

BOOST the POWER of your pension



The latest news on pensions

- The state pension age will rise to 67 by April 2028. The Government's review into whether to raise this further will be published this spring, so watch out! You could find you have more years to plan for than you currently expect.
- The Government has confirmed it will protect the pensions triple lock and increase the state pension in line with inflation (10.1%) from April 2023.
- The minimum age you can normally access your pension savings is 55, but this is due to rise to 57 in 2028.
- The standard lifetime allowance (the total amount you can hold in your pension without being taxed on withdrawals) is frozen at £1,073,100 until tax years 2025/26.
- There are two private members' bills helpful to women, which the Government has backed: The Employment Relations (Flexible Working) Bill and the Carer's Leave Bill to make provision for unpaid leave for employees with caring responsibilities.



If you want to improve the quality of your life when you retire, doing some financial planning now will put you – and your pension – in the best possible position, says Caroline Bloor

WHAT TO DO NEXT...

WHERE TO START

- Review your outgoings to get the best picture of how rising costs are affecting your finances in real terms. Cut your budget wherever possible, pay down expensive debt and switch to cheaper deals on fixed outgoings. Not sure where to start? Use the helpful budget calculator tools at moneyhelper.org.uk or citizensadvice.org.uk.
- Reducing your pension contributions may feel like an easy economy to make, but be aware that it's likely to have a disproportionately damaging effect on your pension pot long after this current crisis is over. For example, a basic rate taxpayer in a workplace scheme who pauses their pension for three years and saves themselves £100 per month would reduce their retirement savings by £29,000 if they were to retire 30 years later. A higher rate taxpayer would lose out even more. This should be a last resort, especially the closer you are to your planned retirement age.

WORK OUT YOUR LIKELY RETIREMENT INCOME

Despite the economic turmoil, 48% of UK adults didn't check up on their retirement savings at all in the past 12 months, according to the cross-industry Pension Attention campaign. Here's what to do if you're in the dark about yours:

- 1 Find out how much State Pension you could get and when at gov.uk/check-state-pension.
- 2 Make sure you're receiving an annual pension statement for any personal or company pension you have. 'Most pension providers have an online members' area, so you can check your savings,' says Emma-Lou Montgomery. 'If you haven't signed up yet, it's quick and easy to get started; you'll probably need your reference number and National Insurance number to do so.'
- 3 Do a pensions sweep and make sure you include every pension you have paid into (see page 117 for how to trace old pension pots).
- 4 Don't forget about other savings and investments you could use to boost your income in retirement, too.

WILL YOUR PENSION BE ENOUGH TO LIVE ON?

More than 70% of over-55s said they were yet to achieve their life goals, with money being the biggest barrier (40%), according to Royal London. Don't let that be you! Here's how much you're likely to need for the retirement you want:

- According to the Pensions and Lifetime Savings Association, for a moderate retirement a single person currently needs an income of at least £20,800 a year, and a couple £30,600'. If you want funds to spend on holidays and hobbies, then you'll need more. Visit retirementlivingstandards.org.uk for further guidance.
- Next, work out whether you're on track for the kind of annual income you want using a pensions calculator tool (such as MoneyHelper's or your pension provider's).
- As a rough guide, a total pension pot (including both state and personal pensions) of around £320k would give you an annual income of around £25k, according to Hargreaves Lansdown. If you wanted £50k a year to live on, you'd need a pot of about £800k.

We're all painfully aware of the effects of the cost-of-living crisis on every aspect of our daily lives. Pensions have been hit as hard as everything else by the current financial situation, and many of us will be worrying about our plans for the future, whether we're struggling to keep up pension contributions now, thinking ahead to a phased, more flexible retirement, or even wondering about returning to work after retiring, to top up a pension we are already taking.

My Pension Expert found that 37% of over-40s believe the cost-of-living crisis has made retirement impossible for the foreseeable future. Just over 21% have delayed their retirement date due to rising inflation, and of those already retired, 12% say rising inflation has 'upended' their plans. Further research from NatWest shows that a fifth of those with a workplace or private pension have reduced, frozen or stopped their pension payments as a direct result of the current situation. Meanwhile, many of those who took the decision to retire or flexi-retire after the pandemic will now be feeling the financial chill.

It's little wonder, then, that more than half of UK adults

aged 40 years or over say they are experiencing 'retirement anxiety', and 45% of them identify the current economic situation, and the knock-on effect it's having on their savings and investments, as the main cause of their concern*.

If any of this resonates with you, it's important to think about how any actions you take today might affect your long-term financial security. 'Without careful planning and a clear understanding of how you want your retirement to look – and, more importantly, how you'll achieve it – the biggest risk is that your savings will fall far short of what you need,' says Emma-Lou Montgomery, associate director at Fidelity International.

Saving enough for a pension has long been an uphill battle for women, thanks in large part to lower average earnings, caring responsibilities and the higher likelihood of doing low-paid or part-time work that doesn't qualify for pension auto-enrolment. 'Women aged 50 and over are twice as likely to provide unpaid care for others than their male counterparts,' says PensionBee CEO Romi Savova. 'Men's pension pots grow by an average of £90,000 more than women's between the ages of 50 and 64.' The message? Don't take your foot off the pedal now if you can avoid it.

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7 QUESTIONS TO ASK BEFORE YOU CHANGE YOUR RETIREMENT PLANS

1 CAN I AFFORD TO FLEXI-RETIRE?

Flexi- or phased retirement is when you change your working pattern in the lead-up to retirement, by agreement with your employer. This usually means you reduce your hours and draw some of your pension savings to make up for the reduced earnings. 'You need to work out how big your pension pot is now and whether it's enough to retire on,' says Sheena Doherty, senior wealth management consultant at Sovereign Wealth. 'You don't want to step out of a role where you are well paid and realise later it wasn't the right move, as it could be harder to step back into that role.'

2 HOW CAN I ACCESS MY PENSION POT FLEXIBLY?

Flexible access (aka pension drawdown) lets you take pension savings as and when you need. Emma-Lou Montgomery says: 'If you're in a position to, there are lots of advantages to drawing down your pension. Typically, you can take up to 25% of your pension pot as a tax-free lump sum, which you can do at any point from 55 years old onwards. If you do withdraw some of your pension, you can choose where to invest your savings, or ringfence the amount and pass this on to your loved ones for when you're no longer around. That said, it's well worth remembering that any cash you take from your pension as drawdown reduces the amount of income you could receive in retirement.'

3 WHAT ABOUT AN ANNUITY?

Annuities take your retirement savings and turn them into a guaranteed income for the rest of your lifetime. 'It's also possible to provide an income to your spouse or partner, or leave any surplus to your loved ones. However, with prices rising quickly, the value of the income paid by annuities stands to fall in

real terms. You can mitigate this to an extent with an annuity that pays an income linked to inflation – but that comes at a cost. And, unless you choose an investment-linked annuity, you won't benefit from any future economic or stock-market growth,' says Emma-Lou.

4 WILL I STILL BE ABLE TO SAVE INTO A PENSION IF I FLEXI-RETIRE?

'By taking non-tax-free cash income from your private pension, the amount you can contribute to it or another pension pot will fall dramatically – from £40,000 a year to just £4,000,' says Colin Dyer, client director at Abrdn.

5 HOW WILL FLEXI-RETIREMENT AFFECT THE AMOUNT OF TAX I PAY?

'You can take money from your state, workplace or private pension even if you carry on working, but this will be counted as income and is taxable in the same way as your earnings,' says Colin. Whether it's from your pension or job earnings, if your income is over £12,570 (in the 2022/23 tax year), you'll pay tax on it. 'If you are taking from your pension, only take the amount you need in each tax year – as the less you

take, the less tax you pay. And bear in mind, if you're still working, your salary plus pension withdrawal may push you into a higher tax band,' adds Colin.

Once you hit state pension age, your income tax and NI requirements change, so make sure your employer tells HMRC. For current rates and allowances, visit gov.uk/income-tax-rates.

6 IS IT A GOOD IDEA TO TAKE MY TAX-FREE LUMP SUM?

'While everyone can legally access their personal and workplace pensions from age 55 (57 from 2028), it doesn't mean they always should, particularly in periods of high inflation. Before making any withdrawals, carefully consider if you have any other sources of income besides your pension,

and how long you anticipate these funds to last,' says Romi Savova.

As pensions are long-term investments, leaving a pension pot untouched and its contents invested provides greater opportunity for the amount to grow over time. 'Research from MoneyHelper found that for every nine weeks a saver puts off claiming their state pension, its value increases by 1%. This would equate to just under a 5.8% rise in value for every full year a saver puts off claiming this money,' says Romi.

7 I'M ALREADY RETIRED – CAN I TAKE MORE FROM MY PENSION IF I NEED IT?

With soaring inflation pushing up outgoings, you may feel forced into taking a larger pension income than you planned – but be mindful, says Helen Morrissey, pensions spokesperson at Hargreaves Lansdown: 'If you are invested via income drawdown, you could start to erode capital. Ideally, keep one to three years' worth of essential expenditure in an easy-access account to use to supplement income when needed, so you don't have to increase withdrawals from your drawdown pot.'



POWER UP YOUR PENSION

GET EXPERT ADVICE – IT WILL PAY DIVIDENDS IN THE LONG RUN

- If you are over 50 years old, book your free one-hour Pension Wise one-to-one appointment via the MoneyHelper website.
- Make the most of any pensions advisers you have via work.
- Speak to a specialist IFA. Find a retirement adviser via MoneyHelper, unbiased.co.uk or vouchedfor.co.uk. How much their advice will cost depends on what help you need – you can check average financial adviser fees at unbiased.co.uk/tools/cost-of-advice.

TRACK DOWN OLD PENSIONS

On average, we change jobs five to seven times in our working lives – so you could end up with as many pensions. It's easy to lose track of them when you change job or move house, which is probably why there are more than 2.8m forgotten pension pots (the average lost pot among 55- to 75-year-olds is worth £16,004, according to the Pensions Policy Institute).

You may think a company you worked for back in the day, possibly pre-children, when you were on a starter salary, isn't going to have a pension worth tracking down. Wrong! 'For women in their 50s, many of these old pensions were final salary schemes, which, thanks to the joys of compound interest, could be worth more than you realise,' says Sheena Doherty. The same applies if you were contracted out under SERPS (this is the State Earnings Related Pension Scheme, where National Insurance contributions were redirected to an alternative pension plan). As it did not involve making any additional payments, you may not know if you have one or not. Visit findpensioncontacts.service.gov.uk, use The Pension Tracing Service (pensiontracing.service.gov.uk) or get your financial adviser to do the digging for you.

Combining different pension pots can make them easier to manage, reduce admin costs and potentially improve performance. But it's important to take advice first, as some pensions are best left where they are, such as final salary pensions or schemes with valuable benefits that you would lose (such as a protected pension age or guaranteed annuity rate).

PEP UP YOUR STATE PENSION

How much state pension you get is based on your National Insurance record. You currently need 35 full qualifying years to get the maximum amount. Check your record at gov.uk/check-national-insurance-record. You may be able to pay voluntary contributions, if eligible.

If you are aged 45-70, currently you can pay to plug NI gaps as far back as 2006, but this opportunity closes on 5 April 2023, so don't delay checking.

According to MoneySavingExpert founder Martin Lewis, 'For a woman aged 66 who typically lives 21 more years, each £800 in voluntary contributions would be worth £5,800 extra.' If topping up looks like a good idea for you, contact the Future Pension Centre at gov.uk to get a personalised calculation.

Check whether you are entitled to any free NI credits at gov.uk/national-insurance-credits – for example, if you're on Working Tax Credit, Universal Credit or Carer's Allowance.

GET A TOP-UP
If you are state pension age and on a low income, you may qualify for Pension Credit. Use the benefits calculator at turn2us.org.uk to find out if you're eligible and how much for.



WHAT IF I...

...AM ON A CAREER BREAK?

Did you know that other people can pay into a personal pension for you, such as a partner, parent or grandparent? 'Even if you are not earning and you are under the age of 75, most people** can still receive £3,600 per year paid into their pension at a cost of £2,880 due to the tax relief this attracts,' says Laura Newman, head of private client advice and investment services at NatWest.

...HAVE AN IRREGULAR INCOME?

If you are self-employed, work part-time, are a gig worker or have multiple jobs, it's likely you fall outside of the scope of auto-enrolment, so you'll need to be proactive in pension planning. 'Dedicated flexible self-employed pension plans in recent years have made saving for retirement much easier for this group,' says Romi Savova. 'Self-employed workers can usually take advantage of tax incentives to boost their savings, such as tax relief on contributions from the Government.' MoneyHelper offers a mid-life pension review for the self-employed – book online.

...HAVE A PENSION SHARING ORDER?

If you have one of these as part of your divorce settlement, you need to know where it is and how it's invested, says Sheena Doherty: 'Every day, we find significant amounts of money doing nothing. A pension sharing order would be agreed at the divorce as part of the financial settlement.'

USE YOUR PENSION FOR GOOD

Making your pension 'green' is 21 times more effective than giving up flying, becoming a vegetarian and changing energy provider combined, according to campaign group Make My Money Matter. Seven in 10 of us say it is important that our employer invests our pension sustainably, according to Scottish Widows, but how do you know if yours is? 'Your pension provider should be able to direct you to fund factsheets for a better idea of the manager's approach and what they are invested in,' says Helen Morrissey. But be wary, because the terms 'green' and 'ethical' mean different things to different people. 'For instance, you may prefer to steer clear of certain investments, such as oil and gas, whereas a fund manager may include them so they can engage with the company to help it improve,' says Helen.

'The vast majority of pension savers will be invested in their provider's "default fund" which is chosen by their employer and will largely have exposure to producers that are harmful to the environment,' says Romi Savova. But, she says, today most of the bigger investment companies offer a responsible-focused fund. If your pension provider already offers a responsible fund, request a transfer into a new plan. If not, you may wish to switch to one that does by raising a transfer request with a new provider. Before embarking on this, check with the old pension provider about any fees you may be liable for or benefits you may lose.

If your pension provider could be doing more, makemymoneymatter.co.uk has a tool to email your pension provider with a pre-written letter telling it to go green. □

Don't let scammers get their hands on your pension!

- The average loss for victims of pensions scams is £75,000***. Warning signs include offers of free pension reviews, higher returns, help to release cash early and high-pressure sales tactics. Fraudsters are most likely to approach you online or through social media. The best advice is to hang up, delete, ignore!
- Check the Financial Conduct Authority's register (register.fca.org.uk) to make sure that anyone offering you advice or other financial services is FCA-authorized.
- Search 'ScamSmart' online for the latest FCA advice on how to protect yourself. You can report a scam on its consumer helpline: 0800 111 6768.



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