

WHY YOU NEED TO LOOK AT YOUR PENSION IN 2022

Should you factor inflation into your pension plans?

Pensions stories have been rife in recent months, led by the Government's decision to downgrade the fabled triple-lock on the state pension for 2022/23.

The triple-lock refers to the state pension rising by inflation as measured by the Consumer Prices Index (CPI) from the previous September, average earnings, or 2.5% – whichever is highest.

Because people returning from furlough distorted the growth of average earnings last year, that particular metric was temporarily removed, meaning a double-lock for 12 months.

This sees a rise of 3.1% based on last September's CPI figure. But since then, inflation has soared, already at 5.5% in January. People overly reliant on the state pension will therefore be squeezed by price rises.

With the qualifying age for the state pension rising too, the message is clear. If time is on your side, take any opportunity to boost your own pension provision so you are not dependent on the vagaries of state pension policy.

SNAPSHOT OF THE STATE PENSION

Broadly speaking, for those who qualify, a full new state pension will be worth £185.15 a week and the basic state pension is worth £141.85 a week from 11 April 2022.

They are both available from age 66, although this is set to rise over coming decades, at least up to age 68.

At a maximum of £9,627.80 a year, the state pension is unlikely to be sufficient to enjoy a good quality of life through it alone. It does, though, provide a solid foundation upon which to add other pension provision.

BUILDING PENSION PROVISION

It can be confusing to keep up with how, where and how much you can invest in pensions, thanks to changes in legislation.

The last major round of changes in 2015 was coined 'pensions freedom day', although this was more about freedom in how to take your money out.

Types of pension

Aside from the state pension, there are two main categories of pension – workplace pensions and personal pensions.

Most people will have built up some provision, and since 2018 all employers have been compelled to offer employees who meet certain requirements at least a basic defined-contribution pension through auto-enrolment.

Look at what you have accumulated and a projection of what it may be worth when you come to retire. This, along with your state pension entitlement, will enable you to judge whether you have saved enough or, if not, how much more you need to save.

There's no cap on the number of pensions you can have, and pension contribution limits apply to any contributions and all of your plans, not just to individual pensions. What was once right for your circumstances might not be the best solution for investing new money.

So, have a look at what type of pensions there are and consider relevant factors, such as the investment choice available, charges, customer service, and how easy it is to make contributions. Also, get information and ask if it's possible for us to have third-party access to act on your behalf.

Making contributions

Pension contributions qualify for tax relief, and if you have not already taken any pension benefits you can contribute 100% of your annual income up to a maximum of £40,000 each year, or up to £3,600 each year if you have no taxable income.

Basic-rate income tax is added automatically to your pension scheme, and any higher or additional-rate income tax is reclaimed via self-assessment.

Therefore, if you wanted to contribute £10,000 into your pension, you would only pay £8,000, and the other £2,000 would be added by the Government (20% tax relief). If you pay sufficient higher or additional-rate income tax, you claim this back yourself.

That describes the situation for most people under 75, but there are scenarios where you may have scope to pay in more and benefit from tax relief, including from 'carry forward'.

On the other hand, you could face tighter restrictions, including breaching the lifetime allowance on the total value of your pension, or the money purchase annual allowance which restricts your contributions to your pension.

Of course, once you have decided to contribute to your pension it is important to invest your money wisely, according to your attitude to risk and your investment goals. How well your investments perform will have a major bearing on your retirement income. Again, we can help.

TAKING MONEY OUT OF PENSIONS

Building a pension pot need only be half the story, and gone are the days when turning your pension fund into a retirement income was a one-off decision.

Now, you have much more freedom and, indeed, can keep a proportion of your pension still invested if you wish. Generally, the rules are as follows:

Timings

You can start to withdraw money from your personal pension from age 55, although this will rise to age 57 from April 2028.

Some existing pension arrangements can keep the age 55 date, but there are complex rules about contributions and transfers.

This is much earlier than when the state pension becomes available, meaning private pension provision can allow you to retire earlier and increase your annual retirement income.

Tax-free cash

You are allowed to take 25% of your fund as a tax-free cash lump sum, and you do this in proportion to the amount of the fund you are making available to draw as income.

Two common examples involve taking your full 25% lump sum and no income, or taking 25% and a regular income.

Equally, you have flexibility about how much of the pension you want to 'crystallise' into a lump sum and income.

The income you draw will be subject to income tax if it exceeds the personal allowance.

Annuities

One option, and the more traditional way, of taking a retirement income, is to use your pension fund to purchase an annuity.

This one-off transaction can give you a retirement income for the rest of your life. You can link it to your spouse's life, too.

An annuity provides security as it will not run out before you die.

Drawdown

With drawdown you leave your fund invested, much as it was before retirement (albeit perhaps in different assets).

You take an income from it and this could be from a natural yield from any investment income, or by selling off assets.

There's no guarantee your fund will last for the rest of your life. The wrong stock market movements, high inflation or an unusually long life, for instance, could see your pension run dry.

If you were to die earlier, or do well investment-wise, the flip side is your pension pot remains an asset to those you leave behind.

[!\[\]\(eff7520f80aa06fb7298beb68337d76d_img.jpg\) Get in touch for a pension review.](#)

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) apply depends on individual circumstances and may be subject to future change. Pensions eligibility depends on individual circumstances, while pension benefits cannot normally be taken before age 55.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any pension decisions based on its contents.

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