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Chartered Financial Planners

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MAXIMISING THE VALUE OF YOUR PENSION POT

Probably the single most important decision to realise your long-term goals

Retirement planning involves thinking about your plans for the future now – that means investing your money with the aim of maximising its value ready for when you retire. Careful retirement planning, the right mix of assets and starting sooner rather than later will help lead to the retirement you are looking for.

Historically, for many people, the traditional view of saving for retirement was to simply put your money into a pension, with few decisions to make in the run-up to your retirement date and no choice over how the pension was taken.

REVIEWING YOUR RETIREMENT PLANNING

Having a pension today is recognised as just one important step along the path to achieving your dreams once you have stopped working. Now, not only must you carefully consider where you actually invest your pension money and how you are going to use your pension, but if appropriate you should also review other forms of retirement savings. Reviewing your retirement planning is critical and probably the single most important decision you can make to help you realise your long-term goals.

Different investment choices produce different results. It's essential that you contact us to review all your retirement investments to make sure they are heading in the right direction. If your circumstances change, some investments may no longer be appropriate. It's important to get these things right, as you will be relying on the provisions you make now to generate income after you retire.

FACTORS THAT WILL DETERMINE YOUR STRATEGY

When building or reviewing your pension portfolio, there are a number of factors that will determine your strategy, including the level of risk you are willing to take. This is likely to change throughout your life, which means your investment strategy will also need to change. Receiving professional financial advice plays a vital role in helping to make sure that your pension holdings match your risk profile and your investment goals.

Typically, people in the early years of the term of their pension may feel they have time to take more risks with their investments, to increase the potential for higher returns. As they approach retirement and the duration of the investment is shorter, they may prefer, more predictably, to start to plan for their future after work. Alternatively, if they have reached their pension age and are still investing part of their fund while drawing benefits, they may prefer to keep an element of greater risk in return for higher potential growth.

WHEN IT COMES TO RETIREMENT PLANNING

Your 40s is 'the golden decade' when it comes to retirement planning. This is when you should be putting as much as possible into your pension to give your contributions time to grow.

In your 50s, you may want to start making decisions about your retirement. If you are going to convert all of your retirement funds into income the moment you retire, you may wish to start reducing risk now. If you expect to keep it mainly invested, you may wish to keep a good weighting in investments based on shares. After all, with the growing trend towards taking work in retirement, many people may feel they can afford to keep their pension invested for longer while drawing an income.

Delaying the start of your retirement provision will have an obvious impact on the potential growth of your pension. Not only will the time period for growth potential be reduced, but you could also be passing up the opportunity for valuable tax relief.

STREAMLINED PENSION REGIME

Pensions have always provided a highly tax-efficient environment for long-term retirement investments. However, in April 2006, a streamlined pension regime introduced a number of extra benefits, including the potential to

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contribute larger sums into your pension fund when the timing is right for you.

LIFETIME ALLOWANCE

Since the rules were simplified, pensions have become easier to navigate. Whether you have occupational pensions, personal pensions or both, you now have one overall annual and one Lifetime Allowance for pension savings. You can save as much as you like towards your pension, but there is a limit on the amount of tax relief you can get. The Lifetime Allowance is the maximum amount of pension saving you can build up over your life that will benefit from tax relief. If you build up pension savings worth more than the Lifetime Allowance, you'll pay a tax charge on the excess.

If you're in a defined benefit scheme and you take your pension after 6 April 2014, your pension benefits will be tested against the Lifetime Allowance of £1.25 million. This level of pension saving is broadly equivalent to an annual pension of £62,500 if you don't take a lump sum, or £46,875 if you take the 25% maximum tax free lump sum (Source: HM Revenue & Customs).

For a money purchase scheme, it's the value of your pension pot that is used to pay your pension benefits (such as an annuity and a tax-free lump sum) that is tested against the Lifetime Allowance at the time you take your benefits. The charge is paid on any excess over the Lifetime Allowance limit. The rate depends on how this excess is paid to you. If the amount over the Lifetime Allowance is paid as a lump sum, the rate is 55%, and if it is paid as pension, the rate is 25%.

CONSOLIDATING FUNDS

Another feature of pensions is that you can consolidate payments from one UK registered pension scheme to another. This could be either to access different benefit options or simply to consolidate your funds in one place. It is important to note that there are costs involved, and obtaining professional financial advice is essential to ensure that you take the appropriate course of action for your specific situation.

If you have more than one pension plan in your name, there could be a number of advantages to consolidating all your plans into one. Having one pension can make it much easier for you to keep track of funds, monitor performance and change strategy if necessary. Consolidation may also cut down on paperwork and could make estate planning simpler.

Again, it's possible that consolidating pension funds may not be beneficial for your particular circumstances. You should always receive professional financial advice before deciding if it is the right course of action for you.

POST-RETIREMENT

The array of post-retirement options is vast and will need to be considered carefully, especially in the light of the proposed changes announced in Budget 2014 to fundamentally redesign the UK private pensions system. The best option for you will depend on factors such as the size of your fund, your ongoing involvement, the risk you are willing to take and the level of benefit flexibility you want.

Annuities have long been the mainstay of turning your retirement pot into income. When it comes to buying a pension annuity, you can choose from any provider in the market, with the option of inflation-proofing it or buying a guarantee so that it continues to pay out for a set period of time. You might also want an income to continue for your spouse after your death. All these options will reduce the amount you initially receive.

Currently you have other options besides buying an annuity, such as using a drawdown facility and leaving your pension invested but receiving an income from the fund. If you do this, you can still take your 25% tax-free lump sum out of your pension.

There are many choices to make during the pre- and post-retirement years. However, these choices are some of the most important you will ever make, so careful consideration is essential in order to safeguard your financial future and give you the retirement you are dreaming of.

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

When it comes to planning for your retirement, time is your friend. The earlier you start, the longer your money has the potential to grow. But retirement planning isn't just paying money into your pension each month and forgetting about it – you need to be proactive. To review your current situation or requirements, please contact us for more information.

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