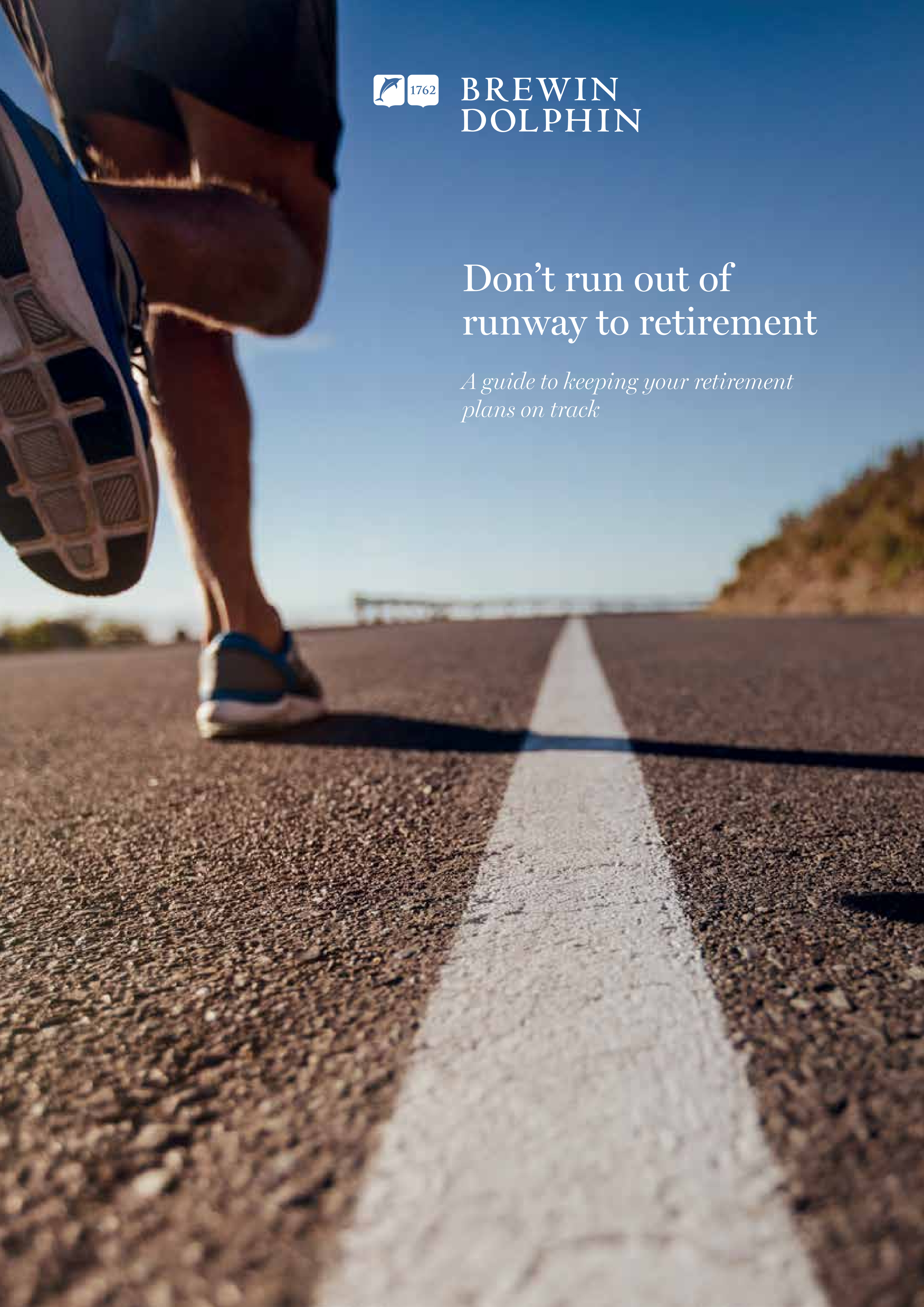

BREWIN DOLPHIN

Don’t run out of runway to retirement

A guide to keeping your retirement plans on track

Contents

This guide covers defined contribution, i.e. money purchase pensions only. It does not cover defined benefit, i.e. final salary schemes and if you have queries in respect of final salary schemes you should contact your provider directly and seek tax advice from an appropriately qualified adviser.

Think of yourself as being on a runway to retirement. Most people start on the runway in their 20s or 30s. By their 40s they are already half way to take off – retirement - and by their early 50s the end of the runway is fast approaching.

Now is the time to assess where you are on that runway and, just as importantly, where you want to get to. Even if you already have a significant pension pot you want to be certain that your retirement plans are on course.

At Brewin Dolphin our experts can work with you to develop a tailor-made financial plan that helps you focus on making the most of your pension, savings and other investments to help you live the retirement you always intended. Your priorities and financial circumstances can shift over time so we will monitor your plan regularly to make sure it always meets your needs. We will do the hard work, taking account of all your other commitments, to develop a holistic plan that works for you.

The value of investments can fall and you may get back less than you invested.

No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us.

Prioritising your pension

When was the last time you took a close look at your pension? Not just glanced at your annual pension statement, but clarified what you want your pension to achieve and whether you are on course to reach your retirement goals. When was the last time you considered pension tax allowances and whether you are making the best use of them?

For many people the answer to this question is “only when it is too late to make a difference”. Many do not seriously consider how they are going to manage financially in retirement until they are about to retire. It is only then that they discover that their pension is not on target to meet their retirement aspirations.

When you are living a busy life it can be difficult to find time to consider your long-term plans: your mortgage or your children’s education might be more immediate financial priorities; your career or running your business more pressing demands on your time. However, getting your pension on track as soon as possible could save you and your family a financial headache. Nevertheless, it’s still important to review your retirement plans, as a delay could cost you later.

Fortunately, your 40s is often a good time to build on your existing savings. You may be hitting peak earnings years and so you can potentially benefit from higher tax relief on your pension contributions. Another reason to take full advantage of pension tax allowances as soon as you can is that there is no guarantee they will be there in the future. Governments could decide to reform pension tax at any time, so it makes sense to make the most of what is on offer now.

The cost of delay

Even delaying starting a pension by a few years can have a dramatic effect on the size of your pension pot and the retirement income that you are able to draw from it. The calculations in Table 1 show that a 40-year old who wants to retire at 68 on £20,000 a year in real terms could achieve this by saving £1,425 a month gross. Wait until 50 to start saving into a pension and you would have to save £2,480 a month to achieve the same objective.

Table 1 Target £20,000 a year net pension in real terms at age 68 (excluding State pension)

Age	Gross monthly contribution	Gross annual contribution
25	£790	£9,480
30	£945	£11,340
35	£1,145	£13,740
40	£1,425	£17,100
45	£1,830	£21,960
50	£2,480	£29,760

Source: Brewin Dolphin.

Figures assume a yearly investment growth of 2.5%, inflation of 2.5% and fund charges of 1% a year. Contributions assumed to increase by 4% annually. These figures are illustrative and to achieve the target you may have to contribute more than this. You should remember that the value of investments can fall and you may get back less than you invested.

Even if you have been saving for many years there is no room for complacency. As long as you are unsure what you want your pension to achieve and whether it is on course to deliver at retirement there is always the danger that it could disappoint. Establishing when you would like to retire, how much money you will need to live on and whether your savings are on target gives you the basis around which to create your retirement plan.

Please note that this document was prepared as a general guide only and does not constitute tax or legal advice. While we believe it to be correct at the time of writing, Brewin Dolphin is not a tax adviser and tax law is subject to frequent change. Tax treatment depends on your individual circumstances; therefore you should not rely on this information without seeking professional advice from a qualified tax adviser.

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The tax benefits of pensions

Pensions are one of the most tax-efficient ways of funding your retirement. These tax benefits, including tax relief on contributions, can significantly enhance your retirement savings over the long term.

Pension savers qualify for a number of tax allowances.

- Tax relief on pension contributions. Subject to restrictions discussed later in this document, the amount of relief you receive on pension contributions is based on the highest rate of income tax you pay – 20%, 40% or 45%. The tax relief means, for example, that a £10,000 contribution costs a basic-rate taxpayer £8,000, a higher-rate taxpayer £6,000 and an additional-rate taxpayer £5,500.
- Investments within a pension fund can grow free of capital gains tax and income tax. This, coupled with the relief on contributions, can give a significant boost to pension fund returns over time.
- You cannot take money out of a pension until you are 55, rising to 57 in 2028†, but once you get there you can withdraw up to 25% of the value of your pension fund tax free as a lump sum - (see also The importance of astute planning section later in this guide).
- The overall intention is that a tax advantage is gained from pension saving assuming pension tax relief is at a higher rate on contributions than the tax rate charged on income in retirement.

† This age may increase after this date in line with life expectancy.

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Where an individual has flexibly accessed their pension savings on or after 6 April 2015, their annual allowance may be reduced to £10,000 and in addition unused annual allowance brought forward from earlier years will not be available to increase this amount.

The annual and lifetime allowance

How much you can contribute to a pension and get tax relief is limited by two allowances:

- The lifetime allowance, being the maximum amount of pension saving you are allowed to amass over a lifetime without incurring a tax charge, dropped from £1.25m to £1m. If your pension savings go above the limit they will be subject to additional taxation, for example a lifetime allowance charge of up to 55% on the excess when they are withdrawn.
- The annual allowance is the limit on the amount of pension contributions that can be made each tax year to qualify for tax relief. The current annual allowance limit (subject to further conditions below and changes in tax legislation) is the lower of relevant earnings or £40,000. However, since 6 April 2016 the annual allowance has been tapered for those with an income of over £150,000. The £40,000 allowance goes down by £1 for every £2 of income above £150,000 until it reaches a lower limit of £10,000. The result being that the amount of tax relief on pension contributions has been reduced. Because the calculation includes pension contributions anyone earning £110,000 or more could be affected and should seek expert advice.

Table 2: How high earners pension tax relief has been reduced*

Adjusted income - which includes the pension contribution	Annual contribution allowance**	Amount of tax relief available (up to 45%)
£150,000 or below	£40,000	£18,000
£170,000	£30,000	£13,500
£190,000	£20,000	£9,000
£210,000 or more	£10,000	£4,500

* Assumes the individual has not accessed their pension savings.

** As applicable at 6 April 2016.

Benefit while you can

In October 2015 the government launched a consultation on private pensions. One proposal was to switch to a single flat rate of tax relief on contributions, potentially at a level between 25% and 33%. This would have meant reduced tax breaks for people on higher incomes, while giving additional benefits to basic rate taxpayers.

In the 2016 Budget the former Chancellor George Osborne concluded that there was "no consensus" for reform. However, this may be only a stay of execution.

Higher and additional-rate taxpayers could receive thousands of pounds less in tax relief if a flat rate were to be introduced. A higher-rate taxpayer paying 40% tax and making gross pension contributions of £10,000 a year would receive £1,500 less in tax relief if the rate were to be set at 25%. If it were set at 33% they would lose £700 a year. Higher earners paying 45% tax would lose even more (see Table 3).

Table 3: What a flat-rate of tax relief could mean for you

40% taxpayer

Gross contribution	£10,000	£20,000	£40,000
Existing tax relief	£4,000	£8,000	£16,000
Flat-rate tax relief of 25%	£2,500	£5,000	£10,000
Potential loss	£1,500	£3,000	£6,000
Flat-rate tax relief of 33%	£3,300	£6,600	£13,200
Potential loss	£700	£1,400	£2,800

45% taxpayer

Gross contribution	£10,000	£20,000	£40,000
Existing tax relief	£4,500	£9,000	£18,000
Flat-rate tax relief of 25%	£2,500	£5,000	£10,000
Potential loss	£2,000	£4,000	£8,000
Flat-rate tax relief of 33%	£3,300	£6,600	£13,200
Potential loss	£1,200	£2,400	£4,800

Lower relief, lower growth

Over the longer term, the potential impact of a flat-rate tax could be profound as savers would miss out on accumulated growth on the tax relief they no longer receive. Under the current system a 45-year old higher-rate taxpayer who has already accumulated a £200,000 pension pot and is making net contributions (before tax relief) of £6,000 a year would receive £4,000 a year in tax relief taking their gross annual contribution to £10,000. If we assume he or she makes the same contributions for the next 20 years, at 65 their pension pot could be worth £549,000. If they took 5% a year as income, that could provide an annual income of around £27,400.

If tax relief was cut to 25% he or she may receive only £2,000 in tax relief turning their gross contribution into £8,000 a year.

At 65 their pension pot would have grown to £496,000 and their projected income (5% of the fund) would be around £24,800 a year, which is £2,600 a year less.

This example assumes growth above inflation and after charges of 2.38% a year. These are only examples and the amount your investment could be worth at the end of the illustrated periods could be more or less than the amounts shown.

These figures underline the importance of making the most of tax breaks while they remain available. With the pensions landscape ever-shifting, we can help you take action now to make sure you are making the most of the existing tax allowances.

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How much should you contribute?

The decision about how much to contribute to a pension will be a personal one, based on how much you can afford now and the life you want to live in retirement. You also need to take account of the limits on the amount of pension contributions on which tax relief can be claimed in a tax year.

The importance of staying alert

Your situation will change over time so you need to check whether your pension is on track on a regular basis. Pension contributions are typically paid into investment funds, which need to be monitored at least annually to ensure that they are performing as they should be. If they are not faring well, it makes sense to get specialist advice about improving the performance of your pension savings.

As you get older, your attitude to risk may change. This can be a complex area and it is sensible to get expert advice on ensuring that your pension savings are appropriately invested over time.

The key for many people is to build up a big enough pension pot to ensure that they do not run out of savings before they die.

The value of investments and any income from them can fall and you may get back less than you invested.

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The importance of astute planning

Everyone's circumstances are different so it makes sense to seek out expert advice tailored to your situation. Our experts can work with you to develop a personal and precise financial plan that helps you focus on making the most of your pension pot, savings and other investments under the current pension rules.

The pension system has changed substantially in recent years. Some of the most significant changes came into effect in April 2015, the biggest reform of the pension system in 100 years. It is important that you are aware of the options following the changes.

What has changed?

- Since 6 April 2015 anyone over the age of 55 with a money purchase pension plan can spend, save or invest their pension fund as they wish. You have complete freedom over how you generate an income from your pension savings. That could mean buying an annuity, managing a pension fund using income drawdown or taking the whole lot as a lump sum. It is important to point out that the new rules do not apply to final salary pension schemes.
- Leaving funds to loved ones is a priority for many people and under the new rules it is possible to pass pensions to your children or grandchildren completely tax free. If you die before the age of 75 benefits left in a money purchase pension can be paid as a lump sum or drawdown income to any beneficiary with absolutely no tax to pay. After 75 they will be taxed at the beneficiaries' marginal income tax rate[1].

[1] Gov.uk Tax on a private pension you inherit, 6 April 2016.

How we can help

Our financial planners can help you with 'cashflow analysis' for your retirement. This will analyse your future cashflow position and identify areas where you are potentially at risk of a shortfall.

Your financial planner will also be able to 'stress test' how different financial decisions, growth rate assumptions, inflation and other economic events might impact on your ability to meet your financial goals in retirement. This can be used to answer questions such as how much money you will need to retire and how much it will cost you now to achieve this.

Among the things we can help with are advising on using money in a tax-efficient way and putting in place a plan that takes account of inflation to help make sure your savings last as long as possible.

If you make the right decisions, meeting your retirement goals need not be hard work. However, it is not something that can be left to chance. Your financial planner can take the strain and ensure that your affairs are properly organised and kept up to date through regular reviews, providing you with peace of mind at every stage of the process.

To speak to one of our financial planners, call 020 3201 3900 or contact your local Brewin Dolphin office.

About us

We are an independent and award-winning wealth manager, specialising in creating bespoke financial plans and investment portfolios for individuals, charities and pension funds.

Brewin Dolphin was founded in 1762 on the belief that the successful management of wealth takes an understanding of money but is rooted in an even deeper understanding of people. Even with today's technological advantages, we continue to believe that the best way to understand your needs is to invest time with you. It is only by understanding your personal and professional ambitions and aspirations that we can create and execute a strategy that will truly achieve your goals. Placing such a premium on personal relationships, we have built up a network of 28 offices across the UK, Channel Islands and Ireland.

As one of the largest independent wealth management companies not tied to any banks or fund managers, we have made a very deliberate choice to have no in-house funds or products. This gives our advisers full independence in how they craft personal advice and investment strategies for clients. Our own independent in-house research team develops its own unconstrained views and insights on markets, funds, asset classes and individual companies, which our client advisers can draw upon to best manage your wealth.

We believe that only with an approach like ours can wealth management advice be truly bespoke.

To speak to one of our financial planners, call 020 3201 3900 or contact your local Brewin Dolphin office and we will be delighted to help you.

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Whilst Brewin Dolphin looks across a wide range of financial products and services in order to meet your needs and objectives, we will not review all Retail Investment Products in the market. As such we offer a 'Restricted Advice' Service.

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