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GUIDE TO

POST-COVID-19 RETIREMENT PLANNING

PANDEMIC LEADS TO CHANGES IN FUTURE RETIREES' PLANS

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GUIDE TO

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WELCOME

Welcome to our *Guide to Post-COVID-19 Retirement Planning*. Every day the barrage of COVID-19 news has been unrelenting. The impulse to react, and to protect what we have, is understandably strong. The pandemic outbreak and resulting financial fallout have caused considerable financial stress for many, making it difficult to decide about how and when to retire.

The coronavirus pandemic has changed our concept of retirement and how we make decisions about our retirement plans based on short-term events and circumstances, and for many of us, this will have long-term consequences for our financial wellbeing and retirement.

Planning for a successful retirement should open the door to an interconnected approach rather than product-based solutions. Put simply, in order to get the best retirement planning outcomes, it is now necessary to have a strategy that gives more choices and greater flexibility.

Regardless of what retirement looks like to you, the key is to be in a position financially to enjoy this time of your life, while making sure you don't outlive your retirement savings. If you're on the path to or currently in retirement, you will want to make sure your money goes the distance.

The Ancient Greek historian Thucydides wrote that 'the secret to happiness is freedom' – and now you have more options than ever when it comes to your retirement savings. The pension freedoms give millions of over-55s full control of their retirement savings.

But faced with the coronavirus pandemic many are asking: Should I postpone my retirement due to the coronavirus? Is postponing retirement the right strategy? Or does staying with my original retirement strategy make more sense? Whatever your long-term plans might be, a crisis as sudden and pervasive as the coronavirus is bound to raise such questions.

The key as you approach retirement is to keep track of your pension contributions so that you know if you're getting close to your annual pension limits. And if you didn't manage to set up a pension in your twenties or thirties, the good news is that it's never too late to start putting plans in place to fund your future retirement.

HOW HAS THE PANDEMIC CHANGED THE FACE OF RETIREMENT PLANNING?

A well planned retirement is a happy retirement and should give you the chance to do more of what you enjoy. Even with the outbreak of the coronavirus pandemic, when it comes to planning for your retirement, you should still think about what you'd like your life to be like. We can help you by creating a clear vision and plan to achieve that. To find out more or to discuss your retirement requirements, please contact us.

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.

A PENSION IS A LONG TERM INVESTMENT, THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

TAKING WITHDRAWALS MAY ERODE THE CAPITAL VALUE OF THE FUND, ESPECIALLY IF INVESTMENT RETURNS ARE POOR AND A HIGH LEVEL OF INCOME IS BEING TAKEN. THIS COULD RESULT IN A LOWER INCOME WHEN THE ANNUITY IS EVENTUALLY PURCHASED.

The law and tax rates may change in the future. These details are based on our understanding of the current 2020/21 tax laws and HM Revenue & Custom's practice, which is subject to change. The amount of tax you pay and the value of any tax relief will depend on your individual circumstances.

CONTENTS

02 WELCOME
Pandemic leads to changes in future retirees' plans

04 TAKE CONTROL OF YOUR RETIREMENT PLANS
People in later life are saving little or nothing for their golden years

05 STAGGERED RETIREMENT
A more popular and increasingly common option many are considering

06 LEAVING RETIREMENT MONEY INVESTED
Generating income from investments throughout your retirement years

07 TAX RELIEF AND PENSIONS
Annual and lifetime limits

09 STATE PENSION
An important form of income for many during retirement

10 DEFINED CONTRIBUTION PENSION SCHEMES
Building up a pot of money to provide an income in retirement

11 DEFINED BENEFIT PENSION SCHEMES
Paying out a secure income for life which increases each year

12 PERSONAL PENSIONS
Saving tax-efficiently for retirement

13 SELF-INVESTED PERSONAL PENSIONS
Providing greater flexibility with the investments you can choose

14 PENSION CONSOLIDATION
Combining existing pensions into a new plan

15 PENSION FREEDOMS
Decisions about how to access your pension pot

17 ANNUITY OPTIONS
Choosing a taxable income for the rest of your life

18 FLEXIBLE RETIREMENT INCOME
Re-investing funds designed to provide you with a regular taxable income

19 SMALL CASH SUMS FROM YOUR POT
Taking money from your pension as and when you need it

20 CASHING IN YOUR ENTIRE PENSION POT
Without very careful planning, you could run out of money and have nothing to live on

21 BLENDING YOUR RETIREMENT OPTIONS
Balance of flexibility and security to suit your circumstances

22 DELAYING RETIREMENT
Pandemic forcing a widespread rethink of retirement plans

23 RETIREMENT WEALTH CHECK
Taking control over your retirement plans

24 PENSION SCAMMERS
Make sure you spot the warning signs

TAKE CONTROL OF YOUR RETIREMENT PLANS

People in later life are saving little or nothing for their golden years

An increasing number of people in later life are saving little or nothing for their golden years, instead expecting to fall back on the State Pension. Some people are 'under-estimating their life expectancy' which means that the money they do save for retirement will have to stretch further.

As millions of people move within a decade of their State Pension many have still not thought about how long their retirement might last. It's worrying that so many over-50s are potentially sleepwalking into their old age and are expecting to be better off than they will be, according to research[1].

People need to put more money aside

It's not too late for the over-50s to take control of their retirement plans by adjusting the amount saved, or how long they are prepared to work for. But the reality is that people need to put more money aside to ensure they're on track to achieving the financial future they want.

Although it's good news people are living longer, more than a third (35%) of women and a fifth (20%) of men over the age of 50 do not have a private pension. Worryingly 33% of over-50s don't think they have enough money to provide them with a sufficient income for their retirement – with women more worried about not having enough money in later life than men.

Adapting financially to a new lifestyle

One of the most common difficulties in retirement is adapting to a lifestyle that meets our new level of income. After all, it can be difficult to adjust to a drop in income that comes as a result of retiring from a full-time role and then having to living solely off our own pension, or even more precarious, only the State Pension.

How much retirement money you're going to need will depend on the type of lifestyle you want. But one of the great things about saving into a pension is the tax relief you receive. This means that if you're a basic rate tax payer, for every £100 saved into your pension the cost to you is just £80. This could effectively be even less if you're a higher or additional rate tax payer.

Did you know?

The maximum State Pension is a lot less than the amount most people say they hope to retire on – for the financial year 2020/21 it's £175.20 a week, or £9,110.40 a year.

Relying on a partner's private pension

The report also highlighted that 36% of women over 50 don't think they have enough money to fund their retirement, with just 13% suggesting they were confident they would have enough to fund a comfortable retirement.

Overall, the vast majority of over-50s thought pensions – state and private – will be the biggest contributor to funding their retirement, with 27% saying they will rely on their partner's private pension, rising to 30% for women.

Retirement is not an age anymore

Many over-50s will look to other sources according to the report, with 12% expecting to use 'income from work' in later life, and 11% saying they expect to receive an inheritance. Property was also seen as an important source of income for homeowners: 14% are planning to downsize and another 6% planning to use equity release.

It can be even more difficult for those reaching retirement who have either a reduced pension or no pension at all. But it's important to remember that retirement is not an age. Not anymore anyway. Gone are the days of being told to stop working one day and picking up your state or company pension the next. Today you have new pension freedoms to decide when and how you retire.

Source data:

[1] https://www.sunlife.co.uk/siteassets/images/finances-after-50/finances-after-50.pdf/

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STAGGERED RETIREMENT

A more popular and increasingly common option many are considering

Giving up the 9-to-5 doesn't necessarily mean stopping work. But retirement planning has taken on an entirely new dimension as a result of the COVID-19 pandemic outbreak with many big questions being asked.

When you picture yourself in your golden years, are you sitting on a beach, hitting the golf course, or still working behind a desk? For many people of retirement age, continuing to work is an option they are considering.

Increasingly people are planning to stagger work or work flexibly. This can really appeal to some individuals who have caring responsibilities or health issues, or who are thinking about retiring in the next few years.

Sudden transition from working five days a week

Several decades ago, working and retirement were binary terms, with little overlap. People were either working (and under the age of 65) or had hit the age of 65 and were retired. That's no longer true, however, as staggered retirement is becoming more popular and more common.

Few people benefit from the sudden transition from working five days a week to not working at all. Retirement can often be an unsettling period and it's not surprising given that the most common path into retirement is to go 'cold turkey' and simply stop working.

More flexible retirement and working part-time

New research has highlighted the fact that fewer people are deciding against completely stopping working and are opting for a staggered and more flexible retirement and working part-time[1]. Nearly one in three (32%) pensioners in their 60s and 16% of over-70s have left their pensions untouched.

And of those who haven't accessed their pension pot, nearly half (48%) of those in their 60s, and 24% of over-70s, say it is because they are still working. With people living longer, and the added prospect of health care costs in later-life, retirees increasingly understand the benefits of having a larger pension pot in later life.

Pensions are required to last as long as possible

Of those who haven't accessed their pension pot, half (51%) say it is because they are still working while more than a quarter (25%) of people in their 60s say it is because they want their pensions to last as long as possible.

Of course, retirees who haven't accessed their pension pot must have alternative sources of income. When asked about their income, nearly half said they take an income from cash savings (47%), others rely on their spouse or partner's income (35%) or State Pension (22%) while 12% rely on income from property investments.

Offering people different financial and health benefits

This trend for staggered retirements offers many financial and health benefits. It is often taken for granted but continued good health is one of the best financial assets people can have. The benefits of working – such as remaining physically active and continued social interaction – can make a big difference to people's mental wellbeing and overall health in retirement.

People are increasingly making alternative choices about retirement to ensure that they do not run out of money, but it's also really important to make pension savings work past retirement age so as not to miss out on the ability to generate growth above inflation for when there is the requirement to start drawing a pension.

Source data:

[1] Research from LV survey of more than 1,000 adults aged over 50 with defined contributions

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LEAVING RETIREMENT MONEY INVESTED

Generating income from investments throughout your retirement years

The time has finally come, you're ready to retire. You've worked hard all your working life to save and prepare for your retirement, but how should you approach investing now that you're no longer earning a salary? When it comes to investing in retirement, even during volatile markets, the right strategy can help make sure your retirement savings last.

For many, the idea of retirement means getting away from the stresses of everyday life. But with living costs rising and interest rates low, retirees still need to think about how they can continue to generate income from their investments throughout their retirement years.

It is not unusual for people to live more than 30 years once retired, due to increased incentives to quit work early and rising life expectancy, which in itself can present a major risk that retirees may outlive their savings. The longer the time spent in retirement, the harder it becomes to be certain about the adequacy of your assets.

Retirement income boost

Anyway, you've been investing for decades to earn enough money to retire and the day has finally come that you can stop working. At this point your risk-profile and strategy will almost certainly need to adjust in order to look at ways of making your money work as hard as possible, but with a view to generating income to boost your retirement income.

This is a time to look at how balanced your investments are and whether you are exposed to more risk than you are comfortable with in certain areas. It's time to conduct a review of all of your investments and decide how much you can afford to withdraw each year and whether this balances with your needs.

Too risk-averse

An elementary mistake that some retirees make is to view their portfolio with an element of finality and this makes them too risk-averse and unwilling to look beyond their current financial position.

Of course, retirement means different things to different people. For some, it's about never working again, and instead spending their days doing the things they enjoy most, such as travelling, pursuing hobbies and spending more time with family and friends. For others, retirement means working part-time or occasionally to stay busy and engaged in a profession, but without the need to earn a regular income.

Time of your life

Regardless of what retirement looks like to you, the key is to enjoy this time of your life, while making sure you don't outlive your retirement savings. For many retirees, that means developing an investing strategy that will allow them to withdraw money from their portfolio while still enabling it to grow over the longer term.

There are a lot of ways to invest even after you have retired and your working days are done. It goes without saying that once you have retired you'll want your retirement nest egg to last as long as possible. And with people living longer than ever, your nest egg may need to stretch further than you'd thought when you first started saving for retirement.

Potential investment options

Given the potential investment options available to post-retirement retirees, at the point of investing it's also really important to consider the effects of future financial market volatility and inflation.

While the risk of portfolio declines can't be overlooked, retirees also face another type of risk, inflation. Even though we currently have historically low inflation today, it's critical for retirees' investments to keep up with inflation throughout their retirement years. Cutting exposure to equities too aggressively could hinder the growth of a nest egg, potentially leaving retirees with less than they need.

Keeping up with inflation

While many should stay invested, retirees must make sure a good portion of their investments are in safer assets. Today's low interest rate environment means your money may not grow quickly, or even keep up with inflation, but those assets will likely be better protected than equities in a market downturn.

If appropriate, retirees should typically have a healthy mix of equities, bonds and other investments, such as property. The right mix will depend on an individual's personal risk tolerance. Retirees should also set up their portfolios in a way that better protects the funds they may need in the next five years, in the event of future stock market corrections.

Toning down risk appetite

It can be hard for some retirees to tone down their risk appetite when investing during their retirement years, following decades of investing for growth. But diversification is just as important for investors at any age, and may be most critical when investing in retirement.

This is a time of your life to ensure that you spread your investments across and within asset classes to make sure you are well diversified. You can spread your money across the three major asset classes (equities, bonds and cash equivalents). This is known as asset allocation. To balance the risks and returns of the asset classes and the investment within the asset class itself you can also spread your money across various investment options within a particular asset class .

Increasing financial security

The most careful plans and preparation for retirement can fall apart due to any number of post-retirement risks. But making the right investment decisions can help you increase your financial security and provide income that you can use to live comfortably after you stop working.

It is a good idea to try and set aside up to two years of living expenses in cash. Having some money that you can access quickly in an emergency situation will protect you from the need to sell some of your riskier investments at a loss and cover you for a period of time if you are falling slightly short of your income generation target.

TAX RELIEF AND PENSIONS

Annual and lifetime limits

Saving into a pension is one of the most tax-efficient ways to save for your retirement. Not only do pensions enable you to grow your retirement savings largely free of tax, but they also provide tax relief on the contributions you make.

There are various pension allowances in place that you need to be aware of and understand how to make the most of them. These limit the amount of money you can contribute to a pension in a year, as well as the total amount of money you can build up in your pension accounts, while still enjoying the full tax benefits.

Lifetime Allowance

All your pensions, including workplace pensions, count towards the Lifetime Allowance, with the exception of the State Pension and overseas pensions. The standard Lifetime Allowance is £1,073,100 since 6 April 2020 and increases with inflation each year.

You don't pay the tax charge until you take your pension savings over and above your Lifetime Allowance (or reach age 75, if earlier). The charge is only on the excess money saved in your pension that is above your Lifetime Allowance.

Non-taxpayer or earning less than £3,600

If you have no earnings or earn less than £3,600 a year, you can still pay into a pension scheme and qualify to receive tax relief added to your contributions up to a certain amount. The maximum you can contribute is £2,880 a year. Tax relief is added to your contributions, so if you pay £2,880, a total of £3,600 a year will be paid into your pension scheme, even if you earn less than this or have no income at all.

This applies if you pay into a personal or stakeholder pension yourself (so not through an employer's scheme) and with some workplace pension schemes – but not all. The way some workplace pension schemes give tax relief means that people earning less than the personal allowance (£12,500 in the 2020/21 tax year) won't receive tax relief.

Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) rules were introduced as an anti-avoidance measure to prevent wide-spread abuse of the pension freedoms which commenced from 6 April 2015. It's intended to discourage individuals from diverting their salary into their pension with tax relief and then immediately withdrawing 25% tax-free.

The MPAA applies only to money purchase contributions and has remained at £4,000 since 6 April 2017. If you have taken flexible benefits which include income, such as an 'Uncrystallised Funds Pension Lump Sum (UFPLS)' or flexi-access drawdown with income, and you want to continue making contributions to a defined contribution pension scheme, you will have a reduced annual allowance of £4,000 annually towards your defined contribution benefits.

Annual Allowance

The pension Annual Allowance is the maximum amount of money you can contribute towards a defined contribution pension scheme in a single tax year and receive tax relief on. All contributions made to your pension by you, your employer, or any third-party, as well as any tax relief received, count towards your Annual Allowance.

The standard pension Annual Allowance is currently £40,000 or 100% of your income if you earn less than £40,000. A lower Annual Allowance may apply, however, if you are a high earner, or you have already started accessing your pension. High earners may potentially be subject to the Tapered Annual Allowance, while those who have already started accessing their pension potentially face the Money Purchase Annual Allowance (MPAA).

Carry forward

Carry forward is a way of increasing your pension Annual Allowance in the current tax year. It is used when your total pension contribution amounts for a tax year exceed your annual pension Annual Allowance limit for that year.

You can do this by carrying forward unused allowances from the three previous tax years to make contributions this year. This may enable you to absorb or reduce any pension Annual Allowance excess paid in the current tax year which, in turn, would reduce any potential Annual Allowance charge amount. The 2020/21 tax year allows use of unused allowances from 2017/18, 2018/19 and 2019/20.

Tapered Annual Allowance

The Tapered Annual Allowance calculations will now not affect anyone with a Threshold Income level below £200,000. The taper starts in this tax year at £240,000 and extended to a minimum of £4,000 Annual Allowance. This reduces the level of pension funding high earners and their employers can make into pension schemes.

If high earners exceed the threshold and adjusted income amounts, their Annual Allowance may be reduced by £1 for every £2 of adjusted income over this level until the minimum annual allowance level of £4,000 is reached. The maximum Tapered Annual Allowance reduction is £36,000.

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 article, 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, but has opted to keep these the same as England and Northern Ireland for tax year 2020/21.

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

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The pension fact file 2020/21	
Lifetime allowance The maximum tax-efficient pension savings in your lifetime, including all contributions and capital gains	£1,073,100
Non-taxpayer or earnings less than £3,600 The maximum pension contributions that a non-taxpayer or low earner can make in one tax year and attract tax relief	£2,880 net contribution + £720 tax relief = £3,600 gross
Money Purchase Annual Allowance If you start to take an income from your defined contribution pension, this can trigger a lower annual allowance	£4,000
Annual Allowance The maximum tax-efficient contribution to your pension savings in one tax year	£40,000 or 100% of UK relevant earnings
Carry forward The three-year rule that allows you to carry forward your unused tax-efficient annual pensions allowance.	You are able to 'carry forward' any 'unused' allowance from the three previous tax years. However, even when carrying forward unused allowance, the amount you can pay into your pension is limited to 100% of your earnings in the tax year the payment is being made.
Tapered Annual Allowance Those with higher incomes will see the annual pensions allowance reduce to £4,000	
Threshold income limit	£200,000 – the Annual Allowance is reduced by £1 for every £2 of income above £240,000 down to a minimum allowance of £4,000
Adjusted income limit	£240,000 – the Annual Allowance is reduced by £1 for every £2 of income above £240,000 down to a minimum allowance of £4,000
Adjusted income limit	£300,000+ – £10,000 decreasing to £4,000
Pension contributions tax relief No earnings, or less than £3,600 a year	20%
Marginal tax rate applies	20%, 40% or 45%

GIVEN THE VARIOUS CHANGES THAT HAVE BEEN INTRODUCED OVER THE YEARS, IT'S NOT SURPRISING PEOPLE FIND THE WHOLE SYSTEM DIFFICULT TO UNDERSTAND.

STATE PENSION

An important form of income for many during retirement

The new State Pension payments are an important form of income for many during retirement. You can claim the new State Pension at State Pension age if you have at least ten years' National Insurance contributions and are a man born on or after 6 April 1951, or a woman born on or after 6 April 1953. The earliest you can receive the basic State Pension is when you reach State Pension age.

The full level you can receive under the new State Pension is £175.20 a week (£9,110.40 a year) in 2020/21, but this depends on your National Insurance (NI) record. If you have 35 years or more of NI contributions, you will get the full amount; between 10 and 34 years of contributions, you will receive a proportion of the pension; and less than ten years of NI contributions, you aren't eligible for the new State Pension.

People can receive less than the full flat-rate State Pension when their NI record is incomplete or they have paid less than the 35 qualifying years required under the new rules (usually through periods of contracting out).

The State Pension is the foundation of most people's retirement plans, and yet this data shows more than half of those eligible to claim the State Pension under the new flat-rate system receive less than the full amount. Given the various changes that have been introduced over the years, it's not surprising people find the whole system difficult to understand.

State Pension tips

- Go online or contact the Department for Work and Pensions (DWP) for an up-to-date State Pension forecast. DWP will use your NI record under old and new State Pension rules to calculate your State Pension
- Your 'starting amount' can be less than, more than or equal to the new full State Pension
- Consider paying voluntary NI contributions if there are gaps in your records (you can only usually go back six years)
- There is no benefit in paying voluntary NI contributions if you've built up 30 years under the old system before April 2016
- Ensure you've claimed credits for periods where you've not worked, for example, when unemployed or looking after children. This should happen automatically, but mistakes can and do happen, especially if you are self-employed
- You can claim for NI credits if you are caring for parents or grandchildren
- If you've been contracted out for any period before April 2016, you will have paid lower NI and therefore receive a smaller State Pension. Your private pension will have an element of 'Contracted Out Pension Equivalent' (or 'COPE') which will allow for this
- Consider deferring your State Pension (although this is less financially generous than previously)

Spend the longest time on preparing for retirement

The State Pension can be a minefield. And remember, it is only really there to provide a basic standard of living when you retire. Of all the life events to plan for, you should spend the longest time on preparing for retirement.

If you're in your 50s or early 60s, you may increasingly be thinking more about retirement and how to plan for it. One of the most common dilemmas for people of this age is how best to fund their lifestyle once they've stopped work and maintain their pre-retirement standard of living.

Come In
WE'RE
OPEN
Opening hours
M-F
12:00-20:00
Sat.
12:00-18:00
Sun.
...—closed

DEFINED CONTRIBUTION PENSIONS BUILD UP A PENSION POT USING YOUR CONTRIBUTIONS AND YOUR EMPLOYER'S CONTRIBUTIONS (IF APPLICABLE), PLUS INVESTMENT RETURNS AND TAX RELIEF.

DEFINED CONTRIBUTION PENSION SCHEMES

Building up a pot of money to provide an income in retirement

With a defined contribution pension, you build up a pot of money that you can then use to provide an income in retirement. This type of pension, also known as a money purchase scheme, is calculated by how much you pay into it during your life.

Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in, the fund's investment performance and the choices you make at retirement.

Defined contribution pensions build up a pension pot using your contributions and your employer's contributions (if applicable), plus investment returns and tax relief. If you're a member of the scheme through your workplace, then your employer usually deducts your contributions from your salary before it is taxed. If you've set the scheme up for yourself, you arrange the contributions yourself.

The fund is usually invested in stocks and shares, along with other investments, with the aim of growing it over the years before you retire. You can usually choose from a range of funds to invest in. Remember, though, that the value of investments can go up or down.

The size of your pension pot and amount of income you receive when you retire will depend on:

- How much you pay into your pot
- How long you save for
- How much your employer pays in (if a workplace pension)
- How well your investments have performed
- What charges have been taken out of your pot by your pension provider
- How much you take as a cash lump sum
- The choices you make when you retire
- Annuity rates at the time you retire – if you choose the annuity route

When you retire, your pension provider will usually offer you a retirement income (an annuity) based on your pot size, but you don't have to take this, and it isn't your only option.

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DEFINED BENEFIT PENSION SCHEMES

Paying out a secure income for life which increases each year

A defined benefit pension scheme is one where the amount paid to you is set using a formula based on how many years you've worked for your employer and the salary you've earned, rather than the value of your investments. If you work or have worked for a large employer or in the public sector, you may have a defined benefit pension.

Defined benefit pensions pay out a secure income for life which increases each year. They also usually pay a pension to your spouse or registered civil partner and/or your dependents when you die.

The pension income they pay is based on:

- The number of years you've been a member of the scheme – known as 'pensionable service'
- Your pensionable earnings – this could be your salary at retirement (known as 'final salary'), or salary averaged over a career ('career average'), or some other formula
- The proportion of those earnings you receive as a pension for each year of membership – this is called the 'accrual rate', and some commonly used rates are 1/60th or 1/80th of your pensionable earnings for each year of pensionable service

These schemes are run by trustees who look after the interests of the scheme's members. Your employer contributes to the scheme and is responsible for ensuring there is enough money at the time you retire to pay your pension income .

Calculating your pension income

Check your latest pension statement to get an idea of how much your pension income may be. If you haven't got one, ask your pension administrator to send you one. Statements vary from one scheme to another, but they usually show your pension based on your current salary, how long you've been in the scheme and what your pension might be if you stay in the scheme until the scheme's normal retirement age.

If you've left the scheme, you'll still receive a statement every year showing how much your pension is worth. In most cases, this pension will increase by a set amount each year up until retirement age. Contact your pension administrator if you're not receiving your annual statement.

Options for taking your pension

When you take your pension, you can usually choose to take up to 25% of the value of your pension as a tax-free lump sum. With most schemes, your pension income is reduced if you take this tax-free cash. The more you take, the lower your income. But some schemes, particularly public sector pension schemes, pay a tax-free lump sum automatically and in addition to the pension income.

Make sure you understand whether the pension shown on your statement is the amount you'll get before or after taking a tax-free lump sum. Also, don't forget that your actual pension income will be taxable.

Taking your pension without retiring

Most defined benefit schemes have a normal retirement age of 65. This is usually the age at which your employer stops paying contributions to your pension and when your pension starts to be paid. If your scheme allows, you may be able to take your pension earlier (from the age of 55), but this can reduce the amount you get quite considerably. It's possible to take your pension without retiring.

Again, depending on your scheme, you may be able to defer taking your pension, and this might mean you receive a higher income when you do take it.

Pension income at the date of your death

Once your pension starts to be paid, it will increase each year by a set amount – your scheme rules will tell you by how much. It will continue to be paid for life. When you die, a pension may continue to be paid to your spouse, registered civil partner and/or dependents. This is usually a fixed percentage (for example, 50%) of your pension income at the date of your death.

You may be able to take your whole pension as a cash lump sum. If you do this, up to 25% of the sum will be tax-free, and the rest will be subject to Income Tax. You can usually do this from age 55, or earlier if you're seriously ill.

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PERSONAL PENSIONS

Saving tax-efficiently for retirement

A personal pension is a type of defined contribution pension. You choose the provider and make arrangements for your contributions to be paid. If you haven't got a workplace pension, getting a personal pension could be a good way of saving for retirement.

Your pension provider will claim tax relief at the basic rate and add it to your pension pot. If you're a higher-rate taxpayer, you'll need to claim the additional rebate through your tax return. You also choose where you want your contributions to be invested from a range of funds offered by your provider.

Your pension pot builds up in line with the contributions you make, investment returns and tax relief. The fund is usually invested in stocks and shares, along with other investments, with the aim of growing the fund over the years before you retire. You can usually choose from a range of funds to invest in.

When you retire, the size of your pension pot will depend on:

- How much you pay into your pension pot
- How long you save for
- How much, if anything, your employer pays in
- How well your investments have performed
- What charges have been taken out of your pot by your pension provider

Following changes introduced in April 2015, you now have more choice and flexibility than ever before over how and when you can take money from your pension pot.

YOUR PENSION PROVIDER WILL CLAIM TAX RELIEF AT THE BASIC RATE AND ADD IT TO YOUR PENSION POT. IF YOU'RE A HIGHER-RATE TAXPAYER, YOU'LL NEED TO CLAIM THE ADDITIONAL REBATE THROUGH YOUR TAX RETURN.

SELF-INVESTED PERSONAL PENSIONS

Providing greater flexibility with the investments you can choose

A self-invested personal pension (SIPP) is a pension 'wrapper' that holds investments until you retire and start to draw a retirement income. It is a type of personal pension and works in a similar way to a standard personal pension. The main difference is that with a SIPP, you have greater flexibility with the investments you can choose.

With standard personal pension schemes, your investments are managed for you within the pooled fund you have chosen. A SIPP is a form of personal pension that gives you the freedom to choose and manage your own investments. Another option is to pay an authorised investment manager to make the decisions for you.

SIPPs are designed for people who want to manage their own fund by dealing with, and switching, their investments when they want to. SIPPs can have higher charges than other personal pensions or stakeholder pensions. For these reasons, SIPPs tend to be more suitable for large funds and for people who are experienced in investing.

Most SIPPs allow you to select from a range of assets in which to invest, including:

- Individual stocks and shares quoted on a recognised UK or overseas stock exchange
- Government securities
- Unit trusts
- Investment trusts
- Insurance company funds
- Traded endowment policies
- Deposit accounts with banks and building societies
- Some National Savings & Investment products
- Commercial property (such as offices, shops or factory premises)

These aren't all of the investment options that are available – different SIPP providers offer different investment options.

Residential property can't be held directly in a SIPP with the tax advantages that usually accompany pension investments. But, subject to some restrictions (including on personal use), residential property can be held in a SIPP through certain types of collective investments, such as real estate investment trusts, without losing the tax advantages. Not all SIPP providers accept this type of investment, though.

- You are not restricted to pension funds offered by any single pension provider, but instead can invest in a broad range of investments from a range of different providers
- Your returns from investments within a SIPP are protected from Income Tax and Capital Gains Tax
- You'll receive tax relief at your marginal rate on an Annual Allowance, which for most people is £40,000 or 100% of your earnings – whichever is lower (high earners may potentially be subject to the Tapered Annual Allowance, while those who have already started accessing their pension potentially face the Money Purchase Annual Allowance (MPAA).
- You can choose from a wide range of options when you take your pension benefits, including a cash lump sum, a flexible or guaranteed income – or you can combine multiple options

Pension freedoms introduced in April 2015 mean you can access and use your pension pot in any way you wish from age 55. However, SIPPs aren't appropriate for everyone, and you should seek professional advice if you are considering this option.

A SIPP will only be right for you if you're confident making your own investment decisions and managing your pension payments against the relevant allowances. If you're unsure, please seek professional financial advice.

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PENSION CONSOLIDATION

Combining existing pensions into a new plan

By the time we have been working for a decade or two, it is not uncommon to have accumulated multiple pension plans. There's no wrong time to start thinking about pension consolidation, but you might find yourself thinking about it if you're starting a new job or nearing retirement.

Consolidating your pensions means bringing them together into a new plan, so you can manage your retirement saving in one place. It can be a complex decision to work out whether you would be better or worse off combining your pensions, but by making the most of your pensions now, this could have a significant impact on your retirement.

Retirement savings in one place

Whenever you decide to do it, when you retire it could be easier having a single view of all of your retirement savings in one place. However, not all pension types can or should be transferred. It's important that you obtain professional advice to compare the features and benefits of the plan(s) you are thinking of transferring.

Some alternative pension options may offer the potential for a better investment return than existing pensions – giving the opportunity to boost savings in retirement without saving any more. In addition, some people might benefit from moving their money to a pension that offers funds with less risk – which may not have been available before. This could be particularly important as someone moves towards retirement, when they might not want to take as much risk with the money they've saved throughout their working life.

Keeping track of the charges

If someone has several different pensions, it can be difficult to keep track of the charges they're paying to existing pension providers. By combining pensions into a new plan, lower charges could be available – providing the opportunity to boost retirement savings further. However, it's important fully to understand the charges on existing plans before considering consolidating pensions.

Combining pensions into one pot also reduces paperwork and makes it easier to estimate the income someone can expect to receive in retirement. However, before the decision is made to consolidate pensions, it's essential to make sure there is no loss of benefits attributable to an existing pension.

Review your pension situation regularly

It's important that you review your pension situation regularly. If appropriate to your particular situation, and only after receiving professional financial advice, pension consolidation could enable existing policies to be brought together in one place, ensuring they are managed correctly in line with your wider objectives.

Gone are the days of a job for life. So many of us may have several pensions accumulated over the years – some of which we may have left with former employers and forgotten about! Don't forget, your pension can and should work for you to provide a better quality of life when you retire. Looked after correctly, it can enable you to do more in retirement – or even start your retirement early.

A PENSION IS A LONG TERM INVESTMENT, THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

PENSION FREEDOMS

Decisions about how to access your pension pot

'The secret to happiness is freedom', wrote the ancient Greek historian Thucydides. And with the introduction of the pension freedoms rules, those aged over 55 now have far greater freedom of choice over how they use their pension pot to fund their retirement years.

When pension freedoms commenced during the tax year 2014/15, it dramatically changed the pensions landscape. How people can now access their retirement income is substantially different from previous generations. Pension freedoms have made it much easier for people to access their pension pots and as a result some may think they can do it themselves.

Little knowledge and understanding

Pension freedoms have put a greater onus on people to keep themselves informed of their options when it comes to accessing their pension money. However, little knowledge and understanding of the rules could mean some people risk making decisions that are not best for them.

For people in their 40s and 50s, understanding retirement savings is especially critical. Pension freedoms now give savers full access to their retirement savings from the age of 55. The reforms have given over-55s greater power over how they spend, save or invest their retirement pots.

Leaving retirees with different options

You can now take your entire pension pot as cash in one go if you wish. However, if you do this, you could end up with a large Income Tax bill and run out of money in retirement. It's essential to obtain professional advice before you make any major decisions about how to access your pension pot.

Deciding what to do with your pension pot is one of the most important decisions you will make for your future, and now you can access your pension in more ways than ever before. This leaves retirees with different options, from withdrawing lump sums in cash as and when needed to staying invested and drawing income, or to use how they wish. It is still possible to opt for the traditional route of buying an annuity offering a guaranteed income.

"Half of Britons aged 55 and over (51%) admit they know little about the pension freedom rules introduced in April 2015, according to new research[1]. A further one in ten (10%) over 55s say they know nothing about the changes, which represented a complete shake-up of the UK's pensions system five years ago[1]."

Consider your personal financial landscape

From 6 April 2015 new freedoms included removing the need to buy an annuity to provide income until you die, giving access to invest-and-drawdown schemes previously restricted to wealthier savers, and the removal of a 55% 'death tax' on pension pots left invested. Since its introduction more than £35 billion has been withdrawn by 1.4 million individuals through the pension freedoms, according to HM Revenue & Customs data.

As well as understanding the various options for accessing benefits, when you are deciding what to do with your pension pot, you also need to consider your personal financial landscape. How long do you expect your investments and pensions to remain invested for? What do you want to achieve in the future, and how do you see your retirement playing out? How much investment risk are you willing to take? What income sources do you currently have or need to create, and how are they taxed?

New people reaching pension freedoms age

The pension freedoms changes apply to people with defined contribution pension schemes, which take contributions from both employer and employee and invest them to provide a pot of money at retirement. They don't apply to final salary or defined benefit pensions, which provide a guaranteed income after retirement.

The number of new people reaching pension freedoms age will reach a peak in 2020, new analysis has revealed. According to the latest Office for National Statistics (ONS)[2] population estimates, it is estimated that the next six years will see consistently high numbers of people turning 55, should the minimum pension age stay at 55 for the foreseeable future.

What are your pension freedom retirement options to consider?

There are a number of different options when you are deciding how to take your defined contribution pension pot.

Leave your pension pot untouched for now and take the money later

It's up to you when you take your money. You might have reached the normal retirement date under the scheme or received a pack from your pension provider, but that doesn't mean you have to take the money now. If you delay taking your pension until a later date, your pot continues to grow tax-free, potentially providing more income once you access it. If you do not take your money, we can check the investments and charges under the contract.

Receive a guaranteed income (annuity)

You can use your whole pension pot, or part of it, to buy an annuity. It typically gives you a regular and guaranteed income. You can normally withdraw up to a quarter (25%) of your pot as a one-off tax-free lump sum, then convert the rest into an annuity, providing a taxable income for life. Some older policies may allow you to take more than 25% as tax-free cash – we can review this with your pension provider. There are different lifetime annuity options and features to choose from that affect how much income you would get.

Receive an adjustable income (flexi-access drawdown)

With this option, you can normally take up to 25% (a quarter) of your pension pot, or the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this might be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

Take cash in lump sums (drawdown)

How much of your money you take and when is up to you. You can use your existing pension pot to take cash as and when you need it and leave the rest untouched, where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% (quarter) is tax-free, and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year. There are also tax implications to consider that we can discuss with you.

Cash in your whole pot in one go

You can do this, but there are important things you need to think about. There are clear tax implications if you withdraw all of your money from a pension. Taking your whole pot as cash could mean you end up with a large tax bill – for most people, it will be more tax-efficient to use one of the other options. Cashing in your pension pot will also not give you a secure retirement income.

Mix your options

You don't have to choose one option. Instead, you can mix them over time or over your total pot when deciding how to access your pension. You can mix and match as you like, and take cash and income at different times to suit your needs. You can also keep saving into a pension if you wish, and get tax relief up to age 75.

Retirement savings intended for later life

Estimates show 941,000 people will be turning 55 in 2020 – more individuals than any other age in the UK. Population estimates over the following six years also show that those approaching the age of 55 will consistently total above 900,000.

The coronavirus (COVID-19) crisis has thrown some of the nation's retirement plans up in the air, but the full impact will depend on where your pension is invested. For those aged 55 and over, even though it is positive that people have the option to use retirement savings intended for later life earlier to reflect their situation, just because you can access pensions early, it doesn't mean you should.

Accessing pension funds earlier than planned

The result of the COVID-19 pandemic may see a significant number of individuals accessing pension funds earlier than planned with others thinking about this. While this may alleviate short-term financial pressures, it leaves less of a retirement fund to provide an income throughout what can be decades of retirement. Taking larger amounts out of pensions can also mean paying more income tax and it may be better to consider alternative options.

It's always important to think ahead to retirement and plan for the future, and even more so as we face up to the coronavirus crisis. Don't rush into making life-changing financial decisions – to make an informed decision about what is best for you, please contact us to review your situation.

Source data:

[1] Standard Life's research of more than 2,000 UK adults found 35% of Britons aged between 55 and 64 have already accessed their pension pot, prior to State Pension age

[2] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/

TAKING WITHDRAWALS MAY ERODE THE CAPITAL VALUE OF THE FUND, ESPECIALLY IF INVESTMENT RETURNS ARE POOR AND A HIGH LEVEL OF INCOME IS BEING TAKEN. THIS COULD RESULT IN A LOWER INCOME WHEN THE ANNUITY IS EVENTUALLY PURCHASED.

ANNUITY OPTIONS

Choosing a taxable income for the rest of your life

A lifetime annuity is a type of retirement income product that you buy with some or all of your pension pot. It guarantees a regular retirement income for life. Lifetime annuity options and features vary – what is suitable for you will depend on your personal circumstances, your life expectancy and your attitude to risk.

There are different lifetime annuity options and features to choose from that affect how much income you would get. You can also choose to provide an income for life for a dependent or other beneficiary after you die.

Lifetime annuities

You can normally choose to take up to 25% (a quarter) of your pension pot – or of the amount you're allocating to buy an annuity – as a tax-free lump sum. You then use the rest to buy an annuity, which will provide you with a regular income for life. This retirement income is taxed as normal income.

There are two types of lifetime annuity to choose from: basic lifetime annuities, where you set your income in advance; and investment-linked annuities, where your income rises and falls in line with investment performance, but will never fall below a guaranteed minimum

Basic lifetime annuities

Basic lifetime annuities offer a range of income options designed to match different personal circumstances and attitude to risk. You need to decide whether you want one that provides an income for life for you only (known as a 'single life' annuity) or one that also provides an income for life for a dependant or other nominated beneficiary after you die (a 'joint life' annuity).

Payments can continue to a nominated beneficiary for a set number of years (for example, ten years) from the time the annuity starts in case you die unexpectedly early – this is called a 'guarantee period'.

'Value protection' is less commonly used but is designed to pay your nominated beneficiary the value of the pot used to buy the annuity, less income already paid out when you die. Your choices affect how much income you can get. Where you expect to live when you retire might also affect how much income you get.

If you have a medical condition, are overweight or smoke, you might be able to get a higher income by opting for an 'enhanced' or 'impaired life' annuity. Not all providers offer these, so be sure to shop around if you think you might benefit from one. If you have a single annuity and no other features, your pension stops when you die.

Investment-linked annuities

Investment-linked annuities also pay you an income for life, but the amount you get can fluctuate depending on how well the underlying investments perform. If the investments do well, they offer the chance of a higher income.

However, you have to be comfortable with the risk that your income could fall if the investments don't do as well as expected. All investment-linked annuities guarantee a minimum income if the fund's performance is weak.

With investment-linked annuities, you can also opt for a joint or single annuity, guarantee periods, value protection, and higher rates if you have a short life expectancy due to poor health or lifestyle. Not all providers will offer these options.

Open Market Option

If you decide an annuity is right for you, it's important to shop around. This allows you to turn your pension pot into an annuity of your choice, rather than accept the rate offered by your pension provider – this is called an 'Open Market Option'.

Introduced as part of the 1975 Finance Act, the Open Market Option allows someone coming up to retirement to select the best annuity or retirement option from the whole of the market rather than taking the default option from their current pension provider.

By obtaining professional advice and searching the entire market, this could increase a pensioner's retirement income by as much as 30%. Not automatically choosing your current provider's option can really make a difference and will help to maximise your income in retirement.

If you die before age 75, any lump sum payment due from a value protected annuity will be paid tax-free. Income from a joint annuity will be paid to your dependent or other nominated beneficiary tax-free for the rest of their life. If you die within a guarantee period, the remaining annuity payments will pass tax-free to your nominated beneficiary, then stop when the guarantee period ends.

If you die age 75 or over, income from a joint annuity or a continuing guarantee period will be added to your beneficiary's other income and taxed as normal. Joint annuity payments will stop when your dependent or other beneficiary dies. Any guarantee period payments stop when the guarantee period ends. Any lump sum due from a value protected annuity will be added to your beneficiary's income for that year and taxed as normal.

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FLEXIBLE RETIREMENT INCOME

Re-investing funds designed to provide you with a regular taxable income

With this flexible retirement income option known as 'flexi-access drawdown,' you can normally take up to 25% (a quarter) of your pension pot or of the amount you allocate for drawdown as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this might be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

Some older policies might allow you to take more in tax-free cash – check with your pension provider. You then move the rest into one or more funds that allow you to take a taxable income at times to suit you. Increasingly, many people are using it to take a regular income. You choose funds to invest in that match your income objectives and attitude to risk, and you can set the income you want.

The income you receive might be adjusted periodically depending on the performance of your investments. Once you've taken your tax-free lump sum, you can start taking the income right away or wait until a later date. You can also move your pension pot gradually into income drawdown. You can take up to a quarter of each amount you move from your pot tax-free and place the rest into income drawdown.

You can, at any time, use all or part of the funds in your income drawdown to buy an annuity or other type of retirement income product that might offer guarantees about growth and/or income. You need to plan carefully how much income you can afford to take under flexi-access drawdown, otherwise there's a risk you'll run out of money.

This could happen if you live longer than you've planned for or you take out too much in the early years. It could also be a problem if your investments don't perform as well as you expect and you don't adjust the amount you take accordingly.

If you choose flexi-access drawdown, it's important to review your investments regularly. Not all pension schemes or providers offer flexi-access drawdown. Even if yours does, it's important to compare what else is on the market because charges, the choice of funds and flexibility might vary from one provider to another.

Any money you take from your pension pot using income drawdown will be added to your income for the year and taxed in the normal way. Large withdrawals could take you into a higher tax band, so bear this in mind when deciding how much to take and when. If the value of all your pension savings is above £1,073,100 when you access your pot (2020/21 tax year), further tax charges might apply.

You can normally receive tax relief on pension contributions to a defined contribution pension scheme of up to £40,000 or 100% of taxable salary each year (if lower than £40,000). This is known as your 'annual allowance'.

However, if you start to draw an income from a flexi-access drawdown scheme, the amount you can pay into a pension and still get tax relief reduces. This is known as the 'Money Purchase Annual Allowance' (MPAA). The MPAA for the tax year 2020/21 is £4,000. If you want to carry on building up your pension pot, this might influence when you start taking income. You can nominate who you'd like to get any money left in your drawdown fund when you die.

If you die before the age of 75, any money left in your drawdown fund passes tax-free to your nominated beneficiary, whether they take it as a lump sum or as income. The money must be paid within two years of the provider becoming aware of your death. If the two-year limit is missed, payments will be added to the income of the beneficiary and taxed as normal.

If you die after the age of 75, and your nominated beneficiary takes the money as income or a lump sum, the money will be added to their other income and taxed as normal.

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SMALL CASH SUMS FROM YOUR POT

Taking money from your pension as and when you need it

You can use your existing pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free.

For each cash withdrawal, normally the first 25% (quarter) is tax-free, and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

With this option, your pension pot isn't re-invested into new funds specifically chosen to pay you a regular income, and it won't provide for a dependent after you die. There are also more tax implications to consider with this option.

Your pension pot reduces with each cash withdrawal. The earlier you start taking money out of your pot, the greater the risk your money could run out. What's left in your pension pot might not grow enough to give you the income you need to last you into old age – most people underestimate how long their retirement will be.

The administration charges for each withdrawal could eat into your remaining pot. Because your pot hasn't been reinvested to produce an income, its investments could fall in value – so you'll need to have it reviewed regularly. Charges will apply, and you might need to move or reinvest your pot at a later date.

Once you take money out of your pension pot, any growth in its value is taxable, whereas it will grow tax-free inside the pot – once you take it out, you can't put it back. Taking cash lump sums could reduce your entitlement to benefits now or as you grow older.

Three quarters of each cash withdrawal counts as taxable income. This is added to the rest of your income – and depending on how much your total income for the tax year is, you could find yourself pushed into a higher tax band.

So if you take lots of large cash sums, or even a single cash sum, you could end up paying a higher rate of tax than you normally do. Your pension scheme or provider will pay the cash through a payslip and take off tax in advance – called 'PAYE' (Pay As You Earn). This means you might pay too much tax and have to claim the money back – or you might owe more tax if you have other sources of income.

Extra tax charges or restrictions might apply if your pension savings exceed the lifetime allowance – currently £1,073,100 (2020/21 tax year) – or if you have less lifetime allowance available than the amount you want to withdraw.

If the value of your pension pot is £10,000 or more, once you start to take income, the amount of defined contribution pension savings on which you can get tax relief each year is reduced from £40,000 (the annual allowance) to a lower amount (the 'Money Purchase Annual Allowance', or 'MPAA'). In 2020/21, the MPAA is £4,000. If you want to carry on building up your pension pot, this option might not be suitable.

If you die before the age of 75, any untouched part of your pension pot will pass tax-free to your nominated beneficiary or estate, provided the money is paid within two years of the provider becoming aware of your death. If the two-year limit is missed, it will be added to your beneficiary's other income and taxed in the normal way.

If you die after the age of 75, any untouched part of your pension pot that you pass on – either as a lump sum or income – will be added to your beneficiary's other income and taxed in the normal way.

CASHING IN YOUR ENTIRE PENSION POT

Without very careful planning, you could run out of money and have nothing to live on

You could close your pension pot and take the entire amount as cash in one go if you wish. Normally, the first 25% (quarter) will be tax-free, and the rest will be taxed at your highest tax rate by adding it to the rest of your income. Once you've taken all the money, your pension will close and you won't be able to make any further payments into it.

However, there are many risks associated with cashing in your entire pension pot. For example, it's highly likely that you may be subjected to a significant Income Tax bill. Opting for this approach also means that it won't pay you or any dependent a regular income – and without very careful planning, you could run out of money and have nothing to live on in retirement.

If you're planning to put the money you take into savings or other investments, you should compare and think about how it will get treated for Inheritance Tax purposes. If you are considering taking your entire pension pot, you should first obtain professional financial advice to fully understand the impact on you and your financial situation.

Three quarters (75%) of the amount you withdraw is taxable income, so there's a strong chance your tax rate would go up when the money is added to your other income. If you exercise this option, you can't change your mind. Also remember, this option will not provide a regular income for you, your spouse or any other dependent after you die.

For many or most people, it will be more tax-efficient to consider one or more of the other options for taking your pension. Taking a large cash sum could reduce any entitlement you have to benefits now or as you grow older (for example, to help with long-term care needs).

Cashing in your pension to clear debts, buy a holiday or indulge in a big-ticket item will reduce the money you will have to live on in retirement. Another consideration is that you might not be able to use this option if you have received a share of an ex-spouse's or ex-civil registered partner's pension as a result of a divorce, or if you have certain protected rights with your pension.

Your pension scheme or provider will pay the cash through a payslip and take off tax in advance (PAYE). This means you might pay too much Income Tax and have to claim the money back – or you might owe more tax if you have other sources of income.

Extra tax charges or restrictions might apply if your pension savings exceed the lifetime allowance (currently £1,073,100), or if you have reached age 75 and have less lifetime allowance available than the value of the pension pot you want to cash in.

If the value of your pension pot is £10,000 or more, once you start to take income, the amount of defined contribution pension savings on which you can get tax relief each year is reduced from £40,000 (the annual allowance) to a lower amount (called the 'Money Purchase Annual Allowance,' or 'MPAA'). The MPAA for 2020/21 is £4,000. If you want to carry on building up your pension pot, this option might not be suitable.

BLENDING YOUR RETIREMENT OPTIONS

Balance of flexibility and security to suit your circumstances

If you are looking for a balance of flexibility and security to suit your circumstances, you could consider blending your retirement options. You don't have to choose one option when deciding how to access your pension pot – you could set up a combination of options to suit you.

You can usually take up to 25% of your pension money as tax-free cash as you choose which options to take. But remember that with any option, tax benefits are subject to change and depend on your individual circumstances.

You can also keep saving into a pension if you wish, and get tax relief up to age 75.

Which option or combination is right for you will depend on:

- Your age and health
- When you stop or reduce your work
- Whether you have financial dependents
- Your income objectives and attitude to risk
- The size of your pension pot and other savings
- Whether your circumstances are likely to change in the future
- Any pension or other savings your spouse or partner has, if relevant

Everybody's situation is different, so how you combine the options is up to you.

You could choose to buy a guaranteed income for life with some of your pension money, while leaving some to provide a flexible income or cash lump sums when you need them.

Or, if you plan to ease into retirement, you may choose to take some money flexibly to start with, and then later buy an annuity to provide a guaranteed income.

Don't forget, in addition, you can usually take up to 25% of your pension tax-free. This can be taken all in one go or over time, depending on the options you choose

IF YOU ARE LOOKING FOR A BALANCE OF FLEXIBILITY AND SECURITY TO SUIT YOUR CIRCUMSTANCES, YOU COULD CONSIDER BLENDING YOUR RETIREMENT OPTIONS.

DELAYING RETIREMENT

Pandemic forcing a widespread rethink of retirement plans

The coronavirus (COVID-19) pandemic crisis has thrown the retirement plans of some of the nation's retirees up in the air. As a result, a number of people over 50 and in work are set to delay their retirement (15%) by an average of three years, or keep working indefinitely (26%), as a direct result of COVID-19, according to new research[1].

The pandemic is forcing a widespread rethink of retirement plans. Currently 1.5 million workers aged over 50 are planning to delay their retirement as a direct result of the pandemic. The most recent data from the Office for National Statistics highlights that the number of workers aged above 65 years is at a record high of 1.42 million[2]. However, if people change their retirement plans in response to the pandemic, this could increase considerably.

Five years or more retirement delay

One in six people aged over 50 and in work (15%) believes that they will delay, while 26% anticipate having to keep working on a full or part-time basis indefinitely, due to the impact of the virus. On average, those who plan to delay their retirement expect to spend an additional three years in work. However, 10% admit they could delay their plans by five years or more.

These figures are significantly higher for the 26% of over-50s workers who have been furloughed or seen a pay decrease as a result of the pandemic. One in five of these workers will delay (19%) and 38% expect to work indefinitely.

Forced to rethink retirement plans

The financial impact of the COVID-19 pandemic seems to be particularly pronounced for people aged over 50 who are still in work. While some people will choose to work for longer, or indefinitely, the key consideration when it comes to this research is that it seems this decision has been driven by the financial impact of the pandemic, rather than personal choice.

According to the report, 1 in 5 (18%)[3] plan a change to their target retirement age, and 20% of over-55s who hadn't accessed their pension prior to the crisis have since taken out money from their pension (12%) or are considering doing so (8%) because of the pandemic. The self-employed have been particularly affected, with 2 in 5 (40%) forced to rethink retirement plans and 22% now expecting to delay their retirement.

5 reasons to delay taking your pension

- Your pension has longer to grow
- You can maximise your investment potential before moving to safer assets
- Your employer will keep topping up your pension
- You'll continue to receive tax relief on pension contributions until age 75
- Delaying your State Pension can boost your payments

Impact on people's ability to retire

This is a key stage in people's retirement planning, so seeing a material impact on household income will naturally lead to pessimism about achieving retirement goals. While it would be naive to say that these financial issues will not have an impact on people's ability to retire, it's important for people to have a strong understanding of the options available to them before concluding that their retirement needs to be delayed or forgotten indefinitely.

That employment uncertainty, in combination with volatility in the financial markets, is understandably concerning to some people approaching retirement age. In particular, those who have been furloughed or seen a pay decrease could benefit from a financial review to assess their options before changing their plans.

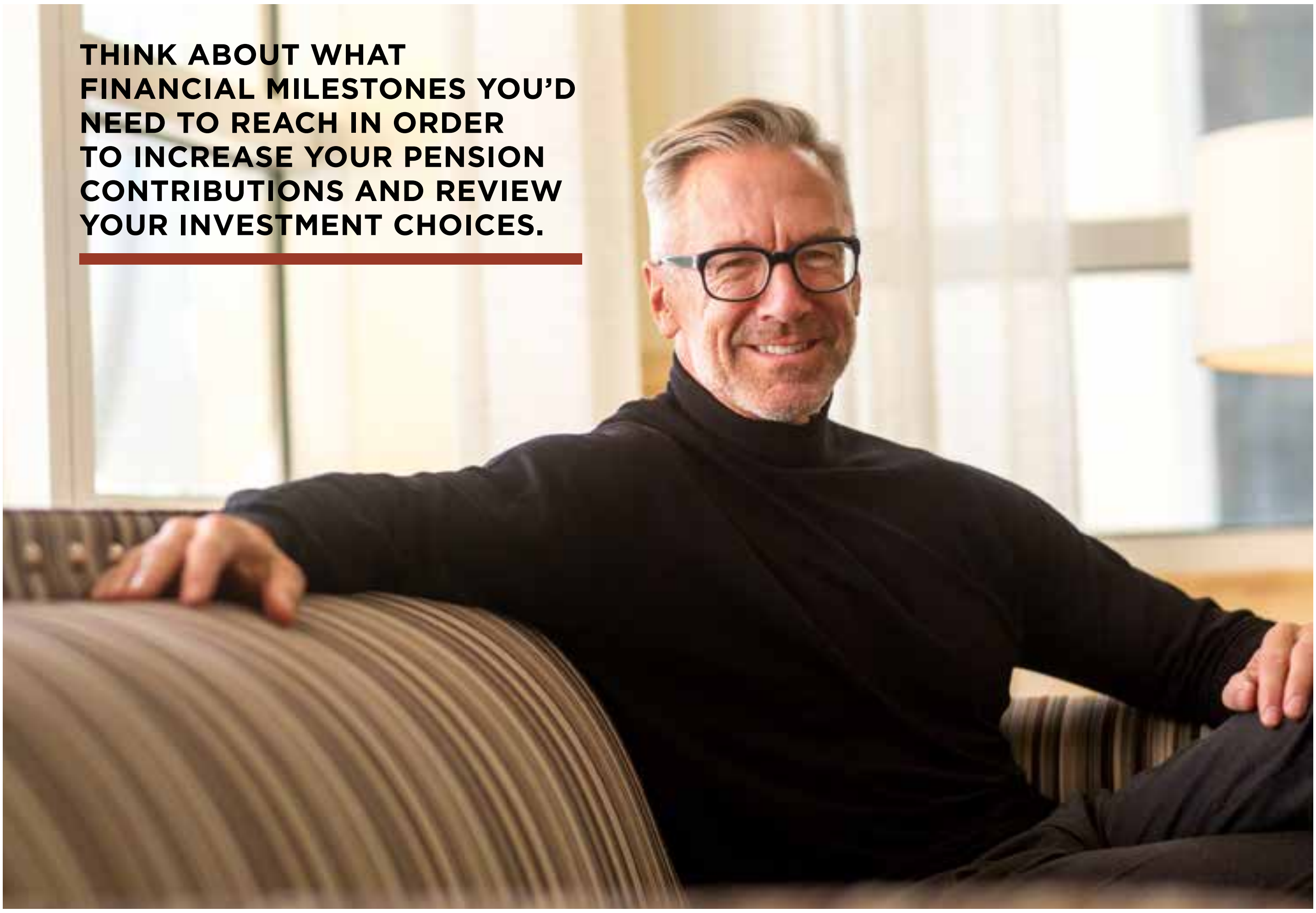
Source data:

[1] Opinium Research ran a series of online interviews for Legal & General Retail Retirement among a nationally representative panel of 2,004 over-50s from 15–18 May 2020.

[2] Office for National Statistics, Labour market overview, UK: May 2020

[3] https://www.cofunds.aegon.co.uk/content/ukcpw/customer/news/covid-19_has_widereachingimpactonretirementplans.html

A PENSION IS A LONG TERM INVESTMENT, THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.



THINK ABOUT WHAT FINANCIAL MILESTONES YOU'D NEED TO REACH IN ORDER TO INCREASE YOUR PENSION CONTRIBUTIONS AND REVIEW YOUR INVESTMENT CHOICES.

RETIREMENT WEALTH CHECK

Taking control over your retirement plans

10 tips to enjoy the retirement you want

- Review your spending habits and consider if you have the scope to save a little more each month.
- Look up your annual benefit statements – you may have saved with more than one employer's pension scheme.
- Think about what financial milestones you'd need to reach in order to increase your pension contributions and review your investment choices.
- Find out more about your current pension plan. If you pay in more, does your employer match your contributions?
- Track down old pension schemes using the government's finder service https://www.gov.uk/find-pension-contact-details. Or request contact details from the government's Pension Tracing Service on 0800 731 0193 or by post.
- Check that your Expression of Wish form is up to date. This is a request setting out whom you would like to receive any death benefits payable on your death.
- Check your state pension entitlement. To receive the full state pension when you reach state pension age you must have paid or been credited with 35 qualifying years of National Insurance contributions. Visit the Government Pension Service https://www.gov.uk/contact-pension-service for information about your State Pension.
- Add up the savings and investments that you could use for your retirement. A pension is a very tax-efficient way to save for your retirement but you might also have other savings or investments that you could use to increase your income when you retire.
- If you're getting close to retirement and the amount you're likely to retire on is less than you'd hoped, consider ways to boost your pension.
- Decide when to start taking your pension. You need to set a target date when you want to start drawing an income from your pension – and remember, you don't have to stop working to take your pension but you must be aged at least 55 (you might be able to do this earlier if you're in very poor health).

PENSION SCAMMERS

Make sure you spot the warning signs

Your pension is one of your most valuable assets, and for many it offers financial security throughout retirement and the rest of their lives. But, like anything valuable, your pension can become the target for illegal activities, scams or inappropriate and high-risk investments.

Fraudsters promise high returns and low risk, but in reality, pension savers who are scammed can be left with nothing. When savers realise they've been scammed, it can be devastating – many lose their life savings. Once the money is gone, it's almost impossible to get it back.

How pension scams work

Anyone can be the victim of a pension scam, no matter how savvy they think they are. It's important that everyone can spot the warning signs.

Scammers try to persuade pension savers to transfer their entire pension savings, or to release funds from it, by making attractive-sounding promises they have no intention of keeping.

The pension money is often invested in unusual, high-risk investments like:

- Overseas property and hotels
- Renewable energy bonds
- Forestry
- Parking
- Storage units

Or it can be simply stolen outright.

Warning signs of a pension scam

Scammers often cold call people via phone, email or text – this is illegal, and a likely sign of a scam. They often advertise online and can have websites that look official or government-backed.

Other common signs of pension scams:

- Being approached out of the blue: by text, phone call, email or at your front door
- Phrases used like 'free pension review', 'pension liberation', 'loan', 'legal loopholes', 'savings advance', 'one-off investment', 'cashback', 'government initiatives'
- Recommendations of transferring your money into a single overseas investment, with returns of 8% or higher
- Guarantees they can get better returns on pension savings
- Help to release cash from a pension before the age of 55, with no mention of the HM Revenue & Customs (HMRC) tax bill that can arise
- High-pressure sales tactics – time limited offers to get the best deal; using couriers to send documents, who wait until they're signed

- Unusual high-risk investments, which tend to be overseas, unregulated, with no consumer protections
- Complicated investment structures
- Long-term pension investments – which often mean people who transfer in do not realise something is wrong for a number of years
- Claims that they are from a legitimate organisation like ours, the Pension Service, Pension Wise
- Visits from a courier or personal representative to pressure you to sign paperwork and speed up your transfer
- There may be an authentic-looking website, but these can be cloned from legitimate organisations
- There will be little or nothing in the way of contact names, addresses or phone numbers

Scams can take many forms

Many scammers persuade savers to transfer their money into single member occupational schemes, or other occupational pension schemes.

It's good to remember that pension scams can take many forms and usually appear to most to be a legitimate investment opportunity.

What to do if you think you've been or are being scammed

If you think you might have already been targeted and you've agreed to transfer your pension, you should:
1. Contact your pension provider immediately – they may be able to stop the transfer if it has not already gone through.
2. Contact Action Fraud on 0300 123 2040 and report the scam.

ANYONE CAN BE THE VICTIM OF A PENSION SCAM, NO MATTER HOW SAVVY THEY THINK THEY ARE. IT'S IMPORTANT THAT EVERYONE CAN SPOT THE WARNING SIGNS.

WORRIED ABOUT RETIREMENT UNCERTAINTY?

Planning your financial future is one of the most important things you can do in your life. Do you require professional advice and help with your retirement planning during this difficult time?

Speak to us to find out how we can help you.

The content of 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.

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