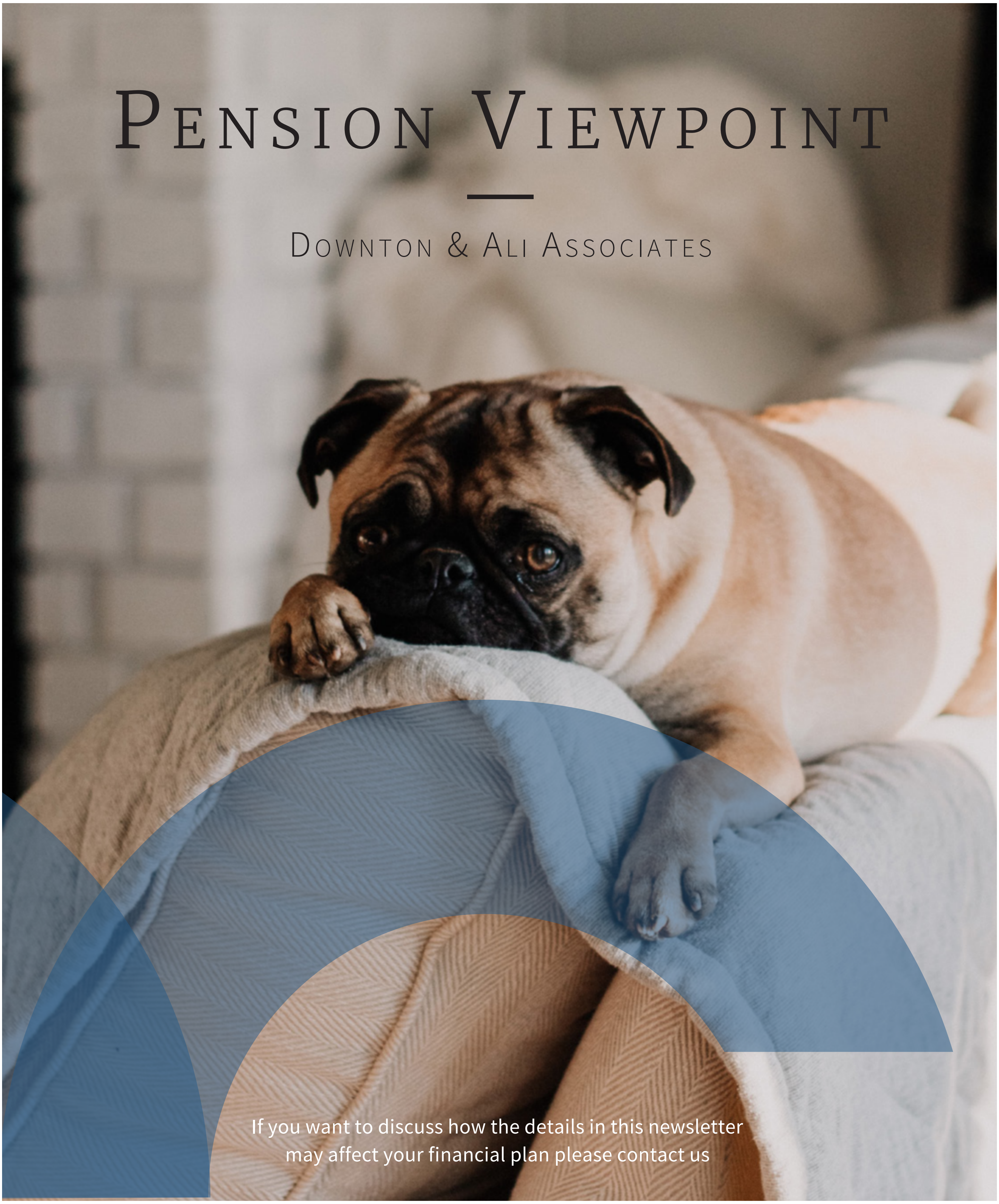
Pension Viewpoint

Downton & Ali Associates



If you want to discuss how the details in this newsletter may affect your financial plan please contact us

Downton and Ali Associates

Dartford Business Park, Victoria Road, Dartford, DA1 5FS
info@downtonandali.co.uk | 02030210075 | 07956217716

How will changing working patterns affect your pension?

The sooner you start saving, the healthier your pension pot is likely to be when you need to draw on it.

But what happens to your pension planning if your working hours reduce, or stop?

First things first
If you join a company you may be enrolled into their workplace pension scheme which, in most cases, your employer will also pay into. The self-employed, on the other hand, should set up a personal pension, which come in the form of a basic personal pension, stakeholder pension, or Self Invested Personal Pension (SIPP).

Workplace pension schemes will have minimum contribution levels, but you should save more if you can. In fact, some commentators suggest that if you take the age you start your pension and halve it, that's the percentage of salary you should save each year.

What's more, as your earnings increase it makes sense to save more into your pension if you can afford to. There's no limit on how much you save, but there are limits on the amount of tax relief you'll receive.

What if your working patterns change?
If you reduce your hours your contributions may also reduce, so you'll need to consider how that impacts your retirement planning.

Working part time won't affect your state pension entitlement providing you earn at least £166 per week. Entitlement depends on your National Insurance contribution history and if your part-time earnings are lower than the threshold you might be able to pay voluntary class 3 NI contributions to plug the gap.

If you need to take time off ork, you and your employer will carry on making pension contributions if you're taking paid leave. The same applies for maternity and other paid parental leave.

If you're taking maternity leave and not getting paid, your employer still has to make pension contributions in the first 26 weeks of your leave (Ordinary Maternity Leave). Whether they continue making contributions after that will depend on their maternity policy, so it pays to check.

To find out how much your retirement might cost, it's helpful to ask yourself:

- When do you want to retire?
- What do you want from your retirement?
- How will your spending habits change?
- Would you move, or stay in your current home?
- Will you continue doing some form of paid work after retirement?
- Will you be entitled to the full State Pension?

Whether you're employed, self-employed, part time or full time, please get in touch with us to explore your pension planning options.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested. HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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Pension planning for the self-employed

There are 4.8 million self-employed people in the UK and only a third have any kind of pension arrangement. A shocking statistic when you consider that State support is shrinking and we're all living longer. Saving for a pension when you're self-employed is not as straightforward as it is for an employed person, who might automatically benefit from a workplace scheme and employer contributions. We've outlined some key points for you to consider.

Don't rely on the State Pension

Whether you're employed or self-employed you're entitled to the full basic State Pension (currently £168.60 a week) if you've paid in 30 years of National Insurance Contributions. If you're self-employed you can only claim the additional State Pension if you've had periods of employment. On its own State support is unlikely to enable you to continue your current standard of living into retirement. That's why it's imperative for the self-employed to find other ways to provide the additional income needed in retirement.

Start saving early

It's stating the obvious, but the sooner you start saving into a pension the bigger your potential retirement fund. You'll also have more time to benefit from the tax relief that's available.

To highlight the importance of saving early, a 25-year-old male looking to retire at 68 would need to contribute £236.25 per month in order to achieve a retirement income of £17,500 a year. If the same man had waited until he was 45 before he started saving, he would need to contribute £495.83 to achieve the same level of income, an additional £259.58 per month.

Minimise the amount of tax you pay

One of the main benefits of paying into a pension is the tax relief the savings attract. For example, if you're a basic rate taxpayer and pay £80 into your pension you effectively end up with £100 to invest. The maximum amount you can save each year that attracts tax relief (otherwise known as the annual allowance) is £40,000. Importantly, if your income is low and you're not able to save the full £40,000 in one tax year, you can carry forward any unused allowance, and use it towards contributions in the next tax year.

Please note:

- You must have been a member of a registered pension scheme during the years you want to carry forward
- Your tax relief is limited by your annual earnings in the year you want to carry forward
- You can only carry forward unused allowance from the three previous tax years

What type of pension is right?

The self-employed can choose from a range of different pension products, including stakeholder pensions, personal pensions and Self Invested Personal Pensions (SIPPs). Each has its advantages and disadvantages – we can advise on which is best for you.

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Your pension savings, your future options

Thanks to pension freedoms introduced in 2015, savers over 55 have a wide range of options when it comes to drawing from your savings, and this brings opportunities although it's also easier to make a mistake.

There are now essentially four main ways for you to access your pension savings:

1. **Buy an annuity** which guarantees an income, typically for the rest of your life but in some cases for a fixed period
2. **Flexi-Access Drawdown** allows you to withdraw from your savings when you need to, while the balance remains invested
3. **Take it all out as cash** with the first 25% tax free and you pay income tax at your marginal rate on the rest, although you may face a hefty tax bill the following year
4. **Take part of it out as cash** with the first 25% tax free with the rest taxed at your marginal income tax rate. You can do this as many times as you like until you no longer have any pension savings.

Why you should consider modernising your pension

As well as giving you greater freedom over how you access your savings, there are several other benefits when modernising your pension:

- Take full control of your pension savings
- Choose when and how to draw an income to suit your retirement planning
- Keep your options open for drawing an income in the future
- Optimise your tax efficiency - both on any money you might leave invested, and Inheritance Tax.

If your pension plan does not offer all four of these options, then you should think about switching it.

What else do you need to think about?

There are other factors to take into account when switching to a modern pension.

Firstly, the chances are the costs will increase. You may end up paying as much as an extra 1% of the value of your savings annually. So, if you have saved £200,000, your provider could charge up to £2,000 more per year. And if you seek financial advice, your adviser may also levy a fee, either upfront or as an ongoing service charge. These additional fees eat into your pot, but you could equally benefit from the flexible access as well as greater visibility and control.

Another consideration is tax. Regardless of whether you stick with your current pension or switch to a modern one, your income- other than the first 25% of a partial or whole lump sum- is subject to your highest rate of tax. Seeking professional advice can help you access your savings in a tax-efficient manner.

There is certainly plenty to consider and it is wise to regularly explore your current and potential retirement routes.

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Information contained in this article concerning taxation and related matters are based on Openwork's understanding of the present law and current legislation.

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