

Don't ignore the pension warning

By Joss Harwood

newsdesk@nne.co.uk

WARNING! We are all familiar with warnings – from the ever-present health warnings, in ever-increasing letter size, on cigarette packets, to the alarming reminder that takeaway coffee is hot. We each decide the relevance of warnings to our own circumstances, and ignore a good many, particularly those that we see time and again.

One regular warning that many of us are choosing to ignore is that we are undoubtedly, as a population, rushing headlong towards a retirement that isn't going to be nearly as comfortable as we expect.

If a recent survey is accurate, most of you reading this spend more enhancing your property contributions and almost half of you believe that your home is part of your pension fund and will actually earn more for your retirement than your pension scheme.

When I ask people how this will work or what they mean by this, I am told that they plan to “downsize” and release equity. This term is used frequently but it happens very rarely, and there are good reasons for this. How many people are truly comfortable with uprooting themselves relatively late in life and moving, perhaps to a far less appealing

1 *The one group that is embracing the long-term savings culture is, surprisingly, the under 35's who understand that nobody is going to make provision for them*

“cheaper” location? Our culture has been to move up the property ladder, not down. With each throw of the dice, we are anxious to move onwards and upwards.

To release a meaningful amount of equity, the slide down the snake will have to be significant and, if increasing numbers of people employ this strategy, who is going to buy all their homes? Supply could well outstrip demand.

Another finding is that more than half of you receiving a windfall of £5,000 wouldn't even think about adding any of it to a pension plan.

Here's something to think about:

Sixty years ago, people started work at a younger age and could not retire until 65. Survival after retirement was about nine years, so retirement represented less

than a quarter of their working lives.

Now, people start work much later, and often retire before they are 60. Life expectancy could be up to 30 years thereafter. This means that some people are looking at a retirement as long as their working lives.

On this basis, pension funding needs to be far higher than in the past, not lower.

So why have people given up on pensions? It's hard not to think that it springs from a few horror stories people have read or heard, rather than from their own actual experience.

Most of the bronzed and silver-haired travellers I see aren't disappointed with their pensions. Nor are investors in the average managed pension fund, who have seen their investment grow at an average rate of 9.7 per cent year over the past five years.

Those already retired, however, may well be the last golden oldies receiving their pensions from company schemes. Company pension scheme membership is no longer the norm, unless you are a public servant.

So when you're thinking about your retirement, remember that property ownership is important, but there is no guarantee that capital values will be sustained in all future economic climates, or even that home ownership will be as popular as it is today.

Remember, too, that if you live in the property, actually realising



CAUTION URGED: Do middle-aged couples need to look closer at their pension plans?

the value to spend may be difficult, and you will still need somewhere to live.

The one group that is embracing the long-term savings culture is, surprisingly, the under 35s who understand that nobody is going to make provision for them

Clearly, the worrying statistics I see mean that those of us who issue warnings still have a lot of work to do to change your mind-

set and get you thinking.

Any strategy that could be labelled “all your eggs in one basket” is fundamentally unsound, and well diversified pension funds remain the first port of call for retirement planning.

Come back and look – modern stakeholder plans are cost-effective, flexible and portable.

How big do the warning letters need to be before you will act?

JOSS HARWOOD is a director of Bishop Auckland-based Eldon Financial Planning Limited, a leading independent financial planning firm. She is among the few individuals in the UK to earn the accreditation of Fellow of the Personal Finance Society. Visit www.eldonfinancial.co.uk