

anne wray

independent financial adviser
Specialist adviser to the clergy and the Christian community

Old Chapel House, 3 Heapey Road, Chorley, Lancashire, PR6 9BD
Telephone: 01257 233023 Fax: 01257 233022 Email: info@annewray.org Web: www.annewray.co.uk

An Introduction to Pensions

Getting to grips with the basics



What is a pension?

What types of pensions are there?

What tax relief do I get on my pension contributions?

Is there a limit on how much I can pay into a pension scheme?

When can I access my pension?

Pensions are typically viewed as being complex and difficult to understand. As a result, people often delay starting one or ignore the issue altogether. In reality, though, the basics are relatively simple and taking time to understand them *now* could have a huge impact on your quality of retirement. Here, we'll provide answers to questions our clients commonly ask and help guide you through the pensions maze.

What is a pension?

A pension is simply a type of long-term savings plan designed to help you save money for later life. In essence, it allows you to regularly save some of your earnings during your working life in order to provide an income when you decide to retire or work fewer hours. The money contributed to your pension is usually invested, along with other pension savers' cash, in some form of investment product. Pension contributions also benefit from particularly favourable tax treatment, which makes them an extremely appealing investment proposition.

What types of pensions are there?

There are three major pension routes and most people fund their retirement through a combination of one, two or all three of these types.

Workplace pensions: These are arranged for you by your employer and are sometimes called 'company pensions' or 'occupational pension schemes' and you automatically pay a percentage of your salary into the scheme every payday. In most cases, the amount you pay is then topped up by a contribution from your employer, as well as tax relief from the government. The phased introduction of automatic enrolment since 2012 has now resulted in companies enrolling the vast majority of their staff into a workplace pension.

Personal pensions: You arrange these yourself and they are sometimes called 'defined contribution' or 'money purchase' pensions. Basically, you pay a portion of your earnings into your pension pot which, along with tax relief, is then placed by your pension provider into a range of investments, such as shares or bonds. The amount you ultimately receive in retirement will depend upon: how much you pay into your pot; the performance of your investment fund; the administration fees charged by your provider, and how you ultimately take your cash.



The State Pension: This is a weekly payment from Government for people who reach State Pension age. Entitlement is built up by either paying or being credited with National Insurance contributions (NICs) during your working life. To qualify for the new full State Pension (£159.55 per week in 2017/18, £164.35 per week in 2018/19) you need a 35-year NICs record.

What tax relief do I get on my pension contributions?

Whatever type of pension plan you hold, you get tax relief at the highest rate of income tax you pay on all contributions you make subject to annual and lifetime allowances. This effectively means that some of your earnings which would have gone to the government as tax are diverted to boost your pension pot instead.

You receive 'relief at source' if you pay money into your personal pension yourself or if your workplace pension contributions are taken directly from your pay packet. In both circumstances, you automatically receive 20% tax back from Government in the form of an additional deposit into your pension pot. So, for instance, if you're a basic-rate taxpayer investing £800 of your take-home pay into your pension, the tax relief would amount to £200; effectively the taxman tops up your £800 contribution to £1,000.

If you don't earn enough to pay Income Tax at all, you still qualify for tax relief up to a certain amount. The maximum annual contribution you can currently make is £2,880 which, along with tax relief, would amount to £3,600 a year being paid into your pension scheme.



Is there a limit on how much I can pay into a pension scheme?

You can contribute as much as you like into your pension, but there is a limit on the amount of tax relief you will receive each year. This annual allowance is currently £40,000, or 100% of your earnings, whichever is lower. You may be able to, however, carry forward unused allowances from the past three years, provided you were a pension scheme member during those years.

There are a couple of exceptions to this rule. One relates to people with defined contribution pensions who start to draw money from them, in which case the allowance drops to £4,000 in some situations; the other tapers the allowance if your income plus pension contributions exceed £150,000 a year.

A lifetime allowance also places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money. This limit is currently £1 million, increasing by £30,000 to £1,030,000 from April 6 2018.

When can I access my pension?

The pension freedoms introduced in 2015 allow you to access your pension once you turn 55; from that point you're free to take as much or as little as you like from your pension pot, whenever you like. While this has certainly introduced greater flexibility, it has also heightened the necessity to carefully consider your options. It's therefore imperative to seek professional financial advice before accessing your pension to minimise potential tax implications and maximise the benefit you ultimately receive from your pension funds.

The value of investments and income from them can go down. You may not get back the original amount invested. Information based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.

Past performance is not a reliable indicator of future performance. A pension is a long term investment the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.



We're here to help

We're only a phone call away, so if you have any questions or would like to discuss the best pension options for your individual circumstances, please do get in touch.

Top Tips



It's never too early to start saving into a pension...

You should start saving for retirement as early as possible as the sooner you begin the longer your savings have to grow. While other financial challenges can make this difficult, investing regular amounts in a pension throughout your working life gives you the best chance of enjoying a prosperous retirement.

...but better late than never

Never think it's too late to start saving for your retirement. The favourable tax treatment pensions enjoy and their potential for investment growth means any contributions you make later in life can still make a huge difference to your standard of living in retirement.

Retirement planning is vital for the self-employed

As the self-employed are inevitably responsible for their own pension provision, it's particularly important that this section of society takes full control of their retirement planning. So if you belong to the growing band of self-employed workers make sure you don't delay saving for your retirement.

Keep track of how your pensions are doing

It's good to regularly review your pension arrangements to ensure they continue to meet your retirement objectives. Your pension provider(s) will send out annual benefit statements detailing your entitlements and you can also request a State Pension forecast. This information will allow you to assess your provision and decide whether you need to take further action, for instance, increasing contributions or setting up an additional pension. Many people only review their pensions when they're about to retire, by which time it's too late – don't fall into this trap.

Plan your inheritance

It's important to plan what will happen to your pension benefits if you die. Passing on your pension wealth is now relatively easy and some pensions can be inherited tax-free. It's therefore essential that you keep your beneficiary nomination forms up to date as your providers will use this information when deciding who will inherit your pension savings.

Take control of your retirement

When you reach 55, it's important to carefully consider what you can do with your pension pot. For instance, you could: keep your savings invested; take a cash lump sum; draw a flexible income (drawdown); buy a fixed income (an annuity), or do a combination of these things. While this flexibility may enable you to retire earlier or semi-retire, it's vital you take full control of your retirement options at this stage. This should include seeking advice and discussing the pros and cons of the different avenues available to you.

Get good advice

Retirement planning is never a case of 'one size fits all'; so it's vital you obtain sound financial advice tailored to your individual needs. We offer advice and help with all aspects of pensions and retirement planning, whether you're just starting out and want help choosing the most appropriate pension products, or you're approaching the stage of life when you need to utilise your pension pot and want to know the most efficient way to access your funds. Remember: we're here to help.



Warning statement

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.