Teachers Financial Planning

Retirement planning update

This guide provides an overview of the recent developments in the area of retirement planning.

It's just over 5 months since the new pension freedom rules came in. As you may remember, this caused a great deal of excitement - in the press at least - as it allowed savers to have greater choice in what they did with their pension. Most notably, the requirement to buy an annuity was dropped.

If you only looked at the headlines, then the message was that you could simply tell your pension provider that you wanted to withdraw the money in your pension pot and spend it how you wish.

Then reality set in. First it was the question of tax. The more astute quickly realised that taking anything more than the 25% lump sum could be taxable. And of course, the more they took out, the more tax they might pay as it could push them into the higher rate or even additional rate tax band.

The second obstacle was accessing retirement savings. The government left pension providers to their own devices when it came to implementing the changes. While some have allowed people to access their money without too much fuss, others have been slow to respond, have imposed what some see as unfair limits and introduced hefty exit fees. A few have stipulated that investors can only access their own funds after seeing a financial adviser.

The Treasury has launched a consultation into the workings of the new pensions freedoms, and in particular how to tackle what they describe as 'excessive or disproportionate' exit fees.

As well as consulting industry experts, the government is keen to get views from consumers and has created a survey, which you can access online.

As part of the April 2015 changes, money held in pensions would now fall outside your estate when you die. While this is obviously good news for those worried about inheritance tax, it adds an extra dilemma for those who want to cash in their pensions as any money taken out of a pension will immediately lose that safeguarding.

Contact us to discuss your retirement plans.

Avoiding scams

The next problem is scams. We don't tend to think that we are susceptible to scammers and think we can spot them a mile off.

However, the unscrupulous are always keen to spot an opportunity.

Although not exhaustive, the following is a list of scams to watch out for:

- claiming a pension review or pension survey is part of a government initiative
- offering investments that offer a high annual return
- pressure tactics that rush you into signing a letter of authority
- offering to collect your information via courier
- promising access to your pension fund before the age of 55.

Future changes?

Just when we thought things were settling down, in July George Osborne announced a consultation on another significant change

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in the pensions landscape. One of the more radical ideas is that instead of receiving tax relief on pension contributions (as is the case now) the tax relief would come when the pension is taken so that all withdrawals would be tax-free, and not just the 25% lump sum.

The idea has some merit in that it would mirror the way ISAs work, but it is just one proposal among many. Others include changing the current system of giving higher rate tax payers more relief than basic rate payers by introducing a flat rate for all.

More changes on the way

You may be wondering how on earth you can make any decisions about retirement with the shifting landscape.

If, like many of our clients, you read the financial pages you will be aware of the majority of the upcoming changes: the new State Pension for those retiring after 6 April next year and, the new lower limit for the pension lifetime allowance from £1.25 million down to £1 million.

Get help

It's a full time job trying to keep up with the changes, let alone deciding what is best for you. This is where we can help. Whatever stage you are at in life, planning for retirement doesn't mean you're ready to retire. It just means that when the time comes, you'll be ready to make the most of it.

Retirement planning timeline

30 years from retirement

Saving for the future might seem like the last of your priorities, particularly if you have more immediate goals such as buying a house or starting a family.

However, putting something aside, even if it is just a small amount each month will help you achieve your long-term aims.

Auto-enrolment makes it easier for workers to save for retirement but the minimum contributions should be seen as just that – a minimum.

10 years from retirement

Over the course of your working life you may have accumulated several pension pots. Track these down and then decide whether to consolidate them or keep them separate.

Consider protecting your savings by starting to transfer stocks and shares to cash. Many pension schemes will begin to do this automatically when you are 10 years from retirement.

Work out how much money you will need in retirement, how much income you need and then plan accordingly. This might involve making additional payments into your pension or reassessing where your savings are held.

2 years from retirement

Find out how much income you can expect to receive from your various pots and the state pension and consider your options.

This might include:

- the tax implications of withdrawing lump sums
- investigating annuity rates
- deferring your state pension.

If you are confused about what the pension reforms mean for you and how they will affect your retirement plans, call us now.