

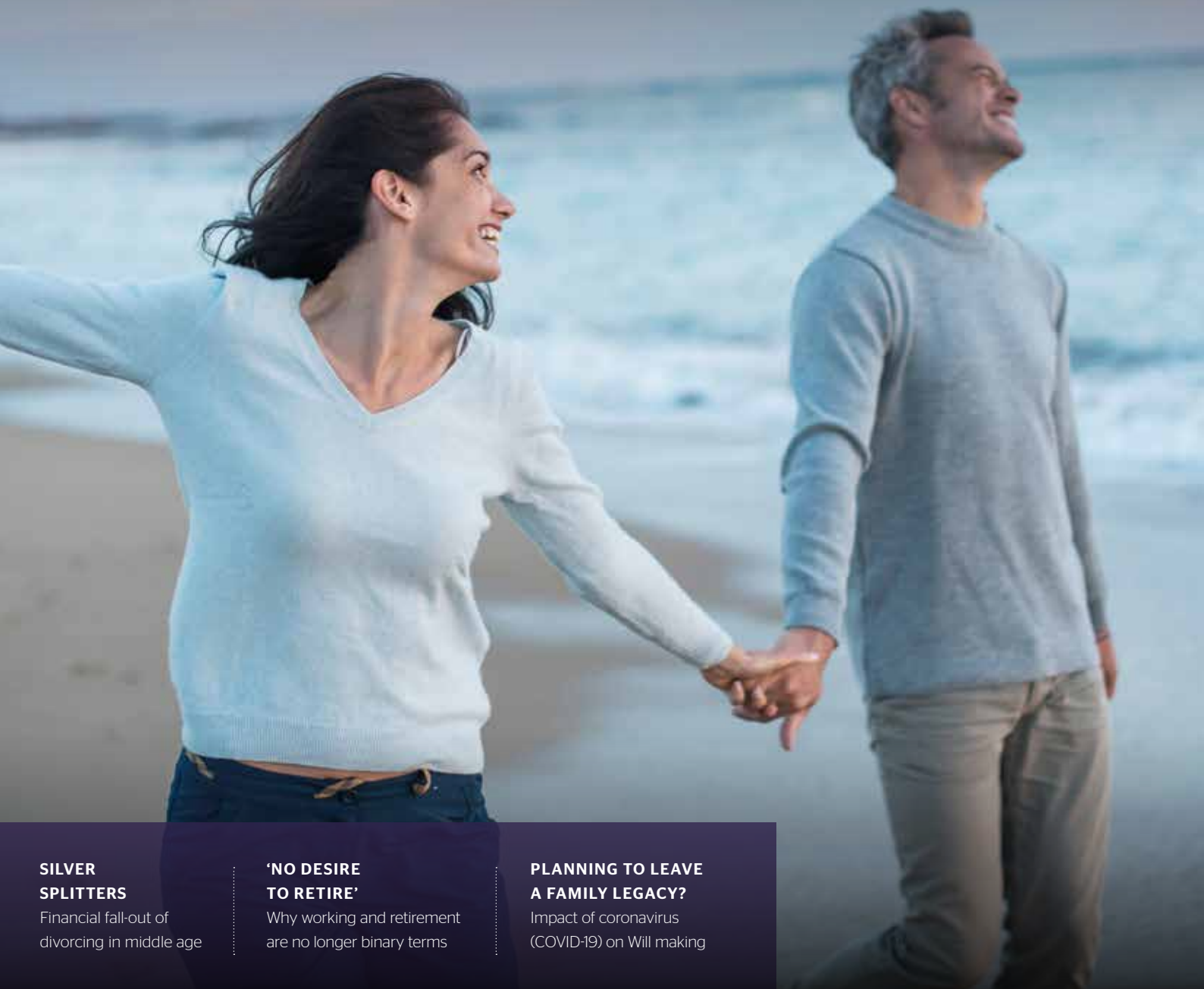
The financial planning magazine from Fairstone

IntelligentWealth

ISSUE 7 ■ SEPTEMBER/OCTOBER 2020

TAKE IT TO THE MAX

HOW TO MAKE THE MOST OF THE VARIOUS PENSION ALLOWANCES



SILVER SPLITTERS

Financial fall-out of divorcing in middle age

'NO DESIRE TO RETIRE'

Why working and retirement are no longer binary terms

PLANNING TO LEAVE A FAMILY LEGACY?

Impact of coronavirus (COVID-19) on Will making

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As one of the UK's largest Chartered financial planning firms, our team of financial advisers offer independent financial advice, investment management and estate planning services. Our full range of services include:

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The value of investments can go down as well as up. Past performance is not an indication of future performance and you may not get back the full amount you originally invested.

Your home is at risk if you do not keep up repayments for a mortgage or a loan secured on your property. Redemption penalties may apply. Interest rates may vary and interest only mortgages may carry additional risks. Think carefully before securing existing debt to your property.

If you are in any doubt about tax implications that may affect you, please seek advice from a tax specialist before making any decisions.

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INSIDE THIS ISSUE

Welcome to our latest issue. As we continue to make gradual but tangible steps towards normality and the world continues to work out how to live with the coronavirus pandemic, most will agree that the new normal needs new thinking.

The pandemic has created changes that seemed unthinkable only six months ago. Along with the health, safety and well-being of family, friends and loved ones, the new normal has also highlighted the need for financial guidance and support during this turbulent period.

At Fairstone, we have always taken pride in being operationally agile and to ensure that we can continue to provide you with the best service, whatever the circumstances. We have recently launched an entirely remote advice process which enables all aspects of face-to-face consultation to be delivered entirely in virtual form.

While face-to-face and direct contact with clients will always remain at the core of our business, championing a new innovative world of working, which seamlessly combines first-class remote and real-life practices, will enable us as a firm to embrace the best of both worlds to maintain the highest standard of service for our clients.

Whatever your long-term plans might be, a crisis as sudden and pervasive as the coronavirus pandemic is bound to raise many questions. And to make more sense of your options and to ensure that you have the best financial planning strategy in place for you and your family, please contact us – we are here to help you.

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. On page 10, we look at the various pension allowances in place that you need to be aware of to understand how to make the most of them.

Giving up the 9-to-5 doesn't necessarily mean stopping working. On page 09, we explain why many people are now considering staggered or flexible working. It can suit some individuals who have caring responsibilities, health issues or for those thinking about retiring in the next few years.

While there is no doubt that these are truly extraordinary times, rest assured that the entirety of the Fairstone team continues to operate on your behalf to support you and your financial health.

We hope you enjoy this issue, and if you require any further help or guidance, please do not hesitate to contact us.

A full list of the articles featured in this issue appears opposite. I hope you enjoy reading *Intelligent Wealth*.



Lee Hartley
CEO Fairstone

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THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

INVESTING DURING RETIREMENT

WHY IT'S IMPORTANT NOT TO VIEW YOUR PORTFOLIO WITH AN ELEMENT OF FINALITY

Retirement is a major accomplishment

for most people. You've worked hard all of your working life to save and prepare for your retirement, and now you've finally retired. So how should you approach investing now that you're no longer earning a salary? When it comes to investing during retirement, with the right strategy, you can help make sure your retirement savings last.



It is not unusual for people to live more than 30 years in retirement, due to increased incentives to quit work early and rising life expectancy, which in itself can present a major risk that retirees may outlive their savings. The longer the time spent in retirement, the harder it becomes to be certain about the adequacy of your assets.

RETIREMENT INCOME BOOST

You've been investing for decades to earn enough money to retire, and the day has finally come that you can stop working. At this point, your investment risk profile and strategy will almost certainly need to adjust in order to look at ways of making your money work as hard as possible, but with a view to generating income to boost your retirement income.

This is a time to look at how balanced your investments are and whether you are exposed to more risk than you are comfortable with in certain areas. It's time to conduct a review of all of your investments and decide how much you can afford to withdraw each year and whether this balances with your needs.

TOO RISK-AVERSE

An elementary mistake that some retirees make is to view their portfolio with an element of finality – and this makes them too risk-averse and unwilling to look beyond their current financial position. Of course, retirement means different things to different people.

For some, it's about never working again, and instead spending their days doing the things they enjoy most, such as travelling, pursuing hobbies, and spending more time with family and friends. For others, retirement means working part-time to stay busy and engaged in a profession, but without the need to earn a regular income.

TIME OF YOUR LIFE

Regardless of what retirement looks like to you, the key is to enjoy this time of your life, while making sure you don't outlive your retirement savings. For many retirees, that means developing an investing strategy that will allow them to withdraw money from their portfolio, while still enabling it to grow over the longer term.

There are a lot of ways to invest even after you have retired and your working days are done. It goes without saying that once you have retired, you'll want your retirement nest egg to last as long as possible. And with people living longer than ever, your nest egg may need to stretch further than you'd thought when you first started saving for retirement.

POTENTIAL INVESTMENT OPTIONS

For most retirees, that means developing an investing strategy that will allow them to withdraw money from their portfolio, while still enabling it to grow over the longer term. Given the potential investment options available to post-retirement retirees, at the point of investing, it's really important to consider the effects of future financial market volatility and inflation.

While the risk of portfolio declines can't be overlooked, retirees also face another type of risk: inflation. Even though we currently have historically low inflation, it's critical for retirees' investments to keep up with inflation throughout their retirement years. Cutting exposure to equities too aggressively could hinder the growth of a nest egg, potentially leaving retirees with less than they need.

KEEPING UP WITH INFLATION

While many retirees should stay invested, they must make sure a good portion of their investments is in safer assets. Today's low interest rate environment means your money may not grow quickly, or even keep up with inflation, but those assets will likely be better protected than equities in a market downturn.

If appropriate, retirees should typically have a healthy mix of equities, bonds and other investments, such as property. The right mix will depend on an individual's personal risk tolerance. Retirees should also set up their portfolios in a way that better protects the funds they may need in the next five years, in the event of future stock market corrections.

TONING DOWN RISK APPETITE

It can be hard for some retirees to tone down their risk appetite when investing during their retirement years, following decades of investing

for growth. But diversification is just as important for investors at any age, and may be most critical when investing in retirement.

This is a time of your life to ensure that you spread your investments across and within asset classes to make sure you are well diversified. You can spread your money across the three major asset classes (equities, bonds and cash equivalents). This is known as 'asset allocation'. To balance the risks and returns of the asset classes – and the investment within the asset class itself – you can also spread your money across various investment options within a particular asset class.

INCREASING FINANCIAL SECURITY

The most careful plans and preparation for retirement can fall apart due to any number of post-retirement risks. However, making the right investment decisions can help you increase your financial security and provide income that you can use to live comfortably after you stop working.

It is a good idea to try and set aside up to two years of living expenses in cash. Having some money that you can access quickly in an emergency situation will protect you from the need to sell some of your riskier investments at a loss and cover you for a period of time if you are falling slightly short of your income generation target. ■

ON THE PATH TO OR CURRENTLY IN RETIREMENT?

Regardless of what retirement looks like to you, the key is to enjoy this time of your life, while making sure you don't outlive your retirement savings. If you're on the path to or currently in retirement, you will want to make your money go the distance. To find out how we can help you explore your options, please contact us to discuss your requirements.

THE VALUE OF YOUR PENSION CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN HAS BEEN PAID IN.

EQUITY INVESTMENTS DO NOT AFFORD THE SAME CAPITAL SECURITY AS DEPOSIT ACCOUNTS.



PLANNING TO LEAVE A FAMILY LEGACY?

IMPACT OF CORONAVIRUS (COVID-19) ON WILL MAKING

We are living in extraordinary times right now, in the grip of a global coronavirus (COVID-19) pandemic. Many people are concerned to ensure that their affairs are in order and that they have made a Will, which is one of the most important legal documents you can create in life.

It is always sensible to have a valid Will in place to ensure that your estate is divided among the people (or charities) you want to receive it. The coronavirus outbreak has given further impetus to many people to put their affairs in order, and having a valid Will in place is particularly important if you suffer from any underlying health issues or are elderly.

NEED TO DISCUSS WILLS AND INHERITANCE

Families are becoming more open about their finances, with the COVID-19 crisis highlighting the need to discuss Wills and inheritance. A study conducted at the height of the pandemic shows the pandemic has encouraged more people to make a Will^[1]

A third (33%) of people in the UK have either drafted a new Will or have amended an existing one as a result of the global health and humanitarian crisis we're facing. The research highlights that this is also having a broader effect and is making families more open about their finances. Nearly four out of five (78%) believe the pandemic will lead to more conversations about inheritance planning within their families.

COMPLEX FAMILY SET-UPS THE NEW NORMAL

The pandemic has not spurred everyone to act: more than a fifth (22%) of people surveyed say they do not have a Will, and do not plan to draw one up. Worryingly, around one in ten say they believe doing so would be tempting fate.

Families can face major problems if there is not a Will in place, particularly as complex family set-ups are increasingly becoming the new

normal. Nearly one in seven (13%) families in the UK now have a stepson, stepdaughter and/or adopted son or daughter as part of their family. And a fifth (21%) of parents have been involved in two or more romantic relationships that have led to them being legally responsible for children to whom they have no biological link.

SIGNIFICANT IMPACT ON ESTATE PLANNING

An outdated Will can be challenged, which could be a drain on a family's estate. This is especially pertinent as only 27% of adults are confident that their current Wills are unlikely to offend relatives. Nearly half (49%) of those with a Will have never rewritten or amended it. Just 24% have amended their Will once, 16% have amended it twice, and only 5% have amended it three times.

Rising concerns over marital health is also having a significant impact on estate planning. The study also found that over two thirds (67%) of parents have decided to delay family inheritance planning for fear that their children's marriages will end in divorce, with the likelihood of wealth and assets leaving the family estate.

MITIGATE SUBSTANTIAL WEALTH LEAVING THE FAMILY

In fact, a quarter (27%) of parents have little or no confidence about the prospects of their children's marriages lasting a lifetime, and one in six (16%) have doubts about their in-laws' financial competence. The findings show that these worries are not unsubstantiated, with more than one in four parents (27%) having children who are separated or divorced.

To mitigate substantial wealth leaving the family in the event of divorce, a fifth of parents (21%) are gifting small amounts to their children to help with day-to-day living, while 19% are gifting directly to their grandchildren. Parents have other reasons for restricting levels of financial support: 13% of parents say it will reduce their children's incentive to work, and 12% think there would be little left for their grandchildren. ■

PROTECTING YOUR WEALTH FOR FUTURE GENERATIONS

The majority (83%) of respondents questioned as part of the research commented that the experience of the coronavirus pandemic will encourage people to sort out their financial affairs and trigger them into drawing up new Wills. A Will is one of the most important legal documents you can create in life, as it serves to protect your financial assets after you have passed away. To discuss your estate planning requirements, contact us for further information.



Source data:

[1] Research conducted by Consumer Intelligence for Handelsbanken in April 2020 with over 1,000 respondents

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ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE RULES AROUND WILLS ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

DELAYING RETIREMENT

PANDEMIC FORCING A WIDESPREAD RETHINK OF RETIREMENT PLANS

The coronavirus (COVID-19) pandemic crisis has thrown some of the nation's retirement plans 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 new 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 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.

DELAYING RETIREMENT BY FIVE YEARS OR MORE

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 of these workers will delay (19%), 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.

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.

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.

SHOULD YOU POSTPONE YOUR RETIREMENT DUE TO THE CORONAVIRUS? IS POSTPONING RETIREMENT THE RIGHT STRATEGY? OR DOES STAYING WITH YOUR ORIGINAL RETIREMENT STRATEGY MAKE MORE SENSE?

That employment uncertainty, in combination with volatility in the financial markets, is understandably concerning to some people approaching retirement age. 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_widereachingimpactionretirementplans.html

MAKING MORE SENSE OF YOUR RETIREMENT OPTIONS

Should you postpone your retirement due to the coronavirus? Is postponing retirement the right strategy? Or does staying with your original retirement strategy make more sense? Whatever your long-term plans might be, a crisis as sudden and pervasive as the coronavirus pandemic is bound to raise such questions. To make more sense of your retirement options, please contact us – we're here to help you.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS-TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

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PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. 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.



REWRITTEN RETIREMENT RULES

LOOKING TO DISCOVER WHAT YOU CAN DO WITH YOUR PENSION POT?

In 2015, the retirement rules were rewritten. The rules, which came into effect from 6 April 2015, have changed the way people take money out of their pensions, with new freedoms and options available to anyone over the age of 55.

Pension freedom tax rules allow members of defined contribution pension schemes to access their pension savings early, provided they have reached the required minimum pension age (currently 55).

FLEXIBLE WITHDRAWALS

Scheme members can now take their pension benefits in a number of ways. This could be as one or more payments a year for a number of years, several payments a year over a shorter time frame, or the full value of the fund could be taken in one payment subject to Income Tax.

Through the second quarter of 2020 (between April and June), £2.3 billion was withdrawn from pensions flexibly – a 17% decrease year-on-year from £2.8 billion (second quarter 2019). However, the total value of flexible withdrawals from pensions since flexibility changes in 2015 has exceeded £37 billion.

SEASONAL PATTERNS

The second quarter of 2020 saw 340,000 individuals withdraw from pensions – a 1% increase from 336,000 in the same quarter of the previous year. However, there has been a decrease in the number of individuals withdrawing compared to the first quarter of 2020 (348,000), which is contrary to normal seasonal patterns.

The average amount withdrawn per individual in the second quarter of this year was £6,700, falling by 18% from £8,200 in the same quarter last year.

If you're 55 or over and have a defined contribution (money purchase) pension plan, you can:

- Leave your pension pot invested
- Buy a guaranteed income for life (a lifetime annuity)
- Take a flexible income from your pension pot (typically known as 'flexi-access drawdown')
- Take a cash lump sum from your pension pot (up to 25% tax-free)
- Combine one or more of the options above. You can take cash and/or income at different times to suit your needs

MAKE INFORMED DECISIONS ABOUT YOUR RETIREMENT

Making sure you manage your money well in retirement is important. It can affect how long your pot lasts and the kind of lifestyle you can afford. We can help you make informed decisions about your retirement. Talk to us for more information.



Source data:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/904548/Pension_Flexibility_Statistics_July_2020.pdf

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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.



‘NO DESIRE TO RETIRE’

WHY WORKING AND RETIREMENT ARE NO LONGER BINARY TERMS

Giving up the 9-to-5 doesn't necessarily mean stopping work. Many people are now considering staggered or flexible working. It can suit some individuals who have caring responsibilities or health issues, or those thinking about retiring in the next few years.

When you picture yourself in your golden years, are you sitting on a beach, hitting the golf course or working behind a desk? For many people of retirement age, continuing to work makes perfect sense.

UNSETTLING PERIOD

Several decades ago, working and retirement were binary terms, with little overlap. People were either working (and under the age of 65) or had reached 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 suddenly 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.

PENSION POT

New 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 on three (32%) pensioners in their 60s and 16% of over-70s have left their pensions untouched.

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.

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

GOOD HEALTH

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 well-being 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. ■

LOOKING FOR INTERCONNECTED RETIREMENT PLANNING?

The retirement journey opens the door to interconnected retirement planning rather than product-based solutions. Put simply, in order to get the best outcomes, it is necessary to have a retirement strategy to give you choices and greater flexibility. If you would like to discuss your retirement plans, we're here to help.

Source data:

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

TAKE IT TO THE MAX

HOW TO MAKE THE MOST OF THE VARIOUS PENSION ALLOWANCES

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 that you need to be aware of and understand how to make the most of. 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 £1,073,100 since 6 April 2020 and increases with inflation each year.

You don't pay a 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 (£12,500 in the 2020/21 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 that 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 2020/21 tax year allows use of unused allowances from 2017/18, 2018/19 and 2019/20.

TAPERED ANNUAL ALLOWANCE

The Tapered Annual Allowance calculations will now not affect anyone with a Threshold Income level below £200,000. The taper starts in this tax year at £240,000 and extends 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 CONTRIBUTIONS TAX RELIEF

Everyone, whether working or not, is entitled to receive basic-rate tax relief at 20% from the Government when making contributions to their pension. Depending on the type of pension, tax relief can either be a reimbursement of the tax already paid on a pension contribution or it can be the ability to put away for your pension straight out of your wage, before paying any tax.

Basic-rate taxpayers, and those who don't pay tax, will earn 20% tax relief. Higher-rate taxpayers earn 40%. For additional-rate income taxpayers, who earn over £150,000 a year, tax relief is 45%. There are other rules that apply for additional-rate payers depending on specific circumstances. ■

ACCESSING PENSION BENEFITS EARLY MAY IMPACT

ARE YOU GETTING CLOSE TO YOUR ANNUAL PENSION LIMITS?

It's a good idea to keep track of your pension contributions so that you know if you're getting close to your annual pension limits. Whatever challenges and opportunities retirement presents, our strategies evolve as your plans do. To discuss your unique situation, or to talk to us, please contact us for more information.

ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS-TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

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. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. 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.

THE PENSION FACT FILE 2020/21

Lifetime allowance The maximum tax-efficient pension savings in your lifetime, including all contributions and capital gains	£1,073,100
Non-taxpayer or earnings less than £3,600 The maximum pension contributions that a non-taxpayer or low earner can make in one tax year and attract tax relief	£2,880 net contribution + £720 tax relief = £3,600 gross
Money Purchase Annual Allowance If you start to take an income from your defined contribution pension, this can trigger a lower annual allowance	£4,000
Annual Allowance The maximum tax-efficient contribution to your pension savings in one tax year	£40,000 or 100% of UK relevant earnings
Carry forward The three-year rule that allows you to carry forward your unused tax-efficient annual pensions allowance.	You are able to 'carry forward' any 'unused' allowance from the three previous tax years. However, even when carrying forward unused allowance, the amount you can pay into your pension is limited to 100% of your earnings in the tax year the payment is being made.
Tapered Annual Allowance Those with higher incomes will see the annual pensions allowance reduce to £4,000	
Threshold income limit	£200,000 - the Annual Allowance is reduced by £1 for every £2 of income above £240,000 down to a minimum allowance of £4,000
Adjusted income limit	£240,000 - the Annual Allowance is reduced by £1 for every £2 of income above £240,000 down to a minimum allowance of £4,000
Adjusted income limit	£300,000+ - £10,000 decreasing to £4,000
Pension contributions tax relief No earnings, or less than £3,600 a year	20%
Marginal tax rate applies	20%, 40% or 45%

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