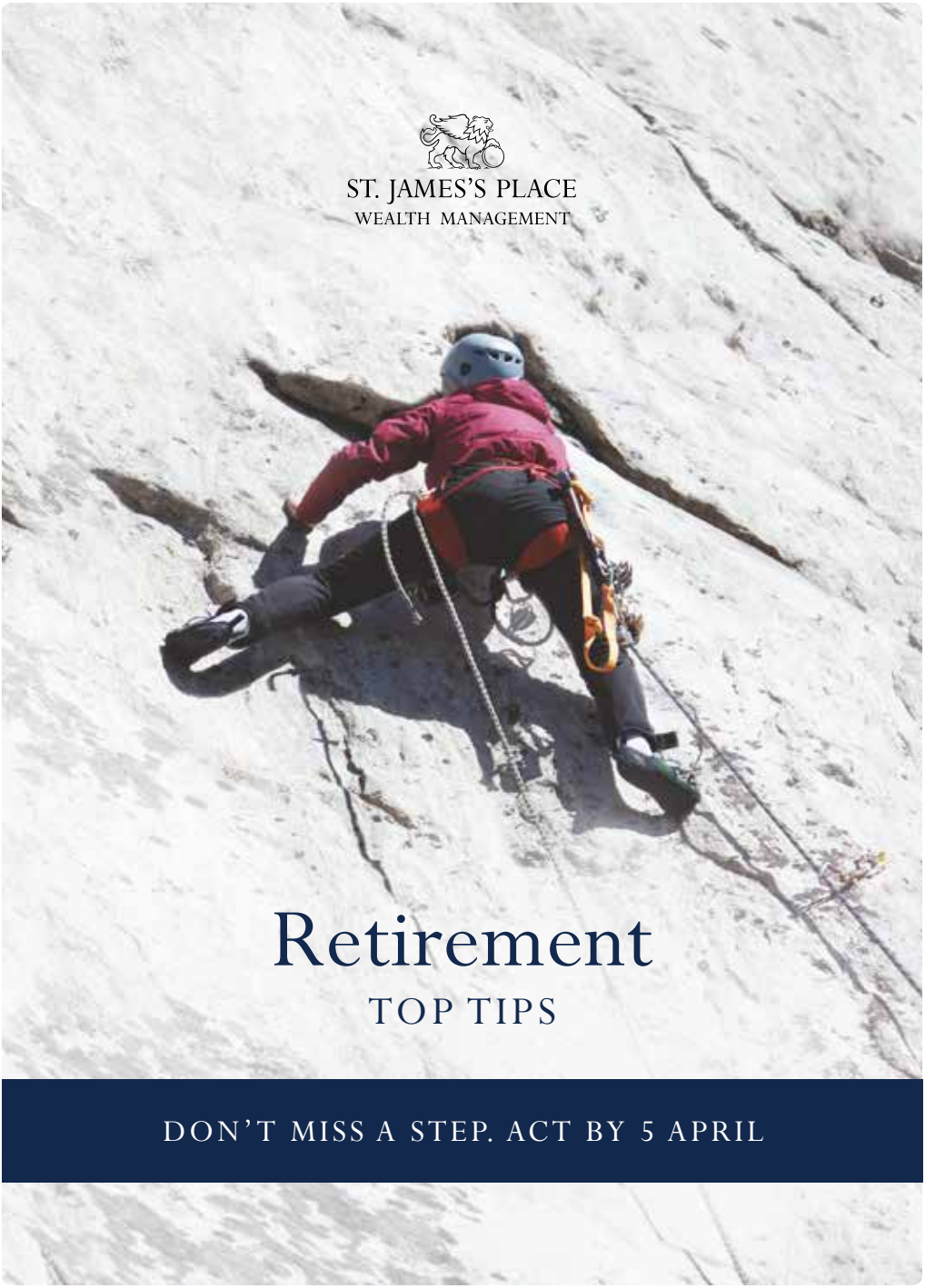

ST. JAMES'S PLACE
WEALTH MANAGEMENT

Retirement

TOP TIPS

DON'T MISS A STEP. ACT BY 5 APRIL

Maximise the current tax breaks

To encourage people to save for their retirement, the government offers an attractive financial incentive. Subject to certain limits, for every 80p paid into a pension, the government adds 20p in tax relief. However, higher and additional rate taxpayers can claim an extra 20p and 25p respectively via their annual tax return. This means that a £1 pension contribution can effectively cost an additional rate taxpayer just 55p.

Questions have been raised over the affordability of subsidising people's pensions in this way. Indeed, having described the current system as "eye-wateringly expensive", it may only be a matter of time before the chancellor re-examines pension tax breaks for high earners. He resisted making any changes in October's Budget, but a reduction in tax relief at some point in the future cannot be ruled out. Therefore, if you are a higher or additional rate taxpayer with the available funds, you are unlikely to be in a worse position if you make a pension contribution today.

Carry forward unclaimed allowances

The total amount – including all of the contributions that you pay, your employer pays, and anyone else pays on your behalf – that can be contributed to your pension schemes each year while still receiving tax relief is called the 'annual allowance'.

For the vast majority of working people, the annual allowance is £40,000. However, you may be able to pay more into your pension by using unclaimed allowances for the previous three tax years. Including the current tax year, you could make a pension contribution of up to £160,000 and still receive tax relief at your highest marginal rate.

From the 2016/17 tax year, the government introduced a 'tapered' annual allowance for high earners. Under this new system, those with an 'adjusted income' of more than £150,000 can see their annual allowance fall from £40,000 to as low as £10,000. The run-up to the end of this tax year is particularly important, as it is the final chance for top earners to carry forward the £40,000 allowance left over from the 2015/16 tax year – the year before the tapered annual allowance came in effect. This opportunity will be lost after 5 April 2019.

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. Tax relief depends on individual circumstances.

The annual allowance for this year

AND THE PREVIOUS THREE TAX YEARS

Adjusted income*	YOUR ANNUAL ALLOWANCE			
	2015/16	2016/17	2017/18	This tax year
Up to £150,000	£40,000	£40,000	£40,000	£40,000
£160,000	£40,000	£35,000	£35,000	£35,000
£170,000	£40,000	£30,000	£30,000	£30,000
£180,000	£40,000	£25,000	£25,000	£25,000
£190,000	£40,000	£20,000	£20,000	£20,000
£200,000	£40,000	£15,000	£15,000	£15,000
More than £210,000	£40,000	£10,000	£10,000	£10,000

* In summary, adjusted income includes your taxable income plus the value of any pension contributions made by your employer, including any paid as a result of salary sacrifice.

Reduce tax and save your personal allowance

A pension contribution will mean that you are one step closer to reaching your retirement goals, but there are other benefits too.

For example, if you have a net income of £123,700 or more in 2018/19, you will lose all entitlement to the personal allowance; but by making a net pension contribution of £18,960 (£23,700 including basic rate tax relief), you could bring your taxable income back down to £100,000 and get your whole personal allowance back.

Furthermore, if you are a higher rate taxpayer, you could claim an additional £4,740 in tax relief 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; and help families avoid losing Child Benefit, which is lost if one parent or partner in the household earns more than £50,000.

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Divert some of your salary into your workplace pension

Under salary sacrifice, 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 on the opposite page, 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 windfall, sacrificing it for an employer pension contribution could bring much greater long-term benefits.

Beware of cashing in your pension pot

Greater simplicity, choice and flexibility means that a defined contribution pension is now a very attractive way of saving for the future. However, having full access to the money from the age of 55 means that people could exhaust their funds or find themselves unwittingly pushed into higher rate tax bands.

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. Therefore, a pension review could 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 put your pension planning on the right track.

Consider pensions as part of wider estate planning

Pension freedoms present a vastly improved picture when it comes to leaving your pension to heirs. In most cases, a defined contribution pension can pass 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, generally 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 such as ISAs to fund your retirement?

Your St. James's Place Partner can help you decide the most appropriate strategy 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.

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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.

Under the new single tier State Pension you need 35 years' National Insurance credits to qualify for the full amount. This is five years more than the old basic State Pension. 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 www.gov.uk/state-pension-statement.

Be mindful of the lifetime allowance

If the cumulative value of the pay-outs from your pension pots exceeds £1.03 million, there will be a 55% tax charge on the excess, if taken as a lump sum. This limit is called the 'lifetime allowance' and it is, in effect, a ceiling above which pension savings become less tax-efficient. The lifetime allowance will rise to £1.055 million on 6 April 2019, but for top earners and those in long-standing final salary arrangements, 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 Venture Capital Trusts and Enterprise Investment Schemes to consider. You should discuss your options with your St. James's Place Partner before considering an investment in these complex tax wrappers.

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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.

Roughly one third of UK adults aren't saving at all for their retirement[1], and very few of those who are saving can confidently say that they are on track to reach their goals. 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.

[1] www.moneyadviceservice.org.uk/en/articles/why-save-into-a-pension, January 2019.

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