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Charting your Financial Future

THE FUTURE OF RETIREMENT GUIDE

CLARIFYING YOUR VISION TO DETERMINE THE BEST COURSE OF ACTION

GUIDE TO

THE FUTURE OF RETIREMENT

Clarifying your vision to determine the best course of action

WELCOME

Welcome to our *Guide to The Future of Retirement*. The changes in the retirement landscape mean that many people today are having to adjust their outlook towards retirement. With more people living longer, expectations of retirement are being reshaped and there is no longer a one-size-fits-all approach to retirement planning.

To different people, retirement means different things. Retirement offers the gift of time to do the things that matter most. Whether that's looking to continue to work in one capacity or another, embark on a new project or business venture, or stop work entirely.

Retirement is a very personal stage in all of our lives and it may also affect others, so it's important to consider loved ones. Over the course of someone's retirement, there may be a change over the course of someones retirement to their family situation, including changes due to death or divorce, or perhaps welcoming new partners and possibly grandchildren.

If you are approaching retirement age, it's important to know your pension is going to finance your plans. But what questions should you be asking about your retirement? Will I be able to retire when I want to? Will I run out of money? How can I guarantee the kind of retirement I want? Should I invest my retirement savings?

These are just some of the questions you'll want to know the answers to. But there are many other things to consider as you approach retirement. It's good to start by reviewing your finances to ensure your future income will allow you to enjoy the lifestyle you want. Making the right choices now could make a big difference to how much money you have in the future.

What do your retirement plans look like?

We all have our own idea of the life we'd like to lead after we've left the nine-to-five behind. Whatever retirement looks like for you, it's important to make the right plans now, so that you have the freedom to enjoy the time when it comes, however you choose to fill it. To find out more or to discuss your vision for retirement – please contact us.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

ONCE MONEY IS PAID INTO A PENSION, IT CANNOT BE WITHDRAWN UNTIL YOU ARE AGED AT LEAST 55 (INCREASING TO 57 FROM 2028).

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

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IS IT TIME TO RETIRE RETIREMENT?

Everyone has different circumstances and different expectations

> "THE PURPOSE OF A PENSION IS TO PROVIDE AN INCOME FOR YOU TO LIVE THE LIFE YOU WANT ONCE YOU HAVE RETIRED."

No matter how far away you are from retiring, it's important to plan for the future. It's hard to know exactly how much you'll need because everyone has different circumstances and different expectations. Today you have new pension freedoms to decide when and how you retire.

There's also no fixed path to retirement or finite end point. Everyone has a different journey through life, with their own experiences along the way, and there's no need for it to become stressful. You can reduce any anxiety by planning how much you'll need to retire and working out how best to build up your pension pot.

The purpose of a pension is to provide an income for you to live the life you want once you have retired. But, due to longer life expectancies, less generous schemes and lack of understanding around saving, a common problem is that some people don't retire with enough to last them.

Making the right choices

It's important to think about how much money you might need in the future and whether you'll have enough to give you the lifestyle you want. You might be eligible for the State Pension but can you manage on this alone? Also, you may want to retire before your State Pension age.

Making the right choices now could make a big difference to how much money you have in the future and saving into a pension plan could help you achieve the lifestyle you would like.

The current life expectancy in the United Kingdom[1] in 2017 to 2019 was 79.4 years for males and 83.1 years for females, while you can access your pension savings from the age of 55, and the State Pension age is currently 66.

Changes to your lifestyle

The concept of retirement has changed. The idea that we stop working at 65 and then spend our time playing golf and travelling the world is now anachronistic and probably ageist. However, retirement is a challenging new phase in life.

While it ranks high on the scale of stressful life events, it also provides the opportunity to enjoy a new lease of life. A fulfilling and enjoyable retirement will, of course, depend on the age at which you choose to retire your retirement plans and factors that impact your life expectancy, such as your health.

Retirees are falling short by decades

A survey of people aged 55 to 64 who have not yet retired found that 25% of this age group are only budgeting for their pension savings to last ten years. Around 10% are only budgeting for their pension savings to last five years[2].

All of these people are risking a significant gap with eventually no income from their retirement savings. While they may be eligible for the State Pension, that will provide less than £10,000 a year to live on.

Income needs tend to change

Perhaps these people have created their budget believing that less than £10,000 a year is likely to cover their needs in later life. They may feel that the first five to ten years are when their spending will be highest, so plan to use their retirement savings during that time.

But this isn't a typical pattern for retirement spending. Often, there is a peak in spending in the first five to ten years, when many people pay off their mortgage or make a big purchase, such as a trip-of-a-lifetime. But there is another peak towards the end of life, when many people may need residential or at-home care, which can be expensive.

Retirement spending forecast

Surprisingly, 80% of survey respondents said they had received no advice on their retirement needs, and more than half of these people had no plans to. Receiving professional financial advice will help you identify and forecast how your retirement spending could change over time, make a realistic budget and determine how many years your current savings may last.

If there is a shortfall, you'll then be able to make the necessary adjustments to ensure you top up any potential savings shortfall before you retire and see how many more years you may need to work for. You can also get a better understanding of where your pension is invested and your options to take an income from it. These factors might affect the income you'll eventually receive, and what you can do about it. ●

Source data:

[1] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2017to2019#main-points

[2] https://corporate-adviser.com/quarter-of-retirees-risk-exhausting-pension-funds/

RETIREMENT GOALS

Knowing where you're going and how to get there

Retirement might seem a long way off but the later you leave planning for it, the less chance you have of achieving the retirement you want. We all dream of how we'll spend our retirement but that dream looks different for everyone.

Some people want to spend more time with their family, while others want to enjoy long holidays and see the world, or simply wish to be financially independent. No matter what your dreams are, they rely on having sufficient pension savings to achieve them and live comfortably.

Specific retirement goals

People who associate confidence with retirement are most likely to have specific retirement goals and know what steps they need to take to reach them. But sadly, some people don't feel confident that they will have enough savings to live comfortably after they retire.

Many people have a fear of outliving their money, but most don't have a clear idea of how much money they need during retirement. It's important to remember that retirement doesn't happen at a certain age, it happens when you have enough money to live on. And having this clear direction and understanding will give you peace of mind that you're on the right track.

Do you feel confident about your retirement?

Pensions can seem complex and overwhelming, and there are many reasons you might lack confidence in your retirement plans.

- You might be worried that you're not saving enough, but don't feel you can afford to save more
- You might feel ready to retire now, but you're not sure if you can rely on your current pension savings to provide enough money for the rest of your life
- You might have experienced a change to your financial situation, including life events such as divorce, and have new concerns about whether you can save enough
- You might have previously felt confident about your retirement plan, but the COVID-19 pandemic has derailed your savings

Don't suffer a 'horrible shock'

Research shows that there is a significant difference in how confident people feel about retirement based on whether or not they have spoken to a financial adviser. 65% of UK adults who have obtained financial advice say they do feel confident that they will have saved enough for retirement, compared to only 41% of those who have not[1].

A positive retirement experience begins with a plan designed to help you live life on your terms. Your adviser will ask questions about your finances, personal circumstances and retirement goals, and create a plan that's unique to you and will help you reach the retirement you're aiming for.

Providing answers to your planning questions

People who know where they're going and how to get there feel more confident in their retirement plan. Your adviser will be able to answer these key questions.

What do I need to know?:

- How much you need to save for retirement
- How to save tax-efficiently for retirement
- How pensions work
- The type of pension you should choose
- The right amount to contribute to your pension
- How to boost your pension pot
- How your pension should be invested
- How to withdraw money from your pension ●

Source data:

[1] https://www.lv.com/about-us/press/consulting-a-financial-adviser-is-key-to-feeling-confident-about-retirement

INCREASE IN PENSION AGE

It's all about the planning, now and in the future

The government has confirmed that it plans to increase the minimum pension age at which benefits under registered pension schemes can generally be accessed, without a tax penalty, from age 55 to age 57 commencing 6 April 2028.

The Treasury is consulting on how best to apply its decision to increase the age when people can start taking their private pension savings. The Normal Minimum Pension Age (NMPA) will increase in line with increases to the State Pension age.

Unqualified benefits right

Members who currently have an 'unqualified right' to access their benefits under a registered pension scheme before age 57 and members of the armed forces, firefighters or police pension schemes will be permitted to retain their existing minimum pension age.

The government is planning to introduce a protection regime which would mean that an individual member of any registered pension scheme (occupational or non-occupational) who has an unqualified right – for example, without needing the consent of their employer or the trustees – under the scheme rules at the date of the consultation to take pension benefits at an age below 57 will be protected from the increase in 2028.

Protected pension age

A member's protected pension age will be the age from which they currently have the right to take their benefits. The protected pension age will be specific to an individual as a member of a particular scheme. So an individual could have a protected pension age in one scheme where they have a right to take pension benefits at an age below 57, but for schemes where no such right exists the new NMPA of 57 will apply from 2028.

It will also apply to all the member's benefits under the relevant scheme, not just those benefits built up before April 2028. Individuals with an existing protected pension age under the 2006 or 2010 regimes will see no change in their current protections.

Associated pension schemes

In recognition of the special position of members of the armed forces, police and fire services, the government is proposing that, where members of the associated pension schemes do not already have a protected pension age, the increase in the NMPA will not apply to them.

Individuals who do not have a protected pension age who access their pension benefits before age 57 after 5 April 2028 would be subject to unauthorised payments tax charges.

Pension tax rules on ill-health

There will be no need for individuals or schemes to apply for a protected pension age. This is in line with the approach taken under the existing protected pension age regimes. The government is not proposing to make any changes to the current pension tax rules on ill-health as part of this NMPA increase.

Unlike the protection regime introduced in 2006, where individuals are entitled to a protected pension age in relation to the increase in NMPA from 2028, they will be able to draw benefits under their scheme even if they are still working.

Scheme benefits crystallised

In addition, currently, if an individual wants to use their protected pension age, then all their benefits under the scheme must be taken (crystallised) on the same date. However, considering the pension flexibilities introduced in 2015, the government proposes that this requirement will not be a condition of the 2028 protected pension age regime.

This would mean, for example, that an individual with a defined contribution pension with a protected pension age of 55 would be able to allocate some of their pension to a drawdown fund, and at a later date use the remainder to purchase an annuity, without losing their protected pension age.

Normal minimum pension age

The government's position remains that it is, in principle, appropriate for the NMPA to remain around ten years under State Pension age, although the government does not intend to link NMPA rises automatically to State Pension age increases at this time.

The announcement means that there is the potential for some people to be caught in the middle, being able to access their pension at 55 prior to April 2028, but having to wait until they turn 57 to access any untouched pension funds after this date where they don't qualify for protection. ●

DECIDING WHEN TO RETIRE

Looking at different sources to estimate how much income you'll have

When deciding when to retire, the most important thing to consider is making sure you have enough money to live comfortably. Imagine you're retiring today. Will you be able to financially support yourself, and potentially your family too, with your current pension savings?

The run-up to your retirement may feel overwhelming, but this is an important time for you and your savings. So, as you plan for your retirement, you'll need to look at different sources to estimate how much income you'll have. These include the State Pension, personal or workplace pension schemes, state benefits you may qualify for on retirement and your savings or investments.

Following the pensions reforms, there are now more options available than ever and this has removed the compulsion to purchase an annuity. It also means that you can use your pension fund to benefit your named beneficiaries, whoever they may be.

Basic retirement lifestyle

If you are approaching retirement it's time to think about what you're going to do with the money you've been working hard to save all these years. The average UK pension pot after a lifetime of saving stands at £61,897[1]. With current annuity rates, this would buy you an income of only around £3,000 extra per year from age 67, which, added to the maximum State Pension, makes just over £12,000 a year – just enough for a basic retirement lifestyle.

In more recent years, when it's time to take a retirement income, some people are choosing to do so through pension drawdown. Pension drawdown provides a way to establish a flexible income, set at whatever level you choose, which can be increased or decreased over time to match your needs.

Flexibility and control

For many, this may seem a more fitting solution to their retirement needs than purchasing an annuity, which is a more established option that typically offers a set monthly income for life. However, although pension drawdown offers flexibility and control, there are differences to consider.

While annuity income is fixed for life, pension drawdown can only continue for as long as you have savings remaining – and once they're gone, you'll receive nothing. So, it's important to receive professional financial advice to ensure that you withdraw your money at a rate that will last your expected lifetime.

Will your savings last a lifetime?

It's important to consider that your retirement could last for 30 years or more, depending on when you retire and how long you live. This is why some people use pension drawdown as the option to provide their retirement income. Your savings remain invested even after you retire, which means they have the opportunity to continue growing through investment returns.

But it's impossible to predict exactly how much they will grow each year. Some years they will grow more than others, and some years they may fall in value. If your rate of withdrawal exactly matched your growth rate, your savings could last indefinitely. But, because growth is so hard to predict, this is near impossible to do.

How much can you safely withdraw?

A 4% withdrawal rate is typically stated as a guide for how much you can withdraw each year from your retirement savings. This figure is estimated based on the history of the financial markets and how much investments have tended to grow over periods of around 35 years (the expected duration of retirement for someone who retires in their sixties).

So, if you have £500,000 in savings when you retire, 4% would initially equate to £20,000 a year.

However, there are a few additional details that mean this figure can't be used totally reliably:

- Past performance of the stock markets cannot reliably predict future growth
- The performance of investments in your portfolio may be better or worse than average
- It's impossible to know for sure how long your retirement will last
- Your financial needs are likely to change over time, typically peaking in early retirement and then in later life

Changing pensions landscape

So, a 4% rate of withdrawal could be either overly cautious, resulting in the accumulation of wealth that could create an Inheritance Tax liability, or overly reckless, resulting in complete depletion of your savings when you still have years left to live.

In this world of ours, very little stands still. The same can be said for the pensions landscape. As high earners are faced with even more restrictions and potential pitfalls, it is vital to understand the rules and seek professional financial advice. ●

Source data:

[1] https://www.fca.org.uk/data/retirement-income-market-data

THE POWER OF PLANNING

Changing shape of retirement

Are you 'mid or late career' or planning to retire within ten years? If the answer's 'yes', then you probably want to know the answers to these questions: Will I be able to retire when I want to? Will I run out of money? How can I guarantee the kind of retirement I want?

But, for many different reasons, planning for retirement is a commonly overlooked aspect of personal financial planning and this can often lead to anxiety as your age of retirement approaches. We've provided some ideas about how to boost your pension savings and help achieve your retirement goals sooner.

Review your contributions

Sometimes the simplest solutions are the most effective. If you want to boost your retirement savings, the simplest solution is to increase your contributions. You may think you can't afford to, but even a slight increase can make a big difference.

For those lucky enough to receive a pay rise in line with inflation every year, increasing your pension contributions by just 1% could add thousands to your eventual pension pot. The reason why a relatively small increase in pension contributions can result in such a large increase in the value of your pension pot is because of the power of compounding.

The earlier you invest your money, the more you benefit from the effects of compounding. Adding more money to your pension pot by increasing your contributions just makes the compounding effect even better.

Review your strategy

A missed opportunity for many pension holders is failing to choose how their pension is invested. Some people leave this decision in the hands of their workplace or pension provider.

Firstly, you should know that you don't have to hold a pension with the provider your employer has chosen. You can ask them to pay into a different pension, allowing you to choose the provider while considering the type of funds they offer and the fees they charge.

Secondly, many pension providers will give you several options for investment strategies. If you're in the default option, you could achieve higher returns with a different strategy (though this will usually mean taking on more investment risk). Note that this may not be appropriate in all circumstances, particularly if you are close to retirement.

Know your allowances

When you save in a pension for your retirement, the government adds tax relief on top of the money you contribute, helping you to grow your savings faster. However, there's a limit to the amount of contributions you can claim tax relief on each year, which is called your 'annual allowance'. It's currently £40,000 (tax year 2021/22), and in some cases may be lower.

If you want to contribute more than your annual allowance into your pension in one tax year (for example, if you've received a windfall and want to put it aside for the future), it's worth knowing that you can use any unused allowance from up to three previous years.

So, if you have £10,000 of unused allowance in each of the past three years, that's another £30,000 you can claim tax relief on this year. The tax relief on this amount would be at least £7,500, depending on your tax band.

Trace lost pensions

Usually, starting a job with a new employer means starting a new pension. And, when that happens, some people may overlook the pension they had with their last employer. As a result, many people have pensions with previous employers that they've lost track of – and rediscovering them can give a huge boost to your retirement savings.

You can trace old pensions by getting in touch with the provider. Look through any documentation you still have from your past employers to see if you can find your pension or policy number. If you can't, you can contact the provider anyway and they should be able to find your pension by using other details, such as your date of birth and National Insurance number.

If you're not sure who the provider is, start by asking your previous employer. ●

UPBEAT ABOUT RETIREMENT

Tax relief and lifetime limits

Saving into a pension is one of the most tax-efficient ways to save for your retirement. Not only do pensions enable you to grow your retirement savings largely free of tax, but they also provide tax relief on the contributions you make.

There are various pension allowances in place that you need to be aware of and understand how to make the most of them. These limit the amount of money you can contribute to a pension in a year, as well as the total amount of money you can build up in your pension accounts, while still enjoying the full tax benefits.

Lifetime Allowance

All your pensions, including workplace pensions, count towards the Lifetime Allowance, with the exception of the State Pension and overseas pensions. The standard Lifetime Allowance is currently £1,073,100 You don't pay the tax charge until you take your pension savings over and above your Lifetime Allowance (or reach age 75, if earlier). The charge is only on the excess money saved in your pension that is above your Lifetime Allowance.

Non-taxpayer or earning less than £3,600

If you have no earnings or earn less than £3,600 a year, you can still pay into a pension scheme and qualify to receive tax relief added to your contributions up to a certain amount. The maximum you can contribute is £2,880 a year. Tax relief is added to your contributions, so if you pay £2,880, a total of £3,600 a year will be paid into your pension scheme, even if you earn less than this or have no income at all.

This applies if you pay into a personal or stakeholder pension yourself (so not through an employer's scheme) and with some workplace pension schemes – but not all. The way some workplace pension schemes give tax relief means that people earning less than the personal allowance (£12,570 in the 2021/22 tax year) won't receive tax relief.

Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) rules were introduced as an anti-avoidance measure to prevent widespread abuse of the pension freedoms which commenced from 6 April 2015. It's intended to discourage individuals from diverting their salary into their pension with tax relief and then immediately withdrawing 25% tax-free.

The MPAA applies only to money purchase contributions and has remained at £4,000 since 6 April 2017. If you have taken flexible benefits which include income, such as an 'Uncrystallised Funds Pension Lump Sum (UFPLS)' or flexi-access drawdown with income, and you want to continue making contributions to a defined contribution pension scheme, you will have a reduced annual allowance of £4,000 annually towards your defined contribution benefits.

Annual Allowance

The pension Annual Allowance is the maximum amount of money you can contribute towards a defined contribution pension scheme in a single tax year and receive tax relief on. All contributions made to your pension by you, your employer or any third-party, as well as any tax relief received, count towards your Annual Allowance.

The standard pension Annual Allowance is currently £40,000, or 100% of your income if you earn less than £40,000. A lower Annual Allowance may apply, however, if you are a high earner or you have already started accessing your pension. High earners may potentially be subject to the Tapered Annual Allowance, while those who have already started accessing their pension potentially face the Money Purchase Annual Allowance (MPAA).

Carry forward

Carry forward is a way of increasing your pension Annual Allowance in the current tax year. It is used when your total pension contribution amounts for a tax year exceed your annual pension Annual Allowance limit for that year.

You can do this by carrying forward unused allowances from the three previous tax years to make contributions this year. This may enable you to absorb or reduce any pension Annual Allowance excess paid in the current tax year which, in turn, would reduce any potential Annual Allowance charge amount. The 2021/22 tax year allows use of unused allowances from 2018/19, 2019/20 and 2020/21.

Tapered Annual Allowance

The Tapered Annual Allowance calculations will now not affect anyone with a Threshold Income level of £200,000 or below. The taper starts in this tax year at £240,000 and is extended to a minimum of £4,000 Annual Allowance. This reduces the level of pension funding high earners and their employers can make into pension schemes.

If high earners exceed the threshold and adjusted income amounts, their Annual Allowance may be reduced by £1 for every £2 of adjusted income over this level until the minimum annual allowance level of £4,000 is reached. The maximum Tapered Annual Allowance reduction is £36,000.

Pension tax relief

The government encourages you to save for your retirement by giving you tax relief on pension contributions. Tax relief has the effect of reducing your tax bill and/or increasing your pension fund. However, at the time of writing this article, the way pension tax relief works is reportedly under review by the Treasury.

You can receive tax relief on private pension contributions worth up to 100% of your annual earnings. Since the tax relief you receive on your pension contributions is paid at the highest rate of Income Tax you pay, the higher your rate of tax, the more you could receive.

The Welsh Government now has the power to set Income Tax rates and bands, but has opted to keep these the same as England and Northern Ireland for tax year 2021/22.

If you live in Scotland, you pay Scottish Income Tax to the Scottish Government. ●

TAKE IT TO THE MAX

Feel confident about your retirement

If you've been diligently saving into a pension throughout your working life, you should be entitled to feel confident about your retirement. But, unfortunately, the best savers sometimes find themselves inadvertently breaching their pension lifetime allowance (LTA) and being charged an additional tax that erodes their savings.

If you are a high-income earner or wealthy individual, you could be putting too much into your lifetime pension and risk exceeding the pension lifetime allowance.

The government will maintain the pensions Lifetime Allowance at its current level until April 2026, removing the usual annual incremental rises.

The following questions and answers are intended to help you avoid this tax charge.

Q: What is the lifetime allowance?

A: The LTA is a limit on the amount you can withdraw in pension benefits in your lifetime before you trigger an additional tax charge. By pension benefits, we mean money you receive from your pension in any form, whether that's a lump sum, a flexible income, an annuity income or through any other method.

This allowance applies to your total pension savings, which may be in different pensions.

Q: How much is the lifetime allowance?

A: In the 2021/22 tax year, the LTA is £1,073,100. This allowance has now been frozen until April 2026.

Q: What happens if you exceed the lifetime allowance?

A: Once you have received your full LTA in pension benefits, you will be required to pay an additional tax charge on any further benefits you receive.

If you take your remaining benefits as a lump sum, you'll pay a tax charge of 55%. If you take your remaining benefits as multiple withdrawals, you'll pay a tax charge of 25% on each one.

Q: How is the usage of your lifetime allowance measured?

A: Each time you access your pension benefits (for example, by purchasing an annuity, receiving a lump sum or establishing a flexible income), this is recorded as a 'benefit crystallisation event'. There is an additional benefit crystallisation event when you turn 75, and finally, upon your death.

Q: Is lifetime allowance protection available?

A: You can only protect your pension from the LTA if your savings were worth more than £1 million on 5 April 2016. You may be able to protect your pension savings up to £1.25 million, or up to the value of your pension on that date, depending on the type of protection you have.

Q: Is it possible to avoid the lifetime allowance?

A: If you do not have LTA protection and you are approaching the limit, there are various actions you can consider. These include stopping your contributions (and, instead, investing your money into an alternative tax-efficient environment), changing your investment strategy or starting retirement earlier.

Q: Who does the lifetime allowance affect most?

A: The LTA affects high earners and those approaching retirement age the most, including those with defined benefit pensions. As the value of high earners' pensions rises over the next five years towards a lifetime limit that will remain fixed, more and more individuals may find they need to stop contributing to avoid breaching the limit.

Q: When should you seek professional advice?

A: The rules around the LTA are very complex and making the right decisions can feel difficult. Receiving professional financial advice will help to identify if you have a problem and offer different solutions to consider, based on a full review of your unique circumstances. ●

PENSION FREEDOMS

Improve your financial wellbeing in later life

'The secret to happiness is freedom', wrote the ancient Greek historian Thucydides. And with the introduction of the pension freedoms rules, those aged over 55 now have far greater freedom of choice over how they use their pension pot to fund their retirement years.

The pension freedoms, introduced on 6 April 2015, dramatically changed the pensions landscape. How people can now access their retirement income is substantially different from previous generations. Pension freedoms have made it much easier for people to access their pension pots and as a result some may think they can do it themselves.

Little knowledge and understanding

Pension freedoms have put a greater onus on people to keep themselves informed of their options when it comes to accessing their pension money. However, little knowledge and understanding of the rules could mean some people risk making decisions that are not best for them.

For people in their 40s and 50s, understanding retirement savings is especially critical. Pension freedoms now give savers full access to their retirement savings from the age of 55. The reforms have given over-55s greater power over how they spend, save or invest their retirement pots.

'Half of Britons aged 55 and over (51%) admit they know little about the pension freedom rules introduced in April 2015, according to research[1]. A further one in ten (10%) over-55s say they know nothing about the changes, which represented a complete shake-up of the UK's pensions system five years ago[1].'

Think carefully before making any choices

The pension flexibilities may have given retirees more options, but they're also very complicated, and it's important to think carefully before making any choices that you can't undo in the future. Withdrawing unsustainable sums from your pensions could also dramatically increase the risk of running out of money in your retirement. ●

Source data:

[1] Standard Life's research of more than 2,000 UK adults found 35% of Britons aged between 55 and 64 have already accessed their pension pot, prior to State Pension age

[2] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland

RETIREMENT OPTIONS

How to ensure a comfortable retirement

The pension freedoms have given retirees a whole host of new options. There is no longer a compulsory requirement to purchase an annuity (a guaranteed income for life) when you retire. The introduction of pension freedoms brought about fundamental changes to the way we can access our pension savings.

Once you reach 55, you can access your pension pot. You can take some or all of it, to use as you need, or leave it so that it has the potential to continue to grow. When you take your pension, some will be tax-free but the rest will be taxed.

The amount taxable will depend on your circumstances, which can change. Tax rules can also change in the future. It's up to you how you take benefits from your pension pot. You can take your benefits in a number of different ways.

Choosing which method

You'll need to choose which method you use to do so, with options including: buying an annuity (a guaranteed income for life), taking income through flexi-access drawdown, withdrawing lump sums or a combination of all of them.

There are advantages and disadvantages to each method, and in some cases your decision is permanent.

Which option or combination is right for you will depend on:

- Your age and health
- When you stop or reduce your work
- Whether you have financial dependents
- Your income objectives and attitude to risk
- The size of your pension pot and other savings
- Whether your circumstances are likely to change in the future
- Any pension or other savings your spouse or partner has, if relevant

Everybody's situation is different, so how you combine the options is up to you.

Annuities – guaranteed income for life

Annuities enable you to exchange your pension pot for a guaranteed income for life. They were once the most common pension option to fund retirement. But changes to the pension freedom rules have given savers increased flexibility.

You can normally withdraw up to a quarter (25%) of your pot as a one-off tax-free lump sum, then convert the rest into a taxable income for life – an annuity. There are different lifetime annuity options and features to choose

from that affect how much income you may receive. You can also choose to provide an income for life for a dependent or other beneficiary after you die.

The amount you receive can vary. It depends on how long the provider expects you to live and how many years they'll have to pay you.

Flexible retirement income – pension drawdown

When it comes to assessing pension options, flexibility is the main attraction offered by income drawdown plans, which allow you to access your money while leaving it invested, meaning your funds can continue to grow.

This option normally means you take up to 25% of your pension pot, or of the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income.

You set the income you want, though this might be adjusted periodically depending on the performance of your investments. You need to manage your investments carefully because, unlike a lifetime annuity, your income isn't guaranteed for life.

You may be able to ask your pension provider to invest your pension pot in a flexi-access drawdown fund. If you have a 'capped' drawdown fund, you can keep it or ask your pension provider to convert it to flexi-access drawdown.

Small cash sum withdrawals – tax-free

This is an important consideration for those weighing up pension options at age 55, the earliest age at which you can take up to 25% of your pension pot tax-free. You should ask yourself whether you really need the money now. If you can afford to leave it invested until you need it then it has the opportunity to grow further.

For each cash withdrawal, the remaining counts as taxable income and there could be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year. With this option, your pension pot isn't re-invested into new funds specifically chosen to pay you a regular income and it won't provide for a dependant after you die.

There are also more tax implications to consider than with the previous two options. So, if you can, it may make more sense to leave your pension pot to grow so you can enjoy a larger tax-free amount in years to come. Remember, you don't have to take it all at once – you can take it in several smaller amounts if you prefer.

Combination – mix and match

Of all the pension options, if appropriate to your particular situation, it may suit you better to combine those mentioned above. You might want to use some of your savings to buy an annuity to cover the essentials (rent, mortgage or household bills), with the rest placed in an income drawdown scheme that allows you to decide how much you can afford to withdraw and when.

Alternatively, you might want more flexibility in the early years of retirement, and more security in the later years. If that is the case, this may be a good reason to delay buying an annuity until later in life.

The value of retirement planning advice

There will be a number of questions you will need answers to before deciding how to use your pension savings to provide you with an income**. These include:**

- How much income will each of my withdrawals provide me with over time?
- Which withdrawal option will best suit my specific needs?
- How much money can I safely withdraw if I choose flexi-access drawdown?
- How should my savings be invested to provide the income I need?
- How can I make sure I don't end up with a large tax bill?

Tax on your pension

When you receive money from a pension, you pay tax on any income above your tax-free personal allowance.

Your pension provider will take off any tax you owe before you receive money from your pension pot. You may have to pay a higher rate of tax if you take large amounts and you may owe extra tax at the end of the tax year.

Top 5 things to consider before withdrawing money from your pension

1. Pensions freedoms: Familiarise yourself with the pensions freedoms so you are aware of your options. You can now do a lot more with your pension pot than previously. Everyone is different and it is important to find the right solution for your circumstances. What risks are you willing to take?
2. Saving requirements: Consider the amount of money you will need each month to maintain your lifestyle. Ask yourself: How much might I need? How much might I get? Do I still have a mortgage to pay off? What other sources of income do I have, and do I need my pension to keep up with inflation? Could I consider working for longer? Do I want to have annual holidays?
3. Costs later in retirement: Think about costs later in your retirement. What will your living costs be in the future? Care needs are not a subject we are comfortable thinking about but it is important to have conversations about it with your family, as well as Powers of Attorney, Wills and inheritance.
4. Health and life expectancy: We often vastly underestimate this, but evidence shows we are mostly living longer, with a growing variation in healthy life expectancy. If you have a partner, do you need to provide for them financially after you die, or are you relying on them?
5. Obtain professional financial advice: Few of us may expect to give up work altogether in our 50s. But a growing number of us are dipping into our pension before retirement age. Before we get into the different ways you could withdraw money, there are some more general things to think about first. Try asking yourself the following questions: How long will I need my money to last? How long do I want to keep working? How much tax might I pay? Could my health and lifestyle affect what I get? How much do I want to leave behind? ●

EARLY RETIREMENT

A year lost for saving and a year added for spending

An increasing number of people have been forced into early retirement due to the economic impact of the coronavirus (COVID-19), with many worried about how they'll make ends meet in the future. Because of the pandemic, we are currently in a challenging economic period. The global economy has taken over ten years to recover from the shock of the last financial crisis.

In a survey, the findings showed that 3% of people in the 55-64[1] age group have taken early retirement due to the coronavirus pandemic. And 4% of people in this age group have had to access some of their pension savings to cover living costs because their income has dropped due to redundancy or reduced pay. These percentages may seem small, but they represent hundreds of thousands of people.

Risks of early retirement

While early retirement may sound like a dream come true, for those without insufficient pension savings it can be a ticking time bomb. Every year of early retirement will have an impact on your pension, in that it represents both a year lost for saving and a year added for spending. Simply put, you'll need to make less money last longer.

Unless you've budgeted carefully and are sure you have enough savings, you could run the risk of your pension running out in your later years. This is an expensive time for many people, due to the cost of financing care, and that can result in unexpected hardship.

Planning for early retirement

If you're planning early retirement, you should consider the following steps:

- Calculate all your savings in different pension pots to find out what your total is.
- Track down any lost pensions from previous employers and add these to your total.
- Check how much of the State Pension you can expect to receive, and from what age.
- Create a budget for your retirement spending, making sure to include any additional future costs you're aware of and a little extra for future costs you're unaware of. Be honest about how much you'll need.
- Make sure that the total you have in pension savings, when combined with the State Pension you'll receive, is sufficient to cover all your future costs.

Alternatives to early retirement

If your financial situation is forcing you to withdraw from your pension but you're not ready yet to stop saving, there are ways to access your pension that do not affect your annual allowance and therefore allow you to continue contributing at the same rate in the future.

These include:

- Taking up to 25% of your savings as a tax-free lump sum (from a defined contribution pension)
- Accessing a defined benefit pension (if you have one)
- Withdrawing a pension pot worth under £10,000 in its entirety under 'small pots' rules
- Buying certain types of annuity

Can you afford to retire early?

We know that you work hard for your money, so you should be able to enjoy it as much as possible. When planning for retirement, there are now more choices available than ever before. By understanding precisely what you'll need to get to where you want to be, you can ensure you're prepared for the future.

So when working out if you can afford to retire early, your starting point should be to think about whether your savings and investments will be enough to cover all your outgoings, as well as all your essential living costs and any regular debt repayments you may have to make. ●

Source data:

[1] https://www.lv.com/about-us/press/covid-pandemic-pushes-more-than-154000-into-early-retirement

THINK ABOUT THE LIFESTYLE YOU WANT

Financial security in retirement can never be taken for granted

Life changes when you retire – and so does how you spend your money. Whatever your plans, it's important to keep on top of things and think about the lifestyle you want. It's also worth noting the average life expectancy at age 65 years is 18.6 years for men and 21.0 years for women[1].

So, it's vital if you are planning to retire soon that you make sure you have enough money to last throughout your retirement. Whether you're aiming to retire early or have worked way longer than you imagined, retirement should be what you want it to be.

Exciting chapter in your life

This is a new and exciting chapter in your life. And for a lot of us, retirement will be the first time that we can do what we want, when we want. With no job to tie us down, retirement is meant to be a relaxing time. However, your newfound freedom and leisure time could quickly become stress-inducing if you spend too much time fretting about your finances.

When planning for retirement, the most important question for many is, 'How much money will I need to save to ensure I retire successfully?' To answer this question you need to know how you want to spend your time in order to know how much retirement will cost you.

Type of lifestyle you want to enjoy

The amount of money you'll need to enjoy a comfortable retirement is subjective and very much related to the type of lifestyle you want to enjoy during your retirement, the age at which you want to retire and whether you'll receive the full State Pension amount.

An active retirement involving a lot of travel and hobbies will cost more than a quiet retirement spent largely at home. You also have to think about any big-ticket purchases or other plans you'll need to make.

Estimated retirement expenses

Make a list of all your estimated retirement expenses and then try to approximate how much each will cost you. Remember, some of your expenses may decrease between now and retirement while others could increase.

Your housing costs may go down if you pay off your mortgage, but your travel costs could go up if you take a lot of trips and holidays. So you can use your current spending as a baseline, but you'll have to adjust each figure up or down accordingly.

5 key considerations

Everybody's circumstances are different, but the key considerations for most people when they think about retiring will come down to factors such as:

1. How much money do I think I will need in retirement?
2. Am I planning to phase my retirement by working part-time?
3. Do I have any debt to pay off?
4. What is the outlook for my health and potential life expectancy?
5. How much money have I saved in pensions and other investments?

Annual figure for inflation

Knowing how much you need to cover your retirement isn't always the easiest number to calculate, but you can adjust your strategy depending on the size of your pot.

Once you know approximately how much you'll spend annually in retirement, you can estimate the total cost of your retirement by multiplying this figure by the number of years you expect your retirement to last, and adding an annual figure for inflation.

Unexpected expenses come up

At the point you're in retirement, it's important to keep to the budget you laid out as best as you can. If you have unexpected expenses come up, try to trim back some of your other expenditures to make up for them so you don't run short.

In recent years, the government has made great strides in getting people to save for retirement. With retirement often lasting two decades or more, it is vital to be prepared and build up a retirement income that provides the standard of living you require in the long term.●

Source data:

[1] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2016to2018#:~:text=1.-,Main%20points,for%20males%20and%20females%20respectively.

BUSTING THE MYTHS ABOUT PENSIONS

Reinvent your future to work for you

If you are approaching retirement age, it's important to know your pension is going to finance your future plans and provide the lifestyle you want once you stop working. Pension legislation is extremely complex and it's not realistic to expect everyone to understand it completely. But, since we all hope to retire one day, it is important to get to grips with some of the basics.

Many of us have made pension provision, but some of us don't know very much about the details. To help you get a handle on some of the myths around pensions, we've got answers to some of the things you may have been wondering about.

It's particularly helpful to become aware of the things you may have thought were facts that are actually myths. Here are some examples.

Myth:
The government pays your pension

Fact: The government pays most UK adults over the pension age a State Pension, which is currently:

- Retired post-April 2016 – max (full rate) State Pension of £179.60 a week
- Retired pre-April 2016 – max (full rate) basic State Pension of £137.60 a week (a top-up is available for some, called the Additional State Pension)

Not everyone is eligible for the full amount, which requires you to have at least 35 qualifying years on your National Insurance record. If you have less than ten qualifying years on your record, you'll receive nothing.

Even if you receive the full amount, you'll usually need to supplement it with your own pension savings.

Myth:
Your employer pays your pension

Fact: Most people are automatically enrolled into a workplace pension. Your employer is usually required to pay a minimum of 3% of your salary into it and you must also pay a minimum of 5% of your salary.

If you keep your contributions at the minimum level, it might be difficult to save enough for retirement. As life expectancies grow longer, your retirement can be almost as long as your working life. It's therefore important to put aside a portion of your earnings to create a pension pot that will enable you to receive the income and live the lifestyle you want during retirement.

Myth:
You can't save more than your lifetime allowance

Fact: There is a lifetime allowance on the benefits you can access from your pension, which is currently £1,073,100 (tax year 2021/22). That doesn't mean that you can't withdraw any more after that, but it does mean that you'll pay a tax charge of up to 55%. However, there are ways of withdrawing the money with a tax charge of 25%.

Myth:
Your pension provider's default fund is suitable for everyone

Fact: Most pension default funds will start out with a high-risk strategy and steadily move your capital into lower-risk investments, such as bonds and cash, as you get closer to retirement. This is to reduce volatility in the value of your investments so that you can have a higher degree of confidence in how much you'll eventually end up with.

If you don't plan to purchase an annuity, you don't necessarily need to reduce volatility before retirement. You may be leaving some of your money invested for several more decades, in which case a higher risk strategy may be more appropriate.

Myth:
Annuities are outdated

Fact: There was a time when almost everyone bought an annuity when they retired, and that time has passed because there are now alternative ways to access your pension savings.

But annuities still have a useful role for generating a retirement income and can be an appropriate product for some people. Unlike other pension withdrawal methods, such as drawdown, an annuity offers a fixed income for life, so there's no risk of your money running out. That's a crucial benefit for many pensioners.

Myth:
You can't pass on a pension

Fact: If you've used your pension savings to purchase an annuity, the income from this will usually cease when you die. But if you have pension savings that you haven't used to buy an annuity (for example, if you've been taking an income through drawdown), what's left can be passed on to a loved one.

If you die before the age of 75 there will usually be no tax to pay by the beneficiary. Otherwise, they will need to pay Income Tax according to their tax band. ●

REBOOT, REWIRE OR RETIRE?

More people are planning to stagger work or work flexibly

Giving up the 9-to-5 doesn't necessarily mean stopping work. But retirement planning has taken on an entirely new dimension as a result of the COVID-19 pandemic outbreak with many big questions being asked.

When you picture yourself in your golden years, are you sitting on a beach, hitting the golf course or still working behind a desk? For many people of retirement age, continuing to work is an option they are considering.

Increasingly, people are planning to stagger work or work flexibly. This can really appeal to some individuals who have caring responsibilities or health issues, or who are thinking about retiring in the next few years.

Sudden transition from working five days a week

Several decades ago, working and retirement were binary terms, with little overlap. People were either working (and under the age of 65) or had hit the age of 65 and were retired. That's no longer true, however, as staggered retirement is becoming more popular and more common.

Few people benefit from the sudden transition from working five days a week to not working at all. Retirement can often be an unsettling period and it's not surprising given that the most common path into retirement is to go 'cold turkey' and simply stop working.

More flexible retirement and working part-time

Research has highlighted the fact that fewer people are deciding against completely stopping working and are opting for a staggered and more flexible retirement and working part-time[1]. Nearly one in three (32%) pensioners in their 60s and 16% of over-70s have left their pensions untouched.

And of those who haven't accessed their pension pot, nearly half (48%) of those in their 60s, and 24% of over-70s, say it is because they are still working. With people living longer, and the added prospect of health care costs in later life, retirees increasingly understand the benefits of having a larger pension pot in later life.

Pensions are required to last as long as possible

Of those who haven't accessed their pension pot, half (51%) say it is because they are still working while more than a quarter (25%) of people in their 60s say it is because they want their pensions to last as long as possible.

Of course, retirees who haven't accessed their pension pot must have alternative sources of income. When asked about their income, nearly half said they take an income from cash savings (47%), others rely on their spouse or partner's income (35%) or the State Pension (22%), while 12% rely on income from property investments.

Offering people different financial and health benefits

This trend for staggered retirements offers many financial and health benefits. It is often taken for granted but continued good health is one of the best financial assets people can have. The benefits of working – such as remaining physically active and continued social interaction – can make a big difference to people's mental wellbeing and overall health in retirement.

People are increasingly making alternative choices about retirement to ensure that they do not run out of money, but it's also really important to make pension savings work past retirement age so as not to miss out on the ability to generate growth above inflation for when there is the requirement to start drawing a pension. ●

Source data:
[1] Research from LV survey of more than 1,000 adults aged over 50 with defined contributions

RETHINKING PLANS

Pessimism about achieving retirement goals due to impact of the pandemic

The coronavirus (COVID-19) pandemic crisis has thrown the retirement plans of some of the nation's retirees up in the air. As a result, a number of people over 50 and in work are set to delay their retirement (15%) by an average of three years, or keep working indefinitely (26%), as a direct result of COVID-19, according to research[1].

The pandemic is forcing a widespread rethink of retirement plans. Currently 1.5 million workers aged over 50 are planning to delay their retirement as a direct result of the pandemic. The most recent data from the Office for National Statistics highlights that the number of workers aged above 65 years is at a record high of 1.42 million[2]. However, if people change their retirement plans in response to the pandemic, this could increase considerably.

Five years or more retirement delay

One in six people aged over 50 and in work (15%) believe that they will delay, while 26% anticipate having to keep working on a full or part-time basis indefinitely, due to the impact of the virus. On average, those who plan to delay their retirement expect to spend an additional three years in work. However, 10% admit they could delay their plans by five years or more.

These figures are significantly higher for the 26% of over-50s workers who have been furloughed or seen a pay decrease as a result of the pandemic. One in five (19%) of these workers will delay and 38% expect to work indefinitely.

Forced to rethink retirement plans

The financial impact of the COVID-19 pandemic seems to be particularly pronounced for people aged over 50 who are still in work. While some people will choose to work for longer, or indefinitely, the key consideration when it comes to this research is that it seems this decision has been driven by the financial impact of the pandemic, rather than personal choice.

"Should I postpone my retirement due to the coronavirus? Is postponing retirement the right strategy? Or does staying with my original retirement strategy make more sense?"

According to the report, one in five (18%)[3] plan a change to their target retirement age, and 20% of over-55s who hadn't accessed their pension prior to the crisis have since taken out money from their pension (12%) or are considering doing so (8%) because of the pandemic. The self-employed have been particularly affected, with two in five (40%) forced to rethink retirement plans and 22% now expecting to delay their retirement.

5 reasons to delay taking your pension:

1. Your pension has longer to grow
2. You can maximise your investment potential before moving to safer assets
3. Your employer will keep topping up your pension
4. You'll continue to receive tax relief on pension contributions until age 75
5. Delaying your State Pension can boost your payments

Impact on people's ability to retire

This is a key stage in people's retirement planning, so seeing a material impact on household income will naturally lead to pessimism about achieving retirement goals. While it would be naive to say that these financial issues will not have an impact on people's ability to retire, it's important for people to have a strong understanding of the options available to them before concluding that their retirement needs to be delayed or forgotten indefinitely.

That employment uncertainty, in combination with volatility in the financial markets, is understandably concerning to some people approaching retirement age. In particular, those who have been furloughed or seen a pay decrease could benefit from a financial review to assess their options before changing their plans. ●

Source data:

[1] Opinium Research ran a series of online interviews for Legal & General Retail Retirement among a nationally representative panel of 2,004 over-50s from 15–18 May 2020.

[2] Office for National Statistics, Labour market overview, UK: May 2020

[3] https://www.cofunds.aegon.co.uk/content/ukcpw/customer/news/covid-19_has_widereachingimpactonretirementplans.html

PROVIDING AN INCOME OR NEST EGG FOR YOUR LOVED ONES

Passing on your pension has the biggest impact on other people

If you've spent a lifetime saving for retirement, you'd probably like any remaining money to go to a loved one after your death. But whether pension benefits are payable to a beneficiary, and how they'll receive them, is dependent on the type of pension you've chosen and how you've accessed it in your retirement.

Thanks to changes in the way that pensions are taxed, more of your fund can survive your death and provide an income or nest egg for your loved ones to enjoy, long after you are gone. Since April 2015 it has been easier to safeguard your pension for your heirs, but it's important to make sure you're keeping up with the changes.

The way that you decide to take your pension will affect what you can do with it when you pass away. And while it's not always easy to talk about, the way you eventually pass on your pension has the biggest impact on other people, so it could help if you talk to your spouse, partner, children or other people close to you when you're deciding how you take your pension savings.

Pension death benefits

If you have not yet accessed your pension, or you have made withdrawals from your pension but left some money invested, it can usually be passed to a beneficiary after your death. The specifics, for example, in what form they will receive these death benefits and whether they will pay tax, will depend on your individual circumstances (such as your age) and the scheme rules.

You should always obtain professional financial advice to assess your specific situation. But if your pension scheme allows you to choose a beneficiary, ensure you have named the person you intend to leave your money to.

Annuity death benefits

If you have used your pension savings already to purchase an annuity, this can only be passed on to a beneficiary in certain cases, which must be established when the annuity is purchased. A typical lifetime annuity only provides a guaranteed income for the lifetime of the annuity holder, regardless of how long this is.

For your annuity income to go to a loved one after your death, you must choose either an annuity with a guarantee period (which provides an income for a set period, whether you are still living or not) or a joint life annuity (which provides an income for life for whichever partner lives longest).

State Pension inheritance

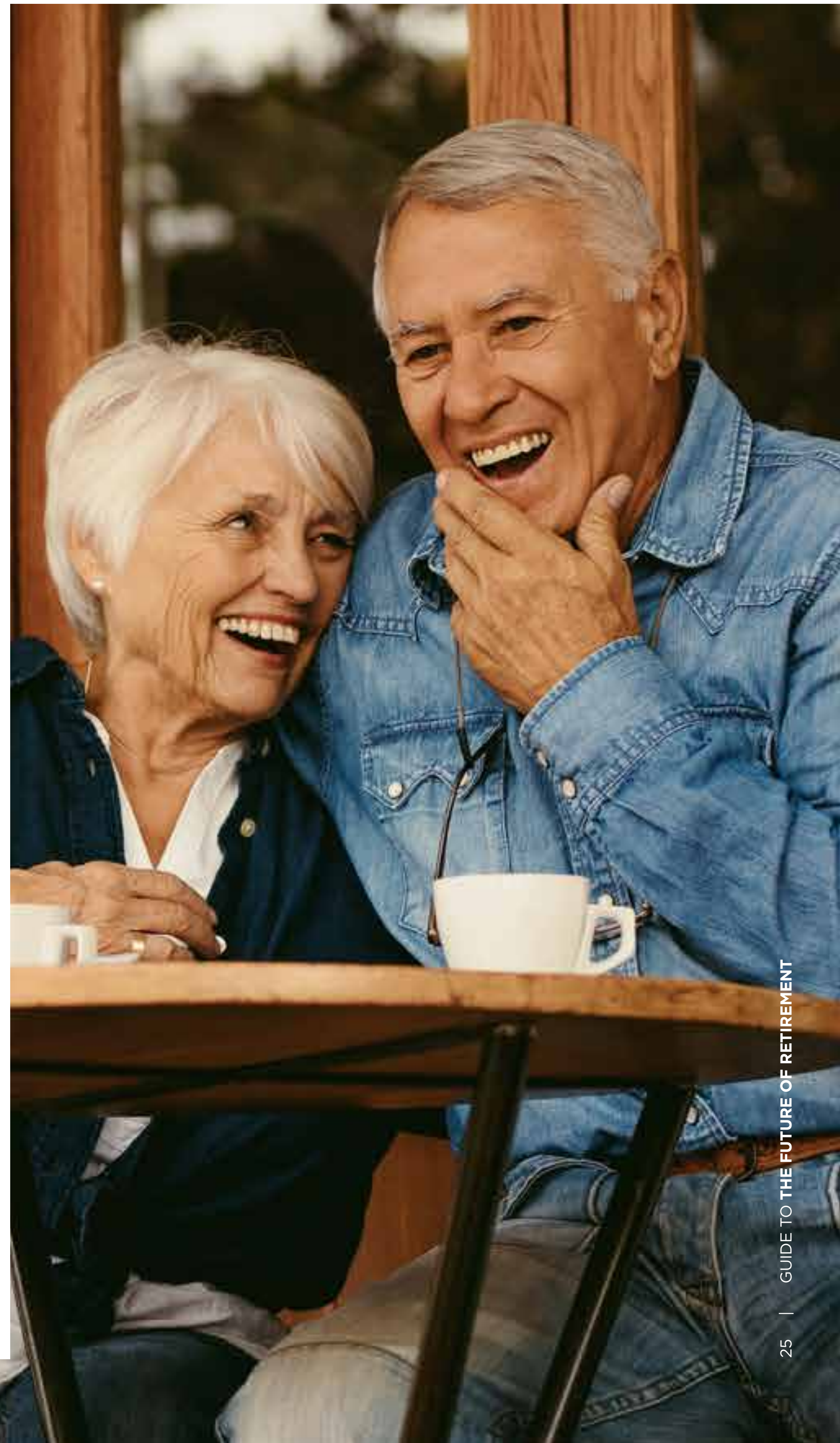
In certain circumstances, your partner can continue to receive your State Pension after your death. For example, if you're a man born before 1951 or a woman born before 1953, and you're receiving the Additional State Pension, this can be inherited by your partner (husband, wife or registered civil partner) after your death if they have reached the State Pension age. ●

RETIRE HAPPY

Planning your future has arguably never been more important

10 tips to enjoy the retirement you want

1. Review your spending habits and consider if you have the scope to save a little more each month.
2. Look up your annual benefit statements – you may have saved with more than one employer's pension scheme.
3. Think about what financial milestones you'd need to reach in order to increase your pension contributions and review your investment choices.
4. Find out more about your current pension plan. If you pay in more, does your employer match your contributions?
5. Track down old pension schemes using the government's finder service https://www.gov.uk/find-pension-contact-details. Or request contact details from the government's Pension Tracing Service on 0800 731 0193 or by post.
6. Check that your Expression of Wish form is up to date. This is a request setting out whom you would like to receive any death benefits payable on your death.
7. Check your State Pension entitlement. To receive the full State Pension when you reach State Pension age you must have paid or been credited with 35 qualifying years of National Insurance contributions. Visit the Government Pension Service https://www.gov.uk/contact-pension-service for information about your State Pension.
8. Add up the savings and investments that you could use for your retirement. A pension is a very tax-efficient way to save for your retirement but you might also have other savings or investments that you could use to increase your income when you retire.
9. If you're getting close to retirement and the amount you're likely to retire on is less than you'd hoped, consider ways to boost your pension.
10. Decide when to start taking your pension. You need to set a target date when you want to start drawing an income from your pension – and remember, you don't have to stop working to take your pension but you must be aged at least 55 (you might be able to do this earlier if you're in very poor health). ●



BEFORE YOU RETIRE

Make sure you achieve the financial future you want

An increasing number of people in later life are saving little or nothing for their golden years, instead expecting to fall back on the State Pension. Some people are 'underestimating their life expectancy', which means that the money they do save for retirement will have to stretch further.

As millions of people move to within a decade of their State Pension, many have still not thought about how long their retirement might last. It's worrying that so many over-50s are potentially sleepwalking into their old age and are expecting to be better off than they will be, according to research[1].

People need to put more money aside

It's not too late for the over-50s to take control of their retirement plans by adjusting the amount saved, or how long they are prepared to work for. But the reality is that people need to put more money aside to ensure they're on track to achieving the financial future they want.

Although it's good news that people are living longer, more than a third (35%) of women and a fifth (20%) of men over the age of 50 do not have a private pension. Worryingly, 33% of over-50s don't think they have enough money to provide them with a sufficient income for their retirement – with women more worried about not having enough money in later life than men.

Adapting financially to a new lifestyle

One of the most common difficulties in retirement is adapting to a lifestyle that meets our new level of income. After all, it can be difficult to adjust to a drop in income that comes as a result of retiring from a full-time role and then having to living solely off our own pension, or even more precarious, only the State Pension.

How much retirement money you're going to need will depend on the type of lifestyle you want. But one of the great things about saving into a pension is the tax relief you receive. This means that if you're a basic rate tax payer, for every £100 saved into your pension the cost to you is just £80. This could effectively be even less if you're a higher or additional rate tax payer.

Did you know?
The maximum full rate State Pension is a lot less than the amount most people say they hope to retire on – for the financial year 2021/22 it's £179.60 a week (retired post-April 2016).

Relying on a partner's private pension

The report also highlighted that 36% of women over 50 don't think they have enough money to fund their retirement, with just 13% suggesting they were confident they would have enough to fund a comfortable retirement.

Overall, the vast majority of over-50s thought pensions – state and private – will be the biggest contributor to funding their retirement, with 27% saying they will rely on their partner's private pension, rising to 30% for women.

Retirement is not an age anymore

Many over-50s will look to other sources according to the report, with 12% expecting to use 'income from work' in later life, and 11% saying they expect to receive an inheritance. Property was also seen as an important source of income for homeowners: 14% are planning to downsize and another 6% planning to use equity release.

It can be even more difficult for those reaching retirement who have either a reduced pension or no pension at all. But it's important to remember that retirement is not an age. Not any more, anyway. Gone are the days of being told to stop working one day and picking up your state or company pension the next. Today you have new pension freedoms to decide when and how you retire. ●

Source data:

[1] https://www.sunlife.co.uk/siteassets/images/finances-after-50/finances-after-50.pdf/

"GONE ARE THE DAYS OF BEING TOLD TO STOP WORKING ONE DAY AND PICKING UP YOUR STATE OR COMPANY PENSION THE NEXT."

PENSION MAKEOVER

Don't forget, your pensions should always work for you

By the time we have been working for a decade or two, it is not uncommon to have accumulated multiple pension plans. There's no wrong time to start thinking about pension consolidation, but you might find yourself thinking about it if you're starting a new job or nearing retirement.

Consolidating your pensions means bringing them together into a new plan, so you can manage your retirement saving in one place. It can be a complex decision to work out whether you would be better or worse off combining your pensions, but by making the most of your pensions now, this could have a significant impact on your retirement.

Retirement savings in one place

Whenever you decide to do it, when you retire it could be easier having a single view of all of your retirement savings in one place. However, not all pension types can or should be transferred. It's important that you obtain professional advice to compare the features and benefits of the plan(s) you are thinking of transferring.

Some alternative pension options may offer the potential for a better investment return than existing pensions – giving the opportunity to boost savings in retirement without saving any more. In addition, some people might benefit from moving their money to a pension that offers funds with less risk – which may not have been available before. This could be particularly important as someone moves towards retirement, when they might not want to take as much risk with the money they've saved throughout their working life.

Keeping track of the charges

If someone has several different pensions, it can be difficult to keep track of the charges they're paying to existing pension providers. By combining pensions into a new plan, lower charges could be available – providing the opportunity to boost retirement savings further. However, it's important fully to understand the charges on existing plans before considering consolidating pensions.

Combining pensions into one pot also reduces paperwork and makes it easier to estimate the income someone can expect to receive in retirement. However, before the decision is made to consolidate pensions, it's essential to make sure there is no loss of benefits attributable to an existing pension.

Review your pension situation regularly

It's important that you review your pension situation regularly. If appropriate to your particular situation, and only after receiving professional financial advice, pension consolidation could enable existing policies to be brought together in one place, ensuring they are managed correctly in line with your wider objectives.

Gone are the days of a job for life. So many of us may have several pensions accumulated over the years – some of which we may have left with former employers and forgotten about! Don't forget, your pension can and should work for you to provide a better quality of life when you retire. Looked after correctly, it can enable you to do more in retirement – or even start your retirement early. ●

RESOLVING MONEY MATTERS IN DIVORCE

Agreeing financial arrangements can seem daunting

If you're going through a divorce, it's important to understand that pensions are an asset in the same way as your house or other savings. In many cases, the personal or workplace pensions of you and your partner will be taken into account when a divorce financial settlement is worked out.

Dividing up any pensions you have will usually be one of the biggest financial decisions you need to make. Agreeing financial arrangements in your divorce can seem daunting; there are so many misconceptions and myths as to what each party is entitled to that it gets confusing.

Pension fund or funds be treated as an asset

The rules surrounding dissolution of a registered civil partnership are the same as those for divorce. We've used the term 'divorce' to mean the end of a registered civil partnership as well as the end of a marriage.

Pension funds are an asset, just like your home or the savings you might have in the bank. That's why it's usual for your pension fund or funds to be treated as an asset that should be divided between you and your spouse or registered civil partner in the event of divorce or dissolution of a registered civil partnership.

Valuable asset split fairly between you

This may not necessarily happen, particularly if you both have similar amounts invested in pension funds. However, if one partner has built up a significant fund while the other has stayed at home to look after children, for example, experienced divorce lawyers will be needed to help you understand the best method of making sure that this valuable asset is split fairly between you.

Pensions can be complex and confusing at the best of times. Frequently, one person has a substantial pension and the other might have none or a very limited pension provision because, for example, they have given up their job to look after the children. A decision will need to be made as to whether that pension or pensions should be shared or if you should receive more of another asset, such as the home, instead.

Universal valuation method for pensions

It is important that pensions are considered in the financial settlement to arrive at an accurate valuation. The universal valuation method for pensions is the Cash Equivalent (CE). A divorcing couple will inevitably be required to obtain CEs for each pension scheme of which they are or have been a member. The advantage of CEs is that they are easily obtainable and provide an approximate 'snapshot' value of a pension fund.

The difficulty is that, in some circumstances, the CE can provide a wildly inaccurate valuation. The CE, which will be calculated by the trustees of each scheme in accordance with their own rules, is a calculation of the cash sum that the scheme will pay to discharge their obligation to pay income in retirement.

The value of the pension benefits to the individual member may be very different, and it may cost far more to purchase equivalent benefits on the open market. This can be important in a divorce context, where using only CEs can produce unfair outcomes.

There are a number of different approaches to tackle pension assets depending on the circumstances of the couple concerned.

Pension sharing

Pension sharing is the preferred route of most divorce courts. Thanks to the Welfare Reform and Pensions Act 1999 (WRPA), this allows one party the opportunity to secure a percentage of their spouse's pension rights and to put that percentage into their own name.

This is preferable in many cases because a person can feel more in control of their own future rather than being dependent on an ex-spouse. They can decide when they retire, and if the recipient dies before retirement, the pension investment can be paid to children or a new spouse.

It is important to note that when a pension is divided or shared, this does not mean that the recipient will receive a cash lump sum. A pension or part of a pension that is ordered from one party to another still remains a pension and has to be invested in a pension plan.

If the pension is in payment already to the older spouse, a deferred order means that the pension is shared with the younger spouse when they reach retirement age.

What exactly can be divided depends on where in the UK you're divorcing

In England and Wales: the total value of the pensions you've each built up is taken into account. This doesn't only mean the pensions that you or your ex-partner built up while you were married or in a registered civil partnership, but all of your pensions (except the basic State Pension).

In Scotland: only the value of the pensions you've both built up during your marriage or registered civil partnership is taken into account. This means that anything built up after your 'date of separation' or before you married or became registered civil partners doesn't count.

Offsetting

With this option, the pension holder keeps their pension fund intact, which is offset by giving the other spouse a greater share of other assets such as cash savings or equity in a shared home. Offsetting involves balancing the pension fund against other matrimonial assets, such

as the house. For instance, the wife might cede the pension fund to her husband in return for a larger share of the profits from any property.

Anyone considering this route should think about it very carefully because of the different nature of capital assets and pensions. Pensions are not liquid assets and, as such, can only be turned into cash on retirement. Their value on retirement could be much higher than at the time of assessment.

Earmarking
With earmarking, the court awards to the former spouse a percentage (it can be 100%) of the income the other party gets from the pension. This seems fairly straightforward and fair. However, it has numerous disadvantages – for instance, the income stops on the death of the pension holder or if the wife remarries.

Deferred lump sum order
This leaves the pension fund intact for the time being, on the understanding that both parties will receive an agreed lump sum at the time of the pension holder's retirement.

Pension attachment order
A portion of the lump sum and/or pension income will be paid to the other spouse when the pension holder retires, based on the fund's value at that time. While there are advantages and disadvantages for both parties in this option, it should be noted that this doesn't achieve the clean break many people desire, and also removes quite a lot of certainty, particularly for the party who must wait for their former spouse to decide to take their pension.

State pensions and divorce
Your basic State Pension can't be shared if you divorce. However, under the current rules, if one of you has paid enough National Insurance contributions, this could increase the State Pension the other gets, providing they don't remarry or enter a registered civil partnership before they reach their State Pension age.

If you have an additional State Pension, you may have to share this with your ex-partner. But if they later remarry or enter a registered civil partnership, they could lose this right.

From 6 April 2016 onwards, neither the old basic State Pension nor the new State Pension can be shared. However, if you get divorced and the court issues a 'pension sharing order', you or your ex-partner may have to share any extra State Pension entitlement you've built up, such as an additional State Pension or any protected payment.

The process of considering pensions in a financial settlement should be as follows:
- Find out what pension provision there is, (private, company and state) and secure a valuation and forecast
- Decide with your lawyer and professional financial adviser if the amount of the pension and the facts of your case make further investigation justifiable (i.e. cost versus benefit). Further investigation can mean a drastic increase or reduction in the pension asset, frequently seen with Final Salary Pensions and with Government and Civil Service pensions, such as those that teachers and members of the Armed Forces have
- Decide how to adjust the settlement in the light of this knowledge

Time to consider your options
The most common question people ask is: 'Do I need to share my pension?' There is no simple answer to this question as it will depend on other factors. What other assets are available to be shared? What is the value of your pension? Does your spouse have savings, investments and pensions in their own name? Are you willing to 'offset' the value of other matrimonial assets to enable you to keep your pension?

There are also many different types of pension, and their terms and value can differ. You and your spouse may have a State Pension, a company pension and perhaps a personal pension too. Your first step, therefore, is to quantify your pensions alongside your savings, shares, investments and any property or business interest you may have. Having quantified the pension assets, you can then consider fully your options in relation to your pension. ●

BEAT THE SCAMMERS

Don't become a victim of illegal pension activities

Your pension is one of your most valuable assets, and for many it offers financial security throughout retirement and the rest of their lives. But, like anything valuable, your pension can become the target for illegal activities, scams or inappropriate and high-risk investments.

Fraudsters promise high returns and low risk, but in reality, pension savers who are scammed can be left with nothing. When savers realise they've been scammed, it can be devastating – many lose their life savings. Once the money is gone, it's almost impossible to get it back.

How pension scams work
Anyone can be the victim of a pension scam, no matter how savvy they think they are. It's important that everyone can spot the warning signs.

Scammers try to persuade pension savers to transfer their entire pension savings, or to release funds from it, by making attractive-sounding promises they have no intention of keeping.

The pension money is often invested in unusual, high-risk investments like:
- Overseas property and hotels
- Renewable energy bonds
- Forestry
- Parking
- Storage units

Or it can be simply stolen outright.

Warning signs of a pension scam
Scammers often cold call people via phone, email or text – this is illegal, and a likely sign of a scam. They often advertise online and can have websites that look official or government-backed.

Other common signs of pension scams:
- Being approached out of the blue: by text, phone call, email or at your front door
- Phrases used like 'free pension review', 'pension liberation', 'loan', 'legal loopholes', 'savings advance', 'one-off investment', 'cashback', 'government initiatives'
- Recommendations of transferring your money into a single overseas investment, with returns of 8% or higher
- Guarantees they can get better returns on pension savings
- Help to release cash from a pension before the age of 55, with no mention of the HM Revenue & Customs (HMRC) tax bill that can arise
- High-pressure sales tactics-time limited offers to get the best deal; using couriers to send documents, who wait until they're signed
- Unusual high-risk investments, which tend to be overseas, unregulated, with no consumer protections
- Complicated investment structures
- Long-term pension investments – which often mean people who transfer in do not realise something is wrong for a number of years
- Claims that they are from a legitimate organisation like ours, the Pension Service, Pension Wise
- Visits from a courier or personal representative to pressure you to sign paperwork and speed up your transfer
- There may be an authentic-looking website, but these can be cloned from legitimate organisations
- There will be little or nothing in the way of contact names, addresses or phone numbers

Scams can take many forms
Many scammers persuade savers to transfer their money into single member occupational schemes, or other occupational pension schemes.

It's good to remember that pension scams can take many forms and usually appear to most to be a legitimate investment opportunity.

What to do if you think you've been or are being scammed

If you think you might have already been targeted and you've agreed to transfer your pension, you should:

1. Contact your pension provider immediately – they may be able to stop the transfer if it has not already gone through.

2. Contact Action Fraud on 0300 123 2040 and report the scam. ●

A GUIDE TO THE FUTURE OF RETIREMENT

Charting your Financial Future

Professional Capital

Advising Professionals Every Step of the Way

Expanding & Protecting your Wealth