Financial Landscape

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Planning your retirement income

Will the pension reforms have an effect on retirement planning?

Just under a third (30%) of people believe the recent pension reforms will affect their plans for retirement income.

Responding to a Schroders survey, of the people who said pension reforms will affect retirement, a significant proportion (45%) said they are likely to consider taking some money as cash and putting the balance in an investment fund.

CASH IS KING

Another plan is to invest in an income fund, and 23% said they are looking to keep the money in cash. 29% are planning to put the money towards a luxury purchase, such as a dream holiday, and 28% said they would use the money to pay off their or their family's debts[1].

UNDERSTANDING THE CHANGES

The remaining 70% who did not think the reforms will affect their retirement income planning gave varied reasons for this. 20% said this was due to worrying about taxation issues, and 31% said it was down to not knowing what decisions to make and not fully understanding the changes. 11% admitted they didn't have a pension. ■

GOOD FINANCIAL PLANNING

Surprisingly, only 30% believe the new UK pension reforms will have an effect on their retirement planning. This seems to be due to wide-ranging confusion about the tax implications and the choices available to them. The investment possibilities for pre- and post-retirement are extensive, and it's important for people to understand what it means for them. Good financial planning and advice are essential. With the commencement of the pension reforms, now is the perfect time to discuss your requirements.

Source data:

Part of the Schroders Global Investment Trends Survey 2015, 1,000 UK investors surveyed (2 June 2015).

[1] Respondents could give more than one answer.

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PASSING ON YOUR PENSION SAVINGS

It's never been more important to plan whom you'd like to inherit them

Your pension is your life savings you've built up to give you the retirement you want. Since new pension rules came into effect from 6 April this year, pensions have become more flexible – including a cut in tax when a pension is passed on.

PLAN WHO INHERITS YOUR PENSION

With more money able to be passed on, it's never been more important to plan whom you'd like to inherit it. What's not always well known, however, is that your Will doesn't usually control who inherits your pension. That final, crucial decision is down to your pension provider, who makes reference to who is named on your Beneficiary Nomination form. If you don't have this in place, your pension savings may not go to the person, or people, you wanted them to.

LIFE CHANGES AND YOUR WISHES

All you need to do is request a Beneficiary Nomination form from your pension company. It's vital, too, to keep your Beneficiary Nominations up to date, as life changes and your wishes may not be reflected in the form you completed ten years ago. It's particularly important following major life events such as the birth of children or divorce. ■

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CONTROLLING WHO INHERITS YOUR PENSION

If you want more control over who inherits your pension, don't delay in completing your Beneficiary Nomination. It is now possible to pass your money purchase pension pot on from generation to generation, just like other assets, but it's essential to obtain professional advice. If you require more information, please contact 03330 100777 or email hello@carpenter-rees.co.uk..

Pension earmarking orders

Divorcees may need to take action to protect benefits following pension reforms

An unintended consequence of the pension reforms is that any divorcee with a pension earmarking order may need to act fast to protect their benefits. Any earmarking order that provides the ex-spouse with a fixed percentage of the pension income in retirement should be checked to ensure benefits are protected now that the member no longer needs to take their pension as an income and can instead take all the cash out as a lump sum.

SECOND BIGGEST ASSET

Pension funds are often the second biggest asset people have outside their main family home. It is therefore unsurprising that they often form part of a divorce settlement. There are two main ways people can use their pension fund in a divorce settlement. They are:

Pension earmarking: this is where a fixed percentage of the member's pension benefits are earmarked for the ex-spouse, but the pension stays with the member. Once the member reaches retirement and starts taking the pension benefits, the ex-spouse will also start to receive the benefits earmarked for them. They will receive a fixed percentage of either the pension income or the tax-free cash lump sum, or both. (In Scotland, earmarking only applies to the tax-free cash lump sum.)

Pension sharing: this is where a share of the cash equivalent transfer value of the member's pension is allocated to the ex-spouse. This could result in the ex-spouse transferring these benefits straight into a pension in their own name, creating a clean break.

NEW PENSION FREEDOMS IMPACT

Pension sharing is the more popular method used today. However, before pension sharing was available, a number of people would have set up pension earmarking orders. These people now need to check how the new pension freedoms impact them.

ENTIRE PENSION WITHDRAWAL AS CASH

If a divorcee has a pension earmarking order that pays them a fixed percentage of the pension income, they should check immediately to see if their rights are protected if the member decides to withdraw their entire pension as cash and not take a pension income. If the member takes the entire pension as a cash lump sum, the ex-spouse may not receive their correct entitlement. If the wording on the earmarking order does not protect them from this, they should seek advice from a solicitor or accredited pension specialist to ascertain whether they can make an amendment to the order.

RIGHT TO RETIREMENT INCOME

A number of people may have set up pension earmarking when it first became possible around 20 years ago, and the majority of these orders would have been for the benefit of the ex-wife.
It is important that these women act promptly (especially if their ex-husband is approaching retirement age) to check their earmarked rights are protected. They need to ensure that where they have a right to a percentage of the retirement income, they receive the same benefit if their ex-husband takes all the pension money out as cash instead of as an income. ■

REFORMS COULD IMPACT ON SOME PEOPLE

Earmarking orders have not been the major choice since pension sharing orders became available in December 2000. However, it is possible that the reforms could impact on some people. Anyone with an earmarking order that is still in force should consider their position.

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Ten tips to make the most of pension freedoms

Planning for retirement in the new pensions landscape

The new pension savings market offers much more flexibility and choice post–6 April this year, which is a positive, but it can be overwhelming. For people planning for retirement in the new world of pension freedoms, there are both risks and opportunities – from passing on your pension to loved ones, to making the most of tax relief.

1. Make sure you have a clear picture of what pensions you have – some people lose track of old pensions from previous jobs, especially after moving property. Use the free government service to track down your money: www.gov.uk/find-lost-pension

2. If you have various pensions from former jobs, think about whether you want to 'tidy up' your pensions – there could be benefits in bringing them together and consolidating them in one pot, so it's easier to keep an eye on what they're worth and how they're invested. This might not be suitable for everyone, and professional advice should always be obtained.

3. Check if you are making the most of your workplace pension – your employer might match some of what you pay in. See if you could afford a bit extra each month to give yourself a better opportunity to build a larger pension pot. Remember that for every £80 you pay in, and depending on your particular situation, this normally gets topped up with £20 in tax relief, and more tax can be reclaimed if you pay tax at a higher rate.

4. Make sure your Beneficiary Nomination is up to date – the new changes mean it's easier to pass on your pensions to loved ones. Your pension provider will normally look at your Beneficiary Nomination when deciding whom to pay your savings to, and your Will usually isn't relevant. Keep your Beneficiary Nomination up to date by requesting a form from your pension company, or you might be able to do this online.

5. Talk to your family – with the new flexible rules about inheritance to bear in mind, you may want to work through these decisions together.

6. Check how your pension savings are invested – you might have selected the funds years ago, and they may no longer reflect your wishes today. Or perhaps you are in a 'default' fund, one which was automatically selected for you at the beginning. Either way, it's prudent to look and see if the funds suit you. If you're not sure, obtain professional financial advice.

7. Other savings – if you're approaching retirement and have Individual Savings Accounts (ISA) or other savings, you may want to review these and consider moving your savings into your pension in order to make the most of tax relief. This won't suit everyone but is worth considering.

8. Be aware of scams – the new flexibilities also give more opportunities for scammers. So remember, if it sounds too good to be true, it probably is.

9. Consider reviewing your retirement plans in light of the new rules – to make sure you're on track to meet your retirement goals, it's important to review your pension savings and estimate the income they're likely to generate in retirement. If there's a shortfall in your savings, the earlier you spot it, the easier it will be to fix.

10. Think ahead about how you might want to access your savings in retirement – you'll have a choice of accessing cash, keeping your savings invested, drawing a flexible income, buying a fixed income or some combination of these. You'll feel more confident making your final decision if you've spent time thinking about what's right for you in advance. ■

MAKE THE MOST OF YOUR RETIREMENT OPPORTUNITIES

Regardless of the life stage you have arrived at, it is important to receive expert and professional financial advice on your pension plans and requirements. Whether you need to set up a pension or review existing retirement planning strategies, we can advise you to help you make the most of your retirement opportunities. To find out more, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk.

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