THE
WEALTH ACADEMY
RETIREMENT PLANNING

RATHBONES | Incorporating Investec Wealth & Investment (UK)

# Planning for your retirement.

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Retirement increasingly means a multitude of different things to different people.

A ‘cliff-edge’ retirement, ceasing work completely and starting to draw on your pension, is still the way for many. Others choose a ‘glide path’ to that kind of retirement. Many opt to slow down but continue to work, or choose to work other than full time, in either the same or a different occupation. The latter two paths reduce the amount that needs to be drawn from financial assets such as pensions and helps to preserve them longer.

# With all that in mind...

The starting point for planning your retirement is to decide what retirement looks like for you and, with the help of a financial adviser, calculate how much it will take to deliver that retirement. Based on a clear assessment of what you already have you will then be able to determine how much you need to invest, over what period, based on appropriate assumptions of what you'll need to reach your target at the time you anticipate starting to draw down on your financial capital. Of course, this pathway to your target retirement fund will need regular review to take account of changing goals, actual investment performance and taxation changes, to name a few.

When you get to the point that you wish or need to start to draw down on your financial capital, it may well be that you have a portfolio of assets to consider. This could include your pension fund, ISAs, equities, collective investments (such as unit trusts or Open Ended Investment Company shares) and residential property – your main residence or buy to let property – the list goes on. The point is that if you have a choice, then **it pays to think very carefully about how and from which assets you draw funds from to fund your ideal retirement.**

There are now several ways for you to draw down from your pension beyond the straight purchase of an annuity. But because of the extreme tax efficiency of a pension (there is no tax payable on investment income and capital gains produced inside the pension fund and it's completely free of inheritance tax), it will often pay to defer drawing from the pension and to draw from other assets instead. Tax will be a key factor in making those decisions but making smart drawdown choices can be a key contributor to making the most of your investments and preserving them for you and the next generation. Working with a financial planner can really help to achieve the optimum financial outcomes you are seeking.

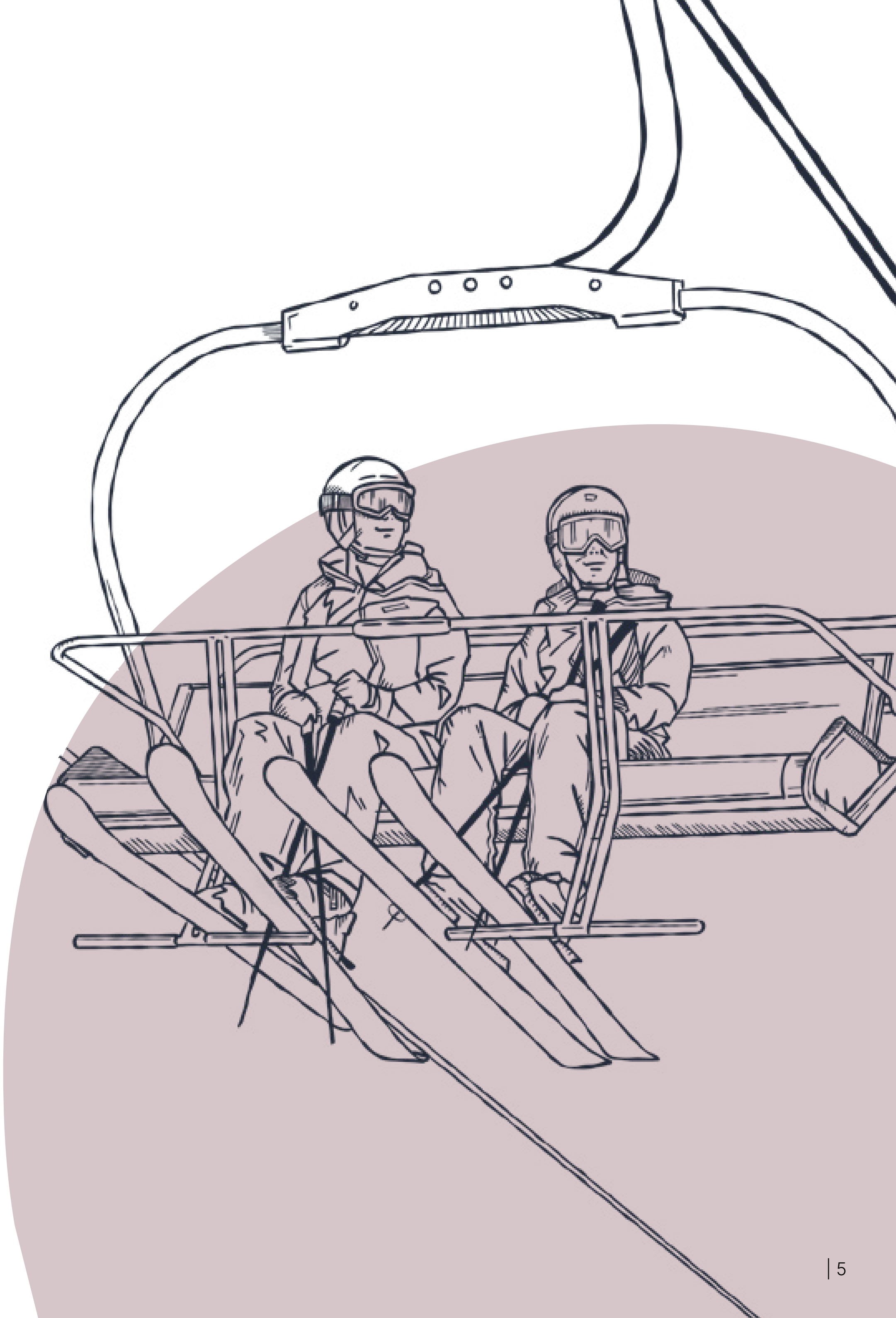
# It all starts here.

# It's never too late.

Planning for retirement is best started as early as possible, ideally at the start of your career or soon after you start your business, although we know this isn't always top of mind. However, even if you are nearing retirement, it's not too late for you to take advantage of saving through a pension plan. The tax efficiency they can deliver on the investment you make and the income and capital growth they generate, acts as a significant 'financial booster' to what you or, where relevant, your employer have contributed.

And the way you can take benefits from your pension plan has become much more flexible in the last 16 or so years. **You can access as much or as little of the value in your pension plan as you want at any time over the age of 55** (increasing to 57 in 2028).

In practice, this has meant that for those who don't wish to stop work entirely, retirement can be seen as less of an all or nothing event. Increasing numbers of people are choosing to phase into a full-time retirement. Whether through necessity or choice, some individuals continue to be gainfully employed, consult, contract or run their own business. The later you start to draw on your savings, the longer they are going to last – especially if they remain in the favourable tax environment that a pension plan provides.



# Make the most of it.

As well as tax freedom on the income, capital growth generated by the funds invested in the pension fund, and inheritance tax freedom on the death benefits (all hugely valuable), one of the most appealing aspects of pension contributions is their tax-efficiency. Saving through a pension offers you (and where relevant your employer or your business) the opportunity to really make the most of the money you are able to set aside for your retirement – whatever retirement will look like for you. **'Front end' tax relief reduces the cost of investing and so ensures that for each £1 available for pension investment, more ends up being invested.**

There are limits on what can be invested tax-efficiently in a pension, though. Personally, you can't get tax relief on an amount that exceeds your earnings in the tax year. Earnings in this context doesn't include things like pension income, dividend income, property income etc. It does include employed income or self-employed income, as well as less common income streams, such as royalties. If you aren't sure where you stand, then it's wise to get advice. Those who are self-employed, or part of a partnership will pay all their pension contributions personally. For contractors this may be more complicated because it will depend on how their businessis structured.

The amount of tax relief you can claim personally will depend on the amount of tax you pay. You can only claim higher or additional rate tax relief on contributions where taxable income exceeds the appropriate higher rate threshold (£50,270) or additional rate threshold (£125,140), which means that you may get tax relief at different rates. The more tax relief you get, the cheaper the cost to you when saving into a pension.

The real cost of a £100 gross pension contribution


What is the annual allowance?

The maximum amount you can save towards your pension each year without paying tax

Annual allowances:

**Standard** £60,000

**Tapered** £10,000 – £60,000*

**Money purchase** £10,000

**Up to 100% of earnings**

*Unused allowances can be carried forward for three years.

# Is there a limit on how much I can hold in my pension?

Put simply, no. The lifetime allowance, the maximum amount of pension savings you could build up over your lifetime without paying tax, used to limit the tax efficiency. However, the lifetime allowance was removed in the 2023 Spring Budget and is abolished from April 2024, which means no one now faces a lifetime allowance charge.

## Take a £100 gross pension contribution, for example. The cost to a basic rate taxpayer is £80, a higher rate taxpayer is £60 and an additional rate taxpayer is £55.

It is even possible to pay contributions and claim tax relief if you are not earning. These can be paid personally, or on behalf of someone else such as a child or non-working spouse. The maximum that can be paid into your pension if you have no earnings is £2,880 net (£3,600 gross).

If you are part of a workplace scheme, then your employer will most often also contribute to your pension. If In most cases it makes sense to stay part of your employer's scheme to benefit from these contributions, as generally your employer won't offer you anything in exchange if you choose not to take them.

Employer contributions can be made to any type of scheme and generally they are allowable as a business expense, which means they are paid before corporation tax or income tax is calculated.

This means that paying pension contributions will reduce the tax bill of the business. The same rules apply to pension contributions as they do to any business expense, **they will only be allowable as a deduction if they are incurred 'wholly and exclusively' for the purposes of the business.**

Pension contributions (employer, employee and self-employed) are also subject to another limitation, called the 'annual allowance'. This takes into account everything that goes into the pension scheme from all contributors within the tax year.

As standard, this allowance is £60,000 per year but can be reduced if you are a high earner (adjusted income over £260,000 per year). You can only receive tax relief up to 100% of your earnings, so if your earnings are lower than £40,000 you'll be entitled to tax relief up to the amount you earn. Higher earners are subject to the tapered annual allowance. Or if you have already accessed your benefits in a certain way, you will be subject to the money purchase annual allowance.

The tapered annual allowance reduces your annual allowance by one pound for every two pounds you exceed £260,000 of annual income, which is called the adjusted income. The adjusted income includes not only all your income, such as employed, self-employed, savings, rental, pension, and dividend income, but the total pension contributions as well. There are some additional complexities depending on the type of scheme and how contributions are paid. If your total income exceeds £200,000, then you may find it beneficial to talk to an adviser about the tapered annual allowance and how it might affect you.

Although in most circumstances, you can utilise unused allowances from the previous three years, it is wise to seek advice if you think you may be at or near the maximum.

**Example: Carrying forward your unused pension allowances.**

| Tax year | Annual allowance | Contributions paid | Carry forward |
|---|---|---|---|
| 2021/22 | £40,000 | £20,000 | £0 |
| 2022/23 | £40,000 | £40,000 | £30,000 |
| 2023/24 | £60,000 | £20,000 | £40,000 |
| 2024/25 | £60,000 | £15,000 | £45,000 |
| Total possible additional contribution 2024/25 | N/A | N/A | £115,000* |

*If paid personally you need earnings in 2023/24 to cover the amount paid.

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# It all adds up.

Understanding what you have already accumulated in your pension scheme – or schemes – is an important part of the process of deciding what needs to be invested to reach your financial goal.

Since 2012, all employees earning over £10,000 per year and aged between 22 and state pension age should be auto enrolled into a workplace pension scheme. Even before then, most employers provided a pension scheme to permanent employees. This means that you may have multiple pensions schemes associated with past employers, as well as pensions you paid into personally outside of work.

**You need to keep track of all old schemes because although often referred to as 'frozen' you will remain invested, and you will be able to access them from the age of 55 (due to increase to 57 from 6 April 2028).** The scheme will need to be able to find you when you are entitled to access these pensions. In some circumstances it can make sense to consolidate them into one, but care should be taken to avoid the loss of any additional benefits they may provide, such as guarantees or additional flexibilities. If you think you have lost track of any of your pensions you can get in touch with your old employer or use the gov.uk site to search for the right contact details.

You can contact the schemes and ask them for details of what your pensions might be worth at retirement, these figures are not a guarantee in most cases, but will leave you better equipped to determine where you stand against any targets you might have with regards to your retirement.

There are many types of pension schemes, but they tend to fall into two categories. Firstly, we have pensions where the contributions paid are invested and the value at retirement is determined by the investment fund available. The funds are then used to provide the income in retirement and any available tax-free cash, these are called **Defined Contribution or Money Purchase Pension Schemes.** Almost all personal pensions, as well as some workplace schemes, fall into this category.

The other type of scheme is known as a **Defined Benefit Pension Scheme,** or final salary pension scheme. In these pensions, the scheme provides a promise of an income for life in retirement, usually determined by your salary and time in the scheme and invests the contributions themselves to fund these payments in retirement. You don't personally take the investment risk and if the funds are not sufficient to provide the promise, the associated employer will be required to top them up.

These schemes are workplace pension schemes.

# A quiet retirement or a noisy one?

Trying to determine what you will need to fund your lifestyle in retirement is a difficult task, but it's an essential first step in the planning process. Informed financial advice can be really helpful, even essential. Projecting forward your expected needs for income and capital, and the time you'll need it requires taking account of many variables.

This includes making informed assumptions for some unknowns such as your expected time of drawing on your retirement fund, how long you will live for, and how your needs might change. And that is just to name a few. The next step is to determine how much to invest and over what period, to reach the required fund value to deliver the income and capital that you need. This step will help determine the goal-based investment plan you need to adopt to achieve your goals, based on expected returns. As stated above, working with a financial planner and embracing appropriate forecasting tools is essential – as are regular reviews to take account of changing goals, expected returns and rules around taxation.

When thinking about the value of pension fund you need, **the starting point is to determine what you aspire to and what, based on reasonable assumptions, you need to invest to reach that goal at the time you hope to reach it** (with the help of informed financial advice, forecasting and modelling). In considering the income you expect you will need, you should factor in expenditure such as rent, mortgage, council tax and other essentials. Then you need to consider the nice-to-haves, such as holidays or treats and factor these in too. **Don't forget that in retirement things don't**

**stop needing to be repaired or replaced**, such as your fridge or your car. This may all sound complicated, but this is where an experienced financial adviser, supported by intelligent forecasting methods, may add real value to your decision-making process.

To the extent that your retirement savings are in the form of pension plans it is also important to consider how you might use your pensions in retirement. Some pensions have restrictions, but tend to generally fall into two different categories. The first is guaranteed income, this could be provided by the scheme directly if it is a defined benefit pension scheme, or by an annuity purchased using your funds. Annuities have many options, such as increases in retirement and protection for your spouse or civil partner. The more options you add to the basic level option, typically the lower the income at the start.

Once started these types of income will continue for life and can't be changed.

The other option is **flexible income**. Here, the funds remain invested, and you draw income out as and when you need it. This gives you the option to increase or decrease the income, but because the funds remain invested, you therefore continue to be affected by market fluctuations and you may be required to make investment decisions.

With both of these options you will generally be entitled to tax-free cash at the outset, which is usually 25% of the value of the pension up to a maximum of £268,275, after which you will be taxed at your marginal rate. Some individuals have a protected right to take a higher lump sum. There are some scenarios in which you may lose your tax free cash entitlement if not taken at the outset. This is specifically relevant to defined benefit pensions. It's important to seek advice from a financial planner to ensure this is mitigated.

# This is just the beginning.

When most people consider how they are going to fund their retirement and how they are going to draw down from that fund in retirement, they often think of their State Pension and any Workplace or Personal Pension Schemes they have saved into. If the pension is your only or main financial asset, then the choices of how you can draw down from the pension should be fully considered. However, where you have other additional assets, then it may pay to consider drawing from those rather than your pension. After all, why draw down from a fund that provides tax freedom on the income and capital it produces, while building up inside the fund with complete freedom from inheritance tax?

The point is, you may not need to access pensions in order to retire. If you have other investments then you can take legitimate advantage of the tax-efficient drawdown opportunities applicable to those other investments, leaving your pension fund untouched or substantially untouched.

The following diagram illustrates some of the other assets you may own when the time comes to draw down in whatever retirement means to you.

For example, you may wish to supplement reduced income from work or to fully replace that income.

To maximise the choice of where to draw from in retirement, especially once you have maximised investment into pensions, it's essential to consider investing in assets other than pensions while you're generating an income. Therefore, when deciding where to save your money for retirement, or just the future in general, you should consider a broader range of wrappers and their benefits. Pensions are a great and essentially unparalleled, tax-advantaged way to save. But once you have gone beyond the financial limitations on what you can contribute to a pension tax-efficiently, then it's time to give thought to funding other investments – especially those with tax incentives, such as ISAs.

| | |
|---|---|
| **ISA** | **Pension** |
| **Cash** | **Main residence** |
| **Collectives** | **Bonds** |
| **Own business** | **Other asset type** |

# Bringing it all together.

We hope that we have illustrated that there are many opportunities (and challenges) to consider when planning and investing for your retirement, and it all starts with determining (and continuing to review) what you expect and want your retirement to look like.

From that clear picture you can then set about assessing how much you will need to fulfil that goal. With a target in mind, you can work back to see how much should be invested and in what type of investment to achieve that financial goal and over what period. Investing to maximise tax relief and minimise tax outflow will help and that's why, for most, a pension plan will be the foundation to financially providing for retirement. For those who expect to exceed the annual allowance for investing in pensions then there are a wide array of other choices.

And for all of this, from realising and articulating your retirement goals to the detailed financial planning to meet it, expert financial advice can help you make informed decisions and feel reassured that your goals are within reach.

# Next steps.

Whether you're planning for a quiet retirement, or a noisy one, our financial advisers can help you create a flexible plan that will help provide you with the funds to make it a reality.

If you're ready to know where life can take you, get in touch to arrange a no obligation conversation with one of our team. They will take time to get to know you and your goals, and discuss how we might be able to help you.

A typical Investec Wealth & Investment (UK) client has more than £250,000 to invest or plan their financial future with, including any pensions they may already have.

# Important information.

This guide is provided strictly for your general consideration only and represents our understanding of the law and HM Revenue & Customs practice as at 6 April 2024. The guide is not intended to (and does not) represent advice. It is essential that no action is taken or refrained from being taken based on this guide alone. Specialist advice (as referred to throughout the guide) is essential. Accordingly, neither Investec Wealth & Investment (UK) nor any of its officers, employees or contractors can accept any responsibility for any loss occasioned as a result of any such action or inaction.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax, Will or trust advice. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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