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# FINANCIAL FOCUS

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ISSUE 7 ■ WINTER 2018

# LOOKING TO THE FUTURE

Taking the steps now to prepare yourself for retirement

## ALSO INSIDE THIS ISSUE

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# Inside this issue

Welcome to the Winter 2018 issue of *Financial Focus*. As the poet and playwright Oscar Wilde once commented, 'When I was young I thought that money was the most important thing in life; now that I am old I know that it is.' And with these pertinent words in mind, inside this issue we look at a number of topics designed to keep you up-to-date and help you plan to meet any changes in your life and financial circumstances.

Exactly how much you'll need for a comfortable retirement will depend largely on your cost of living and lifestyle choices. For many people, retirement is about sun-soaked holidays, leisurely rounds of golf and that boat they've always coveted. But retirement is not what it used to be, with more of us working longer to build up our decided retirement income. On page 04, we look at why it's essential to reassess how much you're saving into your pension if you want to make your own vision a reality. For many people, retirement may seem a long way off, and saving into a pension isn't always a top priority.

We all intend that our plans will come good but making sure that you and your family can cope if you fall ill or die prematurely is something we can too easily put to one side. In particular, a recent study, which we examine on page 06, identified that financial protection is something that millions of fathers in the UK, and their families, could benefit from. More than half (58%) of men in the UK with dependent children have no life insurance, meaning that just over 4.5 million dads are leaving their families in a precarious situation if the unforeseen were to happen.

It's bad news for romantics, according to the latest annual research into the retirement aspirations and financial planning of UK couples aged 40 and over. This identifies that nearly one in three couples (31%) have secret savings or investments that they have deliberately started without telling their partner or spouse. And it's not just a few pounds, as 7% admit to hiding savings of over £50,000. Find out more on page 12.

A full list of all the articles featured in this edition appears opposite.

We hope you enjoy reading our magazine. To discuss your financial planning requirements or to obtain further information, please telephone 0114 2758882, or email info@wfillp.co.uk.

Kind Regards

**Mark Rendall DipPFS**
**and Charles Gillespie FPFS**
*Joint Managing Partners*

wfi FINANCIAL LLP

Independent advice from a leading firm of chartered financial planners


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**INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. LEVELS, BASES AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.**

**THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.**

**PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.**

# WFI'S YOUNG ACHIEVER

WFI financial adviser Simon Megson was presented with the 2018 Insurance Institute of Sheffield Young Achiever of the Year Award at the Institute's black tie annual dinner.

The award was in recognition of his professional, educational success and achievement that required him to be nominated by his peers and then personally submit several client testimonials.

The award was presented at the 106th Annual Dinner at the Royal Victoria Hotel by the Institute's President Geoff Fenwick. WFI's Joint Managing Partner Charles Gillespie commented, 'We are proud of Simon's achievement having only joined us just over two years ago, and as an adviser relatively new to the industry we have been mightily impressed by the progress in his technical knowledge and commitment to professionalism and a high level of client service.' ■

# NEW ARRIVAL AT WFI

WFI Financial has recently seen the arrival of Mick Adcock to take up the role of Compliance Manager for the firm, working closely with Joint Managing Partners Mark Rendall and Charles Gillespie.

Mick has a wealth of experience in the financial services arena, including in bank assurance and the IFA market place.

He is qualified to Adviser Diploma level, however, he has chosen to specialise in the compliance side of the business where he is able to apply the knowledge and skills acquired over many years. Mick previously worked for Tenet who are responsible for WFI's compliance and has been WFI's Supervision & Compliance Manager since WFI became an Appointed Representative of Tenet in December 2012, so he knows the firm, its advisers and staff well.

Now the children are grown up and settled, his son in Sheffield and daughter closer to home in North Leicestershire, Mick is looking forward to spending valuable time with his family (soon to be 'Grandpa' again) but to also to enjoy the 'Great Outdoors' along with his wife Linda and Ziggy the Black Labrador who is always ready for the next adventure. ■

*Mick Adcock*

# WORLD CUP FEVER

In the summer, World Cup fever took hold of the nation. England dreamed of glory and briefly the impossible dream was on. Sadly, it faded in the blazing sun against Croatia, but still for a moment we all dreamt of England's first World Cup final since 1966.

Seeking to raise much needed funds for two very deserving charities, the Yorkshire Air Ambulance and the Prostate Cancer Research Centre, Sheffield adviser Rob Mitchell ran a World Cup fantasy football competition. With over 400 entries and the generosity of WFI's clients, a staggering £6,000 was raised for the two charities.

The winner with a perfect selection of France, Belgium, Uruguay, Switzerland, Russia and South Korea, decided on a tie break, guessing the total of 167 tournament goals was Stephen Black, who won tickets to an England cricket match. Congratulations to Stephen and all the prize winners, and thank you to all who supported this competition.

# THANK YOU TO WFI CLIENTS

WFI's chosen charity, St Luke's Hospice, based in Sheffield, was supported by the generosity of a large number of clients with a donation of £2,050.

Every year, St Luke's help around 1,800 patients providing highly specialist palliative care for those dealing with terminal illnesses. Their purpose is to improve the lives of people with a range of terminal conditions by providing high-quality care and support with compassion and respect.

Corporate Fundraising Manager Jack Kidder wrote, 'I write to express our sincere thanks on behalf of all at St Luke's for the generous donation and pass on our deepest gratitude to every single one of WFI's clients who have so kindly and generously donated. We depend on donations such as yours as only around 23% of our work is NHS funded – everything we receive is essential to us.' ■


*Simon Megson, Joasia Lesniak, Charles Gillespie and Mark Rendall*

# SEIZE THE DAY – TODAY

*Make your vision a reality*

Exactly how much you'll need for a comfortable retirement will depend largely on your cost of living and lifestyle choices. For many people, retirement is about sun-soaked holidays, leisurely rounds of golf and that boat they've always coveted.

But retirement is not what it used to be, with more of us working longer to build up our decided retirement income. So it's essential to reassess how much you're saving into your pension if you want to make your own vision a reality. For many people, retirement may seem a long way off, and saving into a pension isn't always a top priority.

But the simple truth is the earlier you start, the easier it will be. If you have less time to invest, then the amount of money that you have to save is likely to be higher to make sure your retirement planning is on track. We've provided some ideas to help improve and boost your savings for a more comfortable retirement.

## STARTING POINT FOR YOUR RETIREMENT PLAN

Working out what pensions you already have should be a starting point for your retirement plan. Locate the latest statements you have for all your pensions, including from previous employers and personal pensions. You can also get a forecast of your state pension via www.gov.uk/check-state-pension.

You should be sent an annual statement for each of your pension schemes, including any employer-based arrangements and personal pension plans, even if you are no longer contributing to them. If you don't have up-to-date statements, you can ask for these to be sent to you. You may also be able to access pension values online via your pension company/scheme website.

## VALUING YOUR PENSION

As well as telling you what your pension is worth now, annual statements will also detail what your pension might be worth at retirement.

These forecasts (don't think of them as anything more than rough estimates) will be based on a range of assumptions including investment growth and inflation between now and retirement.

It is important to consider the effect of inflation because, over time, this can significantly reduce the spending power of your pension.

## COST OF YOUR LIFESTYLE

Whether your pension will be enough to pay for the retirement you want will depend on the savings pot you amass, as well as the cost of your lifestyle when you retire.

Working out what income you will need in retirement may not be straightforward, however. Your life in retirement will be different from your working life; some costs may go up, while others will reduce.

You may spend more on holidays and leisure (especially in the earlier years of retirement), but your housing costs may be lower. While you may no longer have the costs of bringing up children, you may still want to help them financially, and there could be grandchildren to think of. In your later retirement years, you could have care costs. The traditional rule of thumb has been a target pension income of two thirds of your salary.

## KNOW YOUR MAGIC NUMBER

Having accounted for the State Pension and any defined benefit scheme pension, you need to calculate how much money you will need to save to produce the remainder of your target income. This can depend on factors such as the age you want to retire, income yields available on investments, how much prices rise during your retirement and how long you live for – and how much you have put aside already.

If you contribute through a workplace pension, your employer will also contribute on your behalf, and you could qualify for National Insurance savings using a so-called 'salary sacrifice' arrangement. Employer top-ups in particular can significantly increase the value of your pension contributions, so it is worth checking that you are making the most of any workplace generosity offered.

It's also important to be aware that there is a limit on the size of overall pension savings you can accumulate – currently £1.03 million (for 2018/19, and rising annually in line with inflation) – without facing a hefty tax charge of up to 55% on the excess.

This Lifetime Allowance (LTA) for pensions could also be a challenge for people whose retirement savings are currently less than £1 million, as well as individuals with sizeable final salary pension entitlements. Investment growth and ongoing contributions could lead to your breaching the LTA in future.

## ALTERNATIVE WEALTH OPPORTUNITIES

Pensions are not the only way to save for retirement. Tax-efficient Individual Savings Accounts (ISAs) are a popular savings option, while many people see property – particularly in the form of buy-to-let – as their retirement nest egg.

## TIMING IS EVERYTHING

Pension freedoms have now given retirees considerable flexibility over how they draw an income or withdraw lump sums from their accumulated retirement savings. Pension savings can be accessed from age 55. You no longer have to purchase an annuity – an

income stream for life – and you can choose how much income you take and when to take it.

You could take your whole pension fund as cash in one go – with 25% being tax-free and the rest taxable. Other options include taking a lump sum now, with further withdrawals when you want, or an ongoing regular income (via so-called drawdown or an annuity). However, the danger of these pension freedoms is that people withdraw too much money too quickly and risk running out of money before they die.

It is also possible to pass on your pension savings completely free of tax. So, as well as being a tax-efficient way to invest, pensions can be a very useful way to reduce Inheritance Tax bills.

## SEIZE THE DAY – TODAY

Too many people fail to 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 can make 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 later on.

Another reason to take advantage of existing pension tax breaks is that there is no guarantee they will be there in the future. The Government has already cut the annual allowance to £40,000 – and as little as £10,000 for very high earners – while reducing the lifetime allowance from its £1.8 million peak in 2011/12. Higher-rate Income Tax relief on contributions could be next, so it makes sense to make the most of what's on offer now. ■

## REACHING YOUR WEALTH GOALS

Saving for retirement is essential if you want fully to enjoy your later years, but how do you assess how much income you will need? Plus, how much do you need to save to reach your goals? If you would like to review where you are financially, please contact us – we look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

# FINANCIAL PROTECTION

*Families left in a precarious situation if the unforeseen were to happen*

We all intend that our plans will come good. But making sure that you and your family can cope if you fall ill or die prematurely is something we can too easily put to one side. In particular, a recent study identified that financial protection is something that millions of fathers in the UK, and their families, could benefit from.

More than half (58%) of men in the UK with dependent children have no life insurance, meaning that just over 4.5 million dads[1] are leaving their families in a precarious situation if the unforeseen were to happen. Worryingly, this has increased by five percentage points compared with 2017, a year-on-year increase of around 542,000 individuals[2].

## FINANCIAL HARDSHIP

Despite a fifth (20%) of dads admitting their household wouldn't survive financially if they lost their income due to long-term illness, only 18% have a critical illness policy, leaving many more millions at risk of financial hardship if they were to become seriously ill.

**Critical illness insurance –** this doesn't usually pay out if you pass away, so it's not always suitable if you want to make sure your family are provided for after you've gone. This is where life insurance comes in.

**Life insurance –** this insurance usually only pays out if you pass away. It's designed to help your family maintain their lifestyle after you've gone, for example, to pay off a mortgage or other loans and provide for children's university fees.

Many insurers will offer both types of cover combined.

## NO SAVINGS

If they were unable to work due to serious illness, 16% of fathers say they could only pay their household bills for a minimum of

three months. More than two fifths (45%) say they'd have to dip into their savings to manage financially, but 17% admit that their savings would last for a maximum of just three months, and 12% say they have no savings at all.

On top of this, many fathers are leaving themselves and their families unprepared for other aspects of illness or bereavement. 16% of them aren't sure who would take care of them if they fell ill, and more than two fifths (42%) don't have the protection of a Will, power of attorney, guardianship or trust arrangement in place for their families.

## RISKY POSITION

This is an especially risky position for the two thirds (66%) of UK fathers who are the main breadwinner in the family, and it's clear that many are in lack of a 'Plan B'.

Many fathers don't consider having insurance as a necessity, with 16% of those without saying they don't see critical illness cover as a financial priority, and 20% saying they don't think they need it. The value of protection, however, is to provide long-term peace of mind about having financial security in place for your dependents.

## SEEK ADVICE

Life is full of uncertainties – and while we insure cars, houses and even holiday arrangements, when it comes to ourselves and our family, often insurance is overlooked and undervalued. The simple truth is we can get too ill to carry on working or tragically die too soon, either through serious illness or accident. These events are random, and they can potentially affect us all.

Recent changes to bereavement benefits, and their continued unavailability to those in cohabiting relationships, mean that it's more important than ever for fathers to review their financial protection needs and seek advice to make sure their household is covered.

## UNFORESEEN CIRCUMSTANCE

The impact of losing the family breadwinner can be devastating – missed mortgage repayments, savings depleted, your home being sold, your family's standard of living eroded, with stress and worry all too evident.

Whether it is your family or other loved ones, it's essential to make sure that the people and things that matter to you are taken care of – whatever life throws at you.

## CREATING A DURABLE PLAN FOR THE FUTURE

We understand that expert advice on financial matters is invaluable in creating a durable plan for the future. To discuss what's best for you and your family if the unforeseen were to happen, contact us so we can find the solution that's right for you. ■

**Source data:**

*All figures, unless otherwise stated, are from Opinium Research. The survey was conducted online between 5 and 12 April 2018, with a sample of 5,022 nationally representative UK adults.*

*[1] Percentage of adult population that are fathers with dependents = 762/5022 = 15.17%; 15.17% of adult population of 51,767,000 = 7,854,730 million; 58% of these don't have cover so 4,545,848 million*

*[2] Percentage of adult population that are fathers with dependents = 735/5077 = 14.48%; 14.48% of adult population of 51,767,000 = 7,495,861 million; 53% of these don't have cover so 4,003,721. Difference of 542,127 compared with 2017*

## EXPERT AND PROFESSIONAL ADVICE IS THE KEY

You don't have to do anything with your pension savings when you reach age 55. If you don't need the money yet, you can leave it where it is. But whatever your future plans are, it's essential to receive expert and professional advice. To review your situation and consider the ways we can to help you make the most of your retirement income, please contact us – we look forward to hearing from you.

PROTECTION PLANS USUALLY HAVE NO CASH IN VALUE AT ANY TIME AND WILL CEASE AT THE END OF THE TERM. IF PREMIUMS ARE NOT MAINTAINED, THEN COVER WILL LAPSE.

CRITICAL ILLNESS PLANS MAY NOT COVER ALL THE DEFINITIONS OF A CRITICAL ILLNESS. THE DEFINITIONS VARY BETWEEN PROVIDERS AND WILL BE DESCRIBED IN THE KEY FEATURES AND POLICY DOCUMENTS IF YOU GO AHEAD WITH A PLAN.

# LATER RETIREMENT

*Workers extend their careers for a multitude of reasons*

When do you plan to retire? Saving for your retirement is a lifelong undertaking – and if you want to enjoy a comfortable retirement, you can't start planning soon enough. The more you contribute to a pension now, the better chance you'll have of that money growing and funding your retirement in later life.

But the proportion of UK employees who say they will work beyond the age of 65 has remained at three quarters (72%) for the second year running, significantly higher than in 2016 (67%) and 2015 (61%), according to latest research[1].

Nearly half (47%) of those who say they expect to work beyond 65 will be older than 70 before they retire, up from 37% in 2017, while almost a fifth (17%) expect to be older than 75. Workers aged 35–44 are most likely to say they expect to retire after their 75th birthday (27%).

## EMPLOYEES WORKING FOR LONGER

A series of economic factors are driving employees to work for longer. The rising cost of living is forcing over 20 million into later retirement[2]. In fact, nine in ten (90%) UK employees say that the rising cost of living is the main reason why they expect to work beyond 65, with 87% saying the same of poor returns on savings due to low interest rates.

## DIVERSE SET OF WORKFORCE SKILLS

Opinions remain divided about the UK's ageing workforce as it brings a new set of challenges for workers to contend with. Over a third (36%) believe that an ageing workforce might mean that older workers will have to re-train or learn new skills to stay in work, while three in ten (30%) think it could make it harder for young people to move up the career ladder. But more than two fifths (41%) are positive that a mix of older and younger employees creates a workforce with a wider range of skills, which is beneficial for employees and employers alike.

## PROMOTING OLDER WORKPLACE EMPLOYEES

This comes as just 6% think the Government is helping to promote older workers, down from one in ten (11%) following last year's announcement of an increase in the state pension age[3]. So far, only 13% think that employers are encouraging older employees to stay in the workplace, and little more than a sixth (15%) believe that older people are appreciated and respected in the working environment.

Support for older workers in the workplace can come in many different forms, but often the simplest are the most effective. Nearly half of employees (45%) think flexible working or part-time opportunities are most important when it comes to supporting an ageing workforce. Out of those planning to work beyond State Pension age, 60% say that they would be more likely to work for an employer that offered health and well-being benefits.

## STIGMA SURROUNDING OLDER WORKERS

The combination of an increase in the cost of living, poor returns on savings and inflation continues to impact the UK's retirement plans. This is the second year in a row that the findings indicate that more than 70% of the country's workforce expect to work beyond the age of 65, and there is no sign that this trend will slow down any time soon.

But even as an older workforce becomes more common, the stigma surrounding older workers is proving hard to shake. Employers now have the opportunity to capitalise on the skills of two or even three generations, but only if they address potential generational divides and the changing needs of their employees. ■

**Source data:**

*[1] Research conducted by Canada Life using ONS Employment Figures, May 2018.*
*[2] Research conducted by Canada Life using ONS Employment Figures, May 2018.*
*[3] Proposed new timetable for State Pension age increases, 19 July 2017.*

## PERCENTAGE OF EMPLOYEES GIVING RISING COST OF LIVING AS MAIN REASON FOR EXPECTING TO WORK BEYOND AGE 65

| | % | Number | Difference |
|---|---|---|---|
| 2018 | 90% | 20.7 million | + 16.2 million |
| 2017 | 21.95% | 5.0 million | + 0.5 million |
| 2016 | 24% | 4.5 million | - |

## PREPARATION FOR YOUR FUTURE

There are important decisions to make in preparation for your future and at retirement. Even if this seems a long way off, having a plan in place is vital to ensuring the lifestyle you want is achievable. We can help you at every step. To discuss your plans, please contact us.

# LOOKING TO THE FUTURE

## *Taking the steps now to prepare yourself for retirement*

With increasing numbers of people working past traditional retirement ages[1], stopping work can seem a long way off, especially for younger people. But it's the dream of an early retirement that keeps many people going through the daily work grind.

Fantasies of a round-the-world cruise, sundowners on a seaside terrace or writing a best-selling novel can make work endurable. The good news for many is that the dream of an early retirement is being realised[2], with nearly two thirds (60%) of those stopping work this year doing so before their expected State Pension age or company pension retirement date.

### ESCAPE THE DAILY GRIND

It appears that those planning to escape the daily grind early feel the most comfortable when it comes to their financial situation in retirement – with over half (56%) saying they feel financially well prepared compared with 49% of those working towards their expected retirement date. That's reflected in the numbers taking financial advice – 68% of early retirees are seeking professional advice compared with 60% of those working until their projected retirement age.

The opportunities that retirement brings are limitless, with travelling or spending long periods abroad high on many people's wish lists. The average age of those retiring early is 57, and early retirees are planning to make the most of their free time – over a third (37%) plan to take up a new hobby or sport, 27% will start voluntary or charity work, and nearly a fifth (17%) are planning a long-term holiday or gap year.

### MEETING YOUR LIFE GOALS

But early retirement also can bring with it the challenges of meeting your life goals, such as funding a child's education and their wedding, along with bearing household expenses long after you've retired because of increasing life expectancy.

To retire earlier requires planning, discipline and paying close attention to your savings and investments. But the sacrifices and extra effort are worth it to enable you to have more opportunities to spend time with the people you care about.

### REASONS TO START SAVING FOR RETIREMENT EARLY

### YOU'LL PREPARE IN A MORE RELAXED WAY

Saving for 30 years instead of 10 means you can put away less money each month and reach the same target. It'll also mean you have cash left over to spend on yourself in the meantime.

### EARN MORE THANKS TO COMPOUND INTEREST

If you start saving today, you'll earn more because interest payments build up – every interest payment you receive starts earning corresponding interest itself right away.

### YOU WILL ENJOY GREATER PEACE OF MIND

Putting in place a plan for your retirement means you can start looking forward to a more comfortable retirement. You'll feel more confident about life after work knowing things are taken care of from a financial perspective.

### YOU COULD RETIRE EARLIER

If you manage your wealth and retirement planning wisely, you might find you're ready to retire younger than you'd imagined. Give yourself more time for the things you've always dreamed of doing.

### PLAN WHEN YOU HAVE MORE DISPOSABLE INCOME

It's normally the case that you have more disposable income from your twenties into your early forties. Later in life, you may find that you have more responsibilities – children's education and mortgage payments, for example – and find it harder to put money into your retirement fund every month. Start early while you have extra funds. ■

### ARE YOU WELL SET UP TO ENJOY A COMFORTABLE RETIREMENT?

Retiring early from your work life is one thing, but meeting your life goals and staying on course after retirement is completely different. Taking the steps now to prepare yourself for retirement, no matter how far in the future, will ensure you are well set up to enjoy a comfortable retirement doing the things you want to do! To find out more, please contact us.

**Source data:**

*[1] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemploy eetypes/articles/fivefactsaboutolderpeopleatwork/2016 -10-01*

*[2] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.*

# PENSIONS SHAKE-UP

*Getting away from the stresses of everyday life*

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'. The MPAA applies only if you have accessed one of your pensions.

## 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.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

# CASH STASH

*Study exposes a whole host of financial secrets*

It's bad news for romantics, according to the latest annual research[1] into the retirement aspirations and financial planning of UK couples aged 40 and over. This identifies that nearly one in three couples (31%) have secret savings or investments that they have deliberately started without telling their partner or spouse. And it's not just a few pounds, as 7% admit to hiding savings of over £50,000.

Individuals who have not formally tied the knot and are simply living together are much more likely to keep part of their financial life hidden from the other person in the relationship. But the study exposed a whole host of financial secrets – couples do not keep just their savings secret, as more than a fifth (21%) say their partner doesn't even know how much they earn, while 19% hide debts.

## SECRET FINANCES

Do you spend in secret, or stash cash your spouse doesn't know about? Lack of trust seems to be a driving force behind many secret finances. A third (34%) admit they have no specific plans for their secret income but just don't want their partner to be able to access all their money. Nearly a quarter (22%) do not trust their partner to make the right decision about their finances so want to keep control.

More than two fifths (44%) of those keeping income secrets say their basic salary is higher than their partner thinks it is, while a quarter (25%) have income from an investment that their partner is not aware of.

## MAIN MOTIVATIONS

Men are more likely to squirrel away their savings – with a third (33%) keeping a secret stash compared to 28 per cent of women. While men and women are relatively similar in what they want to spend the money on, more than double the number of women have secret savings as security in case of a break up (15% compared to 6% of men).

Despite the potential tax benefits of jointly saving into a pension, retirement is one of the main motivations for secret savings. Around a third (33%) of all couples say they want their cash for retirement. However, 13% simply want to keep their savings hidden so they can buy what they want with the money.

## HONEST CONVERSATIONS

It isn't just extra income and savings that some people keep hidden, as a fifth (19%) are keeping debts secret from their partner. For the majority, these debts arose from general living costs (62%), but for others the debt was caused by overspending due to previous relationships, with 22% getting into the red after a break up while 10% inherited the debt from a past relationship.

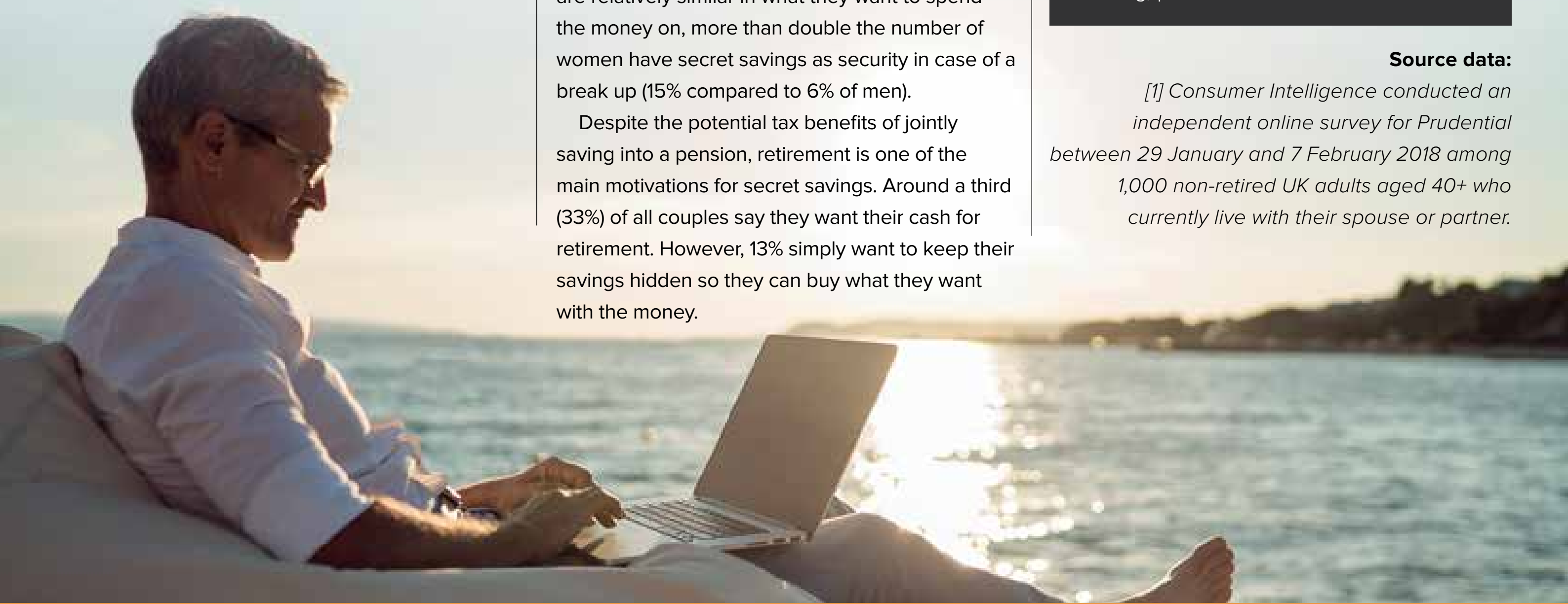
Saving money is always a good idea, but doing it so that you are protected in the event of a relationship breaking down means missing out on potential tax benefits. At any stage of a relationship, it is important to have open and honest conversations about finances. However, it becomes especially relevant when approaching retirement, as decisions made then will impact the rest of your life. ■

## OBTAINING PROFESSIONAL FINANCIAL ADVICE

Couples approaching retirement should consider obtaining professional financial advice about their income and working out a plan for funding their lifestyle. If you would like to discuss your situation, or to arrange a meeting, please contact us.

**Source data:**

*[1] Consumer Intelligence conducted an independent online survey for Prudential between 29 January and 7 February 2018 among 1,000 non-retired UK adults aged 40+ who currently live with their spouse or partner.*



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