FINANCE UPDATES

SEPTEMBER 2020

ORCHID FINANCIAL SERVICES

RETIREMENT SAVING FOR THE SELF-EMPLOYED

How to save for a pension if you work for yourself.

For ministers to say workplace pensions have been an "extraordinary success" is perfectly valid, but those excluded from the government's flagship scheme may not share that sentiment.

The official statistics corroborate those claims, showing that more than 10 million employees over the age of 22 and earning more than £10,000 a year have increased automatic enrolment participation rates.

But that option remains off the table for the UK's five million self-employed workers, all of whom either have to consider other savings strategies or have no retirement plan at all.

Then there are individuals who might have extra money to invest in building their retirement portfolios but lack the understanding of other options that offer the best potential for returns.

We can help you with building a retirement planning strategy built around your goals, of course. In the meantime, this article looks at the most popular retirement savings options other than workplace pensions.

PROPERTY

According to the Office for National Statistics (ONS), the self-employed see investing in property as the safest way to save for their retirement in 2020.

The ONS asked retirement savers in the UK between April 2018 and March 2020 about their attitudes towards retirement savings. Some 43% viewed property as the best way to save for retirement, despite the Government introducing several tax changes that eat away at those profits.

The tenant fees ban, changes to capital gains tax, mortgage interest relief and letting relief have all combined to make life more difficult for residential landlords in 2020/21.

Property investors need to be well-advised about their tax responsibilities and the costs involved, such as a considerable initial outlay, renovation costs and management fees.

Helen Morrissey, pension specialist at Royal London, said:

"The self-employed continue to see property as the safest way to prepare for their retirement.

"While property has its place in a retirement planning strategy, care must be taken not to rely on one asset. If [house] prices fall, retirement plans can unravel."

For committed buy-to-let landlords with a long-term vision and carefully planned financial management, residential property remains a sound investment strategy as the investment can be cashed in at any time.

PERSONAL PENSIONS

Personal pensions allow you to save for retirement through achievable monthly payments, or by making lump sum contributions each tax year, usually over a long period of time.

Despite that relative safety, only 6% of those polled by the ONS viewed them as the best way to make use of their money.

Historically, it's easy to see why. Pensions are more complex to understand than property, and usually they are outperformed by returns from property.

Pensions are a tax-efficient way of saving for retirement, especially with the Government offering tax relief. You can put up to £40,000 into a pension scheme in 2020/21 and receive tax relief on those contributions.

They are designed to offer a taxable income in retirement with the option of a tax-free cash lump sum and can be accessed from the age of 55.

The amount of pension payable on retirement depends on the amount paid into the scheme, the performance of the investment fund, and any charges payable under the plan.

Personal pensions are a good option to form part of your retirement savings strategy, along with any of the other methods to ensure your savings are diversified.

ISAS

Around one in eight self-employed people (12%) polled by the ONS said they used ISAs to build their retirement pot, possibly because these accounts for savings or investments are tax-free forever.

Each tax year, you get an ISA allowance to set the maximum you can save within the tax-free wrapper from April to April. For 2020/21, this is £20,000.

You can split this £20,000 allowance between stocks and shares ISAs, cash ISAs, innovative finance ISAs and lifetime ISAs.

For example, you can only place £4,000 into a lifetime ISA this year, which means you can put the remaining £16,000 into any of the other ISA options.

Any savings or investments which remain in the tax-free ISA wrapper will continue to earn interest and tax benefits until you withdraw the money.

CASH SAVINGS

To get a good return on cash savings requires high interest rates, and those have not been seen for quite some time since the 2008 economic downturn.

Despite interest rates being well below average for the last decade, 7% of self-employed individuals viewed cash savings as the safest way to save for retirement.

Today, they stand at an historic low of 0.1%, meaning you only earn £10 in annual interest for every £10,000 you stick into a cash savings account if the rate remains unchanged for the next 12 months.

The attraction for those 7% of self-employed workers is the safety, as there's no risk of cash savings depreciating in value over time unless you dip into them. But with interest rates at a record low, the incentive to save cash lacks appeal to most.

PREMIUM BONDS

The premium bonds offered by national savings and investments work like a kind of savings account that you can put money into – from a minimum of £25 to £50,000 per person – and have a chance of winning a tax-free prize every month in place of interest.

This prize can range from a value of £25 to £1 million, but the chance of winning the jackpot is very slim, at one in 37,838,284 for £100 in bonds invested in one year.

The advantage of premium bonds is that the prizes are tax-free, so if you've exceeded your personal savings allowance and used up your full ISA allowance, there may be a benefit to this method of saving. Premium bonds offer 100% security, so you can take out the money you've put in at any time.

If you're looking for guaranteed returns and protection against inflation, however, they're unlikely to be the right option for you.

We offer tailored solutions to help diversify your retirement savings and ensure you are not reliant on just one asset or product.

Speak to us about retirement planning.

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. Pension and ISA eligibility depend upon individual circumstances and pension benefits cannot normally be taken before age 55.

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