Pensions for business owners

How to save for retirement while running a business.

When you're juggling the many day-to-day responsibilities of running a business, planning for your retirement might well slip down your list of priorities.

Recent data from the Office for National Statistics shows that self-employed individuals contributed £4,490 on average to personal pensions in 2016/17 – down from £5,310 in the previous year.

Perhaps more worryingly, the Association of Independent Professionals and the Self-Employed (IPSE) estimates that only 31% of self-employed people are currently paying into a pension.

That's not to say most self-employed people aren't interested in retirement saving, though, as 67% say they are concerned about preparing financially for later life.

So what's causing this 'pensions crisis'?

For some, the main barrier is finding a pension option that's flexible enough for their needs, while others struggle with the complexity of choosing and setting one up.

One respondent to IPSE's report said they found pensions "ridiculously complicated", while another said "it is a minefield".

Fortunately, we can help navigate your options and clear up some of the confusion, so you can start getting on track for retirement.

State pension

As a starting point, you could consider how much income you can expect from your state pension.

This may be different depending on when you were born. Men who were born before 6 April 1951, and women who were born before 6 April 1953, are eligible for the **basic state pension**.

This is £125.95 per week if you have 30 qualifying years of national insurance contributions (NICs).

You may get the **additional state pension** on top of this, depending on factors including your earnings and how many years you've paid NICs for. However, you may receive less than £125.95 a week if you have fewer than 30 years of qualifying NICs.

If you were born after these dates, you'll be eligible for the **new state pension**, which is based on your national insurance record.

You need at least 10 qualifying years on your national insurance record to be eligible, and a maximum of 35 years of NICs to get the full £164.35 a week.

	Old state pension	New state pension
Minimum NICs	1 year	10 years
NICs needed to get the full amount	30 years	35 years
Maximum weekly amount	£125.95*	£164.35**

*plus any additional state pension
**plus any amount you were eligible to receive under the old rules that exceeds the new state pension maximum

If you're a company director, it's especially important to consider your NICs record when taking a salary as you're considered to be an employee.

Taking a salary of at least £6,032 in a year will count towards the state pension, but you'll start to pay NICs on income from salary and bonuses over £8,424.

Because of this, many company directors choose to take a salary between the two amounts.

If you're self-employed, you pay class 2 NICs if your profits are above the small profits threshold of £6,205 in 2018/19. If they rise above £8,424, you'll pay both class 2 and class 4 NICs.

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Pension saving

For most people, the state pension alone will not provide enough income to retire comfortably.

That's why it's important to save into a pension, and put a carefully-planned retirement saving strategy in place – so you can reach your retirement goals.

To begin planning, it's best to have an idea of how much you're aiming to save, taking into account how long you expect your retirement to be, and the annual income you'll need to maintain your quality of life.

As a general rule, a retirement income of around two-thirds of your income in employment should be enough to maintain your standard of living.

According to Royal London, this would mean the average earner needs to build up a total pension pot of around £260,000.

Starting to save sooner rather than later should make it easier to achieve this goal, by spreading out your monthly savings, and leaving time for them to increase with interest.

Tax relief on pension contributions

One of the main benefits of saving into a pension is the tax relief you'll get on your contributions.

Your pension provider will claim this for you at the basic rate, but if you're a higher or additional-rate taxpayer you'll need to claim the extra relief through your tax return.

This relief applies on contributions up to your **annual allowance**. This is currently £40,000 a year, or 100% of your yearly earnings – whichever is lower.

The annual allowance is tapered for higher earners. You might fall under this category if your adjusted income, or your income with pension contributions added, is more than £150,000.

The tapering will only apply if your threshold income, which is your income excluding pension contributions, is more than £110,000.

If this is the case, your annual allowance will be reduced by £1 for every £2 over the £150,000 threshold.

If you've already taken benefits from another pension, you'll have the reduced **money purchase annual allowance** of £4,000 instead of the annual allowance.

Tax relief on your pension contributions is also limited to a **lifetime allowance**, which increased to £1.03 million for 2018/19.

Choosing a pension

Stakeholder pensions

Originally designed to encourage higher levels of long-term pension saving, stakeholder pensions are a type of personal pension which must meet certain Government standards.

These include a cap on annual charges, low minimum contributions, and charge-free transfers.

Plans that were set up from 6 April 2005 have a maximum annual charge of 1.5%, which decreases to 1% after 10 years. For those set up before this date, charges are capped at 1%.

The minimum contribution can be no more than £20, and no requirements are placed on how frequently you make a contribution.

Stakeholder pensions come with a default investment fund, so you don't have to decide on one if you don't want to.

There's also no charge if you choose to transfer out of a stakeholder pension.

SIPP or SSAS

If you want a higher degree of control over your pension and where it's invested, there are options that offer more flexibility than traditional pensions.

For example, self-invested personal pensions and small self-administered pension schemes both give you the ability to choose from a wider range of investments.

These can also be used to provide funding for your business. Speak to us for more information on how you can use pension funds in this way.

Other saving options

Individual savings accounts (ISAs) can be used as part of your retirement strategy, as another tax-efficient way to save.

You can save tax-free up to a maximum of £20,000 for the 2018/19 tax year. Different types of ISA to choose from include cash, stocks and shares, and innovative finance.

You don't have to pay any tax on savings interest or returns on investments from these accounts.

Savers aged between 18 and 40 can also open a Lifetime ISA, and save up to £4,000 a year to get a Government bonus of 25%. However, there's a 25% charge on withdrawals made before the age of 60, unless they are used to buy a first home.

Because ISAs don't offer the Government tax relief that pensions do, it's generally better to use them to supplement your pension savings, not in place of them.

Speak to us about your pension planning.