Personal Pensions Advice

Q: Can you help me understand my pension?

A: Personal pensions are pensions that you arrange yourself. They're sometimes known as defined contribution or 'money purchase' pensions. You'll usually get a pension that's based on how much was paid in.

Some employers offer personal pensions as workplace pensions.

The money you pay into a personal pension is put into investments (such as shares) by the pension provider. The money you'll get from a personal pension usually depends on:

- how much has been paid in.
- how the fund's investments have performed - they can go up or down.
- how you decide to take your money.

Saving For Life After Work

It is important to consider what type(s) of pension you have and how flexible they are. Prior to retirement you will need to plan what income you will need in retirement considering holidays.

You will need to factor in the state pension and we can help in getting a state pension forecast as the amount you will receive will depend on how much National Insurance you have contributed throughout your working life.

Always check your annual benefit statement to see how your pension is performing.

Boost Your Pension

Increasing your pension savings can set you up for a lifetime of financial security – and with our tips, saving more doesn't need to be a burden. Whether you've just started your pension planning or are looking to retire soon, below are some simple ways to boost your savings.

1. **Check your State Pension entitlement** to help determine if and how much you're likely to receive when you reach State Pension age – and whether you'll need to top it up. Remember, the state pension age for women has been steadily rising to age 65, so that it is the same level as a man. From November 2018, the state pension age for women will be 65.
2. **Apply for National Insurance credits**. The new State Pension was introduced on 6 April 2016, for people reaching State Pension age from that date onwards. People with no National Insurance record before 6 April 2016 will need 35 qualifying years to get the full amount of new State Pension when they reach State Pension age and normally need at least 10 qualifying years to get any new State Pension at all.

3. **Top up your state pension** if there was a time when you did not pay enough National Insurance contributions or get enough National Insurance credits to give you a qualifying year, you may find you have a gap on your National Insurance record. This could mean that you won't have enough years of National Insurance contributions to get the full State Pension. You can top up your record by making Voluntary 'Class 3' National Insurance Contributions. These payments help to fill any gaps in your National Insurance record.
4. **Maximise your employer's contributions** - when you increase your contributions to a workplace pension or private pension some employers will also boost the amount they contribute.
5. **Check for hidden fees**. The new pension freedoms allow you to access your pension pots early. Some providers, however, charge a fee each time money is taken out. The price and extent of these fees vary significantly between providers, so it's worth shopping around to make sure that you get the maximum amount of retirement savings possible.
6. **Redirect regular spending into your pension** - if you have a regular expense that stops being needed you can redirect that extra money to your pension instead. As an example, once you finish paying off a car loan, you can use those payments towards your pension fund. This is a quick and simple way to give your retirement savings a boost while sticking to your everyday budget.
7. **Save any income increases if your income rises** – for example, due to a pay rise or a new income stream – put all or part of the sum towards increasing your retirement savings. This can be done in a number of ways, including by increasing the sum you contribute to a workplace or personal pension.
8. **Carry forward tax reliefs**. Carry forward is a process that allows you to make use of any unused annual allowance from the past three tax years. The current annual allowance is £40,000, so you might be able to boost your pension by up to £120,000 without incurring tax.
9. **Monitor your pension regularly**. Monitoring your pension regularly will help you keep your savings on track. You can also check in on the performance of your pension fund. Contact your pension provider to find out the best way to keep track of how your pension is tracking.
10. **Switch investment funds** - pension contributions are often paid into investment funds. If you don't choose a fund, your pension provider will choose a default. Usually, your pension statement will give you the details of which funds that your pension is invested in. If your investment fund has been under-performing, don't be afraid to switch. Choosing the right fund to invest in could give your retirement income a boost.
11. **Track down pensions from old employers**. The average person will be employed by several different companies during their working life, meaning you may have some pension pots you've forgotten about. In the UK alone, £5bn has been lost in unclaimed pensions. But tracking them down couldn't be simpler – the government-backed Pension Tracing Service can help you find old pensions you're entitled to claim.
12. **Check if you qualify for an enhanced annuity**. If you plan on buying an annuity with some or all of your pension, and you have a medical condition such as diabetes, high blood pressure or heart disease, you may be eligible for an enhanced annuity which will pay a

higher level of income. Enhanced annuities aren't always offered by annuity providers, so it's best to shop around if you think you could be eligible for one.

13. **Get expert help**. Consulting an independent financial adviser can help you put a pension savings plan in place and identify new ways to maximise your income.
14. **Combine your pensions**. If you have several pension pots with different providers you may be able to boost your savings by combining them into one pot. This will also help to keep track of your overall retirement sum and whether or not you're on track towards your targets. Before you switch, you should check that you don't have any guarantees that you'll lose by moving your savings to another scheme, and that the charges you pay aren't higher in the new scheme.
15. **Defer your state pension** - delaying your state pension start date could result in you receiving a higher weekly state pension or even a lump-sum payment. How much you get depends on when you reached state pension age.
16. **Pensions tax relief** is a top up to your pension contributions added by the government. The rate you get depends on the amount of income tax you pay, so you could get 20%, 40% or 45% depending on how much you earn.

Planning The Retirement You Want

How much will I need in retirement?

Working out how much money you need to save for retirement is not an easy task. There are a number of variables that need to be considered.

For example, you need to work out what age you plan to retire and roughly how much you plan to spend per year in retirement. Are you planning to enjoy a luxurious retirement that includes holidays abroad, or keep things simple and live cheaply? How long do you expect to live? What will inflation rates be? These are just some of the factors that need to be considered.

The multiply by 25 rule.

The multiply-by-25 rule (also known as the 4% rule) estimates how much money you'll need to save for retirement by multiplying your desired annual income by 25.

If you plan to spend £30,000 per year in retirement, you'll need to save £750,000. If you plan to spend £40,000 per year, you'll need £1m.

As to how much you may spend, Which found last year that households on average spent around £26,000 per year in retirement. This included all the basic areas of expenditure and some luxuries such as trips to Europe, hobbies and dining out. Using the multiply-by-25 rule, you would need to save £650,000 to live this lifestyle.

If you plan to take long-haul trips around the world and upgrade your car every few years, you may need closer to £39,000 per year and would, therefore, need to save £975,000.

The multiply-by-25 rule does have its flaws. It doesn't take into account any other sources of income you may have such as rental income, or access to state benefits. It also makes assumptions that your capital will continue to be invested after retirement and that future returns will look similar to returns we have seen in the past. It's not perfect as a retirement calculator rule, but it's helpful as a rough guide.

How Much Can I Save Into My Pension?

You or your employer can usually pay up to £40,000 every year in to your pension, but there are limits to how much tax relief you can receive.

The actual amount you can pay in a tax year for tax relief purposes is the greater of:

A gross contribution of £3,600 or 100% of your earnings, subject to the annual allowance.

The current annual allowance for most people is at £40,000.

Combining Your Pensions

It is very likely that you will have several pension plans as you approach retirement. And it is usually financially beneficial to combine them into one scheme. You will need to gather transfer values for all your current schemes and transfer them into a new or current scheme.

From April 2015 is it a requirement to receive independent financial advice if you are looking to transfer from a defined benefit scheme to a defined contribution scheme.

Public Sector Pensions

A public-sector pension is a workplace pension for employees in the public sector for example teachers, NHS workers and civil servants. Many public-sector pensions are defined benefit pensions.

Therefore, the amount you receive in retirement is based on your final salary and length of employment.

If the defined benefit scheme is an unfunded pension this cannot be transferred. However, for a funded scheme it is possible to transfer it. If the value is above £30,000 you must seek financial advice.

Should I Transfer My Pension?

There are a number of factors to consider when considering to transfer your pensions such as:

- The transfer value
- Charges associated with the transfer and the new scheme provider
- The type of plan you need i.e. flexible access

Is taking the guaranteed income option the best thing for you, or are you missing out on a much better proposition? The answer is as simple as it is complex: It is appropriate for some people, sometimes.

For those with straightforward affairs and a need for a steady income to replace their earnings and supplement the state pension, the best course of action is to usually stick with the scheme. However, no one's affairs are entirely straightforward. The following factors are just a few of the many that should be considered before a transfer should take place:

Death benefits of the scheme

Single people generally can't pass their final salary pension on to their children or grandchildren upon death. A Defined Contribution (DC) pot can be passed on to any named beneficiary. It also escapes inheritance tax and can often be withdrawn by the beneficiaries tax-free.

Succession planning

Those with a final salary pension who are not in need of the income it provides, may wish to convert it to a DC pot as a potentially tax-free inheritance for their families. This will not be subject to 40% inheritance tax like most other assets, such as property.

Income tax

Those with other sources of income contemplating taking final salary pension benefits should be aware that they may be subject to income tax at the highest rates. They may also fall into the individual's estate upon death, and therefore be liable for inheritance tax. The assets passed on in this scenario may consequently end up being taxed multiple times at 40%, compared to being completely tax-free in a DC scheme.

The security of the company paying your pension

Final salary schemes are typically insured by the Pension Protection Fund (PPF), but there are limits to the insured amount. Well managed, diversified pension portfolios could, in fact, bear less risk than a single employer-funded scheme if your income in retirement exceeds those limits.

The options for a tax-free lump sum

Schemes can vary in the amount of lump sum they offer, and some offer none. DC pensions offer a tax-free lump sum of 25% up front, and the rest can be 'rolled up' in the pension environment and left until a future date for tax-savvy withdrawals, using all available allowances.

For most people, deciding what to do with their pension is likely to be the biggest investment decision of their life. It is therefore vitally important to fully explore all the options available and seek expert ad-vice before simply cashing in.

Choosing to give up a very valuable and guaranteed income is a decision that should not be taken lightly, but there are circumstances where transferring can have huge benefits. For people with serious health issues, for example, a lifetime income will not be valuable so cashing in can make sense. Regardless of the decision that is ultimately made, individuals must be certain that they fully understand the potential consequences and are comfortable with them.

Can I Live Off The State Pension?

For most people the state pension is seen as a top up to their other pension or income. Whether you could comfortably live off the state pension will depend on certain factors such as whether you own your home, whether you have any financial responsibilities or dependents. The maximum amount you can receive is £164.35 giving you an annual pension of £8,546.20.

Therefore, if you are a married couple this would give you a combined annual pension of £17,092.40. Whether you receive the maximum state pension will depend on how much National Insurance you have contributed. The amount you require in retirement will also depend largely on the type of lifestyle you are used to i.e. new car, 2-3 holidays a year, health club membership, shopping allowances etc.

Stay Safe From Pension Fraud

A pension scam is usually easy to spot, it will be someone cold calling and claiming they can help you access your pension before 55. Investing in new hotels in exotic locations are usually fake but sound very appealing. Most pension scams will try and get you to transfer or withdraw your entire pension pot and transfer the money to them.

Pension scammers promise to convert pension funds into cash before retirement, or in some cases they may suggest people can take more than 25% of their pension pot as cash. Pension fraudsters promise to convert pension benefits into cash before age 55.

Criminals are believed to be fraudulently exploiting the pension liberation process in a number of ways. These include failing to advise members of the tax implications of receiving cash from their pension; failing to advise members of the full extent of fees to be paid in relation to any onward investment; falsely representing anticipated levels of returns when investments are either non – existent or incapable of providing such a return.

The scammers have a variety of tricks to catch you out. They may:

- claim that you can access your pension pot before age 55
- approach you out of the blue over the phone, via text message or in person door-to-door
- entice you with upfront cash
- offer a free 'pension review' or try to lure you in with so-called 'one-off' investment opportunities.

Check the facts before you make an irreversible decision. A lifetime's savings can be lost in a moment.

The Pensions Regulator's five steps to avoid becoming a victim of a pension scam:

- Cold called about your pension - just hang up!
- Check the credentials of the company and any advisers – who should be registered with the Financial Conduct Authority.
- Ask for a statement showing how your pension will be paid at retirement, and question who will look after your money until then.
- Speak to an adviser that is not associated with the deal you've been offered, for unbiased advice.

Never be rushed into agreeing to a pension transfer.

Drawing Your Pension

Options for using your pension pot

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. Take your time to understand your options, and get help and advice as what you decide now will affect your retirement income for the rest of your life.

Your options at a glance:

- Leave your pension pot untouched. You might be able to delay taking your pension until a later date. Your pot then continues to grow tax-free, potentially providing more income once you access it.

Annuities - A Guaranteed Income

Use your pot to buy a guaranteed income for life – an annuity

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 a taxable income for life called an annuity. Some older policies may allow you to take more than 25% as tax-free cash - check with your pension provider.

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.

Drawdown - A Flexible Income

Use your pot to provide a flexible retirement income – flexi-access drawdown

With this option you can normally take up to 25% 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.

Take small cash sums from your pot

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% 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 dependant after you die.

There are also more tax implications to consider than with the previous two options.

Take your whole pot as cash

Cashing in your pension pot will not give you a secure retirement income. You could close your pension pot and take the whole amount as cash in one go if you wish. Normally, the first 25% will be tax-free and the rest will be taxed at your highest tax rate – by adding it to the rest of your income. There are many risks associated with cashing in your whole pot.

For example, it's highly likely that you'll be landed with a large tax bill, it won't pay you or any dependant a regular income and, without very careful planning, you could run out of money and have nothing to live on in retirement.

Be sure to get financial advice before cashing in your whole pot.

Mixing your options

You don't have to choose one option 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.

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

How Your Pension Maybe Taxed

Pension income paid to you is normally treated as earned income for income tax purposes, although you don't pay any National Insurance contributions on your pension income. But bear in mind that you will normally be able to take some of your pension benefits (typically up to 25% of the value of your pension) as a tax-free lump sum at outset.

You should check each year that the correct amount of income tax has been deducted from the pension payments you receive, especially if you have other sources of income, such as a part-time or full-time job, bank or building society interest and/ or dividends or distributions from investments.

If you have had more tax deducted than you should have paid, you can reclaim the difference from HMRC. Similarly, you may also have to pay any tax that has been underpaid. If you need to reclaim tax when you've stopped working you can fill in claim form P50 and send this to HMRC. Alternatively, if you fill in a Self-Assessment tax return you can make the reclaim via this return.

If you're a member of a defined contribution pension scheme and you're looking to draw retirement benefits, you may have full flexibility on the amount that you can receive. This may include up to the total amount of your pension pot.

However, you should be aware that if you take substantial amounts from your pension pot you could become liable to pay higher rates of income tax (potentially up to 45% of the amount withdrawn, 46% in Scotland) so you may receive substantially less than the value of your pension pot.

Retirement Abroad

State pension

It is possible to live in another country and receive the state pension, however you will only receive pension increases if you live in the UK for 6 months of the year, European Economic Area, Switzerland, a country that has a social security agreement.

If you decide to move abroad in retirement you have several options regarding your personal pension:

- To leave your pension in the current plan, if you have a defined contribution plan then you can access your pension from aged 55 of if not then you can claim your pension from your normal retirement date
- Transfer your UK pension into an approved scheme in your new country of residence

For more information or advice on Personal Pensions please contact us.

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