

Saving for retirement: contractors need to act now

Introduction

The recent Pension Commission report highlighted that a high proportion of the UK's workforce faces the prospect of financial hardship in later life.

It clearly spelt out that, as a nation, its time for us to stop looking for reasons not to act on this issue. Politicians of all parties are basically admitting that we are to be left to rely largely on our own provision.

This article discusses that report in the context of the contractor community and explains the pension options available to contractors.

The grim reality

The Pensions Challenges and Choices report from former CBI head Adair Turner pointed out a grim reality: A plummeting birth rate is leading to an ever smaller working population at a time when health related advances are greatly increasing the prospects of a lengthy retirement.

These twin factors are inevitably leading to a meltdown in terms of state pension provision as the state benefit system becomes increasingly unaffordable to the nation.

The government options

One option for the government is to increase taxes to pay for state provision. Another suggested option is to increase the retirement age to 70.

However, even if they do this, bear in mind that the current state provision is £79 per week. For most contractors the state pension route represents relative poverty in retirement compared to their current standard of living.

In a nutshell, you need to save privately.

Contractor Pension Options

Most contractors have, at best, a patchwork of pension schemes that have been collected during a varied working life. Many have nothing set aside at all.

However, without the benefit of an employer funded pension, the future financial fate of the contractor lies squarely in their own hands.

Personally funded pension options are now better than they have ever been. The admin charges on the new breed of schemes are very small so you can be more confident that you and not the pension provider will gain the benefit from your hard earned investment.

The Pensions Simplification Act in 2006 will also allow far greater freedom as to how your pension can be administered.

[Note: In the March 2006 Budget the age related allowances were replaced by an annual and lifetime allowance that could mean contractors could potentially invest much more than pre-2006. However, these limits were introduced together with a set of rules that are unclear exactly how much contractors could invest. Until these rules are made more clear Contractor Financials are advising their clients to continue to work with the previous rules to avoid being challenged by HMRC.]

As a contractor you can [reduce the pain of IR35 with a contractor pension](#) and also help to avoid any potential pain associated with Section 660.

There are generous tax incentives put in place by HMRC to actively encourage you to invest.

You can channel your taxes into a pension with tax relief of up to 48%. This means for each £100 you invest your take home pay only reduces £48.

You can evaluate the savings you can make with the [Contractor Pension Calculator](#).

Next steps

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Tony Harris - Contractor Financials

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It is advisable to seek professional advice to evaluate your current and projected financial situation with a view to retirement investments.

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Tony Harris is MD of ContractorFinancials, recognised as the specialist independent financial adviser for Contractors.

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