Enhancing people's lives

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How to turn your pension savings into an income for life.

There are many things to consider as you approach retirement. It's good to start by reviewing your finances to ensure your future income will allow you to enjoy the lifestyle you want.

The earlier you start thinking about what you'll need for a comfortable retirement and where your money is going to come from, the more control you can have over that period of your life.

We help you to achieve your retirement goals by outlining how much you should be saving to get the best possible income in retirement.

Our aim is to help maximise your financial wellbeing in retirement and help you achieve the retirement lifestyle you want. Your pension planning needs to be reviewed and adjusted throughout your working life and beyond, as your personal and family needs will change and evolve many times.

We aim to become your trusted and go-to financial expert throughout.

Pensions can be a confusing and overwhelming subject and our team of Advisers are here to take you through your options, without using any industry jargon. We will listen carefully to your circumstances, give you honest advice as to how we can help and give you support you need to make decisions regarding your financial future.

Unlike many other financial advisory firms, Ellis Bates is not restricted to promoting the products of only a handful of companies so you can be assured that the advice you receive will be totally independent and impartial.

What are the benefits of pension financial advice?

Investment and risk strategy advice

Pensions are long-term saving vehicles but choosing the right one can be difficult. There are more than 40,000 regulated funds on the market and each has its own risk level and investment strategy. Financial advisers can help you select the right type of pension scheme for your goals and circumstances and can give you confidence your pension is invested properly and monitored by an expert.

Independent financial advice

We are totally independent, privately owned and not tied to or influenced by any products or providers, which means that our advice is always impartial. As Independent Financial Advisers, we are authorised and regulated by the Financial Conduct Authority (FCA). Therefore, we are obliged to research and recommend solutions from the whole of the market. We are not incentivised by sales – we charge an agreed fixed fee for our services, so that we are always acting in your best interest.

Pension consolidation

On average people have 11 jobs in their lifetime and that could mean a different company pension scheme for each one. This can make it hard to track where your retirement savings are.

An adviser may recommend combining multiple pension pots to make them easier to manage, providing it will not result in you losing any valuable benefits. They will also be able to help you avoid any unexpected pension charges, choose tax efficient options and an investment strategy in line with your attitude to risk.

Pensions and estate planning

Your pensions will form part of your overall assets and as such has both inheritance tax and estate planning considerations, particularly for your spouse or partner who may be nominated to receive some of your pensions funds on your passing.

We will work with you in this key area of financial planning and advice, to ensure not only that your assets are both maximised and as tax efficient as possible.

Pension allowances

Pension allowances

The lifetime allowance (LTA) was removed from tax legislation on April 6, 2024. The LTA was replaced by two new allowances: the lump sum allowance (LSA) and the lump sum and death benefit allowance (LSDBA). The LSA limits the amount that can be taken tax-free in a lifetime. The LSDBA is used to test lump sum death benefits, with excess amounts taxed at the recipient's marginal income tax rate. It starts at £1,073,100 for tax year 2024-5, the same as the lifetime allowance was for tax year 2023-4.

The new regime applies for benefits taken on or after April 6, 2024, but there is a transitional regime to take account of benefits crystallised before that date.

HMRC are still in the process of finalising and issuing full explanations and deemed scheme changes and the role of your financial adviser is to guide you through current and new pension legislation.

Age 75 and your Pension

There are a number of pension rules that apply when someone reaches age 75, including:

Death benefits

When someone dies after age 75, their beneficiaries will receive taxed benefits from their pension. The benefits are taxed as income at the beneficiary's marginal tax rate.

Pension commencement lump sum

If a pension product allows someone to remain invested after age 75, they may be able to take a pension commencement lump sum. However, all benefits taken after age 75 are taxable and do not have a tax-free element.

Defined benefit schemes

Some defined benefit schemes have a maximum age at which someone must take their benefits, which is usually 75.

It is important to note that HMRC pension rules are complicated, and in light of the new allowances legislation in 2024 it is recommended to speak to a qualified financial adviser if you are nearing age 75.

The State Pension

What will I receive from the state in my retirement?

The State Pension is a vital source of income for millions of retired people across Britain. However, the system can be complex and it's important that you know how it works. If you're looking to maximise your income in retirement, a good place to start is with your State Pension.

To receive the basic State Pension you must have paid or been credited with a minimum of 10 years National Insurance contributions. With 35 years National Insurance contributions you will receive the full state pension. You can 'top up' national insurance contributions.

You can check your entitlement at

www.gov.uk/check-state-pension

How to find your old pensions

People are at most risk of having lost a pension if they have opted out/were advised to opt out of SERPS (the State Earnings-Related Pension Scheme) in the 1980s or 1990s, have changed jobs multiple times or moved house often and not updated their pension provider. Make sure you have all your pension pots so you can then make fully informed pension and retirement plans.

www.gov.uk/find-pension-contact-details
www.thepensiontracingservice.com

Tax relief and your pension

It is important to both know your allowance and to plan ahead to maximise this allowance for tax relief purposes and our role as financial advisers is to help you do just that.

Pension contributions can reduce your tax liability by increasing the tax thresholds. To avoid an annual allowance tax charge, the pension contributions made by yourself, and by your employer on your behalf, must be covered by your available annual allowance.

If you have not used all your allowance in the last three tax years, it might be possible to pay more into your pension plan by 'carrying forward' whatever allowance is left to make the most of the tax relief on offer, though bear in mind the tax relief is still capped at 100% of your earnings. However, different rules apply if you have already started to take money out of your pension plan and you are affected by the Money Purchase Annual Allowance, or if your income when added to your employer's payments is more than £240,000.

Help for higher rate tax payers

Higher rate tax payers can receive 40% tax relief on pension contributions above their tax threshold for example and this can help not only with tax mitigation but with a range of other considerations such as child benefit payments if you have children.

It is important to seek financial advice to fully explore all tax allowances and planning opportunities.

Pension salary sacrifice

When an employer pays a contribution directly into your pension scheme, the employer pays the contribution gross and there are no NICs to pay for you or the employer, which could enhance your benefits.

You could arrange with your employer to cover the cost of the contributions by foregoing part of your salary or bonus. You must agree in writing to adjust your salary before the revised pension contributions are paid for this arrangement to be tax-effective.

We are here to help you with comprehensive tax planning advice across all your financial assets, including pensions.

Are my pensions going to give me the income I want, when I want it?

This of course, is the most important question of all and there are many statistics online to show you the average pension pot on retirement, what the State Pension will provide and what level of income this will deliver.

The general principle is the more you save into your pension(s) the bigger your pot, and the younger you start the more you will benefit from the compound growth effect of your pension investments.

Pension contribution recommendations include paying between 10-15% of your salary in contributions each year but everyone's circumstances are different and need careful planning.

How much do I need to contribute into my pension to give me the retirement lifestyle I want?

It is estimated very few of us realise just how much we need to be saving into our pensions and the level of income our pensions will provide. Below gives an approximation (based on continuous contributions, growth rate and inflation rate) to offer an illustration as to the level of contributions made over different periods of time and the income they will bring:

Age start saving into your pension	Income per annum *	Retire at 60, savings needed per month	Retire at 70, savings needed per month
22	Minimum £10,900	65	35
22	Moderate £20,900	480	260
22	Comfortable £30,600	1,020	555
40	Minimum £10,900	140	65
40	Moderate £20,900	1,030	480
40	Comfortable £30,600	2,180	102

*Pensions and Lifetime Savings Association income levels

Pension Calculator:

You can head over to **www.ellisbates.com/pension-calculator** and our pension calculator and pension contribution videos to help you understand the level of contributions you need to be making in line with your retirement aspirations.

If you are nearing retirement or are nervous about your current pension pot, we are here to help.

It is never too early to start and never too late to review your pensions.

Pension Options

Thinking about accessing your pension from age 55?

The options for using your pension pot are more flexible than ever. But it's important to understand how your decisions will affect your retirement income in the future.

Thanks to Government legislation changes in 2015 you now have more options than ever with your pension. The Government recently announced an increase in the age you can access your pension, which will increase from 55 to 57 years old from 2028.

But before you do anything with your hard-earned cash, it's important to take the time to understand your options, as the decisions you make will affect your income in retirement. Before you take money from your pension plan, it's important to ask yourself if you really need it right away.

Timing is key

When and how you take your money can make a big difference to how much tax you might pay and how long your money will last. Your options vary from leaving it alone or cashing in the whole amount and as you would expect there are advantages and disadvantages to each option for you to consider, or to seek professional advice to help you make those decisions.

Most pensions will set a minimum age from which you can start taking money from your pension.

They will also have rules for when you can take your pension earlier than normal, for example, if you become seriously ill or unable to work.

When the time comes to start taking money from your pension, you'll need to decide how you want to do this.

Take a tax free lump sum

If you've got a personal pension or a defined contribution pension, you can take up to 25% of its value as a tax-free lump sum. In some cases you can take your whole pension fund.

The remainder of your pension fund is potentially taxable and may either be taken as cash, used to buy an annuity (a guaranteed income for a specific period or for the rest of your life), or you may leave the money invested and take withdrawals on a regular basis or as and when you need.

Leave it alone

You can of course choose to leave your pension money alone if you do not need the tax free cash and or income. There are several benefits to consider in delaying any of the above options, firstly that your pension funds will continue to grow tax free and secondly your entire pension savings are free of income tax and inheritance tax for example, if you leave them untouched, should you die before the age of 75.

If you are taking your dependents into account in your pension planning tax considerations are crucial.

Buying an annuity – guaranteed income for life

Annuities enable you to exchange your pension pot for a guaranteed income for life. These were once the most common pension option to fund retirement, but changes to the pension freedom rules have given savers increased flexibility. The amount you will receive depends on a number of factors, for example, how long the insurance company expects you to live and other benefits the annuity provides, such as a guaranteed payment period or payments to a spouse or dependent.

Annuity rates, which dictate the income you get, have consistently fallen in recent years, as they are linked to the interest rate on government bonds and central bank rates.

However, annuities still appeal to those who need a guaranteed income on top of the state pension for example and provide a secure, regular income throughout retirement (which is still taxable).

You can choose a fixed term annuity which can provide some protection from stock market volatility as they pay a guaranteed income for a specified term and some pay back a set amount at maturity.

There may also be an option if you are reluctant to sign up for a lifetime annuity or if you want a guaranteed income before say the State Pension is payable.

Your health and that of your partner may also influence your choices with regards to your pension options. Of note is that you could potentially benefit from what's called an enhanced annuity if you or your partner have certain health or lifestyle conditions.

Many people make the mistake of taking the annuity rate offered by their current pension provider. It is vital to scan the whole marketplace for the best annuity rate as you approach retirement or ask a financial adviser to do so for you.

Flexible access options

When it comes to assessing pension options, flexibility is the main attraction offered by income drawdown, which allow you to access your money while leaving it invested, meaning your funds can continue to grow.

Pension drawdown normally allows you to draw 25% of your pension fund as a tax-free lump-sum, or series of smaller sums. You have complete control over how much or how little you draw down but remember anything over 25% is subject to tax.

This 'tax-free cash' is known as the Pension Commencement Lump Sum, or PCLS.

The rest of the fund remains invested and is used to provide you with a taxable income, via withdrawals on a regular basis or as and when you need. You set the income you want, though this might be adjusted periodically depending on the performance of your investments. You need to manage your investments carefully because, unlike a lifetime annuity, your income isn't guaranteed for life.

Uncrystallised Funds Pension Lump Sum (UFPLS)

You do not have to draw your pensions commencement lump sum at the outset. Instead you may use your pension fund to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each withdrawal, the first 25% (quarter) is tax-free and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

Combination of options

It may suit you better to use a combination of the options outlined above. You might want to use some of your savings to buy an annuity to cover the essentials (rent, mortgage or household bills), with the rest placed in an income drawdown scheme that allows you to decide how much you wish, and can afford, to withdraw and when.

Alternatively, you might want more flexibility in the early years of retirement, and more security in the later years. If that is the case, this may be a good reason to delay buying an annuity until later.

Different levels of risk and security and potentially different tax implications.

The different ways of taking your money have different levels of risk and security, and potentially different tax implications too. As with all retirement decisions, it's important to take professional financial advice on what's best for you. Everybody's situation is different, so how you combine the options is up to you.

We offer cash flow modelling to highlight any shortfalls and to help plan a sustainable retirement income.

Counteract the negative impact of inflation with your pension

Essentially, inflation eats away at the value of your money over time, so the higher inflation the more it erodes your purchasing power later in life. As inflation rises, it makes goods and services more expensive to buy, so your money effectively buys less.

The impact of inflation on savings and investments, especially of those retirees living on a fixed income, is an important issue. But it's also not good news for other savers and investors, as it can erode the purchasing power of money.

Investments into pensions are usually a better option than cash savings if you want to protect or grow the real value of your money, although it is still worthwhile holding some of your assets in cash as opposed to investments, as this will help to protect your money during more volatile periods.

Historically, investments such as shares and bonds have outperformed cash – particularly over long periods, although remember that past performance isn't a guide to future performance. So, if you are saving for your retirement, investing in a pension can put you in a stronger position.

With inflation rates on the rise for the first time in many years, one way to potentially mitigate its effects is to place your money in a savings account with a rate higher than inflation (almost impossible currently) or to invest your money in a pension where it will be invested on the stock exchange which traditionally produces higher returns than the rate of inflation.

Before you retire example effects of inflation:

	Pension fund growth	Rate of inflation	New fund growth
2015-2019	7.4%	1.53%	5.87%
2022	Assume 7.4%	Current 5.1%	2.3%

After you retire

Inflation will continue to effect your net purchasing power. If you leave your pension fund invested and take regular drawdowns, inflation will continue to work in the same way illustrated above.

If you buy a fixed annuity this will be eroded by inflation over time, but an 'escalating' annuity increases over time to offset the negative impact of inflation.

> Combatting inflation is one of our key considerations, as well as providing overall growth, through the ups and the downs of both inflation and the markets.

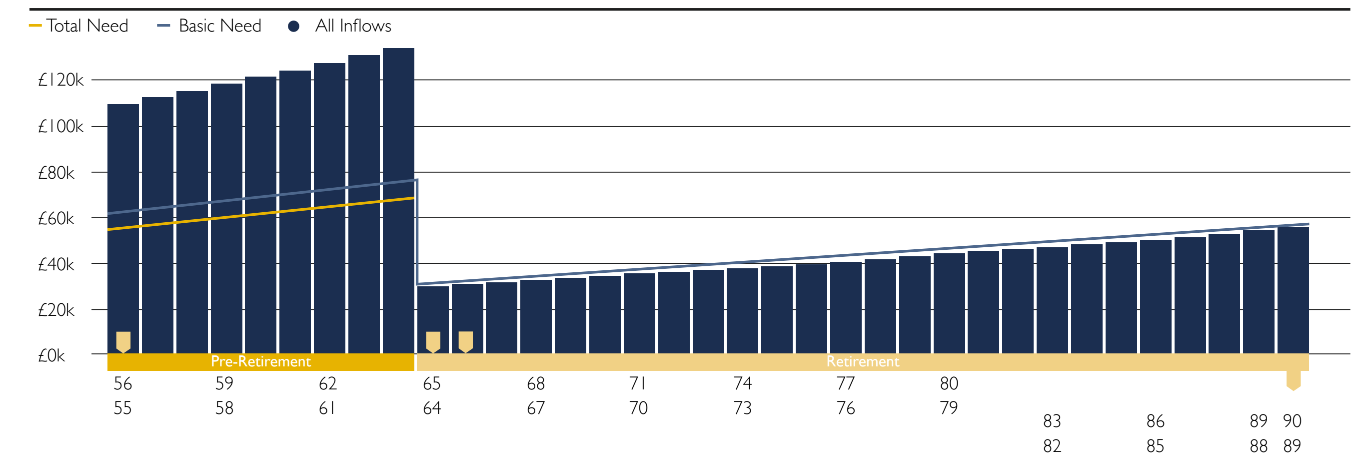
Pensions, retirement and cash flow modelling

Our Advisers use sophisticated software to plot your own pension and retirement journey, showing you how much you have saved, how much more you need to save (be it pensions, ISA's, other forms of savings or investments etc) and your income and expenditure needs.

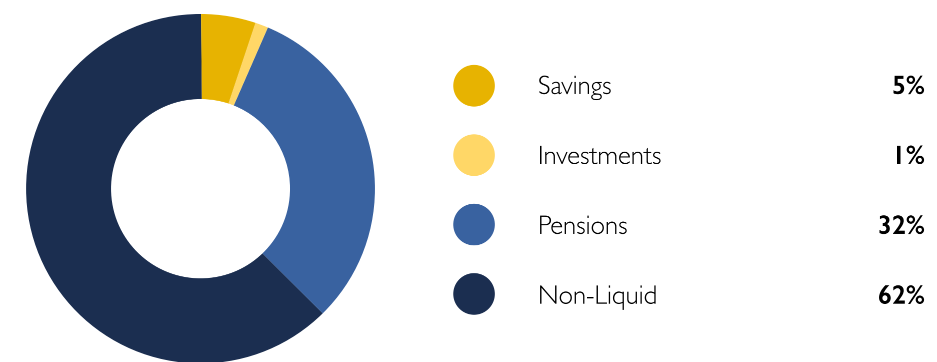
Test Case

Current Age: **56**

Retirement Age: **65**



Asset Summary



Savings	**5%**
Investments	**1%**
Pensions	**32%**
Non-Liquid	**62%**

This illustration shows income pre and post retirement and how long this income will last. Your Adviser will help you every step of this journey, creating an interactive model that can be reviewed and updated each time your circumstances change.

Hop over to watch our video on how cash flow modelling can help you with your retirement planning **www.ellisbates.com/retirement**

Pensions and divorce

Navigating through what may be uncertain territory during this emotional time

If you're going through a divorce, dividing up any pensions you have will usually be one of the largest financial decisions you need to make. Agreeing financial arrangements in your divorce can seem daunting; there are so many misconceptions and myths as to what each party is entitled to that it gets confusing. The rules surrounding dissolution of a registered civil partnership are the same as those for divorce.

A pension is often the largest or second largest capital asset in a marriage or registered civil partnership.. Frequently, one person has a substantial pension and the other might have none or a very limited pension provision because, for example, they have given up their job to look after the children. A decision will need to be made as to whether that pension or pensions should be shared or if you should receive more of another asset, such as the home instead.

Pension sharing

Pension sharing is the preferred route of most divorce courts. Thanks to the Welfare Reform and Pensions Act 1999 (WRPA), this allows one party the opportunity to secure a percentage of their spouse's pension rights and to put that percentage into their own name. This is preferable in many cases because a person can feel more in control of their own future rather than being dependent on an ex-spouse. They can decide when they retire, and if the recipient dies before retirement, the pension investment can be paid to children or a new spouse.

Pension valuation

It is important that pensions are considered in the financial settlement to arrive at an accurate valuation. The universal valuation method for pensions is the Cash Equivalent (CE). A divorcing couple will inevitably be required to obtain CEs for each pension scheme of which they are or have been a member. The advantage of CEs is that they are easily obtainable and provide an approximate 'snapshot' value of a pension fund.

The most common question people ask is: 'Do I need to share my pension?' There is no simple answer to this question as it will depend on other factors. What other assets are available to be shared? What is the value of your pension? Does your spouse have savings, investments and pensions in their own name? Are you willing to' the value of other matrimonial assets to enable you to keep your pension?

There are also many different types of pensions, and their terms and value can differ too. You and your spouse may have a State Pension, company pension and perhaps a personal pension too. Your first step, therefore, is to quantify your pensions alongside your savings, shares, investments and any property or business interest you may have. Having quantified the pension assets, you can then consider fully your options in relation to your pension.

Divorce is a very stressful time and any new financial arrangements need to be handled by experts, to give you peace of mind for your new future.

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2023

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We are totally independent, privately owned and not tied to or influenced by any products or providers, which means that our advice is always impartial. As Independent Financial Advisers, we are authorised and regulated by the Financial Conduct Authority (FCA).

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