TOP TIPS

5 TOP TIPS TO IMPROVE YOUR PENSION

1.

REVIEW YOUR PENSION REGULARLY

Not reviewing your pension won't affect your day-to-day life while you're still at work. But it could have serious implications for your comfort in retirement. Keeping a regular eye on a pension can help ensure it is on course to provide the retirement income needed. It is sensible to review a pension at least once a year.

Have you ever planted anything in your garden? If so you probably kept an eye on its growth, watered it and dug out the occasional weeds that threatened to smother it. Had you walked away and come back many years later, you wouldn't be too surprised to find it wasn't faring too well.

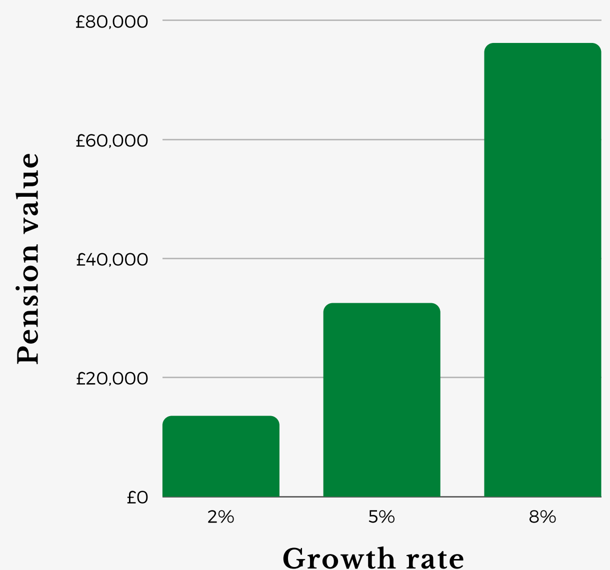
But that is exactly how millions of people treat one of their most important assets – their pension. They take the important first step of setting up one, but then fail to follow this up by making sure their pension is prospering.

2.

CHOOSE THE RIGHT INVESTMENTS FOR YOU

A pension will usually contain at least one investment. Usually this will be a managed fund of some description. Often this managed fund will be run by the pension provider, usually an insurance company. Insurance companies should be very good at measuring and analysing risk, but may not specialise in investments.

However, the performance of a pension fund can make a huge difference to an investor's comfort in retirement. To the right is what a £10,000 pension pot could be worth after 30 years depending on the growth the fund achieves.



This is just an example to illustrate the importance of investment performance. In reality investments fall as well as rise in value so an investor could get back less than they invest. 1% annual charge assumed. Inflation will reduce the value of money over time.

Clearly there is a lot at stake here, yet this is an issue which is neglected by many pension investors. Don't be one of them. Pension investments should be monitored regularly to make sure they are up to scratch. If necessary, the pension can be switched into a fund you feel offers better prospects.

An investor may find this possible within the pension they already have, depending on the funds available. Otherwise it is possible to transfer a pension to a new pension provider with a better range of funds.

3.

CONSOLIDATE PENSIONS

It can be difficult to keep an eye on how pensions are doing if they are held with a number of different companies. Many of us accumulate pensions through the workplace, and when changing jobs we leave behind a trail of separate pension pots. These may be easier to manage if they are consolidated.

This can be done by transferring them to a Stakeholder Pension, Personal Pension or SIPP (self-invested personal pension). An investor wanting more choice and flexibility could choose a SIPP. An added benefit an investor may seek is online access to their pension, so they can monitor it and make changes as often as they want at the click of a button. Some pensions can even be managed through a smartphone or tablet app.

There are pensions it may not be wise to transfer. For instance defined benefit (e.g. final salary) schemes promise a specified income in retirement or other schemes might offer a guaranteed growth rate on the pension fund. Where such a pension is worth more than £30,000 investors will be required to take advice before transferring.

Pension schemes which provide a guaranteed annuity rate that will be used to convert the pension pot into an income at retirement may not require advice to transfer, but the scheme should explain the benefit of the guarantee. If an employer is paying into a current workplace scheme then it normally makes sense for that to remain where it is too, otherwise the employer contributions may stop.

Before transferring, an investor should always check they will not lose any valuable benefits or guarantees or incur excessive exit fees. Pensions are usually transferred as cash, so will be out of the market for a period.

4.

TOP UP YOUR PENSION

Joining a workplace pension scheme often used to be enough to provide a comfortable retirement. Final salary schemes were common. However, very few people outside the public sector are now offered a final salary scheme. Most people nowadays are typically offered membership of what is called a defined contribution (also known as money purchase) pension.

Unlike a final salary scheme the employer does not promise an income in retirement. Instead both the employee and employer will pay an agreed contribution and the employee will build an invested pot of money from which they can draw when they reach retirement age. While this is an excellent start to pension saving, it is unlikely to be all they need to do to secure a comfortable retirement.

In many cases it will therefore make sense to top up by making additional pension contributions. Many people start pension saving later in life, and even then may have periods when they don't contribute to a pension. Consequently it often makes sense to top up a pension whenever possible. This could be a lump sum contribution as a result of a bonus for instance, or perhaps as a regular monthly contribution.

Remember money in a pension cannot normally be accessed until age 55 (57 from 2028). It is then usually possible to take up to 25% tax free and the rest taxed as income. An employee can usually make additional savings into their existing workplace pension scheme. Alternatively if they want greater investment freedom (and won't be missing out on an employer contribution) then they might consider contributing to a SIPP.

If they are a member of a final salary scheme they may be able to pay money to build up an additional pension pot or to buy 'added years' to give more income from the pension. If these options are available, they are definitely worth considering

5.

CONSIDER YOUR RETIREMENT OPTIONS CAREFULLY

Any time from age 55 (57 from 2028), you can normally start taking money from your pension, up to 25% is tax free and the rest is taxed as income. You could take the whole fund as a lump sum, smaller lump sums or a regular income.

However, with choice comes the risk of making a poor decision. For example, unsustainable withdrawals could result in a large tax bill or running out of money later in retirement. Before making a decision you should spend time carefully considering all the options.

What you do with your pension is an important decision. Therefore, we strongly recommend you understand your options and check your chosen option is suitable for your circumstances: take appropriate advice or guidance if you are at all unsure.

Pension Wise, the Government's pension guidance service, provides a free impartial service to help you understand your options at retirement.

You can access the service online at www.pensionwise.gov.uk, by calling **0800 138 3944** or face to face.

This guide is not personal advice. We offer a range of information to help you plan your own finances and personal financial advice if requested.

WHAT ARE THE MAIN OPTIONS?

Annuities

An annuity provides a secure income in exchange for the pension fund. The income is guaranteed for life, no matter how long the investor lives. Normally up to 25% of the fund can be used to provide a tax-free lump sum and the income is subject to tax. The investor chooses whether the income is fixed, increases by a set percentage over time or tracks inflation.

Enhanced rates are often available if investors confirm lifestyle and health details. This could boost the income for life. The annuity can continue to support beneficiaries after the investor dies (joint life annuity) or stop on death (single life annuity).

It is also possible to guarantee the annuity for a minimum length of time, for example 5, 10 or even 30 years. If the investor dies within this time, the income will continue to be paid to their estate, or to the beneficiaries nominated, for the remainder of the guarantee period.

5.

CONSIDER YOUR RETIREMENT OPTIONS CAREFULLY

Once an annuity is set up, the options originally selected cannot normally be changed and any change in the investor's health cannot be used to enhance the annuity in the future.

DRAWDOWN
Drawdown allows an investor to take tax-free cash (usually up to 25%) and keep the fund invested, while drawing income directly from the fund. It is more complex than an annuity. The investor chooses where to invest, and the fund value will rise and fall depending on investment performance.

They can choose how much income to take – from nothing to the whole fund. However, with this increased flexibility comes increased risk. Income is not secure, so poor investment performance or large withdrawals will erode the fund's value over time. In the worst case scenario this could completely deplete the fund. Whatever income is chosen the investor needs to satisfy themself the income will be sustainable for as long as they need it to last, and their investment strategy is compatible with this.

The death benefits with drawdown are generally more favourable than an annuity, simply because no one-off decisions need to be made before applying. Drawdown pension wealth can be inherited by anyone and is usually tax free if the original investor died before age 75, or subject to income tax if after.

Drawdown investors can usually nominate a beneficiary or beneficiaries to whom they would like to pass their pension to if they die and can change this nomination at any time. But you should be aware that this nomination is not legally binding.

UNCRYSTALLISED FUNDS PENSION LUMP SUM (UFPLS)
This option was introduced in April 2015. Investors who do not need their full tax-free cash yet, nor a regular income from their pension, can now take periodic lump sums directly from their pension without having to go into drawdown.

5.

CONSIDER YOUR RETIREMENT OPTIONS CAREFULLY

Each time an UFPLS is taken, 25% of the lump sum will usually be tax free and the rest taxed as income. Deciding whether to withdraw income over time rather than in one go is an important consideration, and can affect the amount of tax paid. The remaining pension stays invested, which means the fund value and future income is not secure.

Keeping the fund invested does create potential for growth; however, taking lump sums out will reduce what is left to provide income in the future, particularly if the investments perform badly or if too much is drawn.

MIX AND MATCH

There is no requirement to take a pension all in one go and investors do not need to choose just one option. They could decide on a mixture, for example using some of a pension to cover essential living costs through an annuity and using the remainder to provide a flexible income to support this.