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Pensions and retirement still remain a taboo

When it comes to marriage and money, it's good to talk

Millions of married couples have no idea about their spouse's pensions and retirement plans, according to new research^[1]. More than three-quarters (78%) of non-retired married^[2] people do not know what their spouse's pensions are worth.

Nearly half (47%) of non-retired married people have not spoken to their spouse about their retirement plans and 85% of non-retired married people are not aware of the tax-efficiencies of planning retirement together.

RETIREMENT FINANCES

Wealthy people aren't doing much better. Mass affluent people (those with assets of between £100,000 and £500,000 excluding property) are more likely than average to be aware of the value of their spouse's pension, but the majority (60%) aren't going to plan their retirement finances with their spouse and 78% aren't aware of the benefits of planning retirement together.

The research indicates that millions of married people are not talking to their partners about their pensions and retirement plans. That's a mistake because couples who jointly plan their retirement can be much better off when they stop working.

LIFETIME OF SAVING

Most people have a good idea of what their house is worth, and the same attitude should apply to their retirement funds. After a lifetime of saving, the value of a retirement fund can be worth as much as a property so it's important that people know how much their retirement savings are worth and the potential death benefits they offer.

The best way for people to ensure they have the retirement they want, their pension income lasts throughout their retirement and that they avoid unnecessary tax bills is to obtain professional financial advice. This is especially true for people who plan to retire within the next five years.

PENSION TIPS FOR COUPLES

Pay into your partner's pension: A higher-earning partner approaching the Lifetime Allowance or Annual Allowance could pay additional contributions into their partner's pension. The contributions will attract tax relief.

Don't forget the death benefits and Inheritance Tax benefits of pensions: Pensions won't normally form part of the estate for Inheritance Tax purposes and, on death before age 75, they can usually be paid out tax free (on death after 75, they are taxed as the beneficiary's income). It can make sense to discuss when and how to access a pension and if it would be better to spend any other savings first.

Avoid unnecessary large withdrawals from a pension fund: Couples should consider how much money they need to withdraw from their pension funds. Drawing too much too quickly can lead to large tax bills.

Make sure your partner knows who to contact about your pensions if you die: You may have carefully arranged all your finances so that they can be passed to your loved ones in the most tax-efficient way possible. However, if your partner hasn't been part of the conversation they may make uninformed decisions. It's worth remembering that any adviser/client relationship you have ends on death. Data protection rules mean your financial adviser won't necessarily know what is happening. This can lead to irreversible and costly mistakes being made.

On retirement, many people's first instinct is to request their full tax-free cash entitlement. However, unless a large lump sum is needed for a specific purpose, this is not always the wisest course of action.

If flexibly accessing a pension, it can often make sense for couples to retain most of the tax-free cash entitlement until a later date, looking to utilise the personal allowance (and potentially the basic rate tax band) to draw tax-efficient income instead. ■

SUCCESSFULLY MANAGING FINANCES IN MARRIAGE

When you and your spouse married, you agreed to share a financial future. It's an important issue for most married couples. Although successfully managing finances in marriage is essential to your happiness together, talking about money may not come naturally. To discuss how we could help you plan your finances, please contact us for more information.

Source data:

[1] LV= surveyed 4,000+ nationally representative UK adults via an online omnibus conducted by Opinium in June 2021.

[2] Includes couples in civil partnerships. UK population stats from ONS. Total UK adult population is 52.7m UK adults (aged 18+).