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financial planning & advice

Preparing for retirement when you work for yourself

If you own a business and struggle to plan for retirement, the good news is that it doesn't have to be this way. There are a range of options available to help you build the future you want. So where do you start?

Here are some key things to consider:

First, how much income will you need in retirement?

It's important to remember that people are living longer nowadays. This means your retirement could last for 30 years or more. And the longer you live, the more money you're likely to need.

According to May 2018 Royal London research, in order to maintain at least an average standard of living in retirement, you'd need a pension pot of around £260,000. This might give you a yearly income of £9,000 **on top of your annual state pension (over 2019/20 the full state pension is £8,767).**

You can receive the state pension from the Government – and the amount you'll receive is based upon your National Insurance record. As you can see from the comments above, this probably wouldn't be enough to support you in retirement – that's why having additional savings and investments are important.

Why save into a pension?

If you're self-employed...

...and pay into a personal pension, you can receive tax relief on contributions up to your earned income level. (However, you should consider the Annual Allowance if you want to avoid any tax penalty on large contributions.) If you're a basic rate taxpayer, you can claim an extra £25 in tax relief for every £100 you pay in. And if you're a higher rate taxpayer you can receive extra tax relief through your self-assessment tax return.

This is a huge incentive to help you build up your pension over time. So it makes good sense to take advantage.

If you're a director of a limited company...

...and wish to pay into a pension using money from your company, corporation tax relief will normally apply. This works a bit differently from tax relief on personal pension contributions, as they're treated as a business expense to reduce your firm's corporation tax bill.

You can discuss this further with your accountant, and work out the best way to fund your pension. It may also prove worthwhile speaking to a financial adviser – who can look at suitable pension options and ensure you fall within the available allowances.

The earlier you save into a pension, the more time your money has to grow, and the longer you can take advantage of the tax benefits.

Other benefits of a pension

It's relatively easy to pass your pension on to loved ones when you're gone. Firstly, pensions don't typically form part of your estate – and therefore aren't subject to inheritance tax. And secondly, if you die before the age of 75, your family can usually inherit your pension tax-free. If you die at the age of 75 or over, your beneficiaries might have to pay income tax at their own rate to receive these funds.

Also, you can access your money in a variety of ways from the age of 55 – but with so much freedom and choice, it's important to understand the tax considerations involved.

What pension schemes are available to you?

If you're self-employed, you won't usually benefit from a workplace pension, but there are many defined contribution plans available to you. Four common types include: stakeholder pensions, personal pensions, self-invested personal pensions, and NEST pensions.

If you're a director of a limited company, you have the option to pay into a personal pension, and may wish to join your firm's workplace pension scheme.

With so many options to choose from, it's worth shopping around and taking the time to decide what's right for you. To help you save time, a financial adviser can find a pension scheme suited to your unique needs – and set it up for you.

In addition to pensions, stocks and shares ISAs and Lifetime ISAs are also worth considering, as they offer valuable tax benefits.

If you've paid into a pension in the past

Before you set up your business, you may have worked for a company and perhaps paid into a group scheme or workplace pension plan? It's easy to forget previous pensions. But every little helps – and each scheme could make a positive contribution to your overall retirement income.

You can track any schemes you've had in the past by contacting the relevant provider. Or you can call the Pension Tracing Service, free of charge on **0800 731 0193**.

What else do you need to think about?

Reviewing your pension

A lot can affect the suitability of your pension over time – such as changes to your personal situation and performance of the funds your pension is invested in. Reviewing your pension every now and again can help you manage these changes, and keep your retirement plans on track.

Speaking to a financial adviser is highly recommended when it comes to reviewing your pension. They can help you make informed decisions, offer expert insight and make sure nothing is overlooked. The closer retirement gets, the more important reviewing your pension is.

Selling your business before you retire

Thinking about this as early as possible could make life a whole lot easier for you, and help to ensure your business is attractive to all potential buyers. Speaking to an accountant is a good place to start.

A useful tip is to create a growth strategy – which can highlight where you see your business in five to 10 years' time. Examining any issues and finding a solution before your sale can make a positive difference.

It's important to be aware that relying on the sale of your business to help you in retirement can be risky – so you need to have separate provisions.

When you wish to retire

It may be too early to decide yet. But thinking about when you wish to stop working can help give you something to work towards. It's also important to consider whether you wish to take phased retirement – where you can reduce your working hours and withdraw some of your pension to substitute the drop in income.

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