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FINANCIAL SERVICES

Your pension savings, your future options

Why you should consider modernising your pension

As well as giving you greater freedom over how you access your savings, there are several other benefits when modernising your pension:

— Take full control of your pension savings
— Choose when and how to draw an income to suit your retirement planning
— Keep your options open for drawing an income in the future
— Optimise your tax efficiency - both on any money you might leave invested, and Inheritance Tax.

If your pension plan does not offer all four of these options, then you should think about switching it.

What else do you need to think about?
There are other factors to take into account when switching to a modern pension.

Firstly, the chances are the costs will increase. You may end up paying as much as an extra 1% of the value of your savings annually. So, if you have saved £200,000, your provider could charge up to £2,000 more per year. And if you seek financial advice, your adviser may also levy a fee, either upfront or as an ongoing service charge. These additional fees eat into your pot, but you could equally benefit from the flexible access as well as greater visibility and control.

Another consideration is tax. Regardless of whether you stick with your current pension or switch to a modern one, your income - other than the first 25% of a partial or whole lump sum- is subject to your highest rate of tax. Seeking professional advice can help you access your savings in a tax-efficient manner.

There is certainly, plenty to consider and it is wise to regularly explore your current and potential retirement routes.

Thanks to pension freedoms introduced in 2015, savers over 55 have a wide range of options when it comes to drawing from your savings, and this brings opportunities although it’s also easier to make a mistake.

There are now essentially four main ways for you to access your pension savings:

1. Buy an annuity which guarantees an income, typically for the rest of your life but in some cases for a fixed period
2. Flexi-Access Drawdown allows you to withdraw from your savings when you need to, while the balance remains invested
3. Take it all out as cash with the first 25% tax free and you pay income tax at your marginal rate on the rest, although you may face a hefty tax bill the following year
4. Take part of it out as cash with the first 25% tax free with the rest taxed at your marginal income tax rate. You can do this as many times as you like until you no longer have any pension savings.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Information contained in this article concerning taxation and related matters are based on Openwork's understanding of the present law and current legislation.