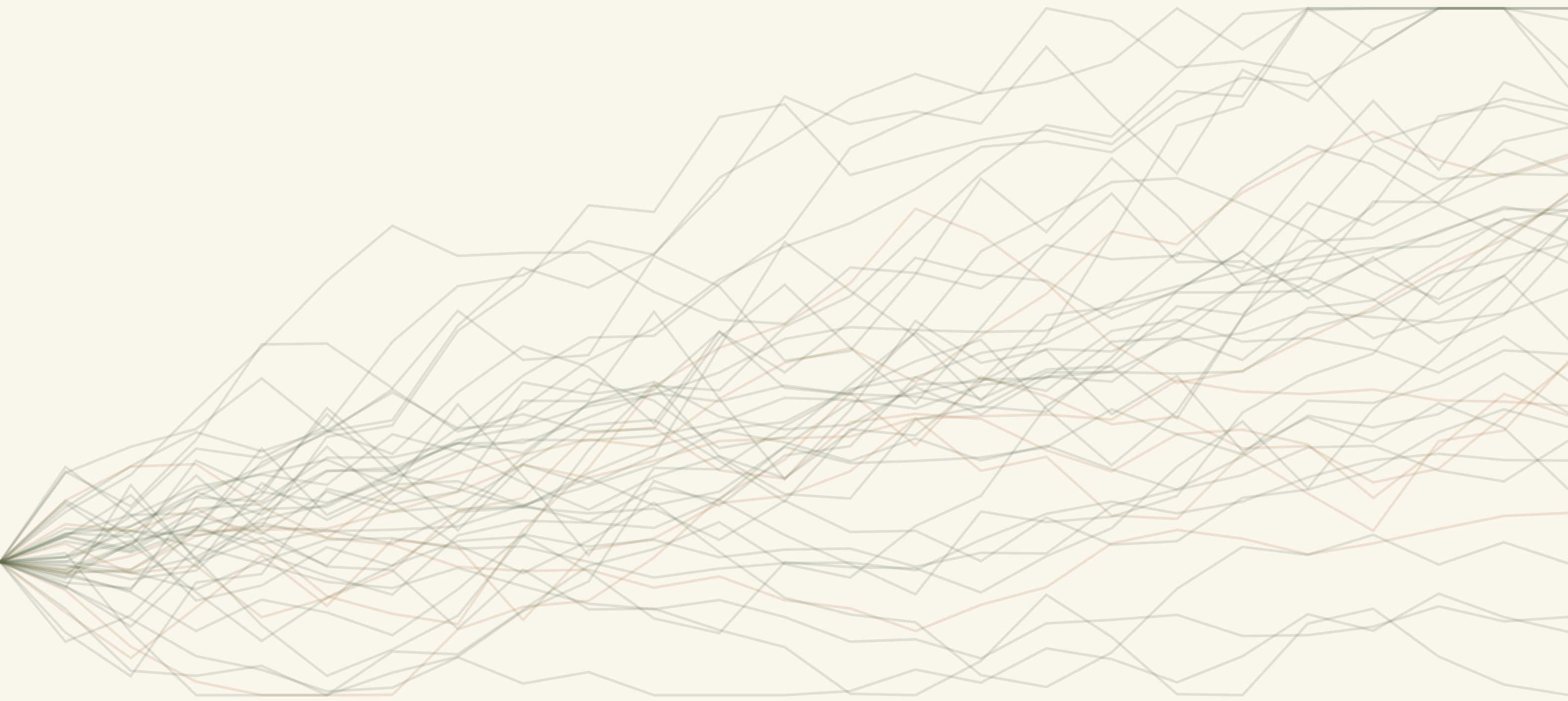
Your Future Compass

RETIREMENT GUIDE

Investing basics: pensions, ISAs, fees, risk and asset classes

Investing feels complex, but it comes down to a few simple ideas: a pension or ISA is a wrapper, not an investment; inside it you hold asset classes that trade risk against reward; fees quietly compound; every provider's default fund and charges differ, so check both; and 'lifestyling' may not match your plan.



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> **Guidance and illustrations only, not regulated financial advice.** This guide explains how investing for retirement works in general terms. It isn't a recommendation to buy, sell or hold any particular investment, product or provider. What's right depends on your circumstances, so consider speaking to a qualified, regulated financial adviser.

Investing can feel like a wall of jargon: wrappers, asset classes, OCFs, lifestyling. But underneath, it comes down to a handful of simple ideas. Get those straight and the rest falls into place. This guide is the plain-English starter.

The idea that clears up most confusion: wrapper vs investment

This is the single most useful thing to understand, because it trips almost everyone up.

A **pension** or an **ISA** (Individual Savings Account) is **not an investment**. It's a **wrapper**. The wrapper decides the *tax treatment*. The **investments** are what you hold *inside* it. You can hold the same fund inside a pension, inside an ISA, or in neither, and it behaves the same; only the tax around it changes.

- **Pension (a retirement wrapper).** You get **tax relief** going in (the government tops up your contributions), it grows free of UK income and capital gains tax, and it's designed for retirement, so you can't normally touch it until 55 (rising to 57 in April 2028). Most of what you take out later is taxed as income (with usually 25% tax-free).
- **ISA (a flexible wrapper).** You pay in from money you've **already** been taxed on, but growth and withdrawals are **tax-free**, and you can access it any time. There's an annual limit (currently £20,000) on what you can pay in.

Many people use **both**: a pension for the tax relief and long-term retirement saving, an ISA for flexibility. Which mix suits you is personal (and a good question for a regulated adviser), but the key mental model is: **choose the wrapper, then choose what goes inside it.**

What actually goes inside: the main asset classes

"What goes inside" means **asset classes**, the broad types of investment. The main ones:

- **Equities (shares).** A stake in companies. Historically the highest long-term returns, but the bumpiest ride, with real falls along the way.
- **Bonds (fixed income).** Loans to governments or companies that pay interest. Generally steadier than shares, with lower expected returns.
- **Cash.** Deposits and money-market holdings. The most stable, but over long periods often struggles to keep pace with inflation.
- **Property and other "real assets."** Commercial property, infrastructure and similar assets offer another way to spread risk.

Most people don't buy these directly. They hold **funds**: a single holding that pools many underlying investments, which spreads risk (**diversification**). Funds come in two broad styles:

- **Index / tracker funds** simply follow a market (e.g. "global shares") at low cost.
- **Active funds** employ a manager to try to beat the market, and usually charge more for it.

You don't need to become an expert in all of this, but knowing the building blocks lets you understand what you actually own.

Risk and reward (they come as a pair)

There's no return without risk. They're two sides of the same coin. The more growth potential something has, the more it tends to **go up and down** along the way. A few principles worth holding on to:

- **Time horizon matters.** The longer until you need the money, the more short-term ups and downs you can usually ride out, which is why a 30-year-old's pension and a 64-year-old's are often invested very differently.
- **Risk isn't only "losing money."** Being **too cautious** is a risk too: hold everything in cash for decades and inflation quietly erodes what it buys. "Safe" and "low-risk" aren't the same thing.
- **Diversification smooths the ride.** Spreading across asset classes and regions means not everything falls at once.
- **Timing risk near retirement.** A sharp fall *just as you start drawing income* does more damage than the same fall years earlier. See annuity vs drawdown for why this "sequence risk" matters.

Fees: the quiet drag that compounds

Fees feel small (a fraction of a percent), but over decades they compound just like returns do, in reverse. There are usually a few layers:

- **Platform / account fee**: what the provider charges to hold your money (often a % of the pot, or a flat fee).
- **Fund charge (the OCF / ongoing charge)**: what the fund itself costs to run. Trackers are typically cheap; active funds cost more.
- **Transaction and other costs**: trading costs inside the fund, and sometimes exit or transfer fees.
- **Adviser fees**: if you use a regulated adviser, separate and worth understanding.

It's the **total** that matters. As an illustration of the principle: on a pot growing over 30 years, the difference between paying around 0.3% and 1.5% a year in total charges can add up to a very large sum by the end. No single year feels expensive; the drag just compounds. (This is exactly why our own modelling builds in a deliberately cautious annual fee rather than assuming costs away.) The lesson isn't "always pick the cheapest". It's **know what you're paying, in total.**

Every provider is different: check two things, not one

Pension and investment providers vary enormously, and two things differ that you should check **yourself**:

1. **The fees**: the all-in cost (platform + fund + any extras) can differ a lot between providers and between funds within the same provider.
2. **What you're actually invested in**: most people are in their provider's **default fund**, and defaults differ hugely: some are cautious, some adventurous, some change over time, some don't. The default isn't "one standard thing", it's a choice your provider made, which may or may not match your situation.

The action is simple and free: **log in to each pension and ISA, and find (a) the total charges and (b) which fund(s) you're actually holding.** A surprising number of people have never looked, and can't answer either question. You don't have to change anything; you just can't make a good decision about something you've never seen.

What "lifestyling" means (and when it might not fit)

Lifestyling (and similar "target-date" funds) is a feature many workplace pensions switch on by default. As you approach a **set retirement age**, it automatically moves your money out of shares and into bonds and cash, the idea being to reduce the risk of a big fall right before you stop work.

That can be sensible, but there's a catch worth knowing:

- Traditional lifestyling was **designed around buying an annuity** (swapping your pot for a guaranteed income for life) at a fixed retirement date. It de-risks towards that moment.
- If you're actually planning to go into **drawdown** (staying invested and drawing income for 20–30 more years), being shifted heavily into bonds and cash in your early 60s could be **more cautious than your real time horizon warrants**, potentially holding back growth you still need.
- Lifestyling also assumes a **target retirement date**. If yours is set wrong (e.g. a default of 65 when you plan to work to 68, or retire at 60), it can de-risk at the wrong time.

None of this means lifestyling is bad. It means it's worth **checking whether you're being lifestyled, to what target date, and whether that matches your actual retirement plan.** It's one of the most common mismatches between how a pension is invested and what the person actually intends to do.

A quick checklist

1. **Separate the wrapper from the investment**: pension/ISA is the tax wrapper; the asset classes inside are the investment.
2. **Know the building blocks**: shares, bonds, cash, property; trackers vs active funds; diversification.
3. **Match risk to your time horizon**, and remember being too cautious is a risk too.
4. **Find your total fees** for every pot: platform + fund + extras.
5. **Find out what you're actually invested in**: the default fund varies by provider.
6. **Check if you're being lifestyled**, to what target date, and whether it fits your plan.

You don't need to become an investment expert to be in control. You just need to understand the few ideas above and to look at what you actually hold. You can model how different return and fee assumptions shape your retirement with our free planning tool, and for personal decisions a regulated adviser can help. For more on the basics, MoneyHelper is a free, impartial government-backed resource.

This guide is general information, not regulated financial or tax advice. Investments can fall as well as rise, tax rules and allowances change, and the right choices depend on your circumstances, so consider taking regulated advice before acting.

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