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MARCH 2020

GUIDE TO

PLANNING MY RETIREMENT

HOW CAN I GUARANTEE THE KIND OF RETIREMENT I WANT?

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How can I guarantee the kind of retirement I want?

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?'

A better tomorrow starts with understanding today. When the future is unclear, the thought of retirement may well feel more daunting than exciting. Our retirement planning service can help you build the wealth you need to achieve the retirement you deserve.

Few people can visualise their retirement, but most would hope, at the very least, that it is a comfortable one. And we all know that, to achieve this goal, we have to have our finances in place as early as possible.

Saving enough money for retirement

It's never too early to start planning for your future. When planning for retirement, the truth is that the earlier you start saving and investing, the better off you'll be, thanks to the power of your money compounding over time. It's like a snowball: the further up the mountain it rolls down from, the more snow it picks up, and the bigger the snowball is by the time it reaches the bottom. Put simply, this is what happens to your money.

If you're concerned about saving enough money for retirement, you're not alone. Even if you began saving late or have yet to begin, it's important to know that you are not alone, and we can discuss with you how you can increase your retirement savings. There are steps that you can take to improve your pension prospects, no matter what your age.

We can help you determine which retirement income methods may be best for you based on your personal needs and goals. These are some basics you need to know.

State Pension

The State Pension is a weekly payment from the Government that you can receive once you reach State Pension age. In order to qualify for the State Pension, you need to make National Insurance contributions. If you reached State Pension age before April 2016, you'll be receiving the basic State Pension, plus any additional State Pension you may have built up. Those who hit State Pension age after April 2016 will receive the new single-tier State Pension.

Both the basic and single-tier State Pension are protected by something called the 'triple-lock' guarantee. This means that they rise each year by the greater of annual CPI inflation (announced in September every year), average earnings growth or 2.5%.

From April 2019, the State Pension increased by average earnings growth, which came in highest at 2.6%. If you're entitled to the full new single-tier State Pension, your weekly payments in the current tax year are £168.60 a week – for this, you'll need to have 35 years of NI contributions (although it can be less for those with a National Insurance record pre 6th April 2016.

The State Pension is unlikely to provide a substantial income in retirement. That's where a private pension can make a big difference.

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 guide, 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, or £3,600 if more. 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 (only if the total gross contribution is matched by income taxed at the highest rate).

The Welsh Government now has the power to set Income Tax rates and bands from 6 April 2019, but has opted to keep these the same as England and Northern Ireland for tax year 2019/20.

England/Wales/Northern Ireland

- Basic-rate taxpayers and non-taxpayers if contributing to a relief at source scheme receive 20% pension tax relief, for example, a contribution of £100 from your salary into your pension would cost you £80, with the Government contributing the other £20 – the amount it would have taxed from £100 of your salary
- Higher-rate taxpayers can claim 40% pension tax relief, for example, a contribution of £100 costs you £60, with the Government adding £40, as long as gross contributions are matched by income taxed at 40%
- Additional-rate taxpayers can claim 45% pension tax relief, for example, a contribution of £100 costs you £55, with the Government adding £45, as long as gross pension contributions are matched by income taxed at 45%

Scotland

- Starter-rate taxpayers pay 19% Income Tax but get 20% pension tax relief
- Basic-rate taxpayers and non-taxpayers if contributing to a relief at source scheme pay 20% Income Tax and get 20% pension tax relief
- Intermediate-rate taxpayers pay 21% Income Tax and can claim 21% pension tax relief
- Higher-rate taxpayers pay 41% Income Tax and can claim 41% pension tax relief, as long as gross contributions are matched by income taxed at 40%

- Top-rate taxpayers pay 46% Income Tax and can claim 46% pension tax relief, as long as gross pension contributions are matched by income taxed at 45%

Annual allowance

Your annual allowance is the most you can save in your pension pots in a tax year (6 April to 5 April) before you have to pay tax, which includes funding from all sources (employer and third party, as well as your own contributions). You'll only pay tax if you go above the annual allowance – this is £40,000 this tax year, unless subject to the taper or MPAA.

Your annual allowance applies to all of your private pensions if you have more than one. This includes the total amount paid into a defined contribution scheme in a tax year by you or anyone else (for example, your employer) and any increase in a defined benefit scheme in a tax year. If you use all of your annual allowance for the current tax year, you might be able to carry over any annual allowance you did not use from the previous three tax years.

If your annual allowance is lower than £40,000, this might be because you have flexibly accessed your pension pot or have a high income. Flexibly accessing your pension could include taking cash or a short-term annuity from a flexi-access drawdown fund or taking cash from a pension pot ('uncrystallised funds pension lump sums').

The lower allowance is called the 'money purchase annual allowance'. If you have a high income, you'll have a reduced ('tapered') annual allowance if both your 'threshold income' is over £110,000, and your 'adjusted income' is over £150,000. The first year affected by the tapered annual allowance was 2016/17.

If you go over your annual allowance, either you or your pension provider must pay the tax. HMRC does not tax anyone for going over their annual allowance in a tax year if they retired and took all their pension pots because of serious ill health or have died.

HMRC[1] figures published in September 2019 show that during 2017/18, 26,550 taxpayers reported pension contributions exceeding their annual allowance through self-assessment. The total value of contributions reported as exceeding the annual allowance was £812 million in 2017/18.

Lifetime allowance

You usually pay tax if your pension pots are worth more than the lifetime allowance. This is currently £1,055,000. You might be able to protect your pension pot from reductions to the lifetime allowance. If you're in more than one pension scheme, you must add up what you've used in all pension schemes you belong to.

A statement from your pension provider will tell you how much tax you owe if you go above your lifetime allowance, and your pension provider will deduct the tax before you start receiving your pension.

If you die before taking your pension, HMRC will bill the person who inherits your pension for the tax. The rate of tax you pay on pension savings above your lifetime allowance depends on how the money is paid to you – the rate is 55% if you receive it as a lump sum and 25% if you receive it any other way (for example, through pension payments or cash withdrawals).

In April 2016, the lifetime allowance was reduced. You can apply to protect your lifetime allowance from this reduction, if eligible. Tell your pension provider the type of protection and the protection reference number when you decide to take money from your pension pot. You can also inform HMRC in writing if you think you might have lost your protection.

You may also have a reduced lifetime allowance if you have the right to take your pension before the age of 50 under a pension scheme you joined before 2006.

In 2017/18, there were 4,550 counts of lifetime allowance excess charges paid. The total value of lifetime allowance charges paid by schemes in the tax year was £185 million – a 28.5% increase from £144 million in 2016/17 – according to HMRC[1] figures published in September 2019. ■

Source data:
[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836637/Personal_Pensions_and_Pensions_Relief_Statistics.pdf

A BETTER TOMORROW STARTS WITH UNDERSTANDING TODAY

When the future is unclear, the thought of retirement may well feel more daunting than exciting. Our retirement planning service can help you build the wealth you need to achieve the retirement you deserve.

Don’t leave it to chance – to discuss your requirements, please talk to us.

Published by Goldmine Media Limited, Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

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