Guide to Retirement Income

Welcome to your retirement income cocktail, made up of three shots...

We think of your total income in retirement as three different 'shots' which get mixed together to make the total. This short Guide will help you to work out a rough estimate of how much you will be able to chuck into each glass – and how strong your cocktail will be. Hic.

1. The first shot – My State Pension

State Pensions are funded from National Insurance (NI) contributions and are intended to ensure we all have a basic amount of money to support us in our old age.

The new State Pension is currently £164.35 a week BUT you'll get nada if you haven't got at least 10 years of NI contributions under your belt from working (or the relevant 'credits' from periods of illness of unemployment.)

To receive the full £164.35 per week you need 35 qualifying years in the workforce. And don't believe the headlines – not many of us will get that. If you have less than 35 years, your pension will be pro-rated on your qualifying years. So, if you had 20 qualifying years, your pension would be 20 divided by 35, then multiplied by £164.35 = £93.91 per week.

Brainfry? Don't panic – if you are over 55 you can now go online to **check your state pension** statement. The pension statement will give you an estimate of how much you may receive under the new State Pension based on your current National Insurance record.

2. The second shot – My Workplace Pension (from your boss)

The law has changed. From 2018 every employer has to offer their staff a pension.

From 2019 you will have to put in at least 4% of your salary (or 'qualifying earnings' which is the total between about £6,032 and £46,350). The Government will bung in an extra 1% and your employer has to put in at least 3%. So that's 8% which will be building up, month after month. The more you earn, the more you will save.

You can refuse to take part ("opt out"), but it's not a great idea because you'll forfeit the 3% from your employer and 1% from the government.

3. The third shot – a Private Pension – (from you)

These are pensions which you set up by yourself – a bit like you would an ISA, or buying insurance online yourself. You choose the pension and you choose how much you can afford to put away each month. If you're about 40 and save £25 a month, you could save a stash of about £21,000 by your retirement age. Assuming you take no tax-free cash, this would give you a pension of about £24 a week.

This might all sound horribly boring BUT, if you're a basic rate tax payer, for every £80 you put in, the Government will top it up with another £20. That's free money. Higher rate tax payers can claim back even more – another £20 come tax return time.

Interested? See who we rate in our **Best Buys** section – or check out how other savers rate their chosen pension providers.

We try very hard to be accurate but please do check out the numbers and facts for yourselves before relying on them. Please do tell us if you see any errors or think anything is misleading.

Updated April 2018

Can I defer my State pension?

You don't have to take your State Pension at your State Pension Age. You can put off taking it and this can increase the amount you will get when you do claim it.

Under the new system your pension is currently increased by 1% for every 9 weeks that you put off claiming it.

When can I retire?

The State Pension age is the earliest age you can claim your State Pension – warning – it's been all change since 2010!

The changes will see the State pension age rise to 65 for women between 2010 and 2018, and then to 66, 67 and 68 for both men and women. There are plans to increase this further to 70. This is because we're all selfishly deciding to live longer and so the Government is struggling to keep up.

The easiest way to find **your state pension age** is to enter your birth date into the government site, which will also let you know your bus pass age! #smallpleasures

I'm stuffed! I haven't got enough years under my belt

You may find that due to career breaks (particularly if you have raised children) you do not have sufficient qualifying years to achieve full State Pension and you may be able to make voluntary contributions to increase your entitlement. In other words, you pay the Government a bit more – and you get a higher State Pension in return.

Before deciding whether to pay "voluntary NICs" – sounds like knickers but it stands for National Insurance Contributions - you should make sure that:

- There are gaps in your NI record for which payment can be made
- You know how much you need to pay
- You understand the benefits of paying

How much could this be? Here's a back of a fag packet...

If you are 40 today, earning an average wage of £30,000, your workplace pensions savings could accumulate by about £2,400 a year.

Add in investment growth and that could add up to a total sum of about £140,000 by the time you hit State Pension age.

If you swap this in for a weekly figure, you're looking at approximately £6,000 a year or £120 a week in your retirement*.

How much do I need?

This is the big money question. Here's another back of a fag packet...

To get a rough feel for how much you might get every year from a chunk of pension cash, divide the chunk by 25.

Got £140,000 saved up? You could get a pension firm to swap that for about £2,000 a year from retirement till you pop your clogs*.

**This assumes you take out 25% of the £140,000 as tax-free income so you're trading in the remaining £105,000.*

READ OUR CASE STUDIES ON THE NEXT PAGE TO HELP EXPLAIN

Here are three case studies to show you what this could all look like for you.

1. Margaret - £28,000 a year and she's 50

Margaret earns £28,000 a year and is 50 years old. She will retire when she reaches State Pension age - that's 67, after 20 years as a wage slave.

- **State Pension** Margaret will retire with 20 years National Insurance contributions so will receive only 20/35 of the the new State Pension. That's £4,884 a year or roughly £94 a week.
- **Workplace Pension** She has just started contributing to her company's auto-enrolment scheme, to which she will contribute 5% (£1,400) a year and her employer will contribute 3% (£840) a year. This could all add up to £40,000 (assuming no growth). Margaret could take roughly £10,000 as tax-free cash (you're allowed to keep 25% away from the tax man) leaving £30,000, which would generate a rough income of about £30 a week.
- **Private Pension** Margaret has saved into her own personal pension plan of many years has a pension pot of £25,000. If the stock market behaves, this £25,000 could grow to £33,000 by the time Margaret retires (that's a growth of 1.6%). If she takes the 25% she's allowed to as tax-free cash (that's £8,000) the remaining £25,000 will generate an income of about £25 a week.

TOTAL: £94 + £30 + £25 = £149 a week

2. Suzi - £60,000 a year and she's 45

Suzi earns £60,000 a year and is 45. She will retire when she reaches State Pension age – 67, after 30 years at the coal face.

- **State Pension** Suzi will retire with 30 years National Insurance contributions so will receive only 30/35 of the new State Pension. That's £7,325 a year or roughly £141 a week.
- **Workplace Pension** She will contribute 5% (£3,000) a year and her employer will pay in 3% (£1,800) a year. By the time she hits State Pension age, this could all add up to £120,000 (from which Suzi could take £30,000 as tax-free cash), leaving £90,000. This could get her an income of about £90 a week.
- **Private Pension** Suzi has a personal pension stash from a previous employer and the value is currently £100,000. If the stock market does what we think it will, this £100,000 could grow to £142,000 by the time Suzi retires. At this stage she could take £35,000 as tax free cash, leaving £107,000 in the kitty. In turn this could be traded in for a weekly income of about £110 a week.

TOTAL: £141 + £90 + £110 = £341 a week

*NB: Figures are just indicative and not precise. Includes assumptions which can be **read here.***
Calculations correct as of April 2018.

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3. Kerry - £40,000 a year and she's 40

Kerry earns £40,000 per annum and is 40. She will retire when she reaches State Pension age – 67, after a heroic 40 years hard slog.

- **State Pension** Kerry will retire with 40 years National Insurance contributions so will receive the full new State Pension of almost £164.35 a week.
- **Workplace Pension** She has just started contributing to her company's auto-enrolment. She will pay in 5% (£2,000) a year and her employer will pay in 3% (£1,200) a year. Assuming we don't see some abnormal stock market weirdness, this could all add up to about £103,000 (from which Kerry could take roughly £26,000 as tax-free cash). This leaves this glass with about £77,000 in it, which would generate an income of about £80 a week.
- **Private Pension** Kerry received half her ex-husband's pension savings as part of a divorce settlement and the account is currently valued at £250,000. If markets behave, this £250,000 could grow to a nice £385,000 by the time Kerry retires (at which point she could take a big slug of £96,000 as tax free cash). This would leave a balance of £289,000 which could be traded in for an income of about £290 a week.

TOTAL: £164 + £80 + £290 = £534 a week

Here are the web links in full:

Private Pension Best Buys

www.boringmoney.co.uk/best-buys/personal-pensions

Check state pension statement

www.gov.uk/check-state-pension

Find state pension age

www.gov.uk/state-pension-age

THESE NUMBERS ARE AN APPROXIMATE GUIDE ONLY!

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Calculations correct as of April 2018.
The numbers we talk about don't include the impact of inflation - the cost of living increases will mean that £10,000 at retirement buys less than it does today. Something to factor into your thinking.

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