

The Report

2026 UK Pensions Guide **Securing your financial future**

Pensions overview Understanding contribution limits and tax rules

Savings strategies Making the most of time, reliefs and allocation

Investment choices Balancing growth, income and diversification

TRADING 212



Your new **SIPP**
with no account fees

Self Invested Personal Pension (SIPP) access from age 55 (57 from 2028).

SIPPs operated and administered by Platform One.

Tax treatment depends on your circumstances. Other fees may apply.

UK pensions: more options, ever greater urgency



Over the past ten years, there's been a significant shift in the UK pension landscape. The government has driven most of these changes to encourage saving and investing across the UK.

As the market has evolved, pension

providers have also had to step up their game. Thanks to a wave of new entrants, which have been able to leverage technology to reduce costs for investors to near zero, competition in what has historically been a sleepy sector is now more aggressive than ever – great news for consumers.

The most visible changes are in the self-directed or Self-Invested Personal Pension (SIPP) market. However, the workplace pension market is also changing significantly.

Traditionally monopolised by defined benefit, or final salary, pension schemes, the market is now dominated by defined contribution schemes, which are legally more flexible and require more input from individual savers.

Since the Labour government arrived on the scene two years ago, it has unveiled a raft of new rules and initiatives to try and encourage scheme managers for both defined benefit and

defined contribution pensions to invest more in the UK in order to back its growth mission.

These will likely have a significant impact on the industry over the next few years as the rules take effect.

The government has also continued to tinker with the rules governing how pensions are taxed, with two notable changes: bringing pensions into the inheritance tax net and capping National Insurance relief on salary sacrifice contributions.

While these changes are yet to take effect, they are already forcing savers to think carefully about how much they save and the products they use.

As the pension landscape continues to evolve, it is more important than ever for savers to stay informed, review their options regularly and take full advantage of available incentives.

Proactive engagement will be key to securing the best retirement outcomes in this dynamic environment. ●

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Pensions Overview

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**SIPP fundamentals
Tax advantages meet
investment freedoms**

Once costly and complex, SIPPs now give savers more control over their pensions

SIPPs are the bedrock of the UK private pension system. While they account for only around 15 per cent to 20 per cent of total assets in the UK pension system, they are the go-to choice for savers who want maximum flexibility over their investments and for those who can't access a workplace scheme, such as the self-employed.

Savers can also open a SIPP alongside a workplace scheme, allowing them to maximise potential long-term savings and tax benefits available with the pension wrappers.

Some companies also allow employees to open a so-called group SIPP. This is similar to a

workplace scheme, but it lets savers choose their own investments (there is usually a default fund choice for those not interested) and gives them more control over their savings.

History of SIPPs

SIPPs were first introduced in the 1989 Budget by the then chancellor Nigel Lawson. The goal was to give individuals the same investment freedom that small business owners already enjoyed with Small Self Administered Schemes (SSAS). In March 1990, savings firm Personal Pension Management launched the first SIPP. Still, take-up was initially slow because restrictions on the accounts limited how people could open and manage the vehicles.

Initially, SIPPs also had restrictions on flexible income drawdown, which changed in 1995. Before then, savers were virtually forced to buy an annuity at retirement rather than keep investments within the SIPP wrapper and withdraw funds as and when.

Over the next few decades, the government refined and developed the SIPP regime. The implementation of the new pension tax regime in April 2006 (also known as "A-Day") under the Finance Act 2004 simplified SIPPs dramatically and led to a significant increase in uptake.

With this change, the FSA (now the FCA) took over regulation of SIPPs from HMRC. The government also replaced eight complex, competing tax regimes that governed SIPP deposits, withdrawal rules and management with one single set of rules. Initially, contribution limits were restrictive, capped between 17.5 per cent and 40 per cent of earnings, and you could only open a SIPP through an expensive independent financial advisor.

Throughout the 2000s, the government and regulators further refined the rules governing SIPPs. Today, most SIPPs operate with at least two entities: a regulated FCA entity, which operates the SIPP; and a trustee entity, which holds the assets within the SIPP as a bare trustee, and it's not normally FCA regulated.

In the run-up to "A-Day", the government consulted on whether to allow residential property, fine wine, classic cars and art to be held within a SIPP. With only a few weeks to go, the government u-turned on this potential explosion in pension freedoms. However, it did settle on allowing commercial property to be held within a SIPP as a standard asset.

A-Day also solidified the rules around tax relief and standardised contribution limits, dramatically

Your new **SIPP** with no account fees

Capital at risk. Self Invested Personal Pension (SIPP) access starts at 55 (57 from 2028). Tax treatment depends on your circumstances. Other fees may apply.

simplifying the market and regime for consumers. As these rule changes took effect, the government increased consumer protections. It worked to clean up rogue, unregulated investments, like overseas property schemes, that had plagued funds in the early 2000s.

SIPPs were built with tax efficiency in mind. No tax is due on income or capital gains earned from investments held within one of these wrappers. Investors can buy and sell investments and earn dividend income as well as savings interest, safe in the knowledge they won't be hit with an additional income or capital gains tax bill at the end of the year.

Changing market

In the 2010s, the market changed again. Following the financial crisis, the number of digitally focused direct-to-consumer investment platforms operating in the UK increased significantly. These companies capitalised on the booming smartphone market and the digital revolution, offering much lower costs through reduced infrastructure and streamlined interfaces.

Platforms such as Hargreaves Lansdown, AJ Bell and Interactive Investor let investors consolidate everything in one place, including US tech stocks, UK index funds and global exchange-traded funds (ETFs) side by side with a single click. The platforms also let investors manage other investment accounts, such as general investment accounts and ISA accounts, from one app.

These platforms have widened access to the SIPP market. Before the 2010s, most savers had to access SIPPs via independent financial advisors (IFAs), a paper-heavy process that often required £50,000-£100,000+ in assets. These advisors often attracted criticism for opaque fees and hefty advisory costs.

Digital platforms, for the most part, removed these barriers. Investors can start saving with as little as £1, with an instant online setup process and paperless initiation. Investment platforms have also prioritised transparent fee structures (helped by additional regulation) and low or zero percentage fee caps.

The market took another big step forward in 2013 when the financial regulator enforced the Retail Distribution Review (RDR).

This law banned investment companies from paying "hidden commissions" to financial advisers for selling their products. Before these changes, IFAs and investment platforms regularly received commissions when they recommended certain

investment funds to investors and savers. As a result, there was often a conflict of interest, with IFAs and investment platforms incentivised to act in their own best interest rather than savers'. The law changes banned these hidden commissions.

Another significant change came with the introduction of the Origo Transfer Network, a digital service that allows platforms to transfer pension pots electronically in a few days rather than weeks.

Costs fall

As the market has evolved, new entrants have arrived, costs have fallen further and the range of investments available has increased.

In the late 2010s and early 2020s, fintech challengers such as JP Morgan Personal Investing, Wealthify and Moneyfarm, and pension specialists like PensionBee, entered the market to challenge traditional IFAs. These platforms targeted beginners by eliminating the complex stock-market menu. Instead, users swipe through an app, select a risk level (eg "Cautious" or "Adventurous") and the app's digital algorithms auto-manage the SIPP portfolio.

Do-it-yourself (DIY) investment platforms have also broken into the space. Names like Fidelity International, Vanguard, InvestEngine and Trading 212 have slashed fees while reducing complexity.

These platforms have also highlighted one of the main reasons investors would want to open a SIPP over other platforms: the vast range of investments on offer. Depending on your investment platform, savers can invest in global equities, including UK and US shares and international companies listed on exchanges worldwide. They can also buy low-cost ETFs and index funds that track whole markets or specific sectors. Investment trusts are also available, giving investors access to segments of the market such as private investments, which are not usually available to individuals with less than £1m in assets.

Savers can also buy corporate bonds or government debt as an alternative to cash savings.

While most investment platforms don't let investors hold commercial property directly, some providers allow savers to buy physical commercial premises through certain specialised SIPP wrappers. This can be particularly helpful for small business owners. However, recent changes to inheritance tax and pension rules have made this benefit less lucrative than it once was. ●

Pensions Overview

Planning for retirement Understand the UK pensions system

Savers can't rely on a state pension for a comfortable retirement

Saving into a pension is one of the most important financial decisions anyone can make, but it's also something savers often try to avoid at all costs, as pensions, and the pension system in general, can seem overwhelming.

The UK pension industry is among the most developed in the world, with the third-biggest market. It is worth over \$2.8trn, behind only Canada (\$3.4trn) and the US (\$44.8trn).

As a result, there are hundreds of pension funds, workplace pension scheme providers, Self-Invested Personal Pension (SIPP) providers and other products such as annuities to choose from when planning for retirement.

Many savers mistakenly believe that the state pension will provide for them in later life. In reality, however, the situation is often quite different.

Comfortable retirement

According to Retirement Living Standards, a

comfortable retirement in the UK needs an annual income of £45,400 for a single person and a combined £62,700 for a couple.

A comfortable retirement in this scenario includes two weeks abroad each year, three UK weekend breaks, and regular dining out, groceries and treats for the family.

To afford this comfortable middle-class lifestyle later in life, Fidelity estimates a single person needs to retire with a pension pot of between £560,000 and £845,000. That's including the full new state pension of £12,548 a year.

For a couple, you will need a pension pot of between £315,000 and £470,000 each. Of course, these figures depend on your situation and may vary based on other factors such as different income streams, your nominal tax rate and how much you choose to take as a lump sum at retirement. The numbers also assume you own your own property and don't require any additional care, even in your own home or in a care facility.

Where you choose to live can also be a significant factor. The figures above are for couples living outside London; those living in London may need significantly more.

Put simply, retiring can often cost more than people budget for, and retiring on the state pension alone is often not a viable choice.

Pension market

In the UK, retirement savings fall into three main categories. There's the state pension, provided by the government at the state pension age, currently 66 but set to rise to 68 over the next few decades. The amount you will receive is based on your National Insurance (NI) record. In most cases, you will need at least ten qualifying years for any state pension and 35 qualifying years for the full new state pension.

The new state pension is worth £241.30 a week, which equates to £12,547.60 a year, although the amount you actually receive depends on when you reached retirement age and your NI contribution history.

Alongside the state pension, you may have a workplace pension. These fall into two categories.

First, defined contribution pensions where you and your employer both pay regular amounts into a pot that is invested. The final amount depends on total contributions and investment performance at the date of retirement.

Defined benefit

The second type of workplace pension is a defined benefit, or final salary, pension scheme. These schemes provide a fixed annual payment based on a percentage of the employee's former salary after retirement, often increasing the payout annually with inflation or another defined metric.

Most private sector employers no longer offer these schemes because of the long-term cost and

the complications of managing significant pension liabilities on company balance sheets, although many schemes are reporting significant surpluses, with funding levels exceeding long-term liabilities.

Instead, employers have replaced schemes with defined contribution schemes for new employees. According to the Pension Protection Fund's *Purple Book*, there are an estimated 4,840 defined benefit (DB) schemes in the eligible universe as at 31 March 2025, a reduction from 4,974 as at 31 March 2024.

Defined benefit schemes are, however, still widely used in the public sector. Most modern public sector schemes use a Career Average Revalued Earnings (CARE) formula rather than final salary, building up a fraction of earnings each year, with members paying a percentage of their salary that is automatically deducted with tax relief benefits.

There are benefits and drawbacks to the structure of a defined benefit scheme. For retirees, these schemes provide a secure, inflation-linked income for life. However, unlike defined contribution schemes, you cannot withdraw large cash sums under pension freedom rules. Small tax-free lump sums may be available, but for the most part, retirees must follow the outlines and guidelines set by the scheme's board of trustees.

So while defined contribution schemes may not provide the same level of income protection in retirement, they can offer enhanced income through investment outperformance and flexibility.

Defined contribution

Defined contribution pensions have become the go-to vehicle for workplace pension savings over the past two decades. The biggest change came in 2012, with the introduction of auto-enrolment pension legislation.

Under current rules, workplaces must auto-enrol

employees in a pension scheme if they are aged between 22 and the state pension age and earn more than £10,000 a year. Currently, employees must pay a minimum of 5 per cent (including tax relief), and employers contribute 3 per cent, for a total minimum annual contribution of 8 per cent. Employees can opt out of the scheme, although they may be re-enrolled when they change jobs.

Employers must set up a qualifying workplace pension scheme to invest savers' cash. They can use large master trust providers like the government-backed National Employment Savings Trust (NEST) or People's Pension, or master trusts from providers such as Smart Pension. These now account for 92 per cent of all defined contribution memberships and 83 per cent of total assets (exceeding £200bn), according to The Pensions Regulator.

Under the new Pension Schemes Act 2026, for automatic enrolment purposes, any master trust or group personal pension must hold at least £25bn in assets under management (AUM) in a single default arrangement by 2030. All are regulated under strict oversight by The Pensions Regulator (TPR) and the money within these trusts does not belong to your employer or the pension provider. It is held within a legally separate trust asset pool.

If your employer or the pension company goes bust, your retirement fund remains protected and cannot be touched by creditors. The same is true of defined benefit schemes, which are also covered by the Pension Protection Fund (PPF). This operates independently of the government and acts like an insurance lifeboat, stepping in if the scheme is underfunded when the employer goes bust.

Alongside the state pension and workplace pension schemes, there are private pensions. Most savers choose a Self-Invested Personal Pension, or SIPP, to manage their private pension. ●



Building a retirement fund often means drawing on several sources of income

Pensions Overview

Pensions contributions Making sense of allowances and tax relief

The £60,000 headline limit isn't the same for everyone

One of the most significant advantages of saving into a SIPP, or indeed any pension, is the tax benefits.

When it comes to SIPPs in particular, savers receive tax relief on personal contributions up to 100 per cent of their earnings, capped at a maximum annual allowance of £60,000.

The allowance was increased on 6 April 2023 from the previous cap of £40,000 a year to help encourage workers, particularly senior NHS doctors, to remain in the workforce for longer.

However, investors and savers need to be aware of some contribution rules, as falling foul of them can lead to tax penalties.

Contribution limits

While savers are technically allowed to contribute up to £60,000 a year into a SIPP and still receive tax relief, you can only contribute the full amount if you are earning £60,000 a year or more.

Contributions are capped at the amount you earn and if you have no or very low earnings, you can personally contribute up to £2,880 a year, which is topped up to £3,600 with tax relief.

This limit applies across all of your pension savings, not on a scheme-by-scheme basis. So if you have a SIPP and a workplace pension, it may be worth checking your total contributions across both schemes each year.

However, the rules offer some flexibility for savers with volatile income.

Under what's known as the carry forward rule, if you have used up your annual allowance for the current tax year, you may be able to top up the allowance with any unused annual allowances from the previous three years.

If someone has used all of their carry forward headroom and the annual £60,000 allowance, they can, technically, contribute more than £60,000 a year to their collective pension pots if they are willing to forgo the tax benefits.

If the contributions to your pensions exceed the annual allowance, a tax charge ('the annual allowance charge') may become payable. This effectively claws back any excess tax relief given at source.

High earners

Savers earning over £200,000 a year may also have some tax benefits removed. This is where it can become quite complicated for higher earners. If total taxable income is above £200,000 and adjusted income, which includes other income sources such as dividends, savings interest and rental income before tax, plus the value of any personal and employer pension contributions, is over £260,000, the annual allowance will reduce by £1 for every £2 that your 'adjusted income' exceeds £260,000.

The maximum reduction is £50,000, which reduces the annual allowance to £10,000, but only once adjusted income reaches £360,000 or more.

There are also some rules around contribution limits after you have made your first withdrawal from a pension.

Under current rules, savers can withdraw money from a SIPP from age 55 onwards, so they may be tempted to withdraw money to spend while still working and saving back into a pension.

In this situation, the saver may become subject to the money purchase annual allowance (MPAA). This reduces the amount you can contribute to your money purchase pensions in any one tax year to £10,000 while still benefiting from tax relief.

Once you become subject to the MPAA, you will not be able to use unused annual allowance from previous years to contribute more than your annual allowance to a money purchase pension arrangement.

The rules for higher earners, the carry forward rule and MPAA are quite complex and it's worth



Pension contributions come with valuable tax relief – but also complex rules

speaking to a financial advisor if you become entangled in one of these situations.

Tax relief

Any saver contributing to a SIPP is entitled to tax relief at their marginal rate. This tax relief is designed to help you save for retirement, using money that would have otherwise gone to the taxman.

This doesn't mean you won't have to pay tax on that money later. Any money you withdraw from a pension in later life is subject to tax (unless it qualifies as a tax-free lump sum, which we'll get to later). The amount of tax required will depend on how much you withdraw and when you choose to withdraw it.

For all taxpayers, when you contribute £80 to a SIPP, the provider then claims 20 per cent from the government and adds it directly to your pot, taking the total contribution to £100. This is called relief at source.

This is all the tax relief basic rate taxpayers are entitled to at the point of contribution.

For higher-rate taxpayers, the same process applies to the first 20 per cent. Taxpayers then need to claim back the extra 20 per cent via their tax return or by contacting HMRC.

Additional rate taxpayers have to use the same process. Additional rate taxpayers can claim back an additional 25 per cent on contributions, on top of the 20 per cent already claimed by the provider under the relief at source rules.

These are the rules for personal SIPP contributions. The rules around tax relief are a little different when a company makes contributions on your behalf. Employed business owners can make SIPP contributions directly from their limited companies, and the company itself receives tax relief.

Some larger groups may also offer a salary sacrifice scheme combined with a group SIPP. This

allows savers to deduct pension contributions from their salary before income tax and National Insurance are deducted. This lowers income tax and National Insurance contributions for employees and cuts National Insurance costs for employers.

However, due to rules set to come into force from April 2029, the maximum amount of salary you can sacrifice into a pension with National Insurance relief will be kept at £2,000 a year. Any income contributed above £2,000 a year will still receive full income tax relief but will be subject to standard National Insurance charges.

Claw back

As noted above, it is possible to contribute more than £60,000 a year to your pension pots, but you will face a tax charge. SIPP providers will automatically add basic rate tax relief to all contributions, and individuals are responsible for the total amount contributed across all their pension pots. If you exceed the £60,000 allowance and do not have unused allowances to carry forward from previous years to protect it, an annual allowance tax charge may be levied.

The amount you contribute over £60,000 will be added to your total taxable income for the year and you will then be taxed on that excess amount at your highest marginal income tax rate, either 20 per cent, 40 per cent or 45 per cent. This is designed to cancel the tax relief you received on the initial contribution and generally discourage savers from going over the limit.

There also used to be a limit on the total amount savers could contribute to their pension before being hit with a punitive tax charge of 55 per cent. The government abolished this Lifetime Allowance (LTA) in April 2024. Instead, the government replaced it with a cap focused strictly on how much tax-free cash you can withdraw over your lifetime. ●

Pensions Overview

Accessing your SIPP Options for turning savings into retirement income

How you access your pension can shape your income and tax bill

Savers can start withdrawing money from their SIPP at 55, although this will rise to 57 at the beginning of April 2028. The minimum access age will stay ten years behind the rising state pension age, according to current government guidance.

Savers have several options when they reach retirement age to make the most of their pension savings. These rules apply only to SIPPs and are current at the time of writing. Other pension schemes, particularly defined benefits schemes, may have different rules and it's always best to check with your scheme provider or consult a financial advisor if you are unsure.

Lump sum

The biggest advantage of a flexible pension product such as a SIPP is the ability to take 25 per cent of the pot at retirement as a tax-free lump sum, subject to the Lump Sum Allowance (LSA). As your contributions receive tax relief on the way in and compound within a SIPP free of income tax, dividend tax and capital gains tax, this allows savers to crystallise a massive tax-free windfall at the time of retirement.

Following the increase in the annual allowance cap to £60,000 and the removal of the Lifetime Allowance (LTA), this tax-free lump sum figure was fixed at £268,275 in 2024 – now called the LSA. While the changes initially reduced flexibility for those nearing retirement, this is still a significant amount that can be withdrawn from a pension tax-free.

Drawdown

Savers could also put their SIPP into drawdown. Under this framework, savers can still take the 25 per cent cash upfront and then take regular or sporadic income from the remaining 75 per cent as needed.

Your money stays invested in the market, meaning it can still go up or down in value. The amount you withdraw will constitute income and, as a result, will be taxed at your marginal tax rate. This is where the tax benefits received at the point of contribution are unwound, and it may be sensible to seek financial advice to ensure you are not paying too much additional tax.

If you are also receiving a state pension, this will constitute income for tax purposes, as well as income from any other sources such as dividends, rental property and savings interest. So, it's worth reviewing your tax situation carefully and setting pension drawdowns at the appropriate level.

Uncrystallised funds

Uncrystallised Funds Pension Lump Sum (UFPLS) withdrawals are another approach. Under this approach, savers forgo the tax-free lump sum in exchange for extended tax benefits on regular payouts. Up to 25 per cent of each withdrawal is tax-free (up to a maximum of £268,275) and the rest is taxed as income.

Anything you don't withdraw stays invested as you choose. For example, if you removed £20,000 from your pension pot in one year under UFPLS withdrawal rules, £5,000 would be tax-free, with the rest taxed as income. This flexible approach could make UFPLS withdrawals attractive for individuals with other income streams, helping them manage their tax liabilities.

Annuities

Rather than taking a cash lump sum or continuing to manage a SIPP themselves, some savers may choose to use all or some of their SIPP to buy an annuity from an insurance company.

Several types of annuity products are on the market, such as inflation-protected, beneficiary protection and health-linked, but they all share the same overarching structure.

Savers hand over a lump sum in exchange for a guaranteed series of payments for the rest of their life. Some savers prefer this approach because it removes much of the risk and effort involved in managing a personal pension. You can still take your 25 per cent cash-free lump sum before buying the annuity. ●

Pensions Overview

Pensions and tax Understanding bands, PAYE and National Insurance

Tax reliefs available for pensions are attractive, but there are drawbacks

We've covered the rules around the taxation of contributions into a SIPP, as well as some of the guidance around limits and tax-free withdrawals. But how should investors and savers manage their SIPP at the time of retirement to minimise the amount of tax paid year-to-year?

As mentioned, savers can start to withdraw money from a SIPP at age 55, rising to 57 from 2028. As covered in previous pages, you can, if you choose, take up to 25 per cent, capped at £268,275, at the time of retirement as a tax-free lump sum.

To hit this level, your total combined pension pots would need to be worth £1,073,100 or more at the time of retirement. This lifetime limit applies across all your pensions combined (eg workplace pensions and multiple SIPPs), not per account.

As an added complication, if you hold historic HMRC lifetime allowance protections (such as fixed or individual protection), your personal tax-free lump sum limit may be higher.

If you don't choose to take the 25 per cent upfront, Uncrystallised Funds Pension Lump Sum (UFPLS) allows you to withdraw cash directly from your SIPP without moving the remaining funds into a formal drawdown scheme or buying an annuity. Every UFPLS withdrawal is automatically split – 25 per cent of the lump sum is paid out completely tax-free, with the remaining 75 per cent treated as regular taxable income.

Regular taxable income

Whichever option savers choose, if it's the UFPLS, upfront tax-free payment, annuity or other drawdown structure, any income that exceeds the tax-free allowance is taxed exactly like salary earnings using the UK's Pay As You Earn (PAYE) system. Your pension provider will automatically deduct any income tax due before the cash lands in your bank account at your marginal tax rate.

If you have other income streams, such as rental income from property, dividends or multiple pensions, or you are still working, you may need to complete an additional self-assessment tax form at the end of the year. Those over state pension age, currently 66 but rising to 67 and 68 within the next few decades, will also have to complete a self-assessment return, as the full new UK state pension is £12,547.60 a year for the 2026/27 tax year, which is roughly the same as the tax-free personal allowance of £12,570.

Any monthly pension income received above your personal allowance is taxed at standard UK rates. For income between £12,571 and £50,270, taxpayers will have to pay a basic rate of 20 per cent. Income between £50,271 and £125,140 will be taxed at 40 per cent, and anything over £125,140 will be taxed at the additional rate of 45 per cent.

Your tax band

HMRC looks at your total income to determine your tax band, and if your total taxable income goes over £100,000, you lose £1 of your personal allowance for every £2 of income over that limit. This creates an effective 60 per cent tax rate on income between £100,000 and £125,140.

The rules around National Insurance are a bit more complex. National Insurance deductions apply strictly to earned income, not retirement income. What's more, if you keep working past your state pension age (currently 66), you stop paying Class 1 or Class 4 National Insurance on your wages or self-employed profits completely. If you draw your SIPP early (say, at age 55 or 57) but keep working, you must still pay National Insurance on your employment earnings until you reach state pension age. Under current rules, your pension payments remain National Insurance-free. ●

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Image not indicative of future results. Other fees may apply.

Savings Strategy

**The power of starting early
Compound interest gifts early
savers a significant advantage**

Time is the most important factor to consider when planning for a comfortable retirement

When it comes to saving for the future, the sooner you start saving, the easier it becomes to reach your long-term savings goals.

Many people believe pensions are only available to savers who are working and earning an income from employment. That's not the case at all. Indeed, Junior SIPPs allow parents or legal guardians of children under 18 to start saving for their child's retirement as soon as they are born.

Under the current rules, anyone can contribute up to £2,880 a year into a Junior SIPP, and the government adds 20 per cent basic rate tax relief, boosting the annual limit to £3,600. Like a regular

SIPP, investments grow free from UK income tax and capital gains tax, with the funds locked away until the child reaches 55 or 57 and can withdraw the money and understand pension rules. The parent or guardian manages the investments until the child turns 18, when the child takes legal control of the account.

The average child might not understand why you are putting money into a Junior SIPP rather than giving them a bigger Christmas present, but they will almost certainly thank you in later life.

Compound interest

Here is an example that illustrates the power of compound interest in long-term savings. Compound interest works as a financial multiplier as investment returns themselves begin to generate returns.

Consider a single, one-off payment into a Junior SIPP. Assuming an average annual net investment return of 5 per cent, a single net contribution of £2,880, boosted by £720 in government basic-rate tax relief to £3,600, will grow to approximately £52,688 by the time the child reaches age 55.

The compounding mechanism becomes more powerful when you contribute regularly over multiple years.

If the account is maxed out every year from birth through age 18, total net payments of £51,840, supplemented by £12,960 in government tax relief, bring total contributions to £64,800, and the portfolio would be worth roughly £104,300 by the child's 18th birthday.

Even if no further contributions are added after age 17, and the balance is left to compound untouched for another 37 years until age 55, the fund will grow to approximately £634,290.

This is a significant financial advantage. According to Office for National Statistics (ONS) data, the median private pension wealth for individuals approaching retirement age in Great Britain is roughly £107,000-£138,000.

Starting early

Maxing out a Junior SIPP is an extreme example, but it illustrates the benefits of starting to save early incredibly well – postponing saving for even a few years can have a significant detrimental impact on your quality of life in retirement.

A saver who starts saving at 20 years of age, contributing £500 a month with an average annual return of 5 per cent, could retire with a pension pot of £569,000 at 55 years of age. However, if that saver delayed opening an account until age 30, with just 25 years of saving ahead, they would accumulate a pension pot of £294,000, assuming everything else remains the same.

If the saver delayed until age 40, with just 15 years of savings, they would retire with a pot of £133,000. These figures exclude tax benefits and fees, but they clearly illustrate the power of starting early and long-term compound interest. ●

Realistic milestones

How much do you need to have the retirement you want?

Setting savings targets will keep your pension pot on track

Outlining key savings milestones and savings goals is one of the best ways to ensure your retirement savings are on track.

First of all, savers need to try and get a grip on how much they think they will need to retire. A good rule of thumb is to build a pension pot worth around ten times your annual salary by the time you retire.

However, this is only a rough guide. The exact amount of savings needed at retirement will

depend on multiple factors, such as whether you have a partner, your living situation, state pension entitlement and the quality of life you want in retirement. Someone who is still renting their home, for example, will need much more money than someone who owns their home outright.

What you need

According to Retirement Living Standards, a retiree needs £13,900 a year for a minimum standard of living, assuming they own their home outright.

For a moderate level of retirement, which includes spending on things like a car, taxis, several holidays a year and £1,500 a year on clothing, a single person would need £32,700 a year, or £45,400 a year as a couple.

Once again, these figures assume the saver owns their house outright. Finally, for a comfortable level of retirement, Retirement Living Standards estimates a couple will need £62,700 a year. That assumes around £150 a week on food, plus a monthly meal out, taxis, rail fares, clothing, three holidays in the UK and one holiday abroad.

To secure an income of £62,700 a year in retirement, Fidelity estimates a single person needs a pension pot of between £560,000 and £845,000. That's including the full new state pension of £12,548 a year. This also accounts for tax paid on pension savings when withdrawn from a pension wrapper such as a SIPP.

One thing to note is that this figure does not account for inflation's impact on spending over the long term. If the cost of living continues to rise as it has over the past five years, the figure required to retire comfortably could increase significantly.

Setting goals

When you have established how much you need in your pension pot at the time of retirement, the next stage is to set some realistic savings goals.

A rough guide is to aim to have saved your annual salary by age 30, and three times your annual salary by age 40.

By 50 years of age, if you have saved six times your annual salary, you are on the right track, and by 60, assuming you've not retired already, you should aim to have accumulated between eight and ten times your salary across all pension funds.

Most savers can rely on workplace pensions to help them reach this level. However, the current auto-enrolment minimum is 8 per cent of salary, which isn't enough to meet these goals. Indeed, to hit the targets outlined above, the target is closer to 15 per cent.

That means savers who want to hit retirement goals and retire with a comfortable standard of living will need to make ad hoc contributions to private pension schemes such as SIPPs. ●

The waiting game High fees can be detrimental to long-term performance

Time can turn small differences in returns and fees into much bigger gaps at retirement

Saving into a SIPP is, by definition, a long-distance race. Because the rules restrict withdrawals until at least age 55, rising to 57 in April 2028, most pension savers face an investment timeline spanning several decades.

That means savers must adopt a long-term mentality when building their pot. They should choose the best assets for long-term wealth creation, ignore short-term market turbulence and harness the full power of compound growth.

Embracing growth assets

When you have decades ahead of you, holding your pension in cash or low-yielding fixed income carries a hidden danger: inflation. While cash feels safe in the short term, its purchasing power quietly degrades over long periods.

Although cash will always have a place in your portfolio, especially when you get closer to retirement and want to take less risk, stocks and shares are usually the better option for long-term compound returns.

Investing in a broadly diversified portfolio of global equities, typically via low-cost index funds,

exchange-traded funds (ETFs) or investment trusts gives your pot direct exposure to corporate growth worldwide.

Over the past ten-, 20- and 30-year spans, equities have consistently outperformed cash savings. While past performance doesn't guarantee future growth, investors should keep this track record in mind when selecting assets.

Better still, inside a SIPP, all capital gains, dividends and interest compound are completely free from UK tax.

The numbers

The Swiss investment banking giant UBS publishes an annual report looking at the return of different asset classes since 1900.

In the latest report, the investment bank showed that since 1900, developed equity markets have produced an average annual return of 8.5 per cent, turning \$1 invested into \$28,400.

Meanwhile, a developed-market bond index has returned just 4.4 per cent a year. Overall, global equities outperformed cash by around three times and, after inflation, still generated a healthy return of around 6 per cent a year.

These returns are probably the clearest example of why equities are the best long-term asset class for your pension.

For example, Saver A and Saver B both expect to retire in 35 years, and both contribute £250 a month to their pension. However, Saver A has invested in a low-cost global equity ETF. The other saver has decided to hold their investment in cash. Using the historic returns provided by UBS, Saver A would have a portfolio worth £627,000 at retirement. Meanwhile, Saver B would retire with a pot of just £179,400, a gap of £447,600 – the difference between a very basic standard of living in retirement and quite a comfortable standard of living. These returns assume minimal fees and charges.

Fees

Some of the biggest SIPP providers charge hefty annual fees that might not seem like much at first but can add up over time.

Full-service wealth managers will typically charge around 1 per cent a year, excluding trading fees. Returning to the example above for Saver A, a 1 per cent annual fee would reduce the final pot to £472,744 at the time of retirement – a gap of £154,256. Using a platform like Hargreaves Lansdown, which charges 0.35 per cent a year on funds, would help, but Saver A would still lose around £73,000 to fees over 35 years.

Zero-fee platforms such as Trading 212 or InvestEngine offer by far the best deal for SIPP investors. Neither charges annual platform fees, so savers' cash can compound uninterrupted and help them achieve a better standard of living in retirement. ●

Asset allocation Balancing growth and security over time

The right mix of assets today may not be the right mix tomorrow

According to the Chartered Financial Analyst Institute, the biggest driver of long-term returns in any investment portfolio comes down to a single factor: asset allocation.

Asset allocation is the process of strategically distributing your pension pot across different asset classes, including equities, fixed income assets such as bonds, real estate and cash. Because SIPP's offer greater investment freedom than standard workplace pensions, investors can, if they want, take more risk in the portfolio to achieve better returns.

SIPP's have always been designed with flexibility in mind, especially when it comes to asset allocation. But some platform providers offer more flexibility than others.

Some providers, such as Vanguard or InvestEngine, for example, let investors choose from only a limited number of funds. With Vanguard, that means only funds from the Vanguard family. Meanwhile, robo-advisor platforms, such as Wealthify, give investors a choice of several portfolios based on their risk tolerance.

Traditional, established SIPP providers, such as AJ Bell and Hargreaves Lansdown, do offer the widest range of investment options, but the trade-off here is cost. These providers have some of the highest trading costs around.

For the lowest costs and a wide range of investments, Trading 212 stands out as one of the best products on the market.

Getting comfortable

The overarching goal of asset allocation is to build a portfolio that matches your risk tolerance, with risk exposure declining over time.

Most savers in their twenties, thirties and forties have time on their side. As such, having a portfolio that is 80-100 per cent equities, either with exchange-traded funds, index-tracking funds, investment trusts or single stocks, can be the right approach – there's plenty of time to make back losses if the market experiences a sudden, sharp drawdown.

But as savers approach their fifties, a strategy should gradually pivot towards capital preservation. Historically, the equity market has experienced a significant – 20-50 per cent – drawdown every decade. No one wants to be caught in the middle of a 50 per cent drawdown, needing to sell their investments just to pay council tax.

That's why, as savers enter their fifties and approach retirement, most financial advisors will recommend that a portfolio transitions towards a more balanced allocation. A more balanced portfolio may allocate just 60 or 20 per cent to equities, with the rest allocated to bonds or cash.

Annual rebalancing helps keep your portfolio within its target framework. By selling assets that have increased in value and topping up those that have lagged, rebalancing enforces systematic investment discipline and prevents additional risk from creeping into your portfolio.

Being able to move seamlessly into cash or short-term government debt easily and cheaply becomes important in later life. Cash interest rates are also important. Most platforms don't offer much interest on cash held in accounts. Interactive Investor, for example, one of the UK's largest platforms, offers only 2.3 per cent interest if you have over £100,000 in cash in your account. Trading 212, by contrast, offers a rate of 3.8 per cent paid daily on all balances. ●

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SIPPs vs ISAs

Different benefits and rules for accessing your money

Combining savings vehicles can offer greater flexibility in retirement

Alongside a SIPP, investors and savers can also use an Individual Savings Account (ISA) to save for retirement.

These two products are governed by different rules and regulations, but they both offer significant tax benefits. The headline benefit of saving into a SIPP is the upfront government tax relief at 20 per cent for basic-rate taxpayers, plus the ability to contribute up to 100 per cent

of qualifying annual earnings, capped at £60,000 a year.

With an ISA wrapper, savers can contribute a maximum of £20,000 a year, and no tax relief is paid on contributions. In some respects, this means an ISA is a little easier to manage.

As there's no tax relief given on the way in, there's no tax to pay on the way out, unlike money withdrawn from a SIPP. Any assets held within an ISA wrapper can grow free of income tax, dividend tax and savings tax, as well as capital gains tax – there is no need to even declare transactions or income on your tax return. Every penny withdrawn from an ISA, whether capital gains, dividends or regular income, is completely tax-free.

In addition, there are no limits on when you can withdraw funds (except for Lifetime ISAs). Unlike a SIPP, where savers have to wait until they reach 55 years of age to withdraw or face tax penalties, you can pull money out of an ISA whenever you want.

Types of ISA

There are four types of ISA: cash ISA, stocks and shares ISA, innovative finance ISA, and Lifetime ISA. Stocks and shares ISAs offer the most flexibility. You can hold any assets within one of these wrappers as long as they trade on what's known as a regulated stock exchange. From April 2027, the cash ISA allowance for savers under 65 will fall to £12,000, while the stocks and shares ISA and overall ISA limits will remain at £20,000.

The Lifetime ISA is also changing. It will be replaced by a new First-Time Buyer ISA in April 2028, giving savers a year and a half to make the most of the remaining tax benefits. Under current rules, a Lifetime ISA (LISA) lets you save up to £4,000 every tax year towards a first home or your retirement, with the state adding a 25 per cent bonus on top. The sting is that if you withdraw the funds for any other reason, you lose that 25 per cent.

Tax planning

ISAs and SIPPs are not mutually exclusive products. Savers can have both a SIPP and ISA and deposit up to £80,000 a year into these tax-advantaged products.

The best way to make the most of these two products is to find an investment platform that offers both for the lowest cost. Unfortunately, most investment platforms do not offer competitive interest rates on cash ISAs or cash held within a stocks and shares ISA wrapper.

AJ Bell, for example, offers 1.75 per cent on all cash ISA balances. The standout is Trading 212. This platform has always prioritised cash interest rates and currently offers 3.8 per cent on cash in a stocks and shares ISA and 4.6 per cent variable on cash ISAs for new customers. Moneybox offers 4.57 per cent for new customers. Both Trading 212 and Moneybox have consistently topped the charts for the best rates paid on cash held in ISA wrappers. ●

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Investment Choices

Active or passive?

Understanding funds, ETFs and different management options

Costs, structure and management style can all shape your returns

Savers can hold tens of thousands of potential investments within a SIPP wrapper, from global funds to single stocks, government bonds, corporate bonds and even commercial property.

Funds tend to be the most popular choice because they allow investors to build exposure to a diverse range of investments at the click of a button. There's also no need to worry about the day-to-day management of the fund's underlying portfolio.

Fund management

There are two primary styles of investment fund management: active and passive management.

Actively managed funds are looked after by a group of individuals who try to outperform a particular reference benchmark. Fees on active funds tend to range between 0.5 per cent and 1.5 per cent per annum.

Passive funds, meanwhile, will only track or replicate the performance of a benchmark. As there is no manager or team of managers trying to beat the market, costs are significantly lower. The average fee for a passive fund (such as an index tracker) typically ranges from 0.06 per cent to 0.34 per cent per year, depending on the market and region, according to financial data provider Morningstar.

ETFs, index funds, unit trusts – also known as open-ended investment companies (OEICs) – and investment trusts are different fund structures that can use either active or passive management styles.

Investment trusts are the most flexible of the group, as they can invest in a diverse range of assets, from renewable energy infrastructure such as wind farms to private equity funds, gold bullion, corporate bonds and equities. However, they tend to be a bit more expensive compared to other funds.

ETFs have recently risen in popularity because of their flexibility and variety. According to US banking giant JP Morgan, nearly 17,000 ETFs exist globally, with \$22trn in assets under management. Many are passive vehicles that track an index, but active ETFs are becoming increasingly common. ETFs can be structured to hold different types of assets, such as bonds, gold and even silver, as long as they have an active market.

Index funds are generally passive vehicles designed to track an underlying stock market index such as the FTSE 100. The structure differs slightly from an ETF, as investors can only buy and sell into the vehicle once a day. ETF trading is continuous when an exchange, such as the London Stock Exchange, is open.

Unit trusts and OEICs can be active or passive vehicles and are bought directly from a fund manager or platform once a day at a fixed price. Generally focused on equities, they can also own commercial property and fixed income assets such as bonds. In the UK, the government also recently introduced the Long-Term Asset Fund (LTAF), a type of open-ended fund regulated by the Financial Conduct Authority (FCA). The structure lets institutional and eligible retail investors invest in hard-to-sell, long-term productive assets such as private equity, real estate and infrastructure.

Investors and savers need to keep a keen eye on costs when picking funds. According to data from PwL Capital and Morningstar released in early 2025, the average asset-weighted expense ratio for passive equity funds in the United States has hovered around 0.01 per cent to 0.05 per cent over the past few years.

In contrast, actively managed funds frequently charged between 0.6 and 1.3 per cent per annum in management fees. Some funds also charge an upfront fee at purchase.

Over a 25-year investment horizon, these fees can really add up. An investment of £100,000 in a



ETFs offer exposure to a wide range of markets and assets

fund with an annual fee of 1.25 per cent, returning 7 per cent per annum, would grow to £403,000 over 25 years. A fund with a fee of 0.06 per cent per year would grow to be worth £534,000 – a total additional gain of £131,000.

Picking stocks

Alongside buying funds, investors can also pick their own stocks for a SIPP. This flexibility allows investors to back the companies they think will change the world. It's never been easier to build exposure to themes such as technology, energy or other economic themes from the comfort of your sofa. Investors can buy into companies such as Ferrari, the world's premier supercar manufacturer, listed on both the New York Stock Exchange and the Italian stock exchange.

There's also Roche, the Swiss pharmaceutical giant and leader in the field of oncology. Closer to home, global pharmaceutical giant AstraZeneca is listed here in the UK, while BAE Systems, one of the world's largest defence companies, is one of the best options to build exposure to rising global defence spending. Technology giants such as Nvidia, Alphabet (the owner of Google) and Amazon are leading the world in technologies such as AI, and buying these shares directly is one of the best ways to benefit from this theme that has been likened to the next industrial revolution.

Choosing the right platform

Choosing the best investment platform for a SIPP is just as important as selecting the investments for the portfolio. Some investors may select an independent financial advisor (IFA) or wealth manager to manage their pension on their behalf. This can be an expensive approach, but many savers prefer to have a human on hand to guide them through the process.

Robo-advisors, which we'll look at again in a few

pages, bridge the gap between humans and do-it-yourself investing. They use algorithms to manage savers' portfolios at a lower cost than a human advisor.

DIY platforms usually offer the cheapest and most flexible offerings for investors. Each platform comes with its own benefits and drawbacks, so it's worth considering what you want from a platform before taking the plunge. What's more, if you want to trade internationally, many platforms charge a fee for foreign currency deals, which adds an extra layer of cost.

Trading 212 offers a large selection of ETFs (including big index trackers like S&P 500, FTSE 100) as well as individual shares, but no traditional funds. It has no platform fee or trading fees and charges a fee of 0.15 per cent on foreign exchange transactions.

InvestEngine offers a selection of 870+ ETFs, but no individual shares or traditional funds. The platform's FX fees start at 0.75 per cent.

AJ Bell charges 0.25 per cent on the first £250,000 for funds, with costs falling above that level with a maximum. It charges £5 for buying and selling shares, £1.50 for funds, and FX fees start from 0.75 per cent.

Hargreaves Lansdown charges 0.35 per cent up to £250,000 for funds, with costs falling above that level. There are different rates for individual share investments. Share trades are priced at £6.95 to start and funds are charged at £1.95. FX fees start at 0.99 per cent for the first £10,000.

Interactive Investor charges £5.99 for its 'Core' offering for accounts up to £100,000. It charges £3.99 per fund and share trade (UK and US only) with an FX cost of 0.75 per cent. It also has 'Plus' and 'Premium' tiers, at £14.99 and £39.99, respectively, which offer additional benefits such as free monthly trading and free family accounts. ●

Investment Choices

Global opportunities
Looking beyond established
markets and traditional sectors

Emerging markets and megatrends can help diversify a portfolio

Investors can buy shares and funds that give their portfolio exposure to some of the world's most exciting emerging markets and megatrends, all within a SIPP wrapper.

And it's certainly worth looking at international markets. In 2025, the MSCI Emerging Markets Index rose 34 per cent, ahead of the FTSE 100's 26 per cent rise and the S&P 500's 18 per cent.

Emerging markets

One of the most exciting emerging markets is Vietnam. Its economy is expected to grow 7.2 per cent this year with a record current account surplus of 6.7 per cent, generating a fiscal windfall for the government.

It plans to deploy roughly \$310bn across flagship projects, including the \$67bn north-south high-speed railway, by the end of the decade as the economy gears up for the next stage of growth.

Vietnam has benefited from China's expansion over the past 30 years. And while China's growth has slowed, it's still growing at a healthy clip. Investment giant Vanguard's senior economist Grant Feng notes that although China's economic growth slowed to 4.3 per cent year over year in the second quarter, policymakers are pulling multiple levers to increase economic activity, leaving the door open to a broad-based stimulus package if growth slows further.



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*Source: IMF WEO, October 2025.

Then there's India. In 2023, India overtook China as the largest population in the world, hitting over 1.4 billion people, roughly a sixth of the global population. Real GDP grew by an average of 7.4 per cent from fiscal year 2022 to 2026 and has grown ten-fold since 1980. Recently, it briefly overtook the UK in the rankings of the world's largest economies.

Markets such as China and India limit foreign ownership of domestic equities, making it difficult to buy and sell shares directly. Doing so will also expose investors to foreign currency risk.

The best way to build exposure to these companies is via a fund. Some funds with significant exposure to these markets, as well as other emerging economies, are JPM Emerging Markets (Class C), iShares Core MSCI Emerging Markets ETF, Lazard Emerging Markets, FSSA Greater China Growth and Jupiter India.

Markets like Vietnam are a little different. The country's equity market is still quite small and the best way to build exposure is through an investment trust such as Vietnam Enterprise Investments Limited, Vietnam Holding or VinaCapital Vietnam Opportunity Fund. These vehicles can hold private and public assets, making them perfectly suited for building broad exposure to economies such as Vietnam.

Sector themes

Two of the major themes driving growth in global

economies are artificial intelligence and renewable energy. According to US investment bank Goldman Sachs, investment in clean energy is expected to total \$2.2trn globally this year, while AI spending is expected to exceed \$1trn. These numbers are expected to grow over the coming years and investors who want to capitalise on the growth have plenty of options.

Greencoat UK Wind is one of the most direct options. This investment trust owns a portfolio predominantly of UK-based wind farms and pays the profit generated out to investors as dividends.

Scottish Mortgage is another trust, but with a very different mandate. This company owns a portfolio of world-beating public and private tech leaders. One of its biggest winners in recent years has been SpaceX, which it bought into several years ago when the latter was still a private business.

Other fund options include the WisdomTree AI UCITS ETF, the L&G Artificial Intelligence ETF, and the iShares Global Clean Energy ETF.

Whatever the theme, diversification remains important. Emerging markets and fast-growing sectors can offer significant long-term opportunities, but they can also be volatile.

Holding these investments alongside more established assets within a SIPP can help spread risk while giving investors access to some of the structural trends shaping the global economy. ●

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Investment Choices

Income and yield Putting dividends to work in your portfolio

Income investing can combine regular payouts with potential for capital growth

Many public companies return excess profits to investors when they have no other use for the money (such as reducing debt or reinvesting in the business). These profits are paid out as dividends to shareholders, and they can provide a helpful additional income stream in retirement.

Dividend income

Dividends are usually paid every few months or once a year, depending on the company's policies. This additional income can be particularly attractive for those investors focused on generating passive income or planning for retirement, as it separates income from day-to-day market swings.

As dividend payouts are linked to a company's bottom line, they can also rise or fall depending on the firm's trading performance. Generally, companies like to increase dividends over time, usually in line with or above inflation, which is one reason investors find dividends more appealing than fixed-income assets or cash. Income stocks also offer the potential for capital

growth, something that is just not possible with cash and bonds.

The best dividend shares are often well-established companies with a track record of stable earnings. Examples include companies in sectors such as utilities, consumer staples and finance, where their services and solutions are consistently in demand.

During periods of market volatility or economic uncertainty, regular dividend income can provide a safety net against declining stock prices. There is also evidence that income stocks demonstrate greater resilience during market downturns compared to non-dividend-paying stocks.

Income plays

Investing in dividend stocks is straightforward, but investors need to ensure they take an approach that aligns with their financial goals. Indeed, buying these shares directly lets investors pick companies that meet their specific income criteria, but it also adds the complexity of choosing the right businesses in the first place.

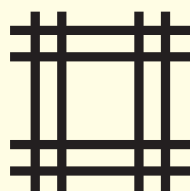
Some examples of UK-listed companies with a strong dividend track record include National Grid, which owns and operates essential energy infrastructure across the UK and the north-east US. There is also Legal & General, an insurance and investment juggernaut, and Primary Health Properties, an owner of purpose-built doctors' surgeries.

For investors that prefer a more hands-off approach, consider dividend-focused exchange-traded funds (ETFs) or investment trusts. The Association of Investment Companies has compiled a list of investment trusts that have consistently increased their dividends for 20 or more years in a row. These so-called 'Dividend Heroes' focus on stocks that have high, sustainable dividend yields and can invest all over the world. Trusts like the City of London Investment Trust (which focuses on UK income plays) has increased its dividend every year for six decades. Bankers Investment Trust, Alliance Witan and F&C Investment Trust have all increased their dividends for more than 55 years. These trusts currently offer dividend yields of between 1.2 and 3.8 per cent, meaning for every £1,000 invested, savers receive an annual dividend of between £12 and £38.

Aside from these trusts, two of the biggest and most successful income-focused funds out there are the Artemis Global Income Fund and the Guinness Global Equity Income Fund. Both have a global investment mandate and aim to find companies that can provide both income and capital growth for investors.

On the ETF front, investors could consider the iShares Emerging Markets Dividend ETF, the iShares UK Dividend ETF, the SPDR S&P Global Dividend Aristocrats ETF or the iShares Core FTSE 100 ETF, which tracks the FTSE 100 Index. ●

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Investment Choices

Sustainable investing ESG looks beyond a company's finances

Investing responsibly doesn't mean sacrificing profit for purpose

SIPPs are designed to save for the future, and some investors might want to use their money to help make the future a better place.

Environmental, social and governance (ESG) investing represents a more holistic approach to managing money. Investors and funds that pursue an ESG or sustainable investing approach consider non-financial factors and each business's impact on the world around it and its employees.

A better world

ESG is often mischaracterised as a focus on purpose over profit, which isn't always the case. In fact, research shows that, on average, firms with higher ESG ratings exhibit higher stock returns and lower financial risk.

That might be because ESG isn't just about the environment. It's also about looking after shareholders and employees.

Indeed, ESG is often mischaracterised as a singular focus on protecting the environment over other factors. But it also concerns social factors, which include the health and safety of employees,

as well as labour and welfare standards for other workers throughout the business's supply chain. Meanwhile, governance factors concern whether or not a company manages its business responsibly. Some of these factors include whether a business has anti-corruption and tax transparency policies in place, board diversity and independence rules, the quality of financial disclosures and whether controlling shareholders treat minority shareholders fairly.

Arguably, every investor should want to invest alongside businesses that do not underpay their staff, have policies to protect minority shareholders and produce high-quality financial disclosures.

So most investors should, to some degree, consider ESG ratings, if only to filter out the worst offenders.

ESG options

One of the best ways to filter out the worst offenders is to consult ESG rankings compiled by financial data providers such as MSCI, LSEG and S&P. Morningstar also compiles its own ratings, available to all investors on its online platform. Take UK-listed global consumer goods giant Unilever. Morningstar has given the group an ESG Risk Rating of 15.5. That means the group sits at the low end of the ESG risk scale of zero to 40+ (anything over 40 has a severe ESG risk). Over the next two decades, the company aims to reach net-zero emissions across its supply chain and deliver resilient, regenerative natural and agricultural ecosystems.

In comparison, a company like Glencore, also listed in London and one of the world's largest coal producers, has a Morningstar ESG Risk Rating of 30. It has a Morningstar 'Controversy' rating of 5, the highest possible rating due to the risk of poor business ethics in the regions in which it operates.

Higher price

ESG funds generally tend to be more expensive than other investment funds that don't consider these issues. The time it takes to research and understand the risks involved adds to the cost. However, some investors may believe that it's worth paying a bit more to follow a sustainable investment strategy.

Some passive options include Vanguard's ESG Global All Cap UCITS ETF, Legal & General's Future World ETF and the iShares UK Equity ESG Screened and Optimised Index Fund. These funds charge between 0.04 and 0.25 per cent a year.

In the active space, the Baillie Gifford Positive Change Fund aims to hold 25-50 global high-quality growth companies that can deliver positive change in one of four areas. These include social inclusion and education and "improving the base of the pyramid" (addressing the needs of the world's poorest populations). Impax Asset Management has carved out a niche in this space and manages several funds, including the US Environmental Leaders Strategy fund. ●

Investment Choices

Automated investing Lower-cost alternatives to traditional wealth management

Technology has slashed fees and removed admin for investors

Historically, wealth managers and financial advisors were the only options if savers wanted guidance with their long-term savings. The one big drawback of these services is the added cost. Fees can amount to as much as 2 per cent a year on top of other fund management charges.

Over the past decade, there has been a rise in the number of so-called robo-advisors, automated wealth management services that use algorithms to build and manage portfolios based on savers' risk profiles. Users input their financial goals, time horizon and risk tolerance, and the platform automatically allocates their money across a diversified mix of low-cost funds.

Robo-advisors typically charge a platform fee of 0.25 to 0.75 per cent a year and investment requirements start at £100. Once set up, the platform handles asset allocation, dividend reinvestment and

automatic portfolio rebalancing. That said, savers have to accept the platform's investment selection. They cannot pick single stocks or specific funds. There is also usually an additional cost for tailored tax and financial planning advice.

The platforms

JP Morgan Personal Investing: One of the most comprehensive low-cost portfolio management and advice services. The platform has a minimum initial investment of £500 and allows savers to open a SIPP, investment account and ISAs. It charges 0.75 per cent a year for its fully managed service for portfolios up to £100,000. Anything over that is charged at 0.35 per cent. The provider also offers financial advice and guidance, with packages between £450 and £1,350; the latter is a full-service package designed for complex finances or those near retirement.

Wealthify: Owned by insurance giant Aviva, the platform offers the full range of investment accounts, with a minimum investment of £1,000 or £5,000 for a SIPP. Wealthify charges 0.6 per cent per annum on ISAs and general investment accounts. For pensions, savers pay 0.6 per cent on the first £100,000 and 0.3 per cent on anything above. It has five investment portfolios: Cautious, Tentative, Confident, Ambitious and Adventurous.

Moneyfarm: Offers all the standard accounts as well as a wealth advice service to eligible savers. The 'Core' level is offered on assets up to £10,000. Those with £10,000 to £100,000 invested can access the 'Premium' service. The 'Private' service is available to savers with more than £100,000 in assets. Moneyfarm charges a platform fee of 0.25 per cent and a portfolio management fee that starts at 0.45 per cent on assets up to £50,000, falling to 0.2 per cent up to £100,000, 0.1 per cent between £100,000 and £1.5m, and 0 per cent on anything above £1.5m.

Low cost

Trading 212's innovative 'Pies' offer a similar solution with zero cost (at the platform level). Investors build Pies around their required asset allocation structure. The platform then automatically rebalances the portfolio within these limits. Through custom and ready-made Pies, investors can effortlessly streamline asset allocation by mixing and matching over 13,000 global stocks and exchange-traded funds (ETFs).

This functionality allows for precise exposure across bonds, commodities, real estate and equities, tailoring portfolios to specific risk tolerances without the burden of platform trading commissions. With no platform fees and minimal fees at the ETF fund level, savers retain far more of their returns. As noted earlier, the financial benefits of lower fees could add up to hundreds of thousands of pounds over a lifetime – that's money that could be used to enjoy a more comfortable life in retirement. ●

Investment Choices

Pension consolidation Bringing old pots together under one roof

Fewer accounts can mean more control over your savings

UK savers looking to streamline their retirement savings can consolidate their pension pots into a single SIPP wrapper. What used to be a complex, time-consuming process is now relatively straightforward, thanks to technology and fintech champions that have stepped in to fill a market gap.

Consolidation

Most, if not all, savers will end up with several pension pots over their lifetimes. Under the auto-enrolment pension framework, every company has to enrol an employee into the company's preferred scheme if the employee is aged between 22 and the state pension age and earns more than £10,000 per year or £833 a month. This effectively means a new pension and pension scheme each time an employee moves jobs, which can leave a trail of pension pots for savers to track.

Sadly, these pots of savers' hard-earned cash often become 'lost'. Research by the Pensions Policy Institute (PPI) estimates 3.3 million lost pensions,

containing £31.1bn in assets that sit unclaimed across various pension platforms.

Consolidating pots can help bring together pensions from various employers. It also helps savers keep full control of their savings and monitor costs, asset allocation and investment choices.

SIPP transfer

SIPPs are a great wrapper for consolidating old pension pots. They let investors consolidate investments (SIPPs, ISAs, cash savings and general investment accounts) onto one platform with a single password, and one set of tax paperwork replaces tracking four to five different schemes.

What's more, older workplace schemes often carry platform/admin charges above 0.75 per cent and 1+ per cent per year. Combining pots into a competitive modern SIPP platform could wipe these fees to zero, saving tens or even hundreds of thousands of pounds over time.

Beyond lower costs, workplace pensions usually offer a limited menu of default fund choices. SIPPs grant access to global stock markets, thematic exchange-traded funds (ETFs), corporate bonds, investment trusts and direct equity holdings. Legacy schemes may only offer limited retirement options, forcing savers to buy an annuity or exit entirely. But SIPPs offer flexible income drawdown, Uncrystallised Funds Pension Lump Sum (UFPLS) and custom withdrawal strategies.

Most platforms will allow savers to transfer and consolidate pots. Moving pots into a SIPP usually takes anywhere from two to eight weeks, though manual transfers for legacy paper schemes can take longer. Savers struggling to locate old pension details can use the UK government's free Pension Tracing Service, which helps recover lost pension schemes.

Some platforms will charge savers who want to withdraw their savings, so it's worth checking before starting a transfer. There are also limits on how much and when you can transfer from a defined benefit scheme. By UK law, if an investor wants to transfer out of a defined benefit (DB) pension worth more than £30,000, they must obtain formal advice from an FCA-regulated financial adviser specialising in pension transfers.

PensionBee is one fintech that has carved out a niche for itself in this market. PensionBee offers a small selection of pre-packaged plans managed by global asset managers (such as BlackRock, State Street and HSBC) and can help savers track down and consolidate old pots. However, there is a cost to this service, with the platform charging between 0.5 and 0.95 per cent depending on the investment plan chosen. There are discounts for larger pots.

Savers willing to do the work themselves might prefer to transfer into a self-service DIY platform such as Trading 212, which doesn't charge extra fees for SIPP management (although if savers choose to buy their own funds or ETFs for their portfolio, there will be a charge at the fund level). ●

Investment Choices

Making your money last Managing withdrawals throughout retirement

The 4 per cent rule is a useful starting point, but no one withdrawal rate fits all

The transition from saving for retirement (accumulation) to spending down a portfolio (decumulation) can be one of the most challenging parts of retirement planning.

The accumulation part of the savings process usually lasts many decades and is, for the most part, fairly hands-off. However, during the decumulation phase, retirees must balance multiple factors, such as market volatility, inflation, longevity risk, taxes and other income streams, such as the state pension.

The 4 per cent rule

One of the most popular approaches to managing decumulation is the 4 per cent rule. Financial adviser

Bill Bengen established this rule in 1994 and expanded it in the famous 1998 *Trinity Study*. Bengen analysed historical returns of stock and bond portfolios during worst-case periods (including the Great Depression and the 1970s stagflation) to find a withdrawal rate that held up over 30 years, arriving at 4 per cent as a benchmark that is relatively straightforward to understand and implement.

Using this rule, a saver withdraws 4 per cent of their portfolio in the first year and increases the withdrawal amount in subsequent years by inflation. For example, a saver with a £500,000 pension pot would withdraw £20,000 in their first year of retirement under this rule. If inflation averages 3 per cent for the next three years, the amount withdrawn each year would rise by 3 per cent to £20,600 in year two, £21,218 in year three and £21,854 in year four.

Bengen's rule assumes savers will live off their pension for 30 years, with a portfolio allocation of 50 to 75 per cent in equities and the remainder in bonds. Although this allocation sits within asset allocation frameworks used today, some savers may not be comfortable holding such a large percentage of assets in equities so close to retirement. Some frameworks suggest 40 per cent equities, 50 per cent bonds and 10 per cent cash may be more suitable.

Flexibility

One drawback of the 4 per cent rule is a lack of flexibility. It does not account for one-off expenditures that may occur after the decumulation phase starts. It can also be heavily influenced by market movements. If a stock market crash drags the portfolio down by 10 per cent in year one, the saver would have to withdraw more money initially, affecting potential cash flows in later years.

The rule may also influence retirees' spending habits. It was designed to ensure funds are available for 30 years of retirement. However, if a saver retires at 65 and starts withdrawing from a pension using the 4 per cent rule, 30 years of budgeting would take them to 95, nearly 15 years above the average UK life expectancy, suggesting needless frugality in the early years to save for a longer life that might not happen.

The 4 per cent rule also assumes savers want to use up all their pension savings. Until recently, many retirees would have preferred to leave some funds in a SIPP to pass on to descendants tax-free. Under new rules, from 6 April 2027, most unused pension funds will count as part of your taxable estate for inheritance tax (IHT) purposes. Depending on the size of the estate at death, this could trigger IHT at a 40 per cent tax rate.

Ultimately, while the 4 per cent rule is a good guide for savers entering the decumulation phase, the amount retirees should withdraw annually from a pension will depend on multiple factors. That's why it is always best to seek financial advice from an independent financial advisor to build a plan that is tailored to each individual situation. ●

Investment Choices

Beyond public markets Accessing private equity and alternative assets

Investment trusts can open up assets once beyond the reach of most investors

Beyond traditional investment assets such as stocks and bonds, investors can add a range of alternative assets to their SIPP portfolio, including private equity.

Historically, this asset class has been out of reach for all but the wealthiest and most well-connected investors. Direct commitments into elite private equity funds typically require minimum outlays of several million pounds, effectively making them the exclusive preserve of sovereign wealth funds and institutional giants. However, a handful of vehicles listed on the London Stock Exchange let investors build exposure to this asset class within a SIPP for as little as a few hundred pounds.

Permanent capital

Structured as public limited companies with a fixed number of shares, investment trusts operate with a permanent pool of capital. Unlike open-ended funds or traditional workplace pensions, the fund managers are never forced into secondary market asset firesales to meet sudden daily investor redemptions.

This structure makes investment trusts uniquely suited for managing high-conviction, long-term private equity portfolios within a SIPP framework.

Furthermore, because trust shares trade freely based on market supply and demand, they frequently trade at a discount to their underlying net asset value (NAV). At the beginning of 2025, the average investment trust traded at a 12.5 per cent discount to its assets (excluding 3i Group, the largest in the sector), allowing savers to effectively purchase £1 worth of private assets for just 87.5p.

High-growth frontiers

Some of the biggest and most established investment trusts on the market include HgCapital Trust, which focuses purely on unquoted, high-growth software and business service enterprises unavailable on public stock exchanges. These are business-critical software operators in sectors such as tax and account and payroll management. Since March 2016, the trust's NAV has outperformed the UK's FTSE All Share Index by 5.2 per cent a year.

3i Group is the largest player in the investment trust universe, managing a high-conviction portfolio dominated by private equity assets such as the rapidly expanding European discount retailer Action, alongside core infrastructure holdings.

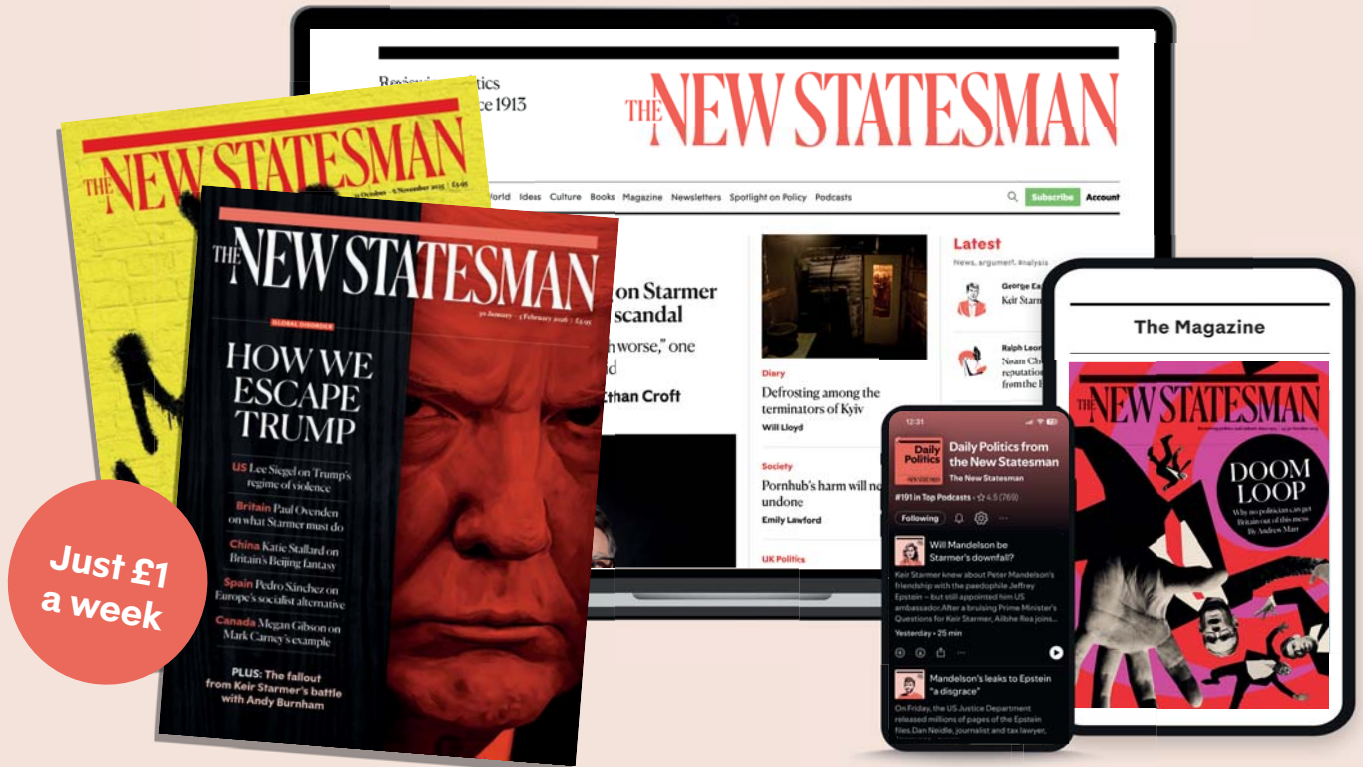
For those seeking broader diversification, Pantheon International provides an ideal entry point by investing across a global spectrum of established private equity funds and direct co-investments. It also holds direct investments in private companies such as Revolut and Smile Doctors. Since the trust's inception (September 1987), its NAV has outperformed the FTSE All Share by 3.4 per cent a year.

Literacy Capital operates a similar model with a twist. Co-founded by Paul and Richard Pindar in 2017, the trust buys into profitable smaller private companies, such as family-owned successions, management buy-ins or corporate divestments, to support value creation. It also has a charitable mission. It donates 0.5 per cent of its asset value annually to UK charities focused on improving children's literacy, having reserved or donated over £13m since inception.

Meanwhile, Scottish Mortgage Investment Trust operates a highly successful hybrid strategy that blends dominant public equities with major late-stage private ventures, most notably holding a substantial stake in Elon Musk's aerospace firm SpaceX; originally acquired for \$200m in 2018, this single holding has ballooned to around \$5bn.

Alternatives

Alongside private equity, savers can also use investment trusts to invest in global infrastructure and renewable energy assets. Trusts such as HICL Infrastructure invest in areas such as health, education, accommodation and toll roads, while the Renewables Infrastructure Group owns a diversified mix of renewable infrastructure assets, including onshore and offshore wind farms and solar parks in the UK and Europe. ●



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