Symphony
FINANCIAL ADVISERS

Pensions and Retirement

April 2018

Pensions are a tax-efficient way to save for your retirement. The addition of tax relief boosts the money you pay in to your pension and can help your pension pot grow further. All pensions benefit from tax-efficiency but how they get that tax benefit depends on the type of pension you have.

Maximising how much you pay in to your pension in the years before retirement can immediately boost the size of your fund with the addition of tax relief. Even more so, if you are a higher-rate taxpayer, as the following example illustrates:

1. A higher-rate taxpayer contributes £80 into their pension.
2. The government adds £20 tax relief which boosts the total contribution to £100. The taxpayer can also claim a further £20 of higher-rate relief through a tax return, effectively reducing the overall cost of the £100 gross contribution to just £60.

If you're a UK taxpayer, in the tax year 2018/19 the normal rule is that you'll get tax relief on your pension contributions of up to 100% of your earnings or a £40,000 annual allowance, whichever is lower.

- For example, if you earn £20,000 per year but put £25,000 into your pension pot you'll only get tax relief on £20,000.
- If you earn £50,000 and want to put that amount in your pension scheme in a single year, you'll normally only get tax relief on £40,000. Any contributions you make over this limit will be subject to Income Tax at the highest rate you pay.

Money purchase pensions which includes personal and stakeholder pensions are called 'defined contribution pensions' and these aim to build up a pot to pay you a retirement income based on contributions from you and/or your employer and through investment returns.

There is an exception to the normal rule of paying £40,000 in to your pension. If you have a defined contribution pension, the annual allowance reduces to £10,000 in some situations. The £40,000 annual allowance will be reduced if you have an income of over £150,000, including pension contributions.

You can carry forward unused pension contribution allowances from the previous three years, as long as you were a member of a pension scheme during those years.

As there is a limit on the contributions you can pay into your pensions each year that qualify for tax relief it is important we discuss this with you.

You normally can't take your money out until you reach the age of 55 (age 57 from 2028). Please think of all the top-ups you'll receive from the taxman over the years that will be paid into your pension!

Laws and tax rules may change in the future. The information here is based on our understanding in April 2018. Your personal circumstances also have an impact on tax treatment.

Remember with any investment including pensions values can go up or down and could be worth less than what was paid in.

Some way off

You are over 50 and have between 10+ years still to go until your selected retirement date or the age when you can draw state pension.

What might we be helping you think through:

- The age you may want to retire at.
- Deciding how much income you might need to live a comfortable life.
- Understand the amount of income your current savings could generate in retirement.
- Think about what you want from retirement and how much this is likely to cost, i.e. Golf club membership, luxury holidays, supporting children / grandchildren etc. Consider whether you need to take action to save more now.
- Reviewing existing retirement plans and identifying any savings gaps.
- Understanding the different options open to you.
- Maximising savings and minimising tax.

Nearly there

You are around 5 years from your selected pension date and are more interested in your retirement options.

What might we be helping you think through:

- Maximising the contributions you can make to a pension.
- Modelling different income requirements in retirement.
- Maximising death benefits.
- Reviewing available tax allowances.
- Understand the retirement benefits you have and how much income this could generate, is further action required to help you achieve your goals.
- Adapting your plans to factor in changing circumstances e.g. redundancy, inheritance.
- Suggesting action to help you achieve your goals.

Choices and decisions

You are in the process of retiring. You may want to go part-time or take some benefits and keep working or keep working for longer.

What might we be helping you think through:

- Whether to take tax free cash or not.
- Implications of part time work or one partner continuing working.
- Starting to take income from savings tax efficiently.
- Building in flexibility around future income levels.
- Maximising death benefits and provision for ill-health.
- Review the sources of income & capital, consider options available, review your cashflow plans and timescales.
- Review your investment strategy to take account of changes to your goals, capital and income needs and investment timescale.
- Maximising tax efficiency around passing wealth to the next generation.
- Making provision for later life.

Greater freedom

You are probably now retired and receiving your state pension as well as generating income from other pensions and savings.

What might we be helping you think through:

- Keeping your plans fit for purpose.
- Incorporating state benefits.
- Taking tax efficient income.
- Review your current spending and cash flow plans, check your arrangements align to any changing requirements.
- Planning any future expenditure.
- Thinking about when to delegate financial control.
- Planning funeral expenses.
- Making plans to pass on wealth tax efficiently.

Slowing down

You may be slowing down for a variety of different reasons such as health issues, or having done already, everything you planned to do in retirement. You may be spending more time at home or have less need for income. Life is changing.

What might we be helping you think through:

- Review your expenditure levels and consider the impact on your arrangements and whether any adjustments need to be made.
- Taking income, tax efficiently.
- Finalising tax efficient estate planning.
- Allowing for potential care costs.
- Planning for later life.

Later life

You may have more health issues and you may be more dependent on others.

What might we be helping you think through:

- Review the available sources of income and capital and consider the options to help support any increasing income needs.
- Finalising and implementing any planning choices around care.
- Seeing the positive impact of legacy planning by passing wealth to your family.
- We may be dealing with whoever you have delegated responsibility for dealing with your finances, throughout the various stages outlined above.

Contributions

- There is no restriction on the number of pension schemes one can contribute into
- Individual contributions are unlimited. However, there are limits on the amount of tax relief receivable. This is restricted to the higher of £3,600 or 100% of salary subject to the annual allowance.
- The annual allowance for contributions in 2018/19 is £40,000 which if breached; the excess will be subject to a tax charge at the members marginal rates. It is possible however to offset contributions in excess of the annual allowance against unused allowances from the previous three years.
- The government has introduced a tapered annual allowance for those who earn in excess of £150,000 p.a. including pension contributions. The allowance is tapered by £1 for every £2 of income that exceeds £150,000. However the allowance cannot fall below £10,000.
- The Money Purchase Annual Allowance (MPAA) is £10,000 and this lower allowance is triggered when money purchase pension scheme benefits are accessed flexibly by the member through flexi-access drawdown (although not if just tax free cash is withdrawn), short term annuity, uncrystallised pension fund lump sum or payment of a scheme pension under a money purchase arrangement with less than 12 members. This reduction only applies to money purchase pension schemes. For members subject to the MPAA, an 'alternative annual allowance' of up to £40,000 is retained for defined benefit scheme contributions.
- Employer contributions count towards the annual allowance. It is up to the Employer's local inspector of Taxes whether or not the entire contribution will be relievable for tax purposes.
- No tax relief will be granted on contributions paid after age 75.
- A pension commencement lump sum recycling limit exists to prevent exploitation of pensions tax relief. It seeks to avoid the pre-planned payment of the tax free lump sum(s) received over a 12 month period, back into a registered pension plan as a new tax relievable contribution. The limit equates to 30% of the pension commencement lump sum received provided this exceeds £7,500.

The Lifetime Allowance

Is the limit of pension benefits that can be drawn before tax is applied. Excess benefits are subject to a tax charge of 25% if income or 55% if taken as a lump sum.

- The lifetime allowance is currently £1.03 million and from April 2018 the allowance will be indexed annually in line with CPI.