INSIGHT

ISSUE 26

A WEALTH OF ADVICE

A WORLD BEYOND INFLATION WILL ARRIVE

DO YOU KNOW IF YOU ARE ENTITLED TO THE FULL STATE PENSION?

SHOULD YOU LOOK AT ANNUITIES WHEN YOU RETIRE?

MANAGING YOUR FINANCES WHEN INTEREST RATES AND INFLATION INCREASE

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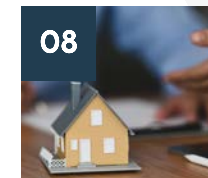
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WELCOME

Welcome to our latest issue of Insight – A Wealth of Advice

A new Prime Minister and two Chancellors saw the mini budget nearly being reversed in full. However, from a financial planning and advice perspective the major significance of the "mini budget" was less about what was announced and more about what wasn't and remains the same.

The cost-of-living crisis is affecting people in different ways. For those who can help their children there could also be the opportunity for some effective inheritance tax planning at the same time.

Also included in this edition of Insight:

Do you know if you are entitled to the full State Pension? - The State Pension forms a critical part of retirement income for nearly all retired households. Did you know you can top up your State Pension to the full amount by buying extra years?

Opting out - Why you should stay in your workplace pension - The cost-of-living crisis has caused many individuals and their families to review and prioritise outgoings, which may lead to considering whether it is a good idea to remain in a workplace pension. Here we challenge some of the reasons people might give when choosing to stop their pension contributions.

Can pensions be a tax-efficient way of passing on your wealth? - Gone are the days where your pension savings automatically die with you or your spouse/civil partner. The introduction of Pensions Freedoms has given people more control and flexibility to pass on pension savings to any beneficiaries of your choice.

We hope you enjoy this issue of our magazine. If there are any topics you would like us to cover in a future edition of Insight please get in touch If you would prefer to download a digital copy or subscribe to new issues electronically, please visit www.armstrongwatson.info/Insight

PAUL DICKSON

CHIEF EXECUTIVE AND MANAGING PARTNER
ARMSTRONG WATSON LLP

A WORLD BEYOND INFLATION WILL ARRIVE

Global Tightening

Inflation has been above the Bank of England's 2% target since the summer of 2021. Initially this was dismissed as a 'transitory' occurrence and therefore interest rates were held at record lows. As the months went on, inflation grew higher and in December 2021 the Bank of England decided it was time to act, with the official rate raised from 0.1% to 0.25%. Since that time inflation has accelerated and interest rates have increased at every Monetary Policy Committee meeting. The UK is not alone on this path of tighter monetary policy, with both the US Federal Reserve and European Central Bank amongst others taking similar action.

Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

A Shrinking Sweet Spot

Inflation was increasing primarily due to buoyant demand meeting covid-related supply chain issues. Russia's invasion of Ukraine then added further inflationary pressures, through the surging price of commodities. As interest rates moved higher, confidence in the global economy deteriorated. Tighter monetary policy is designed to suppress demand, cooling the economy to the point that price pressures abate. Central bankers hope they can judge the level of rate hikes to the point where inflation subsides, but not to the point of causing a recession. Yet, the higher inflation is, the more aggressive the central banks must act and therefore this balancing act is harder to achieve. As the year moved on, hope that a 'soft-landing' could be engineered faded and expectations for a recession increased.

A Lesser Evil

In the Autumn of 2022 we are now at the point where a recession is likely developing. While the economic picture is deteriorating, interest rates are expected to continue rising into 2023. Central banks are aware of the pain that inducing a recession creates, yet they believe this to be a lesser evil than it would be to allow inflation to take hold of the economy, as more aggressive interest rate rises would be needed in the future.

"Mini" Budget

While this does not create favourable conditions for the economy, or for investment markets, it would be a relatively clear situation to appraise, if all else were equal. The complicating factor is that the UK has a new prime minister who knows an election must take place within a little over two years and feels her best chances lie in having a thriving economy by that time.

Feeling that economic orthodoxy was a recipe for economic malaise, Liz Truss and her chancellor, Kwasi Kwarteng, held a headline grabbing (not so) mini-budget; heavy on tax cuts, but light on details of how they would be funded.

The Market Verdict

Markets reacted badly to the budget, fearing that not only would the tax cuts lead to higher inflation in the coming months, but also that they would be financed through higher government borrowing. Expectations for short and long term interest rates surged, sending a wave of volatility through global financial markets, and particularly those linked to the UK economy.

A Challenging Time

Such market performance was on top of what had already been a challenging year for investors, with both bonds and equities falling as stagflation took hold. Looking forward, it seems likely that the economy will continue to deteriorate over the coming months, with growth rates falling and unemployment (which has been stubbornly low) ultimately expected to rise. Such developments will be difficult for both individuals and companies as conditions are likely to be tight through the winter, yet the route towards economic recovery is visible.

Recovery in View

It seems likely that we are approaching the peak of inflation, following which the rate of price rises could fall quickly through 2023. Covid supply chain issues are receding; commodity prices, including wholesale energy costs, have fallen significantly from their peaks; and higher interest rates together with the economic slowdown will all contribute to a return to lower inflation. Once these trends emerge then lower interest rates, or at least no further rises, will quickly come from the world's central banks.

Cyclical by Nature

The global economy is cyclical by nature and while downturns have grave consequences, there is a self-righting nature to the cycle, meaning that brighter days do return. Investment markets can follow a similar pattern. Interestingly though, these patterns are often in advance of the equivalent economic developments.

(A)typical Downturn

In anticipation of a typical economic downturn, equities will often fall in value, while bonds will often rally. Yet, in the downturn we are currently experiencing, where inflation is high, bonds have also fallen in value.

(A)typical Recovery

In anticipation of a typical economic recovery equities will often rally, while bonds may fall in value. Yet, if we have an economic recovery together with falling inflation then there is the prospect for recovery in both of the major traditional asset classes.

The Opportunity

For those who can look through the volatility of the current time, this is a factor that should not be missed. 2022 has been a difficult year for the average investment portfolio, but with most assets now sitting on depressed valuations and with the prospect of a medium term economic recovery, there is the potential of a significant opportunity for patient investors.

RICHARD COLE

FUND MANAGER – FUTURE MONEY LTD

MANAGING YOUR FINANCES WHEN INTEREST RATES AND INFLATION INCREASE

With interest rates rising and the cost of living increasing, understanding your financial position, savings, debts and investments, alongside your regular income and outgoings is important. Whilst every individual's circumstances are unique, here we've put together a few areas you might wish to consider or be considering when looking at financial planning during this tumultuous time.

INTEREST RATES

Budget Planning

Having a handle on your income and outgoings is the first step in understanding where you might want to make changes and/or how fluctuations in interest rates and inflation might have an impact. Using a budget planner can help provide an overview.

How much emergency fund is enough?

Building a decent savings pot can underpin greater financial resilience, but how much should you look to keep aside? Ideally, you need to think beyond a one-off large bill and look to cover at least three or potentially up to six months of essential bills. This should provide some headroom in case of redundancy or sudden illness. You might also wish to consider income protection. Of course, the decision is a personal one and what you feel comfortable with.

I have investments, should I cash them in?

From time to time, stock markets go through periods of uncertainty. We had one during the COVID pandemic and are experiencing one now. Market falls are understandably unsettling for investors and you might be tempted to change your long-term plan by selling your investments. However, stock market volatility does tend to be short-lived. Timing the stock market is extremely difficult and the best policy is usually to stay fully invested over the long term according to your time horizon.

Is now the right time to invest?

Bank and building society accounts are the ideal place for your savings and emergency money as they are easily accessible and tend to be the safest place to put your money, but doing so exposes your capital to the enemy of the investor – inflation. Interest rates are now higher and you can now access better savings rates. However, inflation is running a lot higher which means your money is not keeping up with it.

Don't forget the Personal Savings Allowance (PSA)

Since the Personal Savings Allowance was introduced in 2016, rates have been so low that you have probably been unlikely to pay income tax on your savings. Most people can earn some interest from their savings without paying tax. However, with interest rates increasing you might be in a situation where you are caught, especially if your income has risen and you have moved into a higher tax bracket. There are other tax efficient options such as National Savings and ISA's to consider as alternatives to shelter your cash but it all depends on your income tax position.

Review Large Cash Holdings

With inflation currently at 8.6%, even with savings rates going up, the value of your money is reducing. You could have income tax to pay on your savings while it doesn't keep pace with inflation, creating a "double whammy effect". Now might be a good time to review those cash holdings for those people willing to consider a medium to long-term view.

For those holding large amounts in cash ISA's, with the impact of inflation on returns, now may also be a good time to review these.

Don't go it alone when investing

Now is not the time to try and go it alone – even if you think you have the right knowledge and experience. Regrettably, we have seen many instances where self-select investing, which whilst on the face of it may initially save costs, has been an expensive experiment. No one can predict the peaks and troughs of financial markets and it is extraordinarily difficult to time when the best days (peaks) are. Timing the stock market is extremely challenging, the best policy is usually to stay fully invested over the long term.

Our Chartered Independent Financial Advisers can discuss and advise on all aspects of financial planning, including retirement, investment and inheritance tax planning. Our advice is personalised based on individual circumstances. As all our expertise is "under one roof" this allows our Financial Planning Consultants to also work alongside our tax advisers to ensure the right overall advice and support is provided.

DAVID SQUIRE

CHARTERED FINANCIAL PLANNER

- KENDAL

CAN I HELP MY CHILDREN THROUGH THE COST-OF-LIVING CRISIS AND SAVE INHERITANCE TAX TOO?

The majority of working years are spent building up savings and pensions to enjoy in retirement, and for many people their wish is to pass what is left to children and grandchildren. Traditionally wealth is inherited by family members after a loved one has passed away, with the most effective method of doing so by having written a will where your wishes are conveyed.

Perhaps you have written your will, and done some planning to mitigate inheritance tax your beneficiaries may pay on your death? But could the cost-of-living crisis now be encouraging you to think differently?

Financially supporting your adult children and grandchildren

With media speculation about those on reasonable incomes unable to afford to pay energy bills, and reports of inflation potentially exceeding 18%, you may be considering that now could be the time to step in to help your offspring.

The good news Is, that giving your children or grandchildren money while you are alive could be the most tax-efficient way to be the "Bank of Mum and Dad" during the cost-of-living crisis and could mean that you help your children now when they need it most.

What are the benefits of gifting a living inheritance?

There are numerous benefits to giving assets away while living:

1. Making gifts while you are alive lowers the value of your estate for Inheritance Tax (IHT) purposes.

IHT is payable at 40% on any wealth above a certain threshold, known as the "nil-rate band". This is currently frozen at £325,000. If you plan to pass on your home, you can make use of the residence nil-rate band, currently frozen at £175,000.

2. You can gift any amount you like during your lifetime.

Your loved ones will only pay IHT on a gift if your estate becomes liable for it, and you die within seven years of making the gift. This is known as the "seven-year rule". If you die between three and seven years after making the gift, the rate payable will be based on a sliding scale known as "taper relief".

3. Tax free exemptions to some types of gifting

There are some HMRC exemptions to giving gifts that are tax-free regardless of how long you survive after gifting. These include the:

- Annual Exemption, which allows you to gift £3,000 a year tax-free, with the option to carry forward any unused amount for up to one year.
- Normal expenditure out of income exemption, which allows you to make regular gifts as long as they are made from income and don't affect your standard of living.

4. Personal benefits to gifting now rather than after death

The main benefit to gifting a living inheritance is that you are still around to see the difference your money makes. You might also find that your children receive the money when they need it most.

Inheriting on death, by which time your children might be in their 50s or 60s, might help during their retirement, but more important milestones – such as buying a first home or starting a family – occur much earlier in life.

Inheritance tax planning is a complicated space, and with any financial and tax planning around this area it is advisable to seek advice as to what step(s) is/are most appropriate for you and your family. Please download our Guide to Inheritance Tax & Estate Planning here.

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. We provide bespoke tax planning, financial planning and wealth management all under one roof. Please note, advice on IHT related matters could be provided by a mixture of both our financial planning and tax specialists.

> THERE ARE SOME HMRC EXEMPTIONS TO GIVING GIFTS THAT ARE TAX-FREE REGARDLESS OF HOW LONG YOU SURVIVE AFTER GIFTING.

PAUL MOODY
FINANCIAL PLANNING CONSULTANT – PENRITH

LIVING IN SCOTLAND? DO YOU KNOW WHO YOUR ASSETS WILL GO TO WHEN YOU DIE?

'Intestacy' is the term used to describe how a person's 'estate' (money, property and possessions) will be divided on death when the person does not leave a valid will choosing their beneficiaries, or where their will does not give away their entire estate.

Intestacy is different in England and Wales to Scotland and the rules are more complicated for those north of the border, so let's take a closer look.

Scotland's Intestacy Rules

As with English rules, if you have a valid will in place then you will not be affected by intestacy. However, if you die and have no will in place then there are intestacy rules that dictate who will inherit by law.

If you die leaving a spouse or civil partner behind and your house is owned jointly, then it is worth noting that the house will automatically pass to the surviving spouse. If not, the surviving spouse will receive the house (if it is worth less than £473,000) plus up to £29,000 worth of furniture and furnishings. If the property is valued above this level, then the surviving spouse receives just £473,000, plus up to £29,000 worth of furniture and furnishings. The amount in excess of £473,000 is dealt with as follows:

If there are no children, then the spouse receives up to £89,000 plus one-third of your 'moveable estate'. This term refers to anything you own other than house, land and buildings such as money in the bank, investments, shares and personal possessions. Should there still be some remaining residue in your estate and you have surviving blood relatives, such as parents or siblings, then they will take claim and your spouse will receive no more.

However, just like in English law, if you are cohabiting then your surviving partner gets nothing if you die without a will and has no claim to your estate.

Intestacy for Children and Grandchildren

So what if you do have children? In Scotland, this can also mean illegitimate and adopted children, but excludes step-children, your spouse will receive up to £50,000 plus one-third of your 'moveable estate'. Anything left will go to the children in entirety.

In Scottish law, grandchildren and great grandchildren will also fall into the category of children, but will only benefit if their parent has pre-deceased you.

Finally, if you haven't made a will and die with no surviving relatives, everything goes to the Crown.

The reasons to make a will are relevant whether you are in England or Scotland, so if you want to be certain who will benefit from your estate when you die, you really should consider making a will. It's the only way to be sure that your remaining assets go to who you want to receive them once you're no longer around.

Inheritance tax liabilities

Inheritance tax (IHT) is often called a voluntary tax in that, with planning, the payment of inheritance can be avoided. It is a tax levied on a person's estate when they die and on certain gifts made during an individual's lifetime.

IHT is often described as the UK's most hated tax. Former Chancellor, Lord Jenkins once called inheritance tax "a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue".

Currently (October 2022) everyone has a tax-free inheritance tax allowance of £325,000 – known as the Nil-Rate Band. The standard inheritance tax rate is 40% of your estate over the £325,000 threshold. The nil-rate band has been frozen since 2009 and is in place until April 2026.

The £175,000 Residence Nil Rate Band (RNRB) is available to those passing on a qualifying residence on death to their direct descendants. A taper reduces the amount of the RNRB by £1 for every £2 that the net value of the estate is more than £2 million.

Ways to protect against any IHT bill

If IHT is a concern for you, there are a variety of ways to reduce its impact on what your children or grandchildren will inherit. It will not surprise you to learn that with such a misunderstood tax, the starting point is professional advice. A good Independent Financial Adviser will often work in conjunction with a Solicitor. They will ensure that a client's estate planning is correctly set up, based on their wishes and objectives, and regularly reviewed, especially as the law can change.

For the majority of people there are various approaches that can be taken to mitigate a future IHT liability.

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. We provide bespoke tax planning, financial planning and wealth management all under one roof. Please note, advice on IHT related matters could be provided by a mixture of both our financial planning and tax specialists.

BRIAN MCNICOL

FINANCIAL PLANNING CONSULTANT - GLASGOW

DO YOU KNOW IF YOU ARE ENTITLED TO THE FULL STATE PENSION?

The value of the State Pension should not be overlooked as this forms a critical part of a retirement income for nearly all retired households. It will certainly be missed if it is not there.

"IT'S A REALLY GOOD IDEA TO CHECK WITH THE FUTURE PENSION CENTRE OR PENSION SERVICE WHETHER IT'S WORTH YOU PAYING EXTRA TO TOP UP YOUR QUALIFYING YEARS."

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. We provide personalised financial planning to suit your individual circumstances. We may be able to help you explore options you hadn't previously considered, or prevent you from making mistake in this what can be a complex area of financial planning. We will explain, in a jargon-free way, the pro's and con's of different courses of action available to you and then, where appropriate, provide regular reviews to help keep you on track.

Did you know you can top up your State Pension to the full amount by buying extra years? At the moment you can buy missing years dating back to 2006 – but you've only got until **April 2023** to do this.

If you're aged between 45 and 70 and you qualify, it could be well worth doing. It's estimated you could spend around £800 and get over £5,000 back in pension payments. The full amount of State Pension is currently over £9,000 for a year. And once you start getting it, it increases each year – so it's likely to keep its spending power in future.

How to check your State Pension

First of all, you need to check how much State Pension you're currently on track for by getting a State Pension forecast.

You can only do this if you're under State Pension age. If you're over State Pension age you'll need to go straight to your national insurance record – see Check your qualifying years below.

Go to the Check your State Pension forecast page on the government website

Your State Pension forecast

It will tell you:

- The date you can get your State Pension
- The potential weekly, monthly and yearly amounts, and
- Whether it's the most you can get, or whether you can improve it.

The closer you are to your State Pension age, the more accurate your forecast is likely to be. But your State Pension forecast isn't guaranteed. It's an estimate based on your National Insurance contributions record, the current amount of State Pension and current law.

Check your qualifying years

You can also check your National Insurance contributions record. It's particularly important to do this if you're due to get less than the full amount.

This will show you:

- The number of qualifying years – when you paid full National Insurance contributions or received National Insurance credits – you have, and
- When you didn't contribute enough to get a qualifying year.

How to top up your State Pension

Can you claim National Insurance credits?

Check if you qualify for National Insurance credits first. If you can fill your gaps with credits, you may not have to pay any extra.

You get some National Insurance credits automatically, but you have to claim others which again can be found on the government website.

Is it worth topping up your qualifying years?

Once you've looked into National Insurance credits, it's time to see if it's worth paying voluntary National Insurance contributions to top up your qualifying years. Remember, you've got until 5 April 2023 to fill gaps going back to 2006. After this, you'll only be able to fill gaps in the last six tax years.

It could be good value. The current cost of a qualifying year is £824, which can add up to £275 a year to your State Pension before tax. So you're likely to break even as long as you claim your State Pension for at least three years. And the longer you live, the better value it becomes.

It's complicated

Of course it is. It's State Pension. Sadly, it's not straightforward to find out whether topping up would be good for you or not.

If you're further away from your State Pension age, you may have enough years you can work and pay National Insurance contributions, or earn National Insurance credits, to get the full amount.

If you're closer to your State Pension age, there could still be complications. For example, if you claim pension credit, increasing your State Pension could reduce your entitlement to your existing pension credit – so you might not be any better off. And you could end up paying more income tax – depending on what other income you have.

It's a really good idea to check with the Future Pension Centre or Pension Service whether it's worth you paying extra to top up your qualifying years. They'll be able to look at your situation and work it out.

If you're under **State Pension** age contact the Future Pension Centre, phone **0800 731 0175**

If you're over **State Pension** age contact the Pension Service, phone **0800 731 0469**

Find out more

The government's MoneyHelper website has a guide to **voluntary National Insurance contributions and the State Pension.**

AMANDA HEYS

FINANCIAL PLANNING CONSULTANT - KENDAL

CAN PENSIONS BE A TAX-EFFICIENT WAY OF PASSING ON YOUR WEALTH?

Pension legislation dramatically changed back in 2015. Gone are the days where your pension savings automatically die with you or your spouse/civil partner.

The introduction of Pensions Freedoms, in addition to how you take your income, has given people more control and flexibility to pass on defined contribution or, personal pension, savings to any beneficiaries of your choice.

As well as supporting you through retirement, personal pensions can also be a very tax-efficient way of passing on your wealth. This is because, unlike other investments, your personal pension isn't part of your taxable estate. You can even pass on this type of pension to help give a family member or dependent more money to retire with.

Money left in your pensions can be passed on to your dependents or family tax-efficiently, called death benefits, depending on:

- The type of pension it is
- You nominating who you wish to receive the money (your beneficiaries)
- Your age when you die — before or after the age of 75

Personal pensions usually let you pass on your pension to your beneficiaries, tax-free if you die before you reach 75. After age 75, your beneficiaries may pay income tax on anything they take out of the pension.

However, pension providers were not forced to adopt the new freedom legislation on older pension contracts. These older types of pension schemes still have the old rules prior which restrict your choice as to whom to leave your benefits to, and it is therefore important to check that your existing pension contract is positioned correctly to benefit from these tax advantages.

If your pension doesn't have flexible death benefits

You could think about potentially transferring your personal pension into one that does give you a full range of death benefits. However, this is a decision that should be taken very carefully and might not be right for everyone, for example if you're in ill health. The pension might also have important benefits or guarantees that you could lose by transferring. Seek the advice of an independent financial adviser to review your options to see which is the best for you.

Another aspect to consider is that the money in your pension isn't covered by your will. You need to tell your provider who you wish to be considered as your beneficiaries. This is covered in a Death Benefit Nomination Form.

You also need to bear in mind that any money you take out of your pension will become part of your estate. This means it could then be subject to Inheritance Tax. This includes any of your tax-free cash allowance which you might not have spent. This is explained further in our Guide to Inheritance Tax & Estate Planning

It is also why it is tax-efficient to keep your savings in a pension fund if you have other savings to provide income in retirement, and passing down your savings to future generations is important to you.

So next time you receive your pension statement, please avoid taking it at face value, and instead seek financial advice to help understand what the actual value is to you and your loved ones.

Please visit our pension pages to find out more: https://www.armstrongwatson.co.uk/services/pensions-and-retirement-planning

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. We can provide a full review of your pension arrangements, including the death benefits, and discuss options and opportunities available to you.

KERRY CHALONER

FINANCIAL PLANNING CONSULTANT

- NORTHALLERTON

> NEXT TIME YOU RECEIVE YOUR PENSION STATEMENT, PLEASE AVOID TAKING IT AT FACE VALUE, AND INSTEAD SEEK FINANCIAL ADVICE TO HELP UNDERSTAND WHAT THE ACTUAL VALUE IS TO YOU AND YOUR LOVED ONES.

SHOULD YOU LOOK AT ANNUITIES WHEN YOU RETIRE?

For years annuities have been the Cinderella of retirement options, regarded as poor value and inflexible,but things are changing. With interest rates rising, the cost of buying an annuity is coming down and people could start to think about having a secure income as part of their retirement planning.

ANNUITY

DRAWDOWN

OPTIONS

What type of pension have you got?

Annuities are an option for defined contribution (DC) or personal (workplace) pensions where you build up a pot of money by paying contributions, and then you can use some or all your pot of money to buy an annuity.

What is an annuity?

An annuity pays you an income like a pension and can be set up in a number of different ways to suit you and your circumstances.

Lifetime annuities

You receive the highest amount of income by buying a lifetime annuity just for yourself, that doesn't increase. You can also buy 'impaired life annuities' that provide a higher income if you have health issues that mean you're not expected to live as long as a healthier person.

Add-ons are also available, such as pension increases in line with inflation or a pension for your partner, but they all make your annual income smaller.

Short or fixed-term annuities

Short-term annuities pay guaranteed income for up to five years and fixed-term annuities for up to 30 years. You may receive some money back at the end, and you may have to choose investments. These are regarded as more flexible than lifetime annuities as they don't lock you in for life, but they can be complicated.

Why did annuities become unpopular?

Annuities were the only choice most people had for retirement income from a DC pension. Annuity rates, the amount of income you receive for each pound of your pension savings, are linked to returns on government bonds or 'gilts' and are closely linked to what interest rates do.

From about the mid-1990s interest rates started to go down, reaching historic lows from about 2010 onwards, and this meant annuity rates went down too, meaning the yearly amount of income you could buy reduced over the years, compared to the amount of money you needed to buy it.

Inflexible

Annuities were also regarded as inflexible. Once you buy a lifetime annuity, you can't change it. If you died shortly after buying your annuity, the whole amount you bought it with is lost as it's not passed on to anyone else. Although you can choose an annuity that pays a pension to a partner or dependant after you die, that income stops when they die with nothing left.

Pension freedoms

When 'pension freedoms' were first introduced in 2015, the number of annuities plummeted as people took advantage of the new flexibility. Lots of people took cash directly out of their pension savings. Some people opted for flexible income or drawdown, where you invest your money and take income out as and when you want to.

Why are annuities becoming more popular?

As interest rates have risen, as have annuity rates and are now at their highest level for 11 years. At the end of August 2022 the buying power of pension savings worth £100,000 had increased by over 70%.

More flexible options than before

There are now more ways to pass your annuity money on to other people when you die. For example, value protection, where you receive a smaller income in return for protecting part or all the amount of money you bought your annuity with. You can also choose an annuity that is guaranteed to pay out for a certain time – for example, five or 10 years – even if you die in the meantime.

Investment looks more risky

With flexible income (drawdown), your pension savings stay invested. But as recent events such as the Covid-19 pandemic and the war in Ukraine have proven, investment markets can be volatile. In contrast, the prospect of a regular income that doesn't depend on investment returns can look more attractive.

Which is the best option for you?

It depends on your circumstances and objectives. It is important to seek advice from an independent financial planning expert who can design the right solution(s) for you to ensure you enjoy your retirement.

STUART SMITH

FINANCIAL PLANNING CONSULTANT

- WEST CUMBRIA

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. We provide personalised retirement planning to suit your individual circumstances. We will explain, in a jargon-free way, the pros and cons of different courses of action available to you and then, where appropriate, provide regular reviews to help keep you on track

OPTING OUT - WHY YOU SHOULD STAY IN YOUR WORKPLACE PENSION

For many people, paying into a workplace pension is a good idea, even if you have other financial commitments, such as a mortgage or loan. However, the cost-of-living crisis has caused many individuals and their families to review and prioritise their outgoings, which may also have led to them thinking whether it is a good idea to remain in a workplace pension. Indeed, people might have had the same thoughts for different reasons during the COVID pandemic if they were furloughed and/or on less income.

However, there are a number of important benefits you could lose if you choose to opt out of your workplace pension scheme, and here we challenge some of the reasons people might give when choosing to stop their pension contributions

The State will take care of me

Most of us will receive some state pension when we retire. What you get depends on how many so-called 'qualifying years' of national insurance (NI) contributions you have. These are earned over your lifetime and how many you receive generally depends on how many years you're in work, and you will need a minimum of 10 years before you'll get any payment at all.

The Retirement Living Standards say that, by today's living standards, you need at least £10,900 per annum as a minimum, to live on as a single person. This is more than the State Pension, currently £9,627.80 per year, therefore there is a shortfall, and you will need to have other savings if you have not paid into a pension.

I can't afford it!

We appreciate that the cost of living has risen significantly over the last few months. You can point to mitigating factors such as the war in Ukraine and the cost of energy. No-one can be sure when this will end but it is unlikely to last forever, and prices will stabilise. Inflation is predicted to start to fall in 2023 and hopefully food and energy prices will do so too. Remember, your employer also contributes if you remain in the scheme. If you opt out of the workplace pension, it's like turning down free money, because your employer will stop paying in as well.

By contributing to a pension you also get help from the government through tax relief. When you earn money you pay income tax, usually at a standard rate of 20%, but at 40% or 45% if you are a higher earner. When you choose to put some of that money into a pension scheme, you no longer have to pay tax on it. What this means in practice, is that if you want to put £1 into a pension, it'll only cost you 80p if you pay tax at the standard rate – the government puts in the other 20p.

For most high earners, the advantages could be even greater. For someone paying tax at 40%, it only costs them 60p, because the government contributes the other 40p. A combination of tax relief and a scheme where an employer matches what you put in means you could get £2 in a pension (one from you and one from your employer) at a cost to you of just 80p. There aren't many investments that can match that!

Think you're too young?

It may seem early to start planning for later life but remember you could have more than twenty years' retirement, as we are living longer, and you will need an income to fund that. A workplace pension is one way to provide an income. As well as your payments, you could benefit from contributions from your employer and the government. Usually, the younger you are when you start paying into a pension the better. The money has more time to grow.

Even if it's only a small amount, the money you put away early in life can build up over time.

I am too old and it is not worth it!

Unless your retirement is imminent, there's still time to build up some money for your later years. Staying in a workplace pension is worth considering.

Unlike other ways of saving, being in a workplace pension means you aren't the only one putting money into your pension. If you earn more than £6,240 a year, your employer has to contribute too.

Contributing to a pension does come at a cost. However, opting out now and giving up on the money your employer puts in will greatly reduce your pension at retirement and could mean that you're still going into work long after the point when you're ready to stop.

Before making hasty decisions take advice

No matter what age you are, pensions and retirement planning can seem complicated. For some it may be a long way off and way down the priority list, whereas some of you may be thinking more about what your retirement is going to look like, and what you have saved so far.

Reassuringly, our team of experts will work with you to guide, support, and advise on what's right for you to meet your goals and objectives. Visit our pension and retirement pages here.

At Armstrong Watson Financial Planning & Wealth Management, we work with you to build your retirement plans and regularly review these so you know if you will remain on track. We can use cashflow forecasting to allow you to understand your plan more easily so you can make informed decisions.

EMMA COPLEY
FINANCIAL PLANNING CONSULTANT - CARLISLE

"OUR TEAM OF EXPERTS WILL WORK WITH YOU TO GUIDE, SUPPORT, AND ADVISE ON WHAT'S RIGHT FOR YOU TO MEET YOUR GOALS AND OBJECTIVES."

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