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PLANNERS



Guide to Retirement

A close-up photograph of a person's hands working at a desk. The left hand holds a white calculator, and the right hand holds a silver pen. In the background, a laptop is open, and several documents with charts and graphs are scattered on the desk. The scene is brightly lit, suggesting a window view of a blurred outdoor area with greenery and a person in the distance.

BUILDING A PORTFOLIO

Choosing a type of pension is important but the greatest impact on your long-term wealth will be the contributions you make and the underlying investments you choose. The choice of investments available within pensions has evolved since the days of traditional life office products with a selection of one or two balanced funds. Now, most pensions offer a sufficiently broad choice of investments for you to build a truly individual portfolio.

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GUIDE TO RETIREMENT

INTRODUCTION

For most people, retirement will be one of the biggest financial decisions and changes that they make in their lifetime. Retirement is now a period of life that can last 20 – 30 years and the transition from receiving income from work to living on accumulated savings can be difficult because many people do not know whether they have enough money.

Successive Governments have changed the rules around pensions, meaning that it is difficult to know what you are and are not able to do with your pension fund when you retire. Changes to entitlements over the years also mean that many people do not know what they will receive from the Government when they retire.

WBW Chartered Financial Planners specialise in advising individuals on their retirement planning to plan for the retirement that they want, on their options when they reach retirement, and help them manage their funds during retirement.

Our advisers hold specialist qualifications in pensions and retirement as well as having many years of experience in advising on retirement planning. We have supported many clients and family members through the process and are well equipped to help you to understand your options.

If you would like to discuss your situation, please contact us to set up an initial conversation, which we offer at no cost to you.

THE RULES OF PENSION INVESTMENT

Please read this document in conjunction with the tax guide.

Tax Benefits

It may feel as if the rules on pensions can change with the seasons but some basic elements have remained constant in recent years. Investors receive income tax relief on their contributions into a pension scheme (up to certain limits) and the income and gains made by that fund accumulate free of additional tax while the money remains invested.

However, sweeping new changes introduced in April 2015 expanded your range of choices on retirement. Under these reforms, you have a far greater



amount of freedom: you can choose how and when you want to access your pension pot to suit your own personal circumstances.

So what are your options?

- **Purchase an annuity** – this will provide a steady, predictable income stream, and there are various options, including protection against inflation. However, annuity rates are low and therefore annuities do not necessarily offer good value.
- **Flexi-access drawdown** – you can take up to 25% of your pension pot tax free and keep the balance invested to generate a regular, taxable income. However, the resulting income is not guaranteed and you could run out of money.
- **Withdraw your entire pot as cash in a single transaction** – this option is attractive if you wish to access your pension pot quickly, whether to spend or reinvest. However, 25% of each withdrawal is tax-free and the remaining 75% will incur income tax, so you could incur a substantial tax charge.
- **Take lump sums when you choose** – this spreads your 25% tax-free allowance. However, your pension provider might restrict the number of withdrawals you can make in a year, and you could incur a tax bill if your withdrawals push you into a higher income-tax bracket.
- Alternatively, **you can leave your pension pot untouched** until a later date, allowing it to continue to grow.
- And, of course, you can **mix and match** these various options, depending on your own specific requirements.

Before you take any action, however, you have important questions to consider: how old are you, and what is your state of health? Perhaps you want to stop working straightaway, go part-time, or keep working as before. Do you have a spouse and/or dependants? What are your goals, aspirations and attitude to risk? If you have a strategy in mind, what are the tax implications?

How and when you choose to access your pension pot is a serious decision that will affect the rest of your life. Therefore, it is vital to take expert professional advice. Talk to your financial adviser; alternatively, Pension Wise is a Government-provided service that provides free, independent guidance on your options, but does not provide recommendations or advice. Visit www.pensionwise.gov.uk for more information



Annual Contribution Limits

During the current tax year, the maximum amount you can invest into your pension (personal or occupational) is 100% of your income or the annual allowance – whichever is the lower. You will receive tax relief on the entire investment up to that limit. However, if you try to invest more than the annual allowance, you will have to pay tax on the excess.

This limit, incidentally, applies to the combination of both employee and, if applicable, your employer's contributions. The annual allowance is also subject to a tapered reduction if your "threshold" income (your income excluding any pension contributions) is more than the threshold income limit or your "adjusted" income (your income plus any pension contributions made by you or your employer) exceeds the adjusted income limit. You can, however, carry forward up to three years of unused allowance to subsequent tax years.

Lifetime Allowance

The lifetime allowance applies to the total value of all private and workplace pensions (not state pensions) that you build up over your lifetime, including the investment growth that you have achieved. If your pension fund grows above the lifetime allowance, you will be liable to tax charges on the excess. These charges are quite onerous: 55% if the amount over the lifetime allowance is paid back to you as a lump sum and 25% if the amount over the lifetime allowance is taken as some form of income. Therefore, if you already have a large pension fund – even if it has not yet reached the limit set by the lifetime allowance – you have to consider whether there might still be some investment growth to come. As an example, if your pension fund is valued at more than £1m and you have 10 years still to go before you plan to retire, it might be time to stop contributing and find another home for your savings.

PLANNING FOR RETIREMENT

Back in 2006, something known as 'A-Day' was supposed to be the moment when – 'once and for all' – the rules for pension saving were simplified and everyone would be able to work out how to make the most of their retirement arrangements. Sadly, that dream has proved elusive – successive governments have continued to tinker with the regulations and it is therefore quite understandable you might feel a little overwhelmed by the complexities.



Nevertheless, despite all the changes, pensions still represent one of the most tax-efficient ways for most people to save for retirement. The aim of this guide, therefore, is to help you understand the available options.

What is a Pension?

At its most basic, a pension is simply a savings scheme that offers very attractive tax benefits if you agree not to touch the proceeds until you are older. In other words, you hand over your money, that money is invested, its value (hopefully) grows and, at the end, you withdraw the proceeds and use it to pay for goods and services. In this case, however, you cannot touch the proceeds until you are at least 55 (increasing to age 57 in 2028)— and, although the rules have been relaxed to allow greater flexibility, there are still certain restrictions in terms of what you can do with the proceeds once you reach that age.

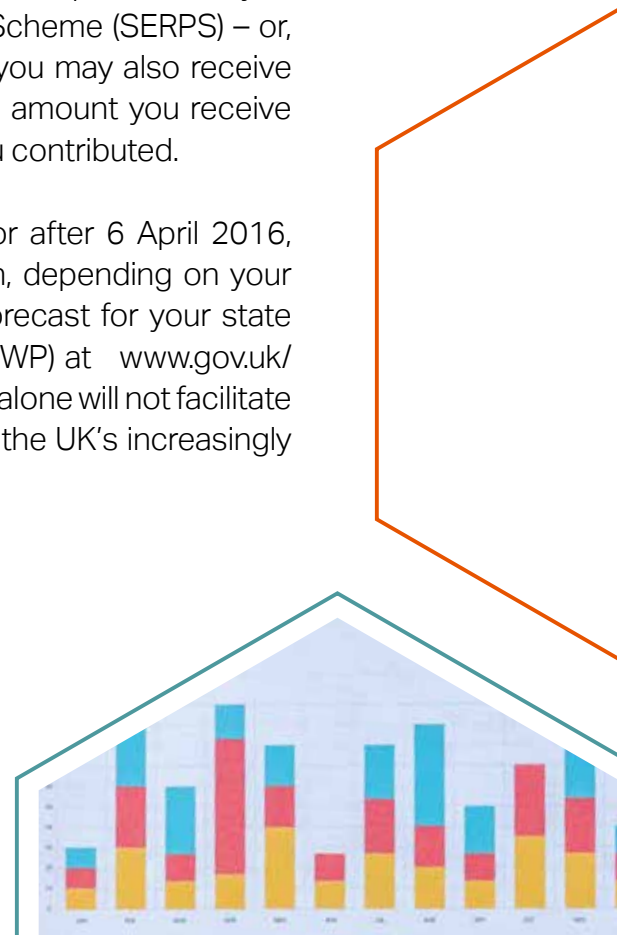
THE DIFFERENT TYPES OF PENSION

Because the UK's increasingly ageing population means the Government is finding it harder and harder to meet its state pension obligations, we are being encouraged to make additional investments towards our own retirement.

The State Pension

The Basic State Pension officially came into being as part of the National Insurance Act of 1946 and is designed to provide a minimum amount of income during retirement. The basic state pension applies to a pensioner who reached state pensionable age before 6 April 2016 and who has met the minimum National Insurance (NI) contributions. On top of this, if you contributed to the State Earnings-Related Pensions Scheme (SERPS) – or, more recently, to the State Second Pension (S2P) – you may also receive an earnings-related top-up to the state pension. The amount you receive depends on how much you earned and how much you contributed.

However, if you reached state pensionable age on or after 6 April 2016, you will qualify for the new "single-tier" state pension, depending on your National Insurance contributions. You can obtain a forecast for your state pension from the Department of Work & Pensions (DWP) at www.gov.uk/state-pension-statement. However, the state pension alone will not facilitate a luxurious retirement. For this reason – and because the UK's increasingly



ageing population means the Government is finding it harder and harder to meet even these levels of payment – we are being encouraged to make additional investments towards our own retirement

Occupational Pension

An occupational pension is a scheme set up and run for company employees, into which your employer may make some or all of the contributions on your behalf. These could be 'defined benefit' schemes (also known as 'final salary' schemes) in which the amount you receive depends on the number of years' service you gave to the company.

Alternatively – and these days more likely – they will be 'defined contribution' schemes, in which you and/or your employer will make a fixed level of contribution and the final value will depend on how well (or badly) the underlying investments have performed. Thanks to volatile stock markets and additional regulation, the days of final salary pension schemes are generally considered to be all but over – apart from some lucky souls in the public sector or those with unchangeable employment contracts in the private sector.

Until recently, whether your employer offered a pension scheme – and, if they did, how much they contributed on your behalf – was entirely voluntary. However, from October 2012, all employers became obliged to automatically enrol employees in a qualifying in-house pension scheme or in the National Employment Savings Trust (NEST). Contributions to NEST will come from your pay, from your employer, and also from the Government (by way of tax relief).

For individuals employed in smaller companies, this might represent their first opportunity to get involved in formal occupational pension planning. For larger companies, however, these minimum requirements might already have been exceeded. Indeed, if you decide to contribute more than the minimum, you might find your employer will match that higher amount. It is therefore worth checking your employers' pension provision and what they have done about auto-enrolment.

Personal Pension

Personal pensions are schemes organised by the individual for the benefit of the individual. It does not matter who you work for, how long you work for them or how much you earn – you decide how much to contribute (subject



to an annual contribution limit) and you decide where the money is invested. The more you put in, the more money you have to invest for your future – and the better your underlying investments perform, the higher that value will be.

There are three basic types of personal pension:

Stakeholder Pensions: The simplest pensions, these are designed to encourage lower earners to save for their future. As they are subject to restrictions on charging, they can be a cheap and efficient way to start saving. Because of the cost limits, the range of investments might be restricted, as may some of the additional options, but you will usually find index tracker-type funds and multi-asset managed funds that will suit most people's basic needs.

Individual Personal Pensions: These pensions offer access to a range of different funds. They may have additional benefits that will make them easier for you to manage if you are looking for something beyond a basic different types of investment. They are not subject to the same charging restrictions as stakeholder pensions, so the fund choice can be wider. They should suit most pension requirements for most people.

Self-Invested Personal Pensions (SIPPs): These are the most sophisticated personal pensions and allow a huge amount of investment flexibility if you are very active in your investment allocation or adventurous in your choice. SIPPs allow investors to access funds, shares, bonds, gilts, property and cash – and occasionally more complex investments as well. They therefore allow you to build a portfolio specifically tailored to your needs and to make adjustments to that portfolio whenever and however you like.

As a result, compared with the other choices mentioned above, SIPPs have proved relatively expensive. In some cases, however, charges have reduced and a new generation of 'low-cost' SIPPS have emerged. These offer the same switching and management flexibility but do not offer quite the same level of access to the more esoteric investments.

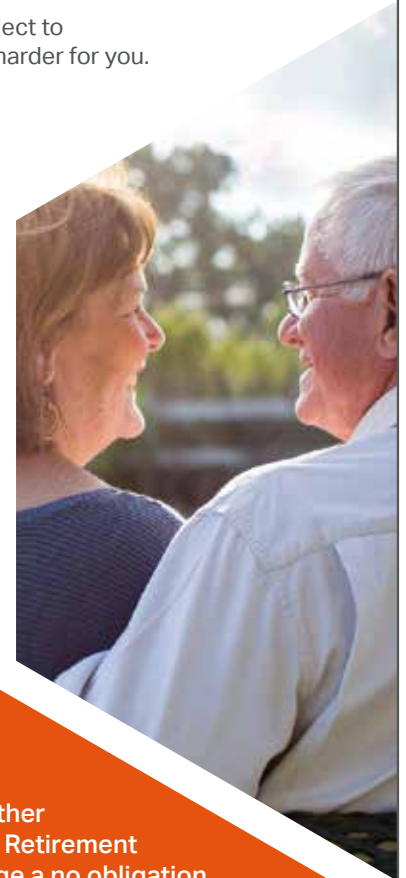
However, as with any product in any industry, you pay for the bells and whistles. So, if you do not need them or do not have the time or experience to take proper advantage of them, you might be wasting your money by paying for such a product. As ever, if you are in doubt about anything, you should seek professional advice.





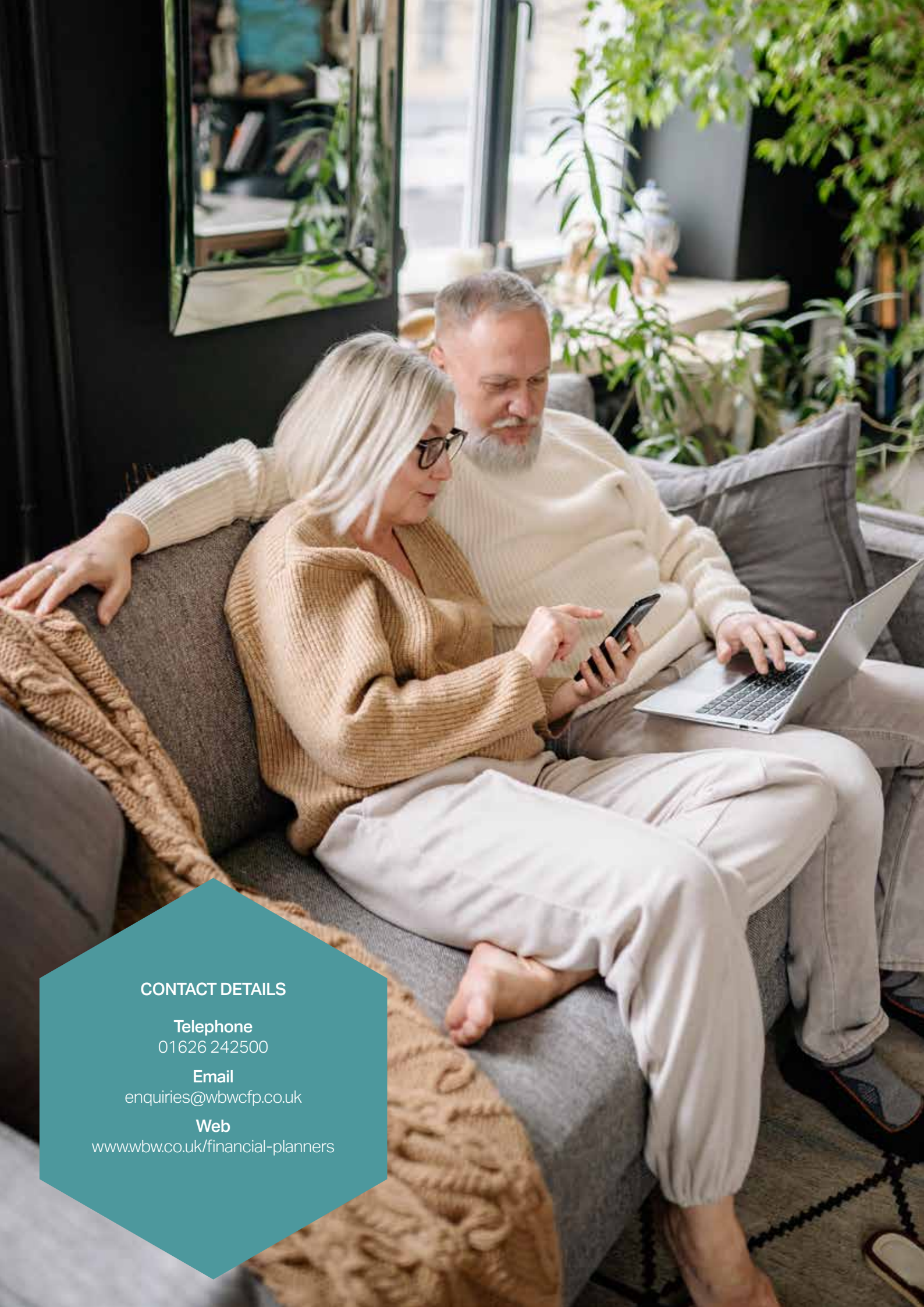
Tips for Planning Your Retirement

- 1 Changes to the state pension over the years have made it more difficult to predict what you might get. You can get a state pension forecast at www.gov.uk/check-state-pension.
- 2 If you do not have a full state pension, you may be able to claim national insurance credits for years in which you were looking after a child under the age of 12 (not just limited to parents) or caring for sick or disabled person.
- 3 If you still do not have a full state pension, you may be able to make Class 3 Voluntary National Insurance Contributions to **boost your state pension**.
- 4 Contributions to a personal pension are **boosted by 20% tax relief**, subject to certain limits. This is a way to make your retirement savings work a little harder for you.
- 5 If you are working, your employer should offer a workplace pension, which they will contribute to as well as you.
- 6 Can't remember where all your pensions are? Use the pension tracing service to find those missing pots at www.pensiontracingservice.com.
- 7 Set a retirement goal. Knowing what you want out of your pension will help you (and your financial planner) plan to achieve it.
- 8 You can pay into someone else's pension and they will still receive the tax relief. So if you are thinking of ways to **help your children or grandchildren** for the future, why not consider making pension contributions on their behalf.
- 9 You can pay up to **£2,880** into a pension even if you have no earnings and receive **20% tax relief**.
- 10 You must be under the age of 75 to open a new pension, but there is **no lower limit**, so opening a pension account on behalf of children and grandchildren can be a great way to get them on course for a great retirement.



For further
information on Retirement
Planning, or to arrange a no obligation
appointment, contact us today by telephone or email

01626 242500
enquiries@wbwcfp.co.uk



CONTACT DETAILS

Telephone
01626 242500

Email
enquiries@wbwcfp.co.uk

Web
www.bw.co.uk/financial-planners

For further
information please visit
wbw.co.uk/financial-planners
or contact us at
enquiries@wbwcfp.co.uk