

# Pension Shortfall: What You Need to Know

This document contains important information and you should read it carefully and keep it safe for future reference.



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## IMPORTANT INFORMATION

The contents featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles.

Investments carry risk. The value of your investments (and income from them) can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

# Introduction

Recognising a pension shortfall early can be the key to securing your financial future during retirement. As you navigate through the complexities of retirement planning, understanding the dynamics of pension shortfalls and their implications is crucial.

A pension shortfall occurs when the expected income from your pension will not sufficiently cover anticipated expenses during retirement, a concern that grows increasingly significant in today's volatile economic landscape. Addressing this issue promptly can help ensure that your golden years are spent in comfort, rather than in financial stress.

This guide will take you through the importance of identifying a pension savings shortfall, explore common causes for these shortfalls and introduce tools and techniques that can aid in early detection. Furthermore, we will discuss actionable strategies to address any identified shortfall, helping you to make informed decisions to secure your financial wellbeing in retirement. By understanding these critical aspects, you're taking a proactive step towards a stable and comfortable retirement, ensuring that you are well-prepared to deal with the challenges and opportunities that lie ahead in your financial journey.

# Understanding the impact on your retirement plans

Identifying a pension savings shortfall is crucial because it directly influences your financial stability in retirement.

If you retire early or face redundancy, your State Pension and other entitlements may be affected, potentially leaving you with insufficient funds to support your lifestyle in retirement. The amount that you receive from the State Pension is contingent on accumulating enough 'qualifying years' of National Insurance contributions (NICs). Early retirement could mean fewer qualifying years, resulting in a reduced State Pension.

To receive the full new state pension, individuals with no national insurance record before 6th April 2016 need at least 35 qualifying years of NICs or credits. Even if an individual doesn't have 35 qualifying years, they may still be eligible for a portion of the new state pension if they have at least 10 qualifying years. The amount they receive will be proportional to the number of qualifying years they have accrued. More information on eligibility for the state pension can be found on the [GOV website](#).

Additionally, personal or company pensions could also be smaller due to fewer years of contributions and the necessity for the pension to stretch over a longer retirement period. For those who have to take early retirement due to illness, some providers may increase your pension, but this is not guaranteed. Therefore, understanding how a pension shortfall impacts your retirement plans is the first step towards addressing any potential financial gaps.

# The importance of early detection

Early detection of a pension shortfall allows for more time to address the gap, ensuring that you can maintain your desired lifestyle in retirement.

Tools like pension calculators help in setting a retirement goal and determining the monthly contributions needed in order to meet this goal. If there are gaps in your National Insurance record, you have the option to make voluntary contributions or claim National Insurance credits for certain periods of unemployment, sickness or caregiving.

Additionally, checking how much state pension you are entitled to at the given time can help identify any NIC shortfalls, allowing you to make informed decisions about whether to top up your contributions.

Seeking advice from a financial adviser, means that they can provide personalised guidance on managing pension shortfalls and they can outline steps in order for you to secure a financially stable retirement.

# Common causes of pension savings shortfalls

## Inadequate contributions

One of the primary reasons for pension savings shortfalls is inadequate contributions. Many individuals either start saving too late or do not contribute enough during their working years. This shortfall is often compounded by:

- Periods of employment with low earnings.
- Being self-employment making small profits.
- Opting out of pension contributions to have extra monthly income.

## Gaps in National Insurance Contribution records

Gaps in NIC records can severely impact your eligibility for the full State Pension, known as 'qualifying years'. These gaps may arise from being unemployed and not claiming benefits, having low earnings or living and working outside the UK. Voluntary contributions can sometimes fill these gaps, but they do not always increase your State Pension. It's crucial to check your NI record and consider paying voluntary contributions if you're close to State Pension age and lack sufficient qualifying years.

## Overlooking the effects of inflation

Inflation can significantly erode the value of your pension savings over time. During periods of high inflation, pensions and investments struggle to keep pace, which reduces the real value of your pension pot. This effect is particularly pronounced if you take breaks in your pension contributions, as it not only affects the growth of your savings but also results in lost tax relief and employer contributions. Understanding and planning for inflation's impact on your pension is essential for maintaining your desired standard of living in retirement.



Addressing a pension shortfall requires expert knowledge and careful planning. A financial adviser provides the expertise, personalised strategies and ongoing support you need to bridge the gap and achieve a secure and comfortable retirement.

# Tools for identifying shortfalls

## Pension calculators and how to use them

Pension calculators are invaluable tools for identifying potential shortfalls in your retirement savings. By inputting details such as your current age, retirement age, current pension savings and expected retirement income, these calculators can project the value of your retirement savings and highlight any gaps. For instance, the [Which? pension calculator](#) not only estimates the size of your pot at retirement but also integrates factors like annual growth and pension charges. Similarly, some pension providers such as Aviva, allow you to log into their app and see your low, medium and high growth rate for your current pension pot, providing a clearer indication of whether you're on track to meet your retirement goals.

## Analysing your current pension statements

Understanding your current pension situation is crucial in identifying shortfalls. Regularly reviewing your pension statements can reveal the real-time value of your retirement savings and the projected amount at retirement. It's important to consider the pension income amount in today's terms, not just the projected future value.

This helps in assessing whether your current saving rate is sufficient to meet your desired retirement lifestyle. Additionally, examining these statements allows you to adjust your contributions or retirement plans accordingly, ensuring that you remain on target.

## Working with a financial adviser

Working with a financial advisor can significantly enhance your understanding and management of pension savings. Advisers can assist in various ways, from helping you to better understand investment risks to choosing a diverse range of investments and managing funds flexibly over the long-term. They provide tailored advice based on your individual circumstances and goals which is crucial for making informed decisions about how to withdraw your pension and other retirement planning strategies. Moreover, financial advisers can offer regular reviews of your retirement funds, suggesting refinements to keep you on track towards your retirement goals. This personalised guidance is essential for navigating the complexities of pension planning and ensuring that you are well-prepared for a financially secure retirement.



# Strategies for addressing a shortfall

## Increasing contributions

To mitigate a pension shortfall, if you are financially able, you could consider increasing your pension contributions. This approach will not only boost your savings but also leverages tax efficiency. If your employer matches additional contributions, it's wise to maximise this benefit if you are able to. Additionally, exploring salary sacrifice options with your employer can further enhance the tax efficiency of your pension savings.

## Consolidating multiple pensions

If you have moved jobs throughout your career it is more than likely that you will have multiple pension pots. Considering consolidating your pensions into a single plan can simplify management and potentially increases the value of your pension pot. However, it's crucial to consult with a financial adviser before doing this to understand the risks associated with consolidating. Remember, not all pension types are eligible for consolidation, so it's essential to verify which of your pensions can be combined if this is a route you want to explore.

Your financial adviser will assess your existing plans to establish if you have any safeguarded benefits, such as guarantees. It is crucial to understand what your pension offers.

## Exploring other investment avenues


First and foremost, a pension is the best, most efficient way to save for retirement. But many people choose to save in other ways too. Beyond traditional pension contributions, exploring other investment avenues can help address a pension shortfall such as through investing in Stocks and Shares ISAs which provide tax free returns. Taking calculated investment risks or reallocating assets towards your pension are strategies worth considering. For those nearing retirement, ensuring that your investments align with your risk appetite, your investment strategy could positively impact your pension's long-term sustainability.

Throughout this exploration of pension shortfalls, we've delved into the significance of early detection, common causes and practical strategies to address these gaps. Recognising the impact of inadequate contributions, gaps in National Insurance records and the erosive effect of inflation on savings are crucial steps in safeguarding your financial security in retirement. By harnessing tools like pension calculators and seeking professional financial advice, you can navigate the complexity of retirement planning with confidence, ensuring your golden years are both comfortable and financially secure.



Investments carry risk. The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.



A photograph of an older man with grey hair, wearing a green button-down shirt, looking down at a small glass bottle of essential oil he is holding in his hands. He is standing in front of a large window with white frames. In the foreground, on a wooden surface, is a teal ceramic teapot. An orange teardrop-shaped graphic contains text about pensions.

A pension is a long-term investment not normally accessible until 55(57 from April 2028). Your capital is at risk. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected the interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.

