

# FINANCE UPDATES FEBRUARY 2021



## IS IT TIME TO GET A PENSION REVIEW?

Time to take stock after recent market volatility.

Pensions have come a long way in the last 20 years. Innovative products like stakeholder pensions have reduced costs, auto-enrolment has increased accessibility, and self-invested personal pensions (SIPPs) have boosted investment choice.

These advances have been tempered by regular tinkering with pension rules by various governments, sometimes making them more generous, other times making them the opposite.

The introduction of the lifetime allowance, annual pensions allowance and the tapered annual allowance brought in lifetime limits on value, contributions and tax relief, respectively.

A raft of penalties for breaching those limits and the abolition of tax credits on dividends since 1997 has probably cost UK pensions around £150 billion to date.

The closure of most final-salary schemes to new entrants – a generous option available to many people in the past – and raising state pension ages are two recent tinkering examples.

Next in line are simplified, two-page annual statements and then in 2023 universal pensions dashboards. The purpose of both is to increase engagement of clients with their pension schemes.

But why wait for these developments? You can book a pension review now to help you understand whether you are on target to meet your retirement goals, and to start putting measures in place to get, or remain, on track.

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### WHAT IS A PENSION REVIEW?

During a pension review, we will look at a number of areas, all with the purpose of seeing if your pension arrangements will deliver the retirement you are aiming for.

#### Current pension plans

There are many types of pension plans and while they may share the same principle of building up a pot for retirement, they do this in different ways.

During a review, we can look at how they can complement each other, or be consolidated, to help you find the best package.

There is new state pension provision, of course, currently providing up to £175.20 a week for people who qualify. One of the main points to consider in your review here is that the state pension age has been gradually rising.

Eventually, both men and women will have to wait until they are 68 before they can access their state pension if they qualify, and it is expected this will rise to an even higher age in the future.

Defined-benefit schemes are increasingly rare workplace pensions, offering valuable guarantees based on your level of earnings at retirement, rather than what you directly put in. They are often best left where they are.

Other work-based pensions are largely based on defined contributions you and your employer make, and the investment performance of the money tucked away. They include the auto-enrolment provision introduced in 2012.

A SIPP is a more modern private pension arrangement which provides more freedom in your investment choice than pension plans of the 1980s and '90s. Retirement provision is based on how much you put in and how the investments perform.

Personal and stakeholder pensions are more limited private pensions, which are based on investment performance and contribution levels. They usually offer less flexibility than SIPP's.

With such a medley of schemes, it is important to understand how your current provision is made up and how well it works.

Taking the time to do this in a review gives you the chance to make changes where appropriate to optimise it all for the future.

You can restructure your pensions based on what is available to you now, rather than what there was in years gone by.

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## SAVINGS & TAX CONSIDERATIONS

Are your current contribution levels sufficient to provide the retirement income you want? Are you making the most of the tax reliefs available to you?

These are two crucial questions at the heart of any pension strategy. In a review we can answer them and, if necessary, come up with a plan, if action needs to be taken.

Tax relief, in particular, can be complex, with relief available at basic and higher rates, yet potentially complicated by restrictions both on an annual basis and at a lifetime level.

Moreover, successive governments have changed the rules, sometimes drastically, so your understanding from a few years ago may not be up to date with the reality of today.

### Where you are invested?

Investment choice is another factor that needs regular review. It is not an issue for defined-benefit schemes or the state pension, but it needs consideration for all other types of pension.

For most people, it is appropriate to consider higher-risk investments – like shares – when you are a long way from retirement. This is because shares are where the greater gains tend to be made (at the expense of short-term volatility).

That said, the relationship between risk and rewards should always be understood, and informed decisions made – whether that be by you or your adviser. Diversification is always important to consider.

As you get closer to retirement, it becomes more important to protect what you have in your pension pot and introduce more liquidity, rather than chase further gains.

This would normally be done in stages and would also be influenced by how you intend to use your money in retirement. For instance, if you were going to take 25% tax-free cash and buy an annuity, your investment allocation would look quite different from another person who was going to keep their pension invested and drawdown an income.

Regular reviews are essential to ensure your pension investments are allocated correctly for your circumstances, especially as those circumstances change.

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## REVIEW WHEN YOUR LIFE CHANGES

A major trigger for a pension review is when your circumstances change. This could be a new job or promotion, redundancy, receiving an inheritance or other lump sum, a change in your tax situation, the children leaving home, divorce... so many things.

The reason is that such changes may affect your ability to make contributions, benefit from tax reliefs, or how much you will need in retirement. So booking a review with us can ensure you are always doing the right thing or, if you are not in a position to adjust your pension strategy, at least know why your pension plans won't be on track and what you might do to rectify them.

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## CURRENT THREATS TO PENSIONS

There are some perennial threats, such as investment risk, changes to tax rules, and even the ups and downs on our own life journeys. The coronavirus pandemic can only have heightened all of these.

They might be impossible to avoid, but it is a question of understanding the risks and putting measures in place to manage them, as opposed to sticking your head in the sand and ignoring them.

During a review we will talk through all of these issues so that you are best placed to deal with them.

[!\[\]\(aceb1790ece33f2eac474d4a9431c6d6\_img.jpg\) Get in touch to book a pension review.](#)

## IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. Pensions eligibility depends on individual circumstances and pension benefits cannot normally be taken before age 55.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any pension decisions based on its content.

While considerable care has been taken to ensure the information in this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.