

## How prepared are you for retirement?

Planning ahead helps ensure that you're on track

You work hard to enjoy your current lifestyle, but are you doing enough to ensure that you will continue to enjoy it in retirement? Many of us live for today, but saving into a private pension plan can help you retire sooner rather than later.

The term 'private pension' covers both workplace pensions (also known as 'occupational' or 'company' schemes), arranged by your employer; and 'personal pensions', which you manage yourself. There is no restriction on how many pensions you can have, and some people will have both.

### AM I STILL SAVING ENOUGH FOR RETIREMENT ACCORDING TO MY CURRENT CIRCUMSTANCES?

Private pensions, often referred to as 'personal pensions', provide a way for you to save for retirement so that you'll have an income to supplement the amount you'll receive from the State Pension.

They are generally 'defined contribution' plans, which means any payments you make are invested. The amount you end up with at retirement depends not only on how much you've paid in, but also on how your investments have performed and the level of charges. We can assess your current retirement goals and calculate the target level of income you'll require to achieve them.

Don't forget: if you have a workplace private pension, both you and your employer will make contributions, boosting the amount you end up with at retirement.

### CAN I RELY ON THE STATE PENSION TO PROVIDE A SUBSTANTIAL INCOME IN RETIREMENT?

The State Pension is a regular income paid by the UK Government to people who have reached State Pension age. The State Pension changed on 6 April 2016. If you reached the State Pension age on or after this date, you'll now be getting the new State Pension under the new rules.

The new State Pension is designed to be simpler than the old system. The new scheme pays up to £168.60 a week (as of 2019/20). It's possible you may receive more or less than this amount.

To receive £168.60, you must have a National Insurance (NI) contributions record for 35 years. If not, the amount you receive will be proportionate. If you have less than 10 years NI contributions, you won't receive any State Pension. You can pay more to make up for any shortfall in your NI contribution record.

You may receive less if you opted out of the additional State Pension scheme, or 'SERPS'. This scheme ended in April 2016. If you were in a pension scheme or personal pension plan before this date, this may apply to you.

If you were entitled to a higher pension under the previous State Pension scheme, you'll still receive this. If you don't claim your State Pension in the year you reach State Pension age, it will be increased when you do take it. For each year you delay, it increases by almost 5.8%.

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

### AM I MAKING THE MOST OF PENSION TAX RELIEF?

One major benefit of contributing to a pension is the boost your contributions will receive from tax relief. Pension providers can claim basic-rate tax relief at 20% on behalf of savers. So for every £80 you contribute, £100 will be invested into your pension. You receive tax relief on private pension contributions worth up to 100% of your annual earnings.

Tax relief is paid on your pension contributions at the highest rate of Income Tax you pay. If you're a higher or additional-rate taxpayer, you must claim back the additional 20% or 25% on top of the basic 20% via your self-assessment tax return. If you don't claim it, you won't receive it.

## TAX RELIEF IN ENGLAND, WALES OR NORTHERN IRELAND

- Basic-rate taxpayers get 20% pension tax relief
- Higher-rate taxpayers can claim 40% pension tax relief
- Additional-rate taxpayers can claim 45% pension tax relief

## IN SCOTLAND, INCOME TAX IS BANDED DIFFERENTLY, AND PENSION TAX RELIEF IS APPLIED IN A SLIGHTLY ALTERNATIVE WAY:

- 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

## HOW MUCH MORE SHOULD I BE SAVING FOR RETIREMENT?

Generally speaking, the more you save, the more you can expect to get back. You can choose to save as much as you can afford. If you want to, you could save up to 100% of your earnings into your pension each tax year. However, there's an upper limit on the amount that you can save into pensions each tax year.

This is known as the 'annual allowance', which is currently £40,000 in the 2019/20 tax year. If you go over this amount, a 40% tax charge will apply. Obtaining professional financial advice will ensure that you are contributing the correct amounts based on your retirement goals.

## WILL THERE BE LIMITS ON THE VALUE OF PAYOUTS FROM MY PENSIONS?

The lifetime allowance is a limit on the value of payouts from your pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge.

But the regular contributions you and your employer make into pensions, plus the fact investments in pensions grow free of tax typically over a long time, can result in your pensions growing above the lifetime allowance.

The lifetime allowance for most people is £1,055,000 in the tax year 2019/20. It applies to the total of all the pensions you have, including the value of pensions promised through any defined benefit schemes you belong to, but excluding your State Pension. The standard lifetime allowance is indexed annually in line with the Consumer Prices Index (CPI).

Any amount over your lifetime allowance that you take as a lump sum is taxed at 55%, and any amount over your lifetime allowance that you take as a regular retirement income – for instance, by buying an annuity – attracts a lifetime allowance charge of 25%.

## HOW CAN I MAKE THE MOST OF MY PENSION POT WHEN I RETIRE?

How long your pension pot lasts will depend on the choices you make. From age 55, there are three main ways you can take your money. You can take your tax-free money first, take a combination of tax-free and taxable money, or take a guaranteed income for life. You could also take a combination of these three, or simply do nothing at all.

Each of the main options usually allows you to take up to 25% of your pot tax-free. You might also need to pay tax on the remaining 75% of your pension pot, depending on your circumstances and the options you choose. Tax rules can also change in the future.

The ways to access your tax-free money, and the remainder of your pension pot, are very different on each of the options though. ■

## DON'T 'SLEEPWALK' INTO YOUR RETIREMENT

Today, the big question is not 'when would you like to retire?' but 'when can you afford to retire?' Seizing the day can be a great feeling. And this is what thousands of people across the UK are doing: taking money from their pension pot, from the age of 55, to tackle a current pressing need or opportunity. We can help you make the right decisions to balance the impact of your actions now so that you don't 'sleepwalk' into your retirement and find out too late you've made the wrong choices. For more information, speak to us about your retirement expectations.

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