Make your family's future a priority for today... not tomorrow

By Shaun Robson and Will Stevens

The cost-of-living crisis is forcing many people to cut back on their pension contributions. But one award-winning wealth manager is helping families to think long-term about their finances.

After two decades of relative calm, today's landscape for personal finance is undoubtedly choppy. Tight household budgets, soaring interest rates and high inflation have left many families focused on saving their pennies rather than spending their pounds.

It's an issue hitting high earners as well as those on low and middle incomes, presenting tough choices for all during a period of economic uncertainty that's likely to persist for years.

But, according to William Stevens, partner and head of financial planning at wealth manager Killik & Co, now is not the time to cut back on your pension contributions; in fact, it's exactly the right time to think more clearly about how to make the right provision for your family's future.

"It is understandable people want a little bit extra set aside to cover additional costs, or, even worse, a potential loss of income," he says. "But opting out totally to receive a little extra money each month has severe long-term implications in return for small, short-term benefits.

"We know people opt out of workplace pensions because they see retirement as being so far away and is tomorrow's problem. But the power of compounding and putting money away, even if it's a small amount regularly, will provide for your discretionary and lifestyle spending in retirement."

Stevens suggests the "little and often approach" is still best "to build wealth over time", particularly with pensions. "Start early, do it regularly. The danger is if you stop doing something, are you going to start again? There's always going to be a reason not to," he warns.

Relying only on the state pension or the future introduction of a universal basic income is not a good strategy, Stevens' colleague Shaun Robson says. The firm's partner and head of wealth planning recognises how "the onus is now on the individual to save that much more" compared to 20 years ago when most people had defined benefit pensions.

Figures from the Pensions and Lifetime Savings Association show someone would need £37,300 per year in income to live a comfortable life, explains Robson; this is substantially more than the state pension provides.

Future-proofing family finance

Family financial planning takes many forms and Stevens acknowledges there is no "broad brush" advice for everyone. Priorities in your 20s might be to own a home, he says, while in your 40s it could be paying the bills to raise your children.

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Robson advises this makes it important to properly assess how much to allocate each year to get to where you want overall for retirement. "There is a balance between caution as a family and continuing to invest," he explains. "Keeping too much money in cash means the value gets eroded by inflation over the longer term."

One future-proofing family financial plan to consider might be seeking help from older generations who are already retired, Robson suggests. "Parents and grandparents could set up the financial futures of their children and grandchildren by giving them small monetary gifts now to fund their pensions. They in turn will then benefit from their own inheritance tax savings," he says. For example, Killik & Co was one of the first private client brokers to offer Sipps, including for children of any age. The Junior Sipp can be kept running with very little capital outlay each month, Stevens explains, with it increasing in value through the power of compounding over the next couple of decades. The government will also add to the pot via tax relief with £720 of tax relief available to non-earners each year.

PLSA retirement living standards data

		Minimum Covers all your needs with some left over for fun	Moderate More financial security and flexibility	Comfortable More financial freedom and some luxuries
Individual	Average	£12,800	£23,300	£37,300
	London	£14,300	£28,300	£40,900
Couple	Average	£19,900	£34,000	£54,500
	London	£22,400	£41,400	£56,500

Compound calculation for a junior SIPP set up in the year the child is born to illustrate the power of saving for a child and the power of compounding, as follows:

£3,600 (total contribution in year 1)

£2,880 (your contribution) | **£720** (Tax relief from HMRC)

£3,600 compounded at 7% a year (average market return for global markets) over 65 years

£336,202.75 return

"Hopefully, when they've seen the benefit of that pension over the first 18 years of their life, they might be in a better position to decide to save via a workplace pension when they first get a job," he suggests.

This route can be more attractive for family members to fund, rather than say a junior ISA, which becomes available at age 18, because the money can't be drawn down until retirement, Stevens adds.

For Robson, it also represents a great way for older relatives to leave a legacy. "Gifting into the next generation's pensions could potentially be outside of the estate immediately if it's from excess income," he advises.

"The pension could run for two decades in the hands of the child and carry on once they reach adulthood and then throughout their whole career. They could also then pass on that wealth to their next generations outside of IHT. This can be powerful as a family savings vehicle across multiple generations."

Transparency and visibility are key

Killik & Co has won several awards for its Sipp in recent years, including best full Sipp provider in the Investors Chronicle and Financial Times investment and wealth management awards for four of the past five years (2022, 2020, 2019 and 2018). During this time, the pensions industry has been challenged and changed by the expectations of young people and families.

Transparency and visibility have become far more important with online dashboards and client portals created to show pensions from many different jobs all in one place, ensuring none are forgotten. Digital tools also make consolidation easier. Both Stevens and Robson suggest, however, that the industry still struggles with an "advice gap", especially given that pension regulations and individual allowances can be complicated for people to understand.

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"Everyone, from pension providers to wealth managers, needs to do their bit," Stevens says. "Whether that is making sure they are producing low cost and low minimum investment solutions for the market – like our own save and invest app, Silo, or developing systems for savers to see their finances on their phone."

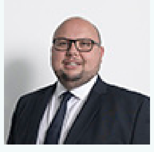
"You need to be able to access your pensions on the phone," he adds.

"That's the way things are going for those in their 20s to 40s." Recent moves by chancellor Jeremy Hunt to remove the lifetime allowance cap have also presented opportunities worth considering, according to Robson. The decision could be reversed should Labour win the next election and he suggests this offers those families with adults approaching retirement a chance to maximise their pension contributions in the next 18 to 24 months.

But for younger families just embarking on their pension journey, a direct equity approach could offer many advantages as a starting point, Stevens says. He cites Killik & Co's own Sipp, which allows people to know exactly what assets they are buying, compared to a workplace pension that may only show the top 10 investments in the fund.

"For a lot of people, a default fund can be the right choice," he admits. "But the problem is it will never provide a specific solution for you." He argues a Sipp will allow the buying of companies someone actively wants to hold. "You have transparency to say there are certain sectors and industries you absolutely don't want to be invested into," he adds. "And as you move through life and your family circumstances and timelines change, you can adjust it easily to target your specific retirement needs."

To speak to one of our wealth planners about how we can make a plan for your family's finances, email info@killik.com.



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