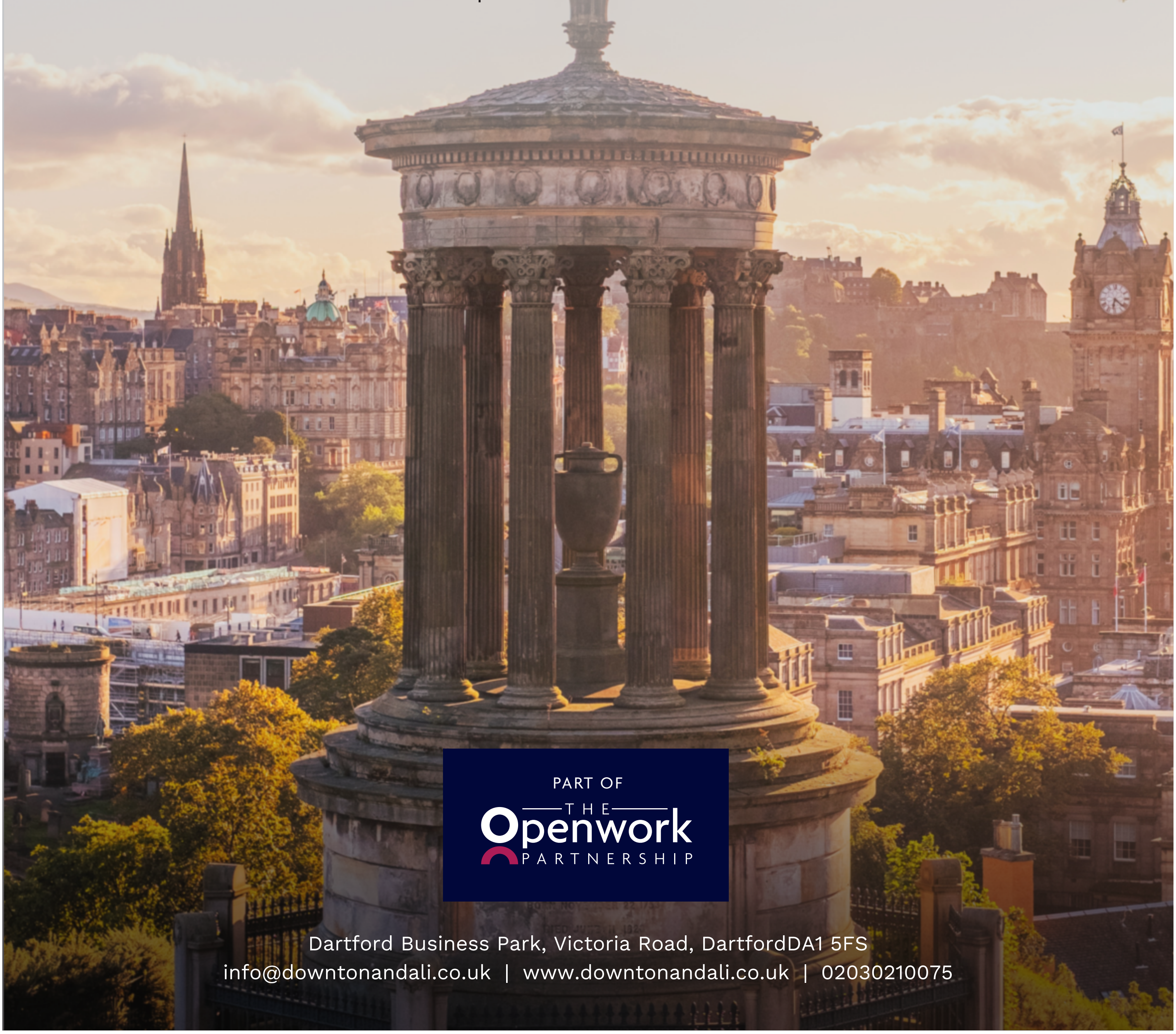
Downton and Ali Associates

PENSION VIEWPOINT

DOWNTON AND ALI ASSOCIATES

If you want to discuss how the details in this newsletter may affect your financial plan please contact us.



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Want to avoid retirement remorse?

Most people have a lot of different financial commitments and life can feel a bit like a financial juggling act. It can seem like saving in to a pension is just putting money away for the long-distant future – but putting your pension at the forefront of your financial goals makes good sense.

The earlier you start saving into a pension, the more time your investment has to grow. People are living longer, meaning that your retirement could span multiple decades – and therefore cost you more. So, what can you do to avoid retirement remorse later in life?

Don't fall into pension apathy

It's all too easy to put your pension firmly at the back of your mind while you focus on the now. But drifting into pension apathy and failing to plan ahead could make a substantial difference to your retirement income.

Biting the bullet, sitting down with a financial adviser and coming up with a robust, long-term plan for your pension at an early stage is one of the best investments you can make for your future.

Never too early

In an ideal world, you should start thinking about your pension as soon as you step into the workplace. This will allow you to take advantage of workplace pension schemes and employer contributions, as well as tax relief on all contributions at the highest rate of Income Tax you pay (subject to annual and lifetime allowances).

Don't rely solely on the State Pension

The full new **State Pension is £175.20 per week,** but government statistics show that the **average retirement income was £320 per week** (after housing costs) in 2018-19, or around **£16,640 per year**. This means that retirees are increasingly having to use private pensions, both workplace and personal, to bridge the gap.

A survey of Which? members in April 2020 suggested that individuals were spending **£19,000 per year to enjoy a comfortable retirement and £30,000 per year for a luxurious retirement,** couples were spending **£25,000 per year to enjoy a comfortable retirement and £40,000 per year for a luxurious retirement** – meaning there is still a shortfall between the average retirementincome and what is needed to maintain the lifestyle to which you're accustomed once you stop working.

No regrets

Don't leave yourself with a shortfall in retirement. You've worked hard and will want to live out your retirement years in comfort! That's where we can help. Come to us and we'll assist you in drawing up a long-term plan for your pension, so you can enjoy the retirement you deserve.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Keep your pension planning on track

The coronavirus outbreak is having a widespread impact across all aspects of our financial life, with many people finding their income reduced. At times like this it can be challenging to stay focused. No matter what age you are, now is not the time to neglect your pension. Try your very best to keep your pension planning and contributions on track – don't allow the pandemic to cast a cloud over your long-term plans.

It's never too early to start saving into a pension...

You should start saving for retirement as soon as possible, as the sooner you begin, the longer your savings have to grow. Other financial challenges can make this difficult but investing regular amounts in a pension throughout your working life gives you the best chance of enjoying a prosperous retirement.

...but better late than never

Don't think it's too late to start saving for your retirement. The favourable tax treatment pensions enjoy and their potential for investment growth, means any contributions you make later in life can still make a huge difference to your standard of living in retirement.

Take control of your retirement

When you reach 55, it's important to carefully consider what you can do with your pension pot. For instance, you could keep your savings invested, take a cash lump sum, draw a flexible income (drawdown), buy a fixed income (an annuity), or a combination of these. While this flexibility may enable you to retire earlier or semi-retire, it's vital you take full control of your retirement options at this stage. This should include seeking advice to discuss the pros and cons of the different avenues available to you.

Know your numbers

You can contribute as much as you like into your pension, but there is a limit on the amount of tax relief you will receive each year. The Annual Allowance is currently £40,000, or 100% of your earnings, whichever is lower. You can, however, carry forward unused allowances from the past three years, provided you were a pension scheme member during those years.

For the 2020-21 tax year the Tapered Annual Allowance limits altered. The Threshold Adjusted Income limit is £200,000 and the Adjusted Income Limit is £240,000. If your income plus pension contributions exceeds the Adjusted Income Limit, your Annual Allowance is reduced by £1 of every £2 you are over the Adjusted Income Limit. A Lifetime Allowance also places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money. This limit is currently £1,073,100.

Get good advice

Retirement planning is never a case of 'one size fits all'. It is vital you obtain sound financial advice tailored to your individual needs. We offer advice and help with all aspects of pensions and retirement planning, whether you're just starting out and want help choosing the most appropriate pension products, or you're approaching the stage of life when you need to utilise your pension pot and want to know the most efficient way to access your funds. We are here to help.

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HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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Are you approaching retirement?

If you are nearing retirement, you may have been particularly worried about the impact of recent market volatility on your pension assets and perhaps you are reassessing your retirement plans. There are several things to consider if you are planning to retire, which will depend very much on your own circumstances.

Since pensions freedoms were introduced in 2015, there are many more options available to retirees. Sudden retirements used to be the norm. People would stop work completely one day and be fully retired the next, perhaps receiving a regular income from an annuity. It is now possible to take a more gradual journey into retirement - making use of this flexibility in how you draw funds could be sensible in times of uncertainty.

Consider your timescales

If your planned retirement is 5 to 10 years away, there is a reasonable time for your savings to recover from the recent market volatility, but you should still take action:

— Review your retirement age.

— Consider increasing your pension contributions.

— Talk to us about your attitude to risk and appropriate fund switches.

If you have less than five years to retirement, your pension pot may not have been exposed to market volatility as much as you think. You may have benefited from a lifestyle option on your pension which is designed to ‘lock in’ investment growth as you approach retirement, by switching funds to less risky assets. This option is not suitable for everyone, particularly if you intend to keep your pension pot invested and use income drawdown to give you an income in retirement.

If you are retiring this year and your pension pot has taken a hit, you could consider delaying retirement until markets recover, but this may not be an option for everyone.

Advice is key

One of the biggest risks in uncertain times is to act in haste and make rash decisions.

Getting financial advice is crucial in making the right decision. We can help you consider all your options, including reviewing whether any other assets could be used to provide an income, so that your pension stays untouched.

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