cottons group

www.cottonsgroup.com

Retirement Planning

Retirement isn't what it used to be. In many ways it is better: people are living longer and enjoying healthier and more active retirement years.

On the financial side, however, trends are not as positive. For a combination of reasons, the goal of a financially secure retirement is becoming increasingly difficult to achieve. This guide highlights some of the issues you need to consider if you wish to enjoy the comfortable retirement you deserve.

While being able to retire may not be your most important financial objective now, sooner or later it will be at the top of your agenda.

The earlier you focus on your retirement needs and plan for meeting them, the more time you will allow yourself to invest and the more time your investments will have to grow.

A pensions shortfall?

Many people are heading towards retirement with inadequate savings, and many even have significant debts. Meanwhile, retirement periods are becoming longer – you could spend a third of your life as a retired person.

For many, the whole picture adds up to a pensions shortfall. However, by taking action now you can help to make this period as financially secure as possible.

Key points to discuss with us include:

- Working out how much you need to save to create a 'retirement pot' capable of securing the comfortable retirement you desire.
- Tax-advantaged saving for your retirement.
- Using your business to help fund your retirement.

There are various options for retirement funding available – see later for some of the most common.

Principal pension planning

The state pension

Eligibility for a state pension depends on an individual's national insurance contribution (NIC) record. Individuals who reach state pension age after 6 April 2016 will receive a flat-rate pension, worth potentially no less than £185.15 per week (2022/23). Those who reached state pension age before 6 April 2016 will continue to claim their basic state pension (plus any additional state pension that they may be entitled to). Nearly everyone reaching state pension age in the next few years will be subject to complex transitional provisions which take account of their contribution record prior to 6 April 2016.

Employer pension schemes

There are two kinds of company pension scheme into which you and your employer may make contributions. A defined benefit scheme pays a retirement income related to the amount of your earnings, while a defined contribution scheme reflects the amount invested and the investment fund performance.

All employers are now required to automatically enrol eligible workers into a qualifying pension scheme. From 6 April 2019 onwards, a minimum overall contribution rate of 8% of each employee's qualifying earnings applies, of which at least 3% must come from the employer. The balance is made up of employees' contributions and tax relief.

Personal pensions

If you are not in a good employer pension scheme, you should make your own pension arrangements. If you are a higher rate taxpayer, your investment will, subject to limits, qualify for tax relief at 40%. The limits are the greater of £3,600 or your UK relevant earnings. The overriding annual allowance for most people is currently £40,000, however, those with adjusted income over £240,000 may have their annual allowance tapered down to a minimum of £4,000. A £4,000 limit may apply where money purchase pensions are accessed.

Pension inputs exceeding the annual allowance may be subject to a tax charge. Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. The unused relief for any particular year must be used within three years

For both employer and personal pensions, there is a limit on the tax-privileged benefits that can be drawn. The value of any authorised benefits paid out in excess of their allowance is subject to a tax charge known as the lifetime allowance charge. The standard lifetime allowance is £1,073,100 in 2022/23 and is frozen at this amount until 5 April 2026.

Other planning options

Your business

At some point in time, you will dispose of your business interests and invest the proceeds. While this may be some years away, at some point you will wish to realise its capital value. Maximising this value and paying the minimum in capital taxes, for example by making full use of Business Asset Disposal Relief (formerly known as Entrepreneurs' Relief) and thus paying only 10% tax on the profit (up to a lifetime limit of £1 million for disposals in 2022/23), is an important goal.

Your home

Although they might not be suitable for everyone, there are at least two ways to make your home boost your retirement finances. The first is downsizing – selling your current home and buying something cheaper to release value now tied up in your property for other purposes.

Alternatively, if you wish to continue living in the same property, 'equity release' might also be something to consider, but only in your later years. Equity release might not suit all families, and you need to discuss all the implications with us and your other financial advisers.

ISAs

Income earned on investments within an ISA is exempt from income tax. Gains made on ISA investments are also exempt from capital gains tax. The maximum annual deposit is £20,000.

The Lifetime ISA provides another way of saving for retirement. The accounts are available to any adult under the age of 40, and individuals can deposit up to £4,000 from their annual maximum ISA allowance each tax year. Savers will receive a 25% bonus from the government for every pound they put in, up to the age of 50. Various rules apply.

Wills

Having a valid and up-to-date Will in place will not only ensure your estate is as tax-efficient as possible, but that your wishes are followed after your death.

Other sources

Savings insurance policies, property and valuables such as art or collections could all be taken into account when developing a retirement strategy.

Your retirement strategy will be determined by a number of factors. We can help you to plan for a comfortable future – contact us today.

Planning checklist

Why not complete this checklist, and then make arrangements to discuss your retirement plans with us? We can use this as a starting point to help you create a strategy to realise your retirement aspirations.

Do you have a retirement plan in place?

☐ **Yes** (date last reviewed:_________________)

☐ **No**, but I would like to develop one

Do you have a valid Will? Does it reflect your current wishes and potential change in circumstances?

☐ **Yes** (date last reviewed:_________________)

My primary retirement goals are to:

☐ Live independently where I want

☐ Travel frequently

☐ Buy and enjoy the things I want

☐ Minimise taxes

☐ Help my children and their heirs

☐ Pursue hobbies and interests

Other ____

____

My current retirement resources include:

☐ Pension plans

☐ Wills

☐ ISAs, stocks and shares

☐ Insurance policies

☐ Savings

☐ Art, collections and other valuables

Other assets __________________________________

____

I need help with:

____

____

____

cottons group

enquiries@cottonsgroup.com
www.cottonsgroup.com

Northampton
1 Billing Road, Northampton NN1 5AL
01604 632 116

Rugby
Chestnut Field House, Chestnut Field,
Rugby CV21 2PD
01788 579 033

Daventry
The Stables, Church Walk, Daventry NN11 4BL
01327 879 090

London
Lower Ground Floor, Office 231
Shoreditch, High Street, London E1 6PJ
020 3906 6444

Milton Keynes
The Pinnacle, Midsummer Boulevard,
Milton Keynes MK9 1BP
01908 414 136