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FACTSHEET

Savings in retirement

Giving people much more control over their pension savings than ever before

For many, the idea of retirement means getting away from the stresses of everyday life. But with living costs rising and interest rates low, people need to think about how to generate extra income from their savings in retirement.

Pensions offer a number of important advantages that will make your savings grow more rapidly than might otherwise be the case. However, changes announced in April 2015 have lead to a complete shake-up of the UK's pensions system, giving people much more control over their pension savings than ever before.

DIFFERENT PENSION SCHEMES

The term 'private pension' covers both workplace pensions and personal pensions. The UK Government currently places no restrictions on the number of different pension schemes you can be a member of. Providing you don't save more than your Lifetime Allowance into all of your pension funds combined – currently set at £1,030,000 (2018/19) – you won't be penalised by the taxman for having lots of pensions.

So even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident between the ages of 18 and 75 can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot.

TAX RELIEF ON PENSION CONTRIBUTIONS

A private pension is designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions.

In the 2018/19 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum.

The current pension tax relief rates are:

- Basic-rate taxpayers will receive 20% tax relief on pension contributions
- Higher-rate taxpayers also receive 20% tax relief, but they can claim back up to an additional 20% through their tax return
- Additional-rate taxpayers again pay 20% tax relief, but they can claim back up to a further 25% through their tax return
- Non-taxpayers receive basic-rate tax relief, but the maximum payment they can make is £2,880, to which the Government adds £720 in tax relief, making a total gross contribution of £3,600

If you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

LIMITS ON THE AMOUNT THAT CAN BE CONTRIBUTED

The Annual Allowance is a limit on the amount that can be contributed to your pension each year while still receiving tax relief. It's based on your earnings for the year and is capped at £40,000 (2018/19).

If you exceed the Annual Allowance in a year, you won't receive tax relief on any contributions you paid that exceed the limit, and you will be faced with an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000.

In April 2016, the Government introduced the tapered annual allowance for high earners, which states that for every £2 of income earned above £150,000 each year, £1 of annual allowance will be forfeited. However, the maximum reduction will be £30,000 – taking the highest earners' annual allowance down to £10,000.

It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years. If you have accessed any of your pensions, you can only pay a maximum of £4,000 into any un-accessed pension(s) you have. This is called the 'Money Purchase Annual Allowance', or 'MPAA'.

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EXCEEDING THE LIFETIME ALLOWANCE

What counts towards your Lifetime Allowance depends on the type of pension you have.

Defined contribution – personal, stakeholder and most workplace schemes. The money in pension pots that goes towards paying you, however you decide to take the money.
Defined benefit (also known as 'Final Salary') – some workplace schemes. This can be 20 times the pension you get in the first year plus your lump sum – but you'll need to check this with your pension provider.

Your pension provider will be able to help you determine how much of your Lifetime Allowance you have already used up. This is important because exceeding the Lifetime Allowance will result in a charge of 55% on any lump sum and 25% on any other pension income such as cash withdrawals. This charge will usually be deducted by your pension provider when you access your pension.

PROTECTING YOUR PENSION POT

It's easier than you think to exceed the Lifetime Allowance, especially if you have been diligent about building up your pension pot. If you are concerned about exceeding your Lifetime Allowance or have already done so, it's essential to obtain professional financial advice.

It may be that you can apply for pension protection. This could enable you to retain a larger Lifetime Allowance and keep paying into your pension – depending on which kind of protection you are eligible for:

Individual protection 2016 – this protects your Lifetime Allowance to the lower of the value of your pension(s) at 5 April 2016 and/or £1.25 million. You can keep building up your pension with this type of protection, but you must pay tax on money taken from your pension(s) that exceeds your protected lifetime allowance.
Fixed protection 2016 – this fixes your Lifetime Allowance at £1.25million. You can only apply for this if you haven't made any pension contributions after 5 April.

PASSING ON YOUR PENSION TO BENEFICIARIES

Finally, it is worth noting that there will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 and before you take anything from your pension pot – as long as the total assets are less than the Lifetime Allowance. If you die aged 75 or older, the beneficiary will typically be taxed at their marginal rate.

However, not all types of pension can be passed on in such a tax-efficient way. Some older-style pensions may not be able to offer all the new death benefit options available. If this flexibility is important to you, in this instance and if appropriate, you may want to consider transferring to a pension scheme that does. ■

NO ONE-SIZE-FITS-ALL APPROACH

Life is full of choices. We are here to support you with the choices you'll need to make to ensure you have the retirement you want. There is no one-size-fits-all approach, which is why it's essential to obtain professional financial advice. To discuss your situation, please contact us – we look forward to hearing from you.

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 treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.