



# Aptus

*Training Services*

## Retiring late – The good news for retirement planning

Last week SAGA has published the results of a survey that showed 4 out of 10 workers are delaying retirement for financial reasons. Furthermore by 2020, one in three workers, i.e. 10 million people will be over 50 years of age.

This is often portrayed as bad news, however the SAGA survey also indicated that many working over the age of 65 did so because they wanted to. This all adds up to a potential renaissance for pension planning, by being realistic about the amounts needed to be saved and for how long. Too many pensions have been sold (and indeed bought) on the basis that saving tu'pence ha'penny for 10 years will produce a generous retirement income for 30 years .

This article puts some numbers around how working those few extra years could make all the difference to an enjoyable retirement.



For many the working longer option will prove to be the preferred method for a number of reasons. Firstly, human nature is such that when we are younger retirement seems a long way away, something that can be put off until later. Secondly, investing for retirement at a time in life when in relative terms our mortgage is likely to be the highest proportion of our disposable income that it will ever be, and the kids are consuming money faster than the Bank can print it, means that saving for retirement is difficult if not impossible.

In any case for many, “early retirement” did not mean that at all, it meant redundancy, and just because it was funded by the pension scheme rather than the employer, did not make it any more welcome.

In the “good old days” of the 80’s and 90’s pension schemes were awash with cash and employers could afford to be generous when it came to early retirement, in some cases it may have been possible to receive a full pension equal to two thirds salary at 50.

However, economic and regulatory changes mean companies have had to start funding pensions as opposed to taking premium holidays and as a result the opposite is likely to be true.

If the trustees had the right to, and decided to apply a penalty, then £20,000 at 60 could become £5,000 at 50. Bear in mind that if the fund is not flush with cash or assets, and many are in that position, then the trustees may have no alternative.

One thing pensions are not, and never will be is alchemy. However you look at it, the money just is not there any more and a penalty on early retirement is more likely event than an enhancement. Coupled with State pension not paying out until 65 or even later then all of a sudden that dream retirement at 50 is looking more Bognor than Barbados.

For those not in company schemes the position is similar. A 30 year old earning £25,000 a year, and contributing £200 per month to a Personal Pension on an escalating basis, on mid range growth figures can expect a pension of £8,850 a year at 50. OK, not much, but maybe enough to support a fairly frugal life style if that is what is required. However, if we take inflation into account the real figure is nearer the same £5,000. One of the reasons the minimum retirement age is being increased to 55!

Working to 65 changes the numbers drastically. Sticking with our earlier example, our company pension employee will receive £20,000 plus the state pension £4027, however if our clients are willing and able to go on for another 5 years until 70 potentially the position is even rosier: £20,000 could become £22,500.

On top of that, the changes to the State pension increment will increase State provision to £5,565, giving a retirement income of over £28,000. As those over the age of 65 do not pay NI, net of tax things just keep getting better.

For the person funding their own pension at £200 per month the numbers are similar. Making an allowance for inflation, what would be £6,530 at 50 becomes £20,422 at 65 and just over £30,000 at 70

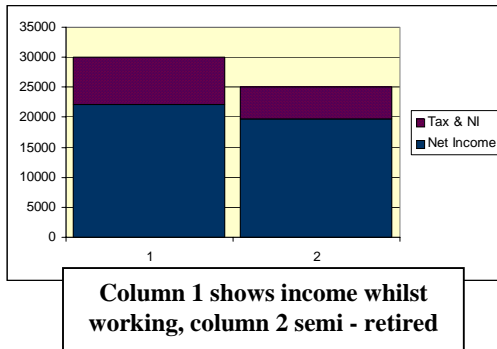
Of course the trouble with this scenario is that for many the thought of having to work long into old age is a depressing thought. Be that employed or self employed, another 5 or 10 years of hard work / politics' / boredom / pressure is enough to drive anyone to drink.

Perhaps the more realistic picture, and potentially more exciting is where a person retires from their "career" job, draws a pension in full or in part and continues to work in another role. This is one aspect of work that the Green Paper proposes to make easier by allowing one to draw retirement income and continue working.

Charles Handy in his book "The Age Of Unreason" forecast a change in the way we work. Handy predicted that for many careers would last from the ages of 25 – 50 with longer education delaying entry to the workforce and pressures of the role forcing and earlier exit. During that period people would have to work harder, but would earn more.

However he went on to predict a “Third Age” where money could be traded for time and respect, and by implication life satisfaction

So that’s the theory but what do the numbers look like. Let’s assume our client earned £30,000 pa before they “retired” at 55. If they continue to work in a less strenuous job earning £15,000 pa and drew a pension of £10,000, that would give them an income of £25,000. However because no NI is paid on pension income net of tax and NI the take home pay is nearly £20,000 against the £22,108 when working full time.



But what happens when they finally retire at 65 or 70? Surely our client is back to square one. Well, not really. Unlike the person who retired altogether, they have had 10 – 15 years of reasonable income.

If they continue to save for the day they finally stopped working the position might look like this:

If our client continues to save 10% of their income into a personal pension, at 65 they can expect a pension from the new arrangement of £3,550, or at 70, a pension of £6,730. If we add that to their existing arrangements and state benefit, the totals after adjusting for inflation are approximately £17,500 at 65 or £22,500 at 70.

Its still not Barbados, but it is not huddling around one bar of an electric fire either. As a nation we must face up to the fact we need to do more to prevent our own poverty in retirement. For many of us contributing more to a pension arrangement is not feasible, however working longer is.

*Aptus Training Services run training programmes covering both technical and skills requirements.*

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