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Revolutionising the retirement landscape

Navigating complex decisions to shape your retirement finances

Pension freedoms have put a greater onus on people to keep themselves informed of their options when it comes to accessing their pension money. However, little knowledge and understanding of the rules could mean some people risk making decisions that are not best for them.

For people in their 40s and 50s, understanding retirement savings is especially critical. Pension freedoms now give savers full access to their retirement savings from the age of 55. The reforms have given over-55s greater power over how they spend, save or invest their retirement pots.

GREATER CHOICES AND FLEXIBILITY

From 6 April 2015, new freedoms included removing the need to buy an annuity to provide income until you die, giving access to invest-and-drawdown schemes previously restricted to wealthier savers, and the removal of a 55% 'death tax' on pension pots left invested. Since its introduction, more than £35 billion has been withdrawn by 1.4 million individuals through the pension freedoms, according to HM Revenue & Customs data.

The pension freedom changes apply to people with 'defined contribution' or 'money purchase' pension schemes, which take contributions from both employer and employee and invest them to provide a pot of money at retirement. They don't apply to 'final salary' or 'defined benefit' pensions which provide a guaranteed income after retirement.

FREEDOM NUMBERS SET TO RISE

The number of new people reaching pension freedoms age will reach a peak in 2020, new analysis has revealed. According to the latest Office for National Statistics (ONS) population estimates, it is estimated that the next six years will see consistently high numbers of people turning 55, should the minimum pension age stay at 55 for the foreseeable future.

Estimates show that 941,000 people will be turning 55 in 2020 – more individuals than any other age in the UK. Population estimates over the following six years also show that those approaching the age of 55 will consistently total above 900,000.

CONSIDER ALTERNATIVE OPTIONS

The coronavirus (COVID-19) crisis has thrown some of the nation's retirement plans up in the air, but the full impact will depend on where your pension is invested. For those age 55 and over, even though it is positive that people have the option to use retirement savings intended for later life earlier to reflect their situation, just because you can access pensions early doesn't mean you should.

The current crisis may see a significant number of individuals accessing pension funds earlier than planned, with others thinking about this. While

this may alleviate short-term financial pressures, it leaves less of a retirement fund to provide an income throughout what can be decades of retirement. Taking larger amounts out of pensions can also mean paying more Income Tax – and it may be better to consider alternative options. ■

THINK AHEAD TO RETIREMENT AND PLAN FOR THE FUTURE

It's always important to think ahead to retirement and plan for the future, and even more so as we face up to the coronavirus crisis. Don't rush into making life-changing financial decisions. To make an informed decision about what is best for you, please contact us to review your situation.

Source data:

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/>