Think about how to fund retirement

Pensions: End of gold-plated company provision

BY GORDON WILSON

Oil and gas giant Shell has announced that it is to close its final-salary pension scheme to new staff.

It is the last of the top 100 companies in the UK to do so and marks the end of gold-plated pension provision in the private sector.

The group has to be congratulated for holding out as the last of the UK's biggest businesses to withdraw the offer of a guaranteed pension based on salary at retirement.

Costs of final-salary pension schemes for businesses have spiralled out of control and the associated risks are just too great.

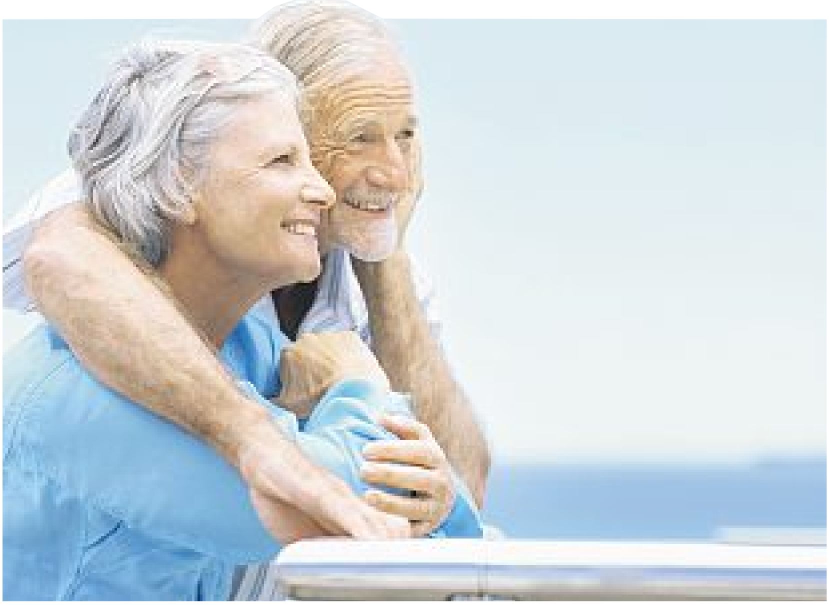
It has brought some businesses to their knees and many still struggle to meet the costs associated with schemes closed many years ago where past promises must still be honoured.

The public sector is the last bastion of the final-salary pension scheme with nine out of 10 employees still building up guaranteed pensions.

In contrast, the number in the private sector is one in 10 and for new employees entering the sector a guaranteed pension income in retirement is a thing of the past.

This combined with the state retirement age being increased means that private-sector employees in particular will need to pay much closer attention to how they are going to pay for life in retirement.

The key is to start the planning process early and you should begin with the end in mind. Think about the age you want to retire, the life you want to live in retirement, all the things you would like to do and how you want to spend your new-found time. Then work out what it's going to cost and how much you need to save.



GOLDEN YEARS: Make best use of every penny you save for a happy retirement

Gordon Wilson: strategy

To achieve a pension income of £10,000 a year, in today's terms, at age 60, a male aged 30 would need to save £292.87 a month from today. Putting off saving costs money and a male aged 40 would need to save £534.61 a month to achieve the same £10,000-a-year of pension and a male aged 50 would need to save £1,288.73 a month.

Bring retirement forward to age 55 and the same individuals need to save £420.63, £849.08 and £3,055.24 a month respectively.

The above figures assume investment growth of 7% and inflation of 3.5%. They do not assume that your pension increases in retirement; this would involve saving substantially more again.

Far too many people pay no attention whatsoever to how their pension money is invested, how much risk is involved and what it costs.

This often results in disappointment when it doesn't perform as well as expected.

Seldom is there a clear understanding of what level of income can be expected. Rarely is there any form of strategy in place and often this leads to nasty surprises when there is limited time to do anything about it.

Making the best of every penny you save can make a huge difference to how much income you have to live on in retirement. The key is to confront the facts early and to put an enduring financial plan in place which is based on robust numbers and your goals.

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