Take control of your retirement

Most of us put something away for our retirement years. This can include:

- paying national insurance contributions;
- paying into the State second pension;
- you and your employer paying into a private scheme; or
- you paying into a private pension.

Now questions are being asked about the simply enormous amounts being taken out of our pension pots over the years without us being aware of it.

So who are the people and organisations taking 'liberties' with our pension savings?

(1) Your pension company
When you retire your pension company will make some assumptions about how long you are likely to live. For example, if you are likely to live for another 20 years and have a pension pot worth £20,000, the pension company should pay out £20,000 ÷ 20 years = £1,000 a year.

Some companies may be 'optimistic' about your life expectancy and assume say 25 years instead of 20 years. Their calculation would then become £20,000 ÷ 25 years = £800 a year. In this example, the pension payment would drop by £200 a year for the rest of your life. If you died before the 25 years were up the pension company would keep the remaining pension pot.

(2) The Government
If the Government prints money to fund its overspending, the extra money swilling round in the economy will eventually create inflation (higher prices). So the value of your pension income falls because it can buy less as prices rise. This is a form of hidden taxation because, apart from your own buying power being reduced, when it is time for the Government to repay its debts it is paying for them in devalued money.

(3) Financial advisors
Financial advisors can provide a very valuable service as they help you to understand your options when you retire. But there are some rogues amongst them who will steer you towards inappropriate pension products if they will earn more commission.

Once your pension scheme is set up the advisors are usually given a commission every year based on the value of your fund. So as the years go by the more money you have invested means the more commission they get.

The commission on the annuity you will have to buy can be many thousands of pounds. (An annuity is the amount you get every year from your private pension. It can be split up and paid more often such as monthly or quarterly.) If they get more commission it reduces your pension pot so your pension income goes down. Choose your advisor wisely.

Other things you need to be aware of

Your pension statements
The Financial Services Authority (FSA) sets out 'rates of growth' figures for pension companies to use when producing forecasts of what your pension pot might be at retirement. These figures are pretty useless as they take no account of the present very low interest rates and low growth of most investments so their projected future values are usually somewhat optimistic.

So, be warned, take the projected fund values with a 'pinch of salt'.

Yearly commissions and fees
Your pension company charges these for the work they do managing your pension scheme. They do not seem expensive at first sight. 0.5% to 2% a year does not sound much but over the 25 years or more that you save for your retirement they become a huge proportion of your pension savings. They can mount up to half or more of the value of your pension fund.

Actively managed funds
These funds charge higher management charges but are sometimes (or even often) poorly managed and produce very low returns.

When you get your yearly statements they may not give you enough information to work out whether any growth is from your contributions, or from income and gains from the fund's investments.

Tax on your pension income
Many people do not realise that their pension income will be taxable. It doesn't matter whether it's your state pension or your private pension. The Government will take a share and higher rate taxpayers can lose up to half their pension in tax.

Getting your hands on your pension savings
One of the problems with saving for your retirement in a pension scheme is that the money is locked away in the fund and normally can't be touched until you retire. When you do retire you can normally have a tax free lump sum and the rest of your pension pot is used to buy an annuity which will give you an income for the rest of your life.

Plain English
The world of pensions is full of jargon and complications which need full explanations if it is to be of any use to the reader. If your retirement savings plans are put at risk because you don't understand your pension documentation you could be facing an uncertain old age.

There is another danger lurking as well. If the charges are hidden from you by obscure language or even 'no language' how are you supposed to know what is going on with your pension savings. You probably know how much you have invested in your pension scheme over the years but if you don't know how much has been taken off for commissions, fees and management charges you don't know how much your pension pot should be worth.

So when it's time to retire you could be very disappointed by how much you are going to get.

When you first sign up for a pension scheme you should be given a crystal clear explanation of how your scheme will work, where your pension fund will be invested and all the charges the scheme will incur.

You should be sent an explanation of the money in your pension fund at the start of every year. You need to know:

- how much you have paid in;
- how much income it has made (or losses it has suffered);
- how much has been paid out in the various charges; and
- the balance in the fund.

If you get this information you will know if your scheme is on track or if changes are needed.