

# Your guide to saving for retirement



Personal Investing



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**Important information:** The value of investments and the income from them can go down as well as up, so you may get back less than you invest. Withdrawals from a pension product are not normally possible until age 55. Tax treatment depends on individual circumstances and all tax rules may change in the future. Please note that this information and our guidance tools are not a personal recommendation in respect of a particular investment. If you need additional help, please speak to an authorised financial adviser. You should regularly reassess the suitability of your investments to ensure they continue to meet your attitude to risk and investment goals.

# Your guide to saving for retirement

Retirement provides the opportunity to spend more of your time on the things you want to do – a chance to tick off all those things on your bucket list. Achieving your ambitions and ensuring you're comfortable in retirement usually requires forward planning though.

While it's good news we're living longer, it also means we have longer retirements to plan for. This combined with a decline of generous 'final salary' style pensions, and delays in the state pension age, means saving enough to afford the future you want can be a challenge.

According to the Pensions and Lifetime Savings Association – UK Retirement Living Standards October 2019, a single person will roughly need about £20,000 a year to achieve a moderate living standard in retirement, and £30,000 for a comfortable one<sup>1</sup>. With the new State Pension paying a maximum of £9,339.20 per tax year, there's clearly a gap.

Taking control of your retirement savings is therefore crucial. Not surprisingly though, with so many changing priorities in today's busy lives – whether that's children to support, a new home, changing jobs or even setting up your own business – our retirement savings can end up taking a back seat. But it's really important to get started and make the time to consider how to balance our needs of today with our needs and desires for the future.

## Did you know?



A single person will roughly need about £30,000 a year to achieve a comfortable living standard in retirement.<sup>1</sup>

<sup>1</sup> Pensions and Lifetime Savings Association – UK Retirement Living Standards October 2019.

# Which is better – an ISA or a pension?

Both ISAs and pensions are tax-efficient ways to invest but they work in slightly different ways. There's a place for both and you might want to consider a mixture of these. Here's some facts about pensions and ISAs to help make your investment choices easier.

## Why a pension?

A pension remains one of the most tax efficient ways to save for retirement with significant tax benefits.

Any contributions you make are boosted with 20% tax relief by the government – and more if you're a higher or additional rate taxpayer. For example, a £1 contribution today effectively costs you 80p if you're a basic-rate taxpayer, as little as 60p if you're a higher-rate taxpayer, or 55p if you pay additional-rate tax. With your 2021/22 tax year pension allowance you can receive tax relief on contributions up to a maximum of £40,000, capped at the amount you earn if this is less.

In addition, if you're a member of a workplace 'auto-enrolment' pension scheme, many employers pledge to match any contributions you choose to make (up to a certain limit). Making the most of employer contributions is therefore another great way to boost your retirement pot over the years. And, don't forget, these contributions will normally benefit from tax relief too.

With a pension you can't normally access your money until age 55 which means you have the comfort of knowing that your money is locked away for your future.

Your pension pot grows free of income and capital gains tax over time and you can normally take up to 25% tax free cash from age 55, with the rest of your withdrawals subject to income tax at your marginal rate.

Paying as much as you can afford into your pension through regular contributions and topping up when you can – such as adding a percentage of a company bonus – can really help to build up your retirement savings. The sooner you start, the more time your savings have to grow. Your savings can also benefit from compounding when any profits or income generated by your funds are reinvested, rather than being paid out to you. Over time this will compound, as effectively you're getting interest on interest, helping your savings to grow even faster.

Find out more  
about tax relief and  
pension allowances  
at [fidelity.co.uk/  
pension-allowances](https://www.fidelity.co.uk/pension-allowances)

## A SIPP – a flexible and convenient way to save for retirement

Self-Invested Personal Pensions (SIPPs) are an increasingly popular way to save for retirement. You choose what to invest in and when, and you have the freedom to make changes at any time.

And unlike some traditional pensions, which can be restricted in investment choice, a SIPP offers a wide range of investment options giving you more ways to help your money grow.

Another attraction of a SIPP is flexibility – you can make regular or lump sum contributions to suit your budget and you can typically alter these arrangements at any time. This makes SIPPs particularly attractive to the self-employed, for example, or those who change their career regularly.

You can find out more about Fidelity's award-winning, low-cost SIPP on page 12.

### Why an ISA?

ISAs also grow free of both income and capital gains tax over time. Unlike a pension, you don't receive any tax relief on the contributions you make, but there's no tax to pay on money you take out.

With an ISA you can access your savings at any time. Whilst it's great to have this flexibility, if you're looking to lock money away and want to avoid the temptation of dipping into your savings, you need to consider this.

If you want more potential for higher returns on your money than a cash ISA, then you may need to look further up the risk spectrum.

A Stocks and Shares ISA can help you save for long term goals and work alongside your pension to help you save for the future.

With a Stocks and Shares ISA your money is invested, so there's more potential for growth but the value can go down as well as up so you could get back less than you invest.

This tax year's annual ISA allowance is £20,000.

Tax treatment depends on individual circumstances and all tax rules may change in the future.

# How do your retirement savings compare to the State Pension?

We often read that the reality of our retirement income fails to meet our expectations and that we, as a population, consistently overestimate the amount of income that we will have to live on after we finish working. To help put some context to this, below we take a look at what you'd need to have saved by the time you give up work to at least equal the State Pension.

The current full state pension amounts to £9,339.20 a year. To derive an income that amounts to this, or more, from a private pension, we can look at two different pension income options.

Firstly, if we look at the income provided by an annuity. This is a product that takes your pension pot and converts the savings into a guaranteed income for life. Based on current annuity rates, a 68-year-old man buying an income that rises with inflation would require pension savings of about £285,102 to receive an amount equivalent to the state pension<sup>2</sup>.

Another way to generate a retirement income is through what is known as pension drawdown. This allows you to keep your money invested in your pension so it has the potential to continue to grow, and flexibly take an income from it.

How much you can withdraw sustainably in drawdown depends on a range of factors, including investment returns. But for the purpose of this example, based on Fidelity's

retirement savings guidelines<sup>3</sup>, savings of about £186,000 could be required to recreate an equivalent State Pension income<sup>4</sup>.

This is potentially less savings required than through an annuity, but it does rely on how your investments perform over time and comes without the guarantee that the income will last until you die. It also requires you to carefully monitor and manage your investments.

Both examples are significant sums of money and so it's clear to see why people underestimate the challenge of securing a sufficient income from a private pension. However, with knowledge and understanding, you can begin to feel more confident about planning your savings and future income in line with your expectations.

Did you know?



Pension savings of at least £186,000 would be required to generate an income at least equivalent to the State Pension.<sup>4</sup>

<sup>2</sup> Assureweb March 2021.

<sup>3</sup> Fidelity International's Retirement Savings Guidelines white paper. November 2018.

<sup>4</sup> Estimate based on average household incomes that does not take into consideration personal circumstances.

Illustration of a male with a retirement age of 68, with household savings of £186,000, withdrawing between 4% to 5% of household retirement savings in the first year of retirement with adjustments for inflation, over a 24-year period.

# So, how much do you need to save for retirement?

It's a tough question to answer. None of us really know how long we'll live or what spending demands will be placed upon us during retirement. Then there's the performance of financial markets which will also partly determine how our investments will grow over the years leading up to retirement.

With that in mind, a target level of saving that would give you a decent standard of living in retirement would be a great thing to have. It wouldn't make hitting your target any easier, but it would allow you to know in good time how you're progressing and to make changes along the way to improve your chances.

At its heart, retirement is about numbers and Fidelity has worked to produce three rules of thumb to help you understand how much you'll need to enjoy a retirement that meets your expectations, how much you should be saving and what's a sustainable withdrawal rate at retirement. Even if you're close to retirement, there's still time to act and improve your prospects.



## 1 The Power of 7

Fidelity's research<sup>3</sup> found that UK households who manage to save seven times their annual household income by the age of 68 should be able to retire and maintain a similar standard of living as in their working life. (Please note: this is based on average household incomes in the UK with typically two working adults and two full State Pensions).

While seven is the goal for those ready to retire at 68, there are a series of savings milestones along the way for those at younger ages. Our analysis suggests UK households should aim to save at least one times their annual household income before tax by the age of 30, four times by the age of 50 and six times by the age of 60.

Age	Income multiple
30	x 1
40	x 2
50	x 4
60	x 6
68	x 7

*Income multiples to save by each age*

## 2 When 13 is a lucky number

Knowing how big your pot needs to be before you can retire is important but, in order to hit that target, it's also vital to know how much of your earnings you need to save at much younger ages.

Our research suggests that savers should be putting away at least 13% of their pre-retirement annual income before tax, each year, from the age of 25. Recent increases in the minimum auto-enrolment contribution rate mean that, for many of those who are in formal employment, at least 8% might be taken care of by saving into a workplace pension and making the most of employer matched contributions. This leaves you with a 5% shortfall to make up yourself via a savings vehicle of your choice, such as a personal pension or ISA.

But remember: The longer you wait before you start saving, the higher contributions have to be in order to hit your retirement target.

Starting age	Saving rate
25	13%
30	15%
35	18%

*Savings rate at each age in order to retire at 68*

### 3

## Limit yourself to a 5% withdrawal – and stay flexible

One of the biggest challenges people face when it comes to planning their retirement is determining how long their pension pot needs to last for. Our range of projections show that a potentially sustainable rate to withdraw is between 4% and 5%. This will vary based upon things you can't control, such as how long you live, inflation, market returns, and things over which you have some degree of control – like your retirement age. As a rule of thumb though, aim to withdraw no more than 5% of your household savings in the first year of retirement, and then adjust that for inflation<sup>3</sup>.

Of course, every situation is different. For example, you might want to withdraw more in the early years of your retirement as you may like to spend more on home renovations or to travel extensively. In which case you'll then need to withdraw less in later years.



Please note that the rules of thumb and figures quoted are generic assumptions and estimations; they are not personalised and are not a replacement for professional advice. They may not represent what will actually happen in the future, because no one knows that. You can, however, use the rules of thumb as high-level guidelines to retirement planning and saving. You can read how we do our calculations at [fidelity.co.uk/guideline-calculations](https://fidelity.co.uk/guideline-calculations)

<sup>3</sup> Fidelity International's Retirement Savings Guidelines white paper. November 2018.

# Are you on top of your pension savings?

## 1 Do you know the value of your current pension?

It's well worth putting some time aside to get your pension statements together and check the total value of your pensions. This may feel like a hassle, with many of us now having multiple pension pots, and is likely to involve sorting through your paperwork and logging into your online pension accounts. But it's important to do as your pensions may be worth more or less than you think. Establishing what they might provide you in retirement can help you to make sure you're putting away enough to enjoy the lifestyle you want in future years.

When checking the value of your pensions, don't forget to add any defined benefit pension schemes you may have. A defined benefit pension pays a retirement income based on your salary and how long you have worked for your employer. These are generally only available from public sector or older workplace pension schemes.

## 2 Are you saving enough?

On its own, knowing how much you have saved in your pension is not enough. You also need to make sure you're saving enough for the future you want.

As we covered on page 8, rules of thumb 1 and 2 suggest how much you should be aiming to save to maintain a similar standard of living as in your working life.

Just a 1% difference in contribution could make a significant difference to the size of your pension pot when you come to retire, due to the powerful effect of compounding.

For example, if a 30-year-old today earning £30,000 could contribute an extra 1% of their salary then they could retire at age 68 with an extra £55,300 in their retirement fund. This example assumes that wages will grow by 3.75% and that the return on invested contributions is 5% after fees<sup>5</sup>.

Read how we made our assumptions at [fidelity.co.uk/detailed-assumptions](https://www.fidelity.co.uk/detailed-assumptions)

## 3 Do you know where your pension's invested?

The investments you choose to hold in your pension will have a significant impact on the performance of your retirement savings over time. Spreading your money across different assets (equities, bonds, commodities, property and cash) helps balance the risk of market changes over time.

Holding a diverse range of assets in line with your goals and risk tolerance will help minimise the exposure to a single asset class in your portfolio and will help you take advantage of opportunities across the market. If you are over-exposed to a particular fund, asset class, company type or region, then you may want to consider making changes to give yourself a more balanced portfolio. You can find out more about effective asset allocation at [fidelity.co.uk/planning-guidance/asset-allocation](https://www.fidelity.co.uk/planning-guidance/asset-allocation)

<sup>5</sup> Fidelity's Power of small amounts tool, March 2021.

# Make life easier by bringing your pensions together

Our lives aren't as simple as they used to be. The once predictable path of work, marriage, kids and then a relatively short retirement is being broken down. Now we're more likely to change careers during our working lives<sup>6</sup>. Fewer of us are waiting to get married before we have children<sup>7</sup>. We're taking career breaks – or want to – but also working longer into older age as well, with more than one in ten of us continuing to work beyond pension age.<sup>8</sup>

All these new choices are shaped, in part, by our finances. Building long-term savings is what allows you to take the paths in life that you want, or to adapt and cope when life changes unexpectedly.

Pensions are crucial to that and as lives get more complicated, so do our pensions. The more jobs we have, the more pension pots we pick up along the way, and these may all have different rules about how you access your money and how much you pay in charges.

That's why many see the attraction of bringing their pensions together in one place. Having all your pensions in a single place means you can more easily see how much you've saved, where your money's invested and how it's performing.

A Self-Invested Personal Pension (SIPP) can make a good home for old pensions due to the flexibility and choice they offer. And when it's time to retire, you can be sure you have the full range of options for accessing your money and can do so simply.

**Important Information:** It's important to understand that pension transfers are a complex area and may not be suitable for everyone. Before going ahead with a pension transfer, we strongly recommend that you undertake a full comparison of the benefits, charges and features offered. Please read our [pension transfer factsheet](#). If you are in any doubt about whether a pension transfer is suitable for your circumstances we strongly suggest that you seek advice from an authorised financial adviser.

You can find out more about the benefits of bringing pensions together at [fidelity.co.uk/pension-transfer](https://fidelity.co.uk/pension-transfer)

## Did you know?



Fidelity's SIPP can make a good home for old pensions.

For more information visit [fidelity.co.uk/pension-transfer](https://fidelity.co.uk/pension-transfer) or call **0800 368 6817**.

<sup>6</sup> Fidelity/Team Spirit Modern Life Report April 2019.

<sup>7</sup> Office of National Statistics – Births in England and Wales 2019.

<sup>8</sup> Office of National Statistics Feb 2021.

# Why a Fidelity SIPP?

Our flexible, award-winning Self-Invested Personal Pension (SIPP) has many great features to help you manage your pension savings and be better prepared for the future you want.

	<b>Wide investment choice</b> – (funds, shares, investment trusts, ETFs) giving you more ways to help achieve your investment goals
	<b>Simple low cost pricing</b> – we keep fees low so you keep more of your money
	<b>Support with decisions</b> – including expert insights, investment selection tools, planning calculators, retirement guidance and advice
	<b>Additional benefits</b> – invest over £250,000 and you'll automatically benefit from an even lower service fee and your own Relationship Manager
	<b>Flexible income options at retirement</b> – with no set-up or withdrawal fees
	<b>Up to £500 cover</b> – if your current providers charge exit fees ( <a href="#">T&amp;Cs</a> apply)

Find out more at  
[fidelity.co.uk/  
services/sipp](https://www.fidelity.co.uk/services/sipp) or  
call **0800 368 6817**

# Need a little more help?



## Retirement guidance and advice

There are big decisions to make when accessing your pension which is why we find many investors – even some of the most experienced ones – like to get some help. Fidelity's Retirement Service is able to provide both guidance and personalised advice on your retirement options. The service we offer is purely based on helping you find the most appropriate solution for your personal circumstances.

- **Free retirement guidance** – our free service can help you understand your retirement income options, explain tax rules and allowances and offer guidance to help you avoid potential pitfalls.
- **Personalised retirement advice** – our retirement advisers can also provide paid-for advice, helping you build a personalised retirement plan with specific recommendations based on your personal circumstances.

Call us on **0800 860 0048**, Monday to Friday, 9am – 5pm.

The Government's Pension Wise service also offers free, impartial guidance to help you understand your options at retirement. You can access their guidance online at [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) or over the telephone on **0800 138 3944**. Or, of course, you can speak to an authorised financial adviser of your choice.



## Helpful retirement planning calculators

Fidelity's planning calculators can help you to look more closely at various aspects of your retirement, from planning your goals and your savings to working out your withdrawals.

Go to [fidelity.co.uk/retirement/calculators](http://fidelity.co.uk/retirement/calculators)

We also offer a wealth of information, guides and videos online at [fidelity.co.uk](http://fidelity.co.uk) to help you make informed decisions, both as you invest to grow your money and at retirement.



## Tracing lost pensions

If you think you may have an old pension that you no longer have the paperwork for, you can track down lost company and personal pensions online through the [Pension Tracing Service](#) or by calling 0800 731 0193.

## Here to help

If you'd like more information about Fidelity's SIPP, or would like to talk to someone about bringing your pensions together, we'd be happy to provide any guidance or support you may need.

Call us on  
**0800 368 6817**  
Monday to Friday  
9am to 5:30pm  
or Saturdays  
9am to 2pm.

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