Tax Planning Solutions

Insight

Maximising Your Retirement Income

This article provides some valuable hints, tips and strategies to help you maximise your income in retirement.

Why Pensions Should Form a Part of Your Overall Retirement Planning

While pensions are not the only way of providing for your retirement income needs, there are a number of advantages for including them as a part of your overall retirement planning. This is due to the following tax breaks:

Tax-Relief on Contributions

HMRC allows us to claim income tax relief on our pension contributions at our highest marginal rate (i.e. up to 45%). Depending on the level of income tax you pay, this means it can cost as little as £55 to benefit from a total pension contribution of £100. Clearly, this is in contrast to other forms of retirement planning, such as direct investments in shares or property, where tax relief is not available.

Tax-Efficient Growth

In addition to receiving tax-relief on your pension contributions, there is no liability for you to pay income tax or capital gains tax on the growth within your pension fund. (Again, this differs from using other methods of retirement funding, as noted above).

Clearly, the more tax-efficient your retirement planning is, the more quickly your funds will grow and the greater your level of retirement income will be.

How You Can Boost Your Pension Income

1. Contribute via Salary Exchange (Salary Sacrifice)

If your pension is set up via your employer (or your own limited company) it can be possible for you contribute via Salary Exchange. Doing so, means that in addition to receiving tax relief on your contributions, you can also benefit from National Insurance savings.

As a result, using Salary Exchange can increase the size of your pension contribution, leading to a larger pension fund and a higher level of retirement income (at no additional cost). If you are not already contributing via Salary Exchange, this option should be considered.

2. Make Additional Lump-Sum Contributions

Other than for very high earners (who may have a restricted contribution allowance), we're entitled to claim tax relief on our pension contributions, up to 100% of our earnings, subject to an annual maximum of £60,000.

In addition, we can carry forward any unused pension contribution allowances from the previous 3 years, and therefore may contribute up to a maximum of £200,000 in the current tax year.

If you have funds available, and if you haven't fully used your pension contribution allowances for the past 3 years, you may wish to take advantage of this opportunity.

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How to Boost Your Pension Income Continued…

3. Optimise Your Pension Fund Performance

Being invested in the right funds is vitally important to achieving the level of growth and security needed to meet your retirement income objectives. Many people do not receive expert investment advice in relation to their pension fund choices, and therefore, they run the risk of not being invested in the most appropriate funds.

Assessing your attitude towards investing (including your appetite for growth and security as well as your tolerance for volatility) is key to helping you make the right investment decisions. This can help you to optimise the performance of your pension fund over the medium-long term and maximise your retirement income.

4. Review Your Pension Contract Charges and Terms

If you have an older style pensions contract (e.g. one that was set up prior to 2015) it may be worthwhile reviewing this for the following reasons:

- Charges and Costs

Many older style pension contracts carry an outdated charging structure that is not competitive in the modern world of pensions. If you have a pension that was set up prior to 2015, it's worth checking to ensure you're getting the best value for money and not paying more than you need to. (The more you pay in charges, the less your fund will grow).

- Pension Freedom and Flexibility

Older style pension contracts may also be limited in the level of flexibility they offer, including the choices available when you retire. For example, they may not allow you to access your pension income in the way that best suits your particular circumstances and needs.

Modern pension contracts offer Flexi-Access Drawdown. This feature offers increased flexibility and can allow you to draw lump sums and/or an income as and when you need it. Flexi-Access Drawdown also gives you the ability to vary your income over time, to suit your changing circumstances and needs in retirement.

Other Tax-Efficient Solutions for Funding Your Retirement

Depending on your personal circumstances and needs, the following solutions can be considered alongside your pension to provide you with a tax-efficient income in retirement.

Solution	Tax Benefits
ISAs:	No income tax. No capital gains tax. Tax-free income.
Investment Bonds:	No income tax. No capital gains tax. Tax-efficient income planning.
Venture Capital Trusts:	Income tax relief. No capital gains tax. Tax-free dividend income.

Further Information & Support

For help with maximising your income in retirement in the most tax-efficient way, please contact John Castle:

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