ST. JAMES'S PLACE
WEALTH MANAGEMENT

RETIREMENT

TOP TIPS

TAKE CONTROL OF YOUR RETIREMENT PLANS

The start of the year is a great time to ensure that your finances are in the right shape. It's also the last chance for individuals to ensure their pension allowances and reliefs are utilised before the end of the tax year on 5 April. The following tips could help ensure your retirement plans are designed to fit your future needs.

Maximise the current tax breaks

To encourage people to save for their retirement, the government offers generous tax relief to pension savers. Subject to certain limits, for every 80p you pay into your personal pension, the government adds 20p in tax relief. However, higher rate taxpayers can claim extra tax relief through their annual tax return, meaning that a £1 contribution can effectively cost them just 60p.

The cost of providing pension tax relief to higher earners remains significant. The chancellor resisted making any changes in the Autumn Budget, but a reduction in tax relief at some point cannot be ruled out. When it might happen remains unclear. However, if you are a higher rate taxpayer with the available funds, you are unlikely to be in a worse position if you make a pension contribution today.

Therefore, if you are still some years – or even decades – away from retirement, you should think about boosting your pension savings now, so that you can benefit from current rates of tax relief and potentially a higher income when you stop work.

Carry forward for even more relief

The maximum you can contribute to all your defined contribution pensions each year while still receiving tax relief is called the 'annual allowance'. The annual allowance applies across all of the schemes you belong to – it's not a 'per scheme' limit – and includes all of the contributions that you or your employer pay, or anyone else pays on your behalf.

If you have used up all of your 2017/18 pension allowance, you can use any unused allowance from 2014/15, 2015/16 or 2016/17 and still benefit from tax relief at your highest marginal rate, with anything over the basic rate being reclaimed via your annual tax return.

So, if you can afford it, you could potentially make a pension contribution in excess of your annual allowance for the 2017/18 tax year and still benefit from tax relief at your highest marginal rate.

This year is the final chance for pension savers to use up the £40,000 allowance that was in place in 2014/15. If it is not used by 5 April 2018, it will be lost forever. To qualify, you must have held a pension in each of the years from which you carry forward, and you must earn at least the amount you wish to contribute in total this tax year.

Reduce tax and save your personal allowance

A pension contribution can help individuals bring their income below certain tax thresholds, but it can also provide other tax benefits. For example, if you have a net income of £123,000 or more in 2017/18 you will lose all entitlement to the personal allowance; but by making a net pension contribution of £18,400 (£23,000 including basic rate tax relief), you could bring your taxable income back down to £100,000 and get your whole personal allowance back. As a higher rate taxpayer, you could claim an additional £4,600 in tax relief on the contribution via your self-assessment tax return.

The same process can help individuals to bring their income below the additional rate tax band – which starts at £150,000. It can also help families avoid losing Child Benefit, which is lost if one parent or partner in the household earns more than £50,000.

Divert some of your salary into your workplace pension

Salary sacrifice is another tax-efficient way of saving into a pension. You take a lower salary and the difference is paid into your workplace pension by your employer. Both you and your employer pay lower National Insurance contributions (NICs) and, if your employer agrees to it, they will even pay the equivalent they save on NICs into your pension as well. Furthermore, your taxable income is reduced. As explained earlier, a reduction in your taxable income could help you to recover entitlement to the personal allowance or avoid losing Child Benefit.

January to March is sometimes referred to as 'bonus season'. While some people will be considering how to spend their bonus, sacrificing it for an employer pension contribution could bring longer-term benefits.

Beware of cashing in your pension pot

Greater simplicity, choice and flexibility means that pensions are an even more attractive choice for saving. However, being able to take money without any restrictions means that there is a danger people exhaust their funds or find themselves unwittingly pushed into higher rate tax bands.

Income Tax should be seen as a natural brake on taking too much, yet many people are unaware of the tax liability that could be triggered by cashing in a pension. While it might be tempting to take your pension in one lump sum, it may be more tax-efficient to phase withdrawals over several tax years to avoid higher rates of Income Tax.

With a new tax year starting on 6 April, now could be a good time to plan how you are going to take benefits from your pension over the next 12 months.

Review your workplace pensions

During your lifetime, you might accumulate several workplace pensions through several different employers. However, it's not always easy to keep track of them all, and you need to regularly check that the investments are still appropriate. Although the pensions might be doing okay, they might not be doing as well as you expected and the investment options may be limited.

If you have several plans and find them difficult to manage, or are unhappy with benefits and options available, a pension review would make sense.

If you are considering transferring your pensions, it's very important to seek financial advice so that you are aware of any benefits you are giving up and those that are available under the new scheme. Your St. James's Place Partner can review the investments and make appropriate alterations to set your pension planning on the right course.

If you have decided to make retirement planning a priority in 2018, reviewing your existing pension arrangements could be the logical place to start.

Consider pensions as part of wider estate planning

Pension freedoms present a vastly improved picture when it comes to leaving your pension to your family. A defined contribution pension can pass entirely tax-free to any beneficiary as long as the pension holder's death is before the age of 75.

Even if death occurs after 75, beneficiaries do not pay Inheritance Tax, only Income Tax at their marginal rate, and then only when the money is withdrawn from the pension. What's more, the pension can be left to anyone, not just a dependant, and it can even be cascaded down several generations.

Changes to the way pensions are taxed on death means that they are now being seen as a way to pass on money to the next generation tax-efficiently. Should you consider ring-fencing your pension so that it can pass to your heirs – potentially free of tax – while using other assets like ISAs to fund your retirement? Your St. James's Place Partner can help work everything out for you and ensure that, subject to your own needs, as much as possible of your pension plan is preserved for the individuals you would like to benefit in the future.

Work out how much State Pension you will get

Before you retire, it's important to get a State Pension statement to find out how much you will receive and the number of qualifying years on your National Insurance record. This will help you budget for retirement and understand how much income from your private or workplace pension you might need to free up.

Not everyone retiring in the next few years will have sufficient National Insurance contributions to qualify for the full State Pension, including those who took career breaks, brought up children, or have been self-employed.

Those who reached their State Pension age before April 2016 also miss out on the new single-tier State Pension, which offers an increased payment for new retirees only. People who miss out may be able to buy extra pension to backfill their record and make up the difference.

Retirees can also defer their State Pension and get a higher income when they claim it later in retirement. For someone who has sufficient income or savings to live off in the meantime, delaying the State Pension can be attractive because the benefits can really add up. For instance, your State Pension will rise by 1% for every nine weeks that you defer taking it, which works out at just under 5.8% for every full year you delay claiming.

The risk is that you don't live long enough for it to be worthwhile. Most people reaching State Pension age in good health will gain, but if you have medical problems or lower than average life expectancy, you may not get enough benefit.

Retirees looking to defer should always seek appropriate advice as it could affect other areas of financial planning and some other welfare benefits.

You can check your State Pension online at https://www.gov.uk/state-pension-statement.

Be mindful of the lifetime allowance

A million pounds may seem beyond the reach of most people, but pensions of this size are increasingly common. However, there's another reason why £1 million is a significant milestone. If the cumulative value of the pay-outs from your pension pots exceed £1 million over a lifetime, there will be a 55% tax on the excess. This limit is called the 'lifetime allowance' and it is, in effect, a ceiling above which pension savings should not be allowed to rise.

The lifetime allowance will rise to £1.03 million on 6 April in line with the Consumer Prices Index. Nevertheless, for top earners, those who started saving into their pensions early, and those with final salary pensions, a combined pension value well in excess of this figure is achievable. What's more, responsible savers in their 30s and 40s – with relatively modest pension pots by comparison – may reach the lifetime allowance by retirement, given a run of good investment returns.

If the lifetime allowance is a concern, there are alternative ways of saving for retirement. For example, rather than continue to fund your own pension, you can think about using your income to fund someone else's pot. It's possible to pay up to £2,880 each tax year into a pension for a non-earning spouse, or child; that sum will be automatically increased to £3,600 through basic rate tax relief.

Alternatively, ISAs can provide a tax-efficient home for surplus income and, for the more advanced investor who is willing to take a high risk with their capital, there are alternatives such as Venture Capital Trusts and Enterprise Investment Schemes to consider. Before considering an investment in these complex tax wrappers, it's recommended that you discuss your options with your St. James's Place Partner.

Stay focused on the retirement you want

Despite all the advantages of saving into a pension – and the freedoms for taking benefits – the stark truth is that most Britons are still not putting enough aside for the retirement they want. If people have not saved enough then, quite simply, the freedom to take benefits in a variety of ways is of little value.

Four in ten UK adults have not started saving for retirement, and very few of those who are saving can confidently say that they are on track to reach their goals (BlackRock, 'Investor Pulse' survey, May 2017). The vast majority of UK adults need to either revise their expectations down, or increase their savings levels in order to secure the retirement they are aiming for.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.

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