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Helping you maximise the effectiveness of your financial planning

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How to save for a 'gold standard retirement'

Although it would be hard not to see auto-enrolment as a very positive step in providing pensions for many more workers than ever before, doubts have been raised in some quarters as to whether the level of savings being made under the scheme will be enough to secure a comfortable retirement



Don't rely on auto enrolment and the state pension alone to provide a 'gold standard' retirement

The minimum amount saved into an auto-enrolment pension is set by the government and will increase over time. It is currently around 2% of salary, made up of 1% employee contribution and 1% employer contribution. By 2019, the contribution levels will be increased to 8%, made up of a 5% employee contribution (4% plus tax relief) and 3% (minimum) employer contribution.

PROBLEMS MAY LIE AHEAD

According to the Pensions Policy Institute (PPI)*, even with 8% contributions, pensioners face having insufficient funds for their retirement. The PPI took an example of a person aged 35-44 (in 2015), earning an average wage of £27,000 a year, saving the required 8%.

To have a comfortable retirement income (based on two-thirds of working life wages) the worker would need to save enough to generate a retirement income of £18,000 a year in retirement. Their state pension is likely to be around £7,865 by the time they reach their pensionable age of 68, but their auto-enrolment pot is likely to be just £56,000. Based on average annuity rates, this would provide only £3,200 a year. After adding in the state pension, that still leaves a shortfall of around £7,000.

ADVICE FOR THE FUTURE

Whilst no one doubts the wisdom of saving via an auto-enrolment pension, employees need to be aware of the amount that this will provide when they retire. With other savings and investment opportunities such as ISAs, personal portfolios or pension provision, it makes sense to look at additional ways to build up funds, and save as much as possible for the future.

*Pensions Policy Institute, 2015

If you would like us to help you solve financial problems, or to assist with financial planning, contact us on 0118 932 0600 or e-mail: twyford@osceola.co.uk *If you wish to be removed from future mailings, please reply to this email with the word 'Unsubscribe' in the subject.