MGP (Employee Benefits) Limited
16 The Courtyard, Common Lane,
Culcheth, Warrington WA3 4HA
Tel: 01925 765821
Fax: 01925 764871
Web: www.mgpeb.co.uk
Email: enquiries@mgpeb.co.uk

FACTSHEET

Retirement longevity

Your destiny is now in your own hands

If you are in your 50s or 60s, your thoughts are probably turning towards retirement. When should you retire? How much money do you need?

In trying to answer these questions, you face a problem. Because of longevity trends, we are on average living longer. With longevity increasing, your wealth may have to provide you and your spouse or partner with an adequate income for 30 or even 40 years.

Britons aged 30 today have a 50% chance of living to more than 100, while 50-year-olds have an even chance of reaching 95[1]. Longer lifespans, however, raise financial challenges – for individuals as well as for families and society.

The idea of a retirement lasting many decades may seem appealing, but longer retirements mean more years of living off your pension and savings. Will yours be enough?

EXTRA BENEFIT OF COMPOUND INTEREST

How much money you need to save depends on when you actually start saving and how much you want to save in total. The earlier you and potentially your employer (if they match your contributions) start adding to your pension pot, the less you will need to save each month because the cost is spread over a longer period.

Moreover, if you start saving earlier, your funds will accrue the extra benefit of compound interest throughout the duration of your savings. Making money from the interest means you can actively save less but still end up with the same amount.

MUCH MORE FREEDOM AND FLEXIBILITY

The good news is that changes to pensions also now mean you have much more freedom and flexibility over how to take your benefits – whether as tax-free cash, buying an income for life, leaving your pension fund invested while drawing an income, or a combination of all these options.

Unless you believe the Government is likely to become more generous with the State Pension and other retirement benefits, individuals will almost certainly need to save more to enjoy the standard of living they would like in retirement.

BUILDING A RETIREMENT NEST EGG

Over the last few decades, employer pensions have become generally less generous. Today, people starting a new job in the private sector are very rarely offered a traditional defined benefit pension – where the employer guarantees you a certain level of pension based on your salary and length of service.

Most employer-based pensions now depend on how much you and your employer have contributed and the investment returns achieved by that money. That said, for most people, saving via a workplace pension still remains the correct approach to take for building a retirement nest egg – not least because the employer contributions are effectively free money.

A NUMBER OF ATTRACTIVE TAX BREAKS

Importantly, pension savers benefit from a number of attractive tax breaks, including Income Tax relief on contributions and up to 25% of the proceeds being tax-free. For 2019/20, the annual limit on tax-relievable personal contributions is 100% of your salary (or £3,600 if more). In addition, there is a limit on tax-efficient pension funding called the 'annual allowance' (£40,000 for most people) – this applies to both contributions paid by you and contributions paid by your employer and, if exceeded, means you will pay tax on the excess (an annual allowance charge).

We'll help keep track of your pension contributions so that you know if you're getting close to your annual limits.

MAXIMUM TAX-FREE RETIREMENT SAVINGS

In some cases, we may be able to ask your pension provider to pay the charge from your pension benefits. You may not be subject to an annual allowance charge (or a lower charge may apply) if you have unused annual allowances from the previous three tax years that can be carried forward.

Increasingly, more people are also being caught by the 'lifetime allowance', which puts a limit on the total value of their pension funds that can be accumulated without suffering a tax charge. From 6 April this year, the pensions lifetime allowance increased to £1,055,000. The pension lifetime allowance is the maximum amount that you can accumulate in your pension plans without suffering a tax charge (lifetime allowance charge). ■

COLLECTIVE WEALTH TO SUPPORT EACH OTHER

Intergenerational financial planning is about how families use their collective wealth to support each other during their lifetimes. If you would like to discuss the options available to you and your family, we'd like to hear from you.

Source data:
[1] The 100 Year Life: Living and Working in an Age of Longevity, by Andrew Scott and Lynda Gratton September 2018

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.