Greenkeepers urged to think now about pension provision

Planning for retirement starts on your first day in work. That sounds extreme but it is true for the most crucial aspect of your financial planning – your pension.

After life assurance protection for your dependants, your pension is the single most important item in planning for retirement. It forms the foundation and several courses of the brickwork for that time of your life when you decide to stop working. It has to be built to the very best standards your resources allow. But, as with any finished construction, the foundations are just the start. It is the quality of the fixtures and fittings that can determine a building's value. Equally, it is additional planning on top of your state pension that decide whether your retirement years are comfortable or just adequate.

The earlier you discuss retirement planning with your Independent Financial Adviser – IFA for short – the better.

What does the State provide?

In short – not very much. Provided you have a complete National Insurance contribution record there is a basic pension of £57.60 per week for a single person and £92.10 per week for a married couple. There may be an additional pension payable from the State Earnings Related Pension Scheme (SERPS) but this has a maximum for high earners of £74.60 per week and will probably be very much less. Anyway, most young people will take the opportunity to contract out of SERPS and increase their private pension instead.

So what types of pension scheme are available?

Some employees will have joined a company scheme where the employer will pay a fixed amount or a percentage of salary. With this type of scheme the employee can pay personal contributions up to a maximum of 15% of salary but is disbarred from effecting a personal pension unless it is used solely to collect monies received from contracting out of SERPS. The majority of employees will not be invited to join a company scheme and so have to make their own arrangements either with or without the help of their employer. For this group the only logical choice is to effect a personal pension.

How do personal pensions work?

A personal pension plan works in two stages. Up to the time of your retirement the amounts paid in by you and by your employer are invested. Whoever is investing the money will try to earn the best return they can with the money. When you get to retirement, the proceeds of the investment must be used to buy you a pension from an insurance company. This does not need to be the same insurance company that you saved with. Your IFA will help you select the best available under the Open Market Option. There may also be a lump sum available at your retirement – normally 25% of the fund.

How much can I pay in?

The maximum amount you can pay into a personal pension depends on your age at the beginning of the tax-year. If you are aged 35 or under you can pay up to 17.5% of your earnings rising in bands to 40% for those aged between 61 and 74.

What is this tax relief I've heard about?

In order to encourage you to save towards your pension the government allow you tax relief at the highest rate of tax you pay. For example, a standard rate taxpayer pays £75 per month to an insurance company. The insurance company claims a further £25 from the government making a total of £100 invested. A higher rate taxpayer paying the same receives £25 from the government plus an extra £15 per month increase in take-home pay after adjustment to his tax code. It therefore costs a higher rate taxpayer £60 to invest the same £100.

In addition your money is invested in a tax free fund that increases the growth potential.

How do I choose the right pension provider?

With care! There are over a hundred pension providers willing to accept your money. Some have performed well over the years – some have not. This is where your IFA is able to provide specialist advice.

Why an independent financial adviser?

Advisers on life assurance, personal pensions and unit trust products are of two types. Either, representatives of a particular company, or independent.

Both types of adviser should only recommend life assurance, personal pensions or unit trust products if they consider such a product is suitable to your needs.

A representative of a particular company acts on its behalf and will recommend a product picked only from the range of those offered by that particular company. Most of the building societies and banks fall into this category.

An independent will act on your behalf in recommending a product picked from the ranges of all the companies that make up the market place.

Does it cost me anything to obtain independent advice?

Not directly – your IFA is paid by commission that comes out of the normal charges applied by the insurance company.

How do I get in touch with an IFA?

Contact BIGGA who has made arrangements for a panel of IFAs to provide members with impartial advice. Complete and return the coupon on Page 30 or phone for advice on 0347 838581.