The link is http://www.onefinancialsolutions.co.uk/pensions/](#)) There’s a lot of useful information in this section and we hope we’ve presented it in an easy-to-read yet informative way. Our aim is to make the subject of pensions less intimidating so we recommend you visit the website if you’d like more information about what we’re saying here.

The Telegraph’s Sam Brodbeck suggests anyone wanting to get a grip of their pension does so in five steps: 1) make sure you know what you’ve got; 2) boost your contributions; 3) maximise tax relief; 4) match your investments with your plan, and 5) consider alternatives.

There are three main pension scheme routes: the State Pension, workplace pensions and private pensions. You can usually increase your contributions to each although you may not need to increase those to your State Pension and there are limits to how much you can increase your workplace and private pensions.

The State Pension is a ‘contribution-based’ pension scheme; what you receive when you reach State Pension age is based on your National Insurance record. The system for calculating this changed in 2016 and, to get the current, full basic pension of £155.65 a

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week, you'll need to have amassed 35 'qualifying years'. If you don't have sufficient qualifying years you can make additional Class 2 or Class 3 National Insurance contributions on a voluntary basis. How you do so, along with the 'terms and conditions' that apply, are set out on the Government's website ([visit the page](https://www.gov.uk/voluntary-national-insurance-contributions/who-can-pay-voluntary-contributions)). (The link is <https://www.gov.uk/voluntary-national-insurance-contributions/who-can-pay-voluntary-contributions>.)

If you have a workplace pension, how you make additional contributions will depend whether it's a 'defined benefit' or a 'defined contribution' pension scheme and, of course, on the scheme's rules. Defined benefit schemes guarantee a fixed regular income when you retire: making additional contributions buys you additional months or years of membership which increase what you eventually receive. A defined contribution scheme is more like a savings scheme in that you receive the contents of your pension pot when you retire: making additional contributions increases the amount of money you have in the pot. A key benefit with workplace schemes is that, up to a limit, employers will usually make a contribution on your behalf so that whatever extra you pay, they may match.

If you've a private pension scheme you are free to make additional contributions as and when you want to. Some schemes, particularly stakeholder schemes, were created with flexibility very much in mind: you can pay irregular amounts on an irregular basis, and SIPP, self-invested personal pensions, allow you to manage your own investment adding to your funds as you feel necessary.

Although you are free to pay a maximum of 100% of your wages or salary into your pension schemes, an 'annual allowance', currently £40,000 per year, limits the amount of tax relief you receive and a 'lifetime allowance' limits the total value of your pension funds before you start paying additional tax.

By necessity, this is a very brief summary of a complex subject and, before you do anything, you should talk to a suitability qualified, independent financial adviser. One Financial

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Solutions is here to help you. As independent financial advisers we'll review your circumstances and help you make a decision that's best for you. It's good to talk so please call us on 020 3714 9565 for a confidential chat or ask us to call you by sending an email to admin@onefinancialsolutions.co.uk.