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Top pension tips if you're about to retire

Understanding your options and putting a plan in place

We spend our working lives building towards retirement. Choices we make today will have a big impact on the quality of our lives later on. If you only have a handful of years to go until you reach your retirement, it has never been more important to understand your options and put a plan in place – now could be a good time to re-evaluate your plans with us.

The changes made to UK pensions in 2015 mean that we all have more choices available on how to fund our lifestyle in retirement. But decisions surrounding when, why, and how you decide to retire will be very personal and will largely depend on your individual circumstances.

These decisions will also be impacted by external factors such as the rising State Pension age, and the impact of the recent pandemic on the job market. When planning for your future, it's important to know when you can access the money in your pension pot.

If your pension is not on track to give you the income you want in retirement, you need to look at how to boost it. It's also worth remembering that taking your pension doesn't mean you need to retire.

TAKING STOCK OF YOUR RETIREMENT PLANS

Retirement is a time to reap the rewards of years of hard work and do more of the things that you love, whether that's travelling the world or spending time with your grandchildren. But to make this a reality, you need to prepare as well as you can financially. This isn't always easy, as pensions and retirement planning can be complex.

To help you ensure you're on the right track, ask yourself the following questions. What type of pension/s do I have? Do I have more than one pension pot? If so, where are they? When and how can I access the funds in my pension pots? What is the value of my pension pots? What benefits will they provide me with? What about any other options or guarantees?

WILL YOU POTENTIALLY EXCEED THE PENSION LIFETIME ALLOWANCE?

If you're close to retirement, you may find you are approaching the Pension Lifetime Allowance (LTA) limit. The LTA is the most you can accrue overall within your pension plans without incurring an additional tax charge on the excess funds. The LTA test can take place at various times and all funds are tested at some point (for example, when your pension plan is accessed, if you die without having accessed it and/or on reaching age 75). The LTA has been cut over the years and is now £1,073,100 for the 2021/22 tax year.

The LTA has also been frozen at £1,073,100 until 2026, potentially exposing you to the charge for breaching the threshold. If you breach the threshold you face a 55% LTA charge on amounts taken above this ceiling if they are withdrawn as a lump sum (with no further income tax due beyond the 55%), or a 25% LTA charge when taken as income which includes placing the funds in a drawdown plan. In addition, any income withdrawn is then taxed at usual income tax rates.

If you think you are nearing the LTA, it's important to monitor the value of your pensions, and especially the value of changes to any defined benefit (DB)

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pensions as these can be surprisingly large. DB pensions are valued for LTA purposes as 20 times the annual pension figure, plus the tax-free cash amount, whereas defined contribution (DC) pensions are tested against the LTA based on the fund value. There were, and are, protections that can help you avoid a tax charge by giving you a higher LTA. We can discuss whether this applies to your situation.

WHAT DOES YOUR CURRENT AND FORECASTED WEALTH LOOK LIKE?

As you get closer to retirement, it is important to assess your current and forecasted wealth, along with your income and expenditure, to create a picture of your finances for both now and in the future.

Lifetime cash flow modelling will help ensure you don't run out of money – or die with too much – by showing whether your current investment approach is either excessively risky or unduly cautious. Retirement cash flow modelling can help to alleviate your concerns.

Building your individual retirement cash flow plan involves assessing your current and forecasted wealth, along with your income and expenditure, using assumed rates of investment growth, inflation and interest rates, to build a picture of your finances both now and in the future.

If you have accumulated wealth, retirement cash flow modelling will help you manage your position and make sensible decisions over the years. However, cash flow planning is arguably even more beneficial if you have longer-term personal or business objectives, as you can see how much you need to save and the returns you need to meet those defined objectives.

TIME TO LOOK AT YOUR OPTIONS AVAILABLE WHEN ACCESSING YOUR PENSION?

Once you reach age 55, you can access your defined contribution (DC) pension pot. You can take some or all of it, to use as you need, or leave it so that it has the potential to continue to grow. It's up to you how you take the benefits from your DC pension pot. You can take your benefits in a number of different ways.

You can choose to buy a guaranteed income for life (an annuity). You can take some, or all, of your pension pot as a cash lump sum, or you can leave it invested. However you decide to take your benefits, you'll normally be able to take 25% of your pension pot tax-free. The rest will be subject to Income Tax.

It's good to have choices when it comes to pensions and your retirement, but it's also important to understand all your options and any impact your decision may have on your future security. How long your pension pot lasts will depend on the choices you make. We can help by discussing the options available to access your pension.

ANNUITIES

If you buy an annuity this will provide a guaranteed income for the rest of your life. With this option, the provider agrees to pay you an agreed regular sum until you die. With an annuity, you may receive more or less money than you put in depending on how long you live after your annuity has started.

FLEXI-ACCESS DRAWDOWN

By opting for flexi-access drawdown, you can leave your pension pot invested so that it has the potential to grow, or take lump sums or a regular income from it. Your pension pot will last until you've taken all your money out. The level of income you take and any investment growth will be key factors as to how long your pension pot will last.

TAKE SOME OR ALL OF IT IN CASH

If you take some or all of your pension pot as a cash lump sum, it's up to you how long it lasts. Once you receive your money after tax, you're completely responsible for it and can use it as you require – although remember that although 25% of the amount you take is tax-free, you'll pay Income Tax on the rest.

LEAVE IT ALL FOR NOW – DEFER YOUR PENSION

You could decide not to take your pension at your selected retirement date and leave it invested until you're ready to take your benefits. This means your pension pot would have the potential to grow, although this is not guaranteed. It's important to ensure you don't lose any guarantees which only apply at your retirement date if you decide to leave your pension pot. ■

WOULD YOU LIKE US TO CARRY OUT A RETIREMENT PLAN REVIEW WITH YOU?

Even if retirement isn't far away, there are ways to increase your retirement income. This applies both to your State Pension entitlement as well as to any personal or workplace pension pots you have. To find out what you can do, please contact us for more information.