Pension News

Fulwood Wealth Management

Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

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Reviewing your pension contributions

Did you know...?

Gender pay gap
Pensions for women are £7500 less than mens on average and yet on average women live for three years longer than men.

A nation unprepared for retirement
Over half of the British population admits to either not saving for a pension or not saving enough for the retirement that they would like to live.

The rise of pensioners
In 1901, there were ten people working for every pensioner. By 2050 it has been predicted that there will be one pensioner to every two workers.

The value of your investments can fall as well as rise, and you may get back less than you invest.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

As you approach retirement, you probably want to know when you can afford to stop working. Having worked hard throughout your career you deserve to enjoy your retirement without having to worry about your finances. It may be worth reviewing your pension contributions to make sure you are taking advantage of the incentives offered by the government and your employer.

Make the most of tax relief...

The government tops up your pension contributions in the form of tax relief at your highest rate of income tax to encourage you to save. Basic rate taxpayers receive tax relief of 20%, while higher rate and additional rate taxpayers can claim back 20% and 25% respectively through their tax returns.

..and understand employer contributions

Since 2012, employers have been legally obliged to automatically enrol employees in a pension scheme, although you can opt out. As an incentive, employers top up employee contributions. The government increased the minimum contribution to 8% from April 2019 - at least 3% from employers with employees making up the balance. It is worth remembering that the employee's contribution includes tax relief.

Are you saving enough?

There are no fixed rules about how much you should contribute to your pension because of course everyone's circumstances are different. However, one rule of thumb is to take the age you started saving and divide it by two to give you the percentage of your salary which you might wish to put away each year. So, if you set up your pension at the age of 30, you could aim to pay in 15% of your salary.

Stick within the limits

There are rules covering how much you can contribute, and you could face a hefty tax bill if you break them. The annual allowance for the 2019/20 tax year is £40,000 or your full salary (whichever is lower), although it is tapered for anyone earning over £150,000. You can carry forward any unused annual allowance from the previous three years.

There is also the lifetime allowance – the maximum amount you can withdraw from a pension scheme. It is currently £1,055,000 and likely to increase with inflation. It's probably wise to keep a close eye on the value of your pension if it starts approaching this limit.

Deciding whether or not you can afford to retire is a significant consideration, and so it makes good sense to regularly review how much you are saving and ensure you are taking full advantage of any incentives.

Your pension savings, your future options

Thanks to pension freedoms introduced in 2015, savers over 55 have a wide range of options when it comes to drawing from your savings, and this brings opportunities although it's also easier to make a mistake.

There are now essentially four main ways for you to access your pension savings:

1. **Buy an annuity** which guarantees an income, typically for the rest of your life but in some cases for a fixed period
2. **Flexi-Access Drawdown** allows you to withdraw from your savings when you need to, while the balance remains invested
3. **Take it all out as cash** with the first 25% tax free and you pay income tax at your marginal rate on the rest, although you may face a hefty tax bill the following year
4. **Take part of it out as cash** with the first 25% tax free with the rest taxed at your marginal income tax rate. You can do this as many times as you like until you no longer have any pension savings.

Why you should consider modernising your pension

As well as giving you greater freedom over how you access your savings, there are several other benefits when modernising your pension:

- Take full control of your pension savings
- Choose when and how to draw an income to suit your retirement planning
- Keep your options open for drawing an income in the future
- Optimise your tax efficiency - both on any money you might leave invested, and Inheritance Tax.

If your pension plan does not offer all four of these options, then you should think about switching it.

What else do you need to think about?

There are other factors to take into account when switching to a modern pension.

Firstly, the chances are the costs will increase. You may end up paying as much as an extra 1% of the value of your savings annually. So, if you have saved £200,000, your provider could charge up to £2,000 more per year. And if you seek financial advice, your adviser may also levy a fee, either upfront or as an ongoing service charge. These additional fees eat into your pot, but you could equally benefit from the flexible access as well as greater visibility and control.

Another consideration is tax. Regardless of whether you stick with your current pension or switch to a modern one, your income- other than the first 25% of a partial or whole lump sum- is subject to your highest rate of tax. Seeking professional advice can help you access your savings in a tax-efficient manner.

There is certainly plenty to consider and it is wise to regularly explore your current and potential retirement routes.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

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Information contained in this article concerning taxation and related matters are based on Openwork's understanding of the present law and current legislation.

How will changing working patterns affect your pension?

The sooner you start saving, the healthier your pension pot is likely to be when you need to draw on it.

But what happens to your pension planning if your working hours reduce, or stop?

First things first
If you join a company you may be enrolled into their workplace pension scheme which, in most cases, your employer will also pay into. The self-employed, on the other hand, should set up a personal pension, which come in the form of a basic personal pension, stakeholder pension, or Self Invested Personal Pension (SIPP).

Workplace pension schemes will have minimum contribution levels, but you should save more if you can. In fact, some commentators suggest that if you take the age you start your pension and halve it, that's the percentage of salary you should save each year.

What's more, as your earnings increase it makes sense to save more into your pension if you can afford to. There's no limit on how much you save, but there are limits on the amount of tax relief you'll receive.

What if your working patterns change?
If you reduce your hours your contributions may also reduce, so you'll need to consider how that impacts your retirement planning.

Working part time won't affect your state pension entitlement providing you earn at least £166 per week. Entitlement depends on your National Insurance contribution history and if your part-time earnings are lower than the threshold you might be able to pay voluntary class 3 NI contributions to plug the gap.

If you need to take time off work, you and your employer will carry on making pension contributions if you're taking paid leave. The same applies for maternity and other paid parental leave.

If you're taking maternity leave and not getting paid, your employer still has to make pension contributions in the first 26 weeks of your leave (Ordinary Maternity Leave). Whether they continue making contributions after that will depend on their maternity policy, so it pays to check.

To find out how much your retirement might cost, it's helpful to ask yourself:

- When do you want to retire?
- What do you want from your retirement?
- How will your spending habits change?
- Would you move, or stay in your current home?
- Will you continue doing some form of paid work after retirement?
- Will you be entitled to the full State Pension?

Whether you're employed, self-employed, part time or full time, please get in touch with us to explore your pension planning options.

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Providing a retirement windfall for your child

Planning ahead and starting early can really help when it comes to building up a financial future for the children in your life. The Junior ISA (JISA) is a popular choice for many, but one often overlooked investment option is the ability to open a pension for your child, to help set them up for retirement.

Increasingly popular choice

Although retirement is a very long way off for your child, putting some money aside now means they can be one step ahead when they come to plan their retirement. Any parent or legal guardian can set up a pension, which will automatically transfer to your child once they reach the age of 18, at which time they can continue to contribute or leave the savings invested. Under current rules (which may be subject to change in the future) they can access the pension from age 55.

A valid option, worth considering

In addition to your own pension contribution allowances, people often don't realise that they can also put money into someone else's savings. If the recipient is a non-taxpayer, as most children are, they are still entitled to tax relief on any contributions made. Pension rules allow anyone to pay contributions on behalf of a child, so other family members such as grandparents can get in on the act too.

HMRC data indicates over 60,000 families have opened pension plans for their children. As personal pensions come with no minimum age restriction, many people opt to open one when their child is born.

Know the numbers

Current pension rules allow you to put up to £2,880 a tax year into a pension for a child. Tax relief of 20% means that this is then topped up to £3,600. No further Income Tax or Capital Gains Tax will be payable on the investments held in the personal pension, until your child starts taking benefits, (which currently cannot be before age 55). If you start pension contributions once a child is born and used the full allowance, the contributions would cost just under £52,000 over 18 years, and this, under current rules would be topped up by around £13,000 in tax relief.

Assuming growth in investments over the period, when the child reaches age 55 currently, they would have a sizable pension pot to draw upon, the spending power of which will of course depend on the passage of inflation over the intervening years.

Getting the balance right

Aside from retirement provision, you also need to consider providing financial assistance for more pressing priorities, such as university fees or money for a house deposit, or a wedding perhaps. Any pension savings won't be available to help children with these financial priorities earlier in their adult lives. So, ideally a pension for your child should be regarded as part of a wider plan, rather than the only investment embarked upon.

Start a pension for your child today

With the full State Pension currently £168.60 a week, this is certainly not enough on its own to provide a comfortable retirement, so why not set the wheels in motion to provide a retirement windfall for your child? It's also a great way to introduce your child to the concept of long-term saving. Families thinking about how to save and invest most efficiently during 2020 shouldn't overlook pensions for children. Even if the full allowance isn't contributed, any money saved could still provide a valuable nest egg at retirement.

If you would like to know more about investing for children, please get in touch.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

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