Why have a pension?

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Roughly one third of UK adults aren't saving anything for their retirement. Of those that are saving into a pension, many aren't saving nearly enough to give them the standard of living they hope for when they retire – and State Pension of a maximum £164pw is rarely enough to meet most people's needs

If you fall into this category, you really have just three choices.

- retire later
- save more
- lower your expectations of what you'll be able to afford in retirement.

So, if you decided to start saving for retirement, what is the best way to do it?

Pensions have important advantages that make your savings grow more rapidly than might otherwise be the case. A pension is just a long-term savings plan with the advantage of tax relief.

Contributions are invested and then provide you with an income in retirement. From age 55 (currently) you can access money from your pension pot and you can normally take up to 25% of your pension savings as a tax-free lump sum.

Also, when you put money into a personal pension scheme, it qualifies for tax relief.

If you're a UK taxpayer, in the tax year 2018-19 the standard rule is that you'll get tax relief on pension contributions of up to 100% of your earnings or a £40,000 annual allowance, whichever is lower, however, this has now become much more complex with the introduction of, for example, the "tapered" annual allowance. So, specialist financial advice is now more valuable than ever.

In very simple terms other income tax advantages are:

- Basic rate tax relief is currently 20%. So, if you contribute £80 a month, £100 will be invested automatically in your plan – that's an additional £20 at no extra cost to you.
- If you pay higher than basic rate income tax - either as a UK or Scottish taxpayer - you can claim the extra relief from HMRC on your yearly tax return or by asking your tax office to adjust your tax code. If your employer operates a pension scheme and this operates via a mechanism known as salary exchange, you will get full tax relief on your contributions immediately

Any contributions you make over these prescribed limits won't attract tax relief and will be added to your other income and be subject to Income Tax at the rate(s) that applies to you.

If you are seeking to maximise your pension contributions in any one year there are other available mechanisms you may be able to use, but these would require financial advice

The amount that you can accumulate in pension funds is subject to something called The Lifetime Allowance which for most people is £1,030,000 in the tax year 2018-19 and from April 2018 this increases annually in line with the Consumer Prices Index (CPI).

It applies to the total of all the pensions you have, including the value of pensions promised to index the standard Lifetime Allowance annually in line with the Consumer Prices Index (CPI).

If the cumulative value of the pay-outs from your pension pots, including the value of the pay-outs from any defined benefit schemes, exceeds the lifetime allowance, there will be tax on the excess – called the lifetime allowance charge.

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Why have a Pension? …cont.

If you wish to avoid a possible lifetime allowance charge it's important to monitor the value of your pensions, and especially the value of changes to any defined benefit pensions as these can be surprisingly large and it is advisable to speak with AV Trinity who will guide you on this.

You might also wish to consider applying for Protection if your pension savings is expected to exceed the lifetime allowance threshold and once again this is an area where you will need to seek qualified advice.

The most obvious way to boost your pension provision is to save more if you can.

If you have spare income, then putting it into a pension is one of the most tax-efficient ways of investing it and remember that any additional income you save into a pension will be topped up by the taxman.

If you are employed then you are likely to have access to a workplace scheme that your employer contributes to, then depending on the scheme rules, if you boost your contributions your employer might boost theirs too.

If you have several different pension pots, there could be potential advantages if you consolidate them into one.

You:

- Can keep track of and manage your pension savings more easily
- Might save money if you can transfer from higher-cost schemes to one at a lower-cost
- Might open a greater choice of investments if you're consolidating your pension pots into one flexible scheme.

Again, we recommend you seek financial advice before moving your pension schemes, unless you're confident that you understand the costs, benefits and risks involved. This is our area of expertise and we are here to help

Pensions Freedom

The changes of April 2015 represented a complete shake-up of the UK's pensions system, giving people much more control over their pension savings than before.

AV Trinity can help you to navigate this complex area, but in a nutshell the new legislation means –

- You don't have to buy an annuity
- You can withdraw your pension in one go
- More flexibility on income drawdown
- Better death benefits
- Inheritance Tax advantages

Pensions Freedom has given savers more choices but that means that the need for professional guidance and advice is that much more important.

AV Trinity are Chartered Financial Planners who have been advising clients for over 25yrs so why not come in for a coffee so that we can show you how we can help. There is no charge for an initial discussion and we look forward to meeting you one day.

Chartered Financial Planners

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