



ROBERT BRUCE

GUIDE TO

PLANNING MY RETIREMENT

HOW CAN I GUARANTEE THE KIND OF
RETIREMENT I WANT?

MARCH 2020



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How can I guarantee the kind of retirement I want?

Are you 'mid or late career' or planning to retire within ten years? If the answer's 'yes', then you probably want to know the answers to these questions: 'Will I be able to retire when I want to? Will I run out of money? How can I guarantee the kind of retirement I want?'

A better tomorrow starts with understanding today. When the future is unclear, the thought of retirement may well feel more daunting than exciting. Our retirement planning service can help you build the wealth you need to achieve the retirement you deserve.

Few people can visualise their retirement, but most would hope, at the very least, that it is a comfortable one. And we all know that, to achieve this goal, we have to have our finances in place as early as possible.

Saving enough money for retirement

It's never too early to start planning for your future. When planning for retirement, the truth is that the earlier you start saving and investing, the better off you'll be, thanks to the power of your money compounding over time. It's like a snowball: the further up the mountain it rolls down from, the more snow it picks up, and the bigger the snowball is by the time it reaches the bottom. Put simply, this is what happens to your money.

If you're concerned about saving enough money for retirement, you're not alone. Even if you began saving late or have yet to begin, it's important to know that you are not alone, and we can discuss with you how you can increase your retirement savings. There are steps that you can take to improve your pension prospects, no matter what your age.

We can help you determine which retirement income methods may be best for you based on your personal needs and goals. These are some basics you need to know.

State Pension

The State Pension is a weekly payment from the Government that you can receive once you reach State Pension age. In order to qualify for the State Pension, you need to make National Insurance contributions. If you reached State Pension age before April 2016, you'll be receiving the basic State Pension, plus any additional State Pension you may have built up. Those who hit State Pension age after April 2016 will receive the new single-tier State Pension.

Both the basic and single-tier State Pension are protected by something called the 'triple-lock' guarantee. This means that they rise each year by the greater of annual CPI inflation (announced in September every year), average earnings growth or 2.5%.

From April 2019, the State Pension increased by average earnings growth, which came in highest at 2.6%. If you're entitled to the full new single-tier State Pension, your weekly payments in the current tax year are £168.60 a week – for this, you'll need to have 35 years of NI contributions.

The State Pension is unlikely to provide a substantial income in retirement. That's where a private pension can make a big difference.

Pension tax relief

The Government encourages you to save for your retirement by giving you tax relief on pension contributions. Tax relief has the effect of reducing your tax bill and/or increasing your pension fund. However, at the time of writing this guide, the way pension tax relief works is reportedly under review by the Treasury.

You can receive tax relief on private pension contributions worth up to 100% of your annual earnings. Since the tax relief you receive on your pension contributions is paid at the highest rate of Income Tax you pay, the higher

your rate of tax, the more you could receive.

The Welsh Government now has the power to set Income Tax rates and bands from 6 April 2019, but has opted to keep these the same as England and Northern Ireland for tax year 2019/20.

England/Wales/Northern Ireland

- Basic-rate taxpayers receive 20% pension tax relief, for example, a contribution of £100 from your salary into your pension would cost you £80, with the Government contributing the other £20 – the amount it would have taxed from £100 of your salary
- Higher-rate taxpayers can claim 40% pension tax relief, for example, a contribution of £100 costs you £60, with the Government adding £40
- Additional-rate taxpayers can claim 45% pension tax relief, for example, a contribution of £100 costs you £55, with the Government adding £45

Scotland

- Starter-rate taxpayers pay 19% Income Tax but get 20% pension tax relief
- Basic-rate taxpayers pay 20% Income Tax and get 20% pension tax relief
- Intermediate-rate taxpayers pay 21% Income Tax and can claim 21% pension tax relief
- Higher-rate taxpayers pay 41% Income Tax and can claim 41% pension tax relief
- Top-rate taxpayers pay 46% Income Tax and can claim 46% pension tax relief

Annual allowance

Your annual allowance is the most you can save in your pension pots in a tax year (6 April to 5 April) before you have to pay tax. You'll only pay tax if you go above the annual allowance – this is £40,000 this tax year.



Your annual allowance applies to all of your private pensions if you have more than one. This includes the total amount paid into a defined contribution scheme in a tax year by you or anyone else (for example, your employer) and any increase in a defined benefit scheme in a tax year. If you use all of your annual allowance for the current tax year, you might be able to carry over any annual allowance you did not use from the previous three tax years.

If your annual allowance is lower than £40,000, this might be because you have flexibly accessed your pension pot or have a high income. Flexibly accessing your pension could include taking cash or a short-term annuity from a flexi-access drawdown fund or taking cash from a pension pot ('uncrystallised funds pension lump sums').

The lower allowance is called the 'money purchase annual allowance'. If you have a high income, you'll have a reduced ('tapered') annual allowance if both your 'threshold income' is over £110,000, or your 'adjusted income' is over £150,000. The first year affected by the tapered annual allowance was 2016/17.

If you go over your annual allowance, either you or your pension provider must pay the tax. HMRC does not tax anyone for going over their annual allowance in a tax year if they retired and took all their pension pots because of serious ill health or have died.

HMRC^[1] figures published in September 2019 show that during 2017/18, 26,550 taxpayers reported pension contributions exceeding their annual allowance through self-assessment. The total value of contributions reported as exceeding the annual allowance was £812 million in 2017/18.

Lifetime allowance

You usually pay tax if your pension pots are worth more than the lifetime allowance. This is currently £1,055,000. You might be able to protect your pension pot from reductions to the lifetime allowance. If you're in more than one pension scheme, you must add up what you've used in all pension schemes you belong to.

A statement from your pension provider will tell you how much tax you owe if you go above your lifetime allowance, and your pension provider will deduct the tax before you start receiving your pension.

If you die before taking your pension, HMRC will bill the person who inherits your pension for the tax. The rate of tax you pay on pension savings above your lifetime allowance depends on how the money is paid to you – the rate is 55% if you receive it as a lump sum and 25% if you receive it any other way (for example, through pension payments or cash withdrawals).

In April 2016, the lifetime allowance was reduced. You can apply to protect your lifetime allowance from this reduction. Tell your pension provider the type of protection and the protection reference number when you decide to take money from your pension pot. You can also inform HMRC in writing if you think you might have lost your protection.

You may also have a reduced lifetime allowance if you have the right to take your pension before the age of 50 under a pension scheme you joined before 2006.

In 2017/18, there were 4,550 counts of lifetime allowance excess charges paid. The total value of lifetime allowance charges paid by schemes in the tax year was £185 million – a 28.5% increase from £144 million in 2016/17 – according to HMRC^[1] figures published in September 2019. ■

TOGETHER WE'LL DELIVER YOUR RETIREMENT GOALS

Pensions can be complex with so many considerations, including your family circumstances, pension rules and tax regulations. The good news is that whatever your situation, and however you want to enjoy retirement, we can help set up bespoke arrangements that are right for your needs. To discuss your situation, please contact us.

Source data:

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836637/Personal_Pensions_and_Pensions_Relief_Statistics.pdf

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

A BETTER TOMORROW STARTS WITH UNDERSTANDING TODAY

When the future is unclear, the thought of retirement may well feel more daunting than exciting. Our retirement planning service can help you build the wealth you need to achieve the retirement you deserve.

Don't leave it to chance – to discuss your requirements, please talk to us.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2019/20 tax year, unless otherwise stated.

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