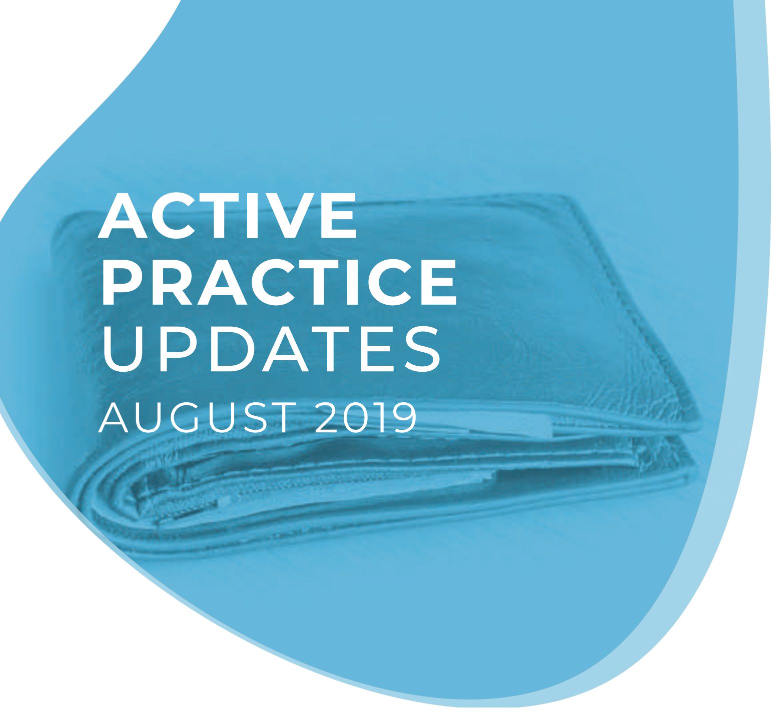

ACTIVE PRACTICE UPDATES

AUGUST 2019

Bevan Buckland LLP
Chartered accountants, tax and financial planners

SAVING FOR YOUR RETIREMENT

Are you on track for a comfortable retirement?

All of us dream of the day we can retire, saying goodbye to the alarm clock and commute, filling our days with sun-soaked beach holidays, leisurely rounds of golf, or cruising the world.

As delightful as that sounds, the days when people can retire at a certain date set by their employer or by the state are long gone for most people.

That is a bitter pill to swallow for some baby boomers, many of whom face remaining in some form of employment until well into their 60s and 70s.

Almost half a million people over the age of 70 were in full or part-time work at the end of March 2019, according to the Office for National Statistics (ONS).

This represents a rising year-on-year trend, and a 135% increase on the number of septuagenarians who remained in employment back in 2009.

For younger generations, retirement increasingly feels like a pipe dream given suppressed wage growth and high living costs.

However, effective retirement strategies can at least help you identify how much you will need to retire, when you can expect to retire, and how long your money will last.

HOW MUCH IS NEEDED TO RETIRE?

How much you need to fund a comfortable retirement largely depends on your living costs and your lifestyle choices.

Most retirees need less to live on in retirement. They've typically paid off the mortgage, their children have flown the nest, and they no longer need to commute to work.

Various experts reckon between £23,000 and £27,000 a year is needed to fund a comfortable retirement, although that's based on living costs in 2019.

Consumer group Which? estimates that around £18,000 a year is required for retired couples to cover the absolute essentials, such as utility bills, food, and transport costs.

According to Scottish Widows, three in five Britons are saving 12% of their salary which may be enough to fund a comfortable retirement. But they will need to save more into a pension if they want to enjoy regular holidays or expensive hobbies.

WAYS TO SAVE FOR RETIREMENT

Most people's pension pots are made up of three pensions: the workplace pension, the state pension, and any personal pensions they may hold.

The number of people saving into a **workplace pension** through auto-enrolment passed 10 million in February 2019.

Employers with staff who are over the age of 22, and earning more than £10,000 a year, are legally obliged to put at least 3% into an eligible employee's workplace pension.

The employee has to divert a minimum of 5% of their qualifying earnings into their workplace pension, although they can put more in if they choose.

In years gone by, people would retire as soon as they could start claiming their **state pension**, and rely on it to cover the cost of living. That's no longer the case for most people.

The state pension is made up from your national insurance contributions (NICs), and the whole system has experienced significant change in recent years.

Under the new state pension, which was launched in 2016, 35 complete years of NICs are required to receive the full weekly amount of £168.60 in 2019/20.

What you receive from the new state pension will rise annually by whichever is the higher of inflation, earnings growth or 2.5%.

Personal pensions are an especially good idea if you are self-employed and do not have the option to pay into a workplace pension.

If you are in full-time employment, personal pensions can also be used to supplement other pensions if your financial circumstances allow.

HOW LONG WILL YOUR MONEY LAST?

The most recent life expectancy estimates from the ONS show that the average 65-year-old man will live to age 83, while a woman of the same age can expect to live to age 86.

With people generally living longer, it is easy to see why more people are delaying their retirement compared to their parents and working longer.

They want to earn more money to ensure they have enough to retire on. But it's not all bad news – people are generally fitter and healthier in their later years these days, too.

The general fear is that the traditional pension pot will run out, especially with more people requiring social care later in life.

Those extortionate care costs are often offset against assets, such as the value of the family home.

It is important to keep an eye on inflation, which is the gradual rise in prices of goods and services over a period of time.

The cost of living increases over time, so the same amount of money you have saved essentially buys you less in the future.

The Bank of England claims the average price of a pint of milk increased by 76% between 1990 and 2018 – from 25p to 44p.

Other essentials experienced similar price hikes over time. You can expect food, household bills and other spending to get more expensive as the years roll by.

In reality, nobody has a crystal ball to tell them how long their retirement savings will last. It depends on how long you live, your outgoings when you retire, and the post-retirement lifestyle you choose to lead.

Two things are certain: first, the earlier you start saving, the earlier you can expect to retire; secondly, we can help you form a retirement strategy tailored to suit your needs.

TAX IMPLICATIONS IN RETIREMENT

Cashing in your pension from the age of 55 could land you with a large tax bill, and deprive you of much-needed retirement income later in life.

Anyone over the age of 55 can take their whole retirement savings as a lump sum, with the first 25% tax-free and the rest taxed at your marginal rate of income.

You need to be careful if you withdraw this in one fell swoop as it can nudge you into a higher income tax band.

For example, let's say your salary for 2019/20 is £41,000 a year and you are set to pay income tax at 20%.

If you take £10,000 out of your pension (ignoring any tax-free cash), your income tax liability would double to 40% on a portion of your income, as the withdrawal pushes you into the higher-rate band, which starts at £50,000 in 2019/20.

In this example, £1,000 of your income would be taxed at 40%.

If your pension withdrawal took your total income to more than £150,000 for the year, you would pay income tax at 45% on the amount above £150,000.

Seek expert advice if you are considering this.

Retirees still have to pay income tax on any pension income exceeding the personal allowance, which stands at £12,500 in 2019/20.

The same income tax bands and rates apply above £12,500, ranging from the basic rate at 20% to the additional rate at 45% in England, Northern Ireland and Wales. Income tax bands and rates in Scotland range from 19% at the starter rate to 46% at the top rate.

Income tax will be due in 2019/20 if savings into your pension pot exceed either 100% of your annual earnings, the £40,000 annual pensions allowance, or the £1.055m lifetime allowance.

If you continue to work beyond your state pension age, NICs will no longer be deducted from your pay packet.

Contact us to discuss retirement strategies.